NEW ISSUE – BOOK-ENTRY ONLY

INSURED RATINGS: S&P: AAA
Moody's: Aaa
Fitch: AAA
UNDERLYING RATINGS: S&P: AA-
Moody's: A1
Fitch: A

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$33,565,000
REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Refunding Bonds, Series 2004
(George R. Moscone Convention Center)

Dated: Date of Delivery **Due: July 1, as shown below**

The $33,565,000 aggregate principal amount of Redevelopment Agency of the City and County of San Francisco Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center) (the "Bonds") are being issued by the Redevelopment Agency of the City and County of San Francisco (the "Agency") pursuant to a Trust Agreement, dated as of June 1, 2004 (the "Trust Agreement"), by and between the Agency and U.S. Bank National Association, as trustee (the "Trustee") to: (i) refund and redeem, on July 1, 2004, all $38,390,000 principal amount of the Agency's outstanding Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center) (the "Refunded Bonds"), (ii) fund a deposit to the Reserve Fund (hereinafter defined), and (iii) pay costs incurred in connection with the issuance, sale and delivery of the Bonds, including premiums for a financial guaranty insurance policy.

The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners"), under the book-entry system maintained by DTC, only through brokers and dealers who are, or act through, DTC Participants. Beneficial Owners will not receive physical certificates representing their interests in the Bonds.

The Bonds are issued in denominations of $5,000, or any integral multiple of $5,000, and will accrue interest from their date of delivery. Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year commencing January 1, 2005.

The principal of, premium, if any, and interest on the Bonds are payable to DTC by the Trustee, and, so long as DTC is acting as securities depository for the Bonds, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants. See APPENDIX F – "INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Bonds are subject to redemption prior to maturity as further described herein.

The Bonds are special limited obligations of the Agency payable solely from Revenues (as defined in the Trust Agreement), which consist primarily of Base Rental payments to be received by the Agency from the City pursuant to the Amended and Restated Project Lease dated as of June 1, 2004 (the "Project Lease"), by and between the City and County of San Francisco (the "City"), as lessee, and the Agency, as lessor. Base Rental payments will be in amounts which are calculated to be sufficient to pay principal and interest, when due, on the Bonds and constitute rental for the portion of the George R. Moscone Convention Center known as Moscone South (the "Project"). Base Rental payments will be made by the City from any lawfully available funds, including amounts in its General Fund. The City has covenanted in the Project Lease to make all Base Rental payments to the Agency, subject to complete or partial abatement to the extent of substantial interference with use and occupancy by the City of all or any portion of the Project caused by material damage or destruction of the Project or condemnation thereof. The City has also covenanted in the Project Lease to take such action as may be necessary to include such Base Rental payments in its annual budgets and to make the necessary annual appropriations thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The scheduled payment of principal of, and interest on, the Bonds is guaranteed by a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation.

Ambac

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

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

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP No.† (79765V)	Maturity (July 1)	Principal Amount	Interest Rate	Yield	CUSIP No.† (79765V)
2007	$710,000	3.00 %	2.55%	DF4	2016	$1,865,000	4.40 %	4.45%	DQ0
2008	805,000	3.00	2.95	DG2	2017	2,040,000	4.50	4.55	DR8
2009	910,000	3.50	3.25	SH4	2018	2,225,000	4.60	4.65	DS6
2010	1,025,000	4.00	3.52	DJ6	2019	2,435,000	5.25	4.68††	DT4
2011	1,145,000	4.00	3.80	DK3	2020	2,665,000	5.25	4.75††	DU1
2012	1,265,000	4.00	3.93	DL1	2021	2,830,000	5.375	4.79††	DV9
2013	1,405,000	4.00	4.00	DM9	2022	2,975,000	5.375	4.86††	DW7
2014	1,550,000	4.125	4.15	DN7	2023	3,130,000	5.25	4.98††	DX5
2015	1,705,000	4.30	4.37	DP2	2024	2,880,000	5.25	5.00††	DY3

The Bonds are offered when, as and if issued and received by the initial purchaser, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Agency by its General Counsel and for the City by the City Attorney. Lofton & Jennings, San Francisco, California is acting as Disclosure Counsel to the Agency and the City. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about June 10, 2004.

Dated: May 25, 2004

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†† Priced to the par call date of July 1, 2013.

No dealer, broker, salesperson or other person has been authorized by the Agency, the City, or Montague DeRose and Associates, LLC or Backstrom McCarley Berry & Co., LLC (collectively, the "Co-Financial Advisors") 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 Agency or 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, has been obtained from sources which are believed to be reliable, but 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.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement and said public offering prices may be changed from time to time by the Underwriter.

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 the municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "except" and similar expressions identify forward-looking statements. 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.

REDEVELOPMENT AGENCY OF THE
CITY AND COUNTY OF SAN FRANCISCO

Ramon E. Romero, *President*
Mark Dunlop, *Vice President*
Leroy King
Kathryn C. Palamountain
Michelle Sexton
Darshan Singh
Benny Y. Yee

Marcia Rosen, *Executive Director*
Ayisha Benham, *Deputy Executive Director, Finance and Administration*
James B. Morales, *Agency General Counsel*
Erwin R. Tanjuaquio, *Secretary*

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Matt Gonzalez, *President*, *District 5*
Michela Alioto-Pier, *District 2*
Tom Ammiano, District 9
Bevan Dufty, *District 8*
Chris Daly, *District 6*
Tony Hall, *District 7*
Fiona Ma, *District 4*
Sophie Maxwell, *District 10*
Jake McGoldrick, *District 1*
Aaron Peskin, *District 3*
Gerardo Sandoval, *District 11*

CITY AND COUNTY OFFICIALS
Susan Leal, *Treasurer*
Edward M. Harrington, *Controller*
Dennis J. Herrera, *City Attorney*

SPECIAL SERVICES

U.S. Bank National Association
San Francisco, California
Trustee

Jones Hall, A Professional Law Corporation
San Francisco, California
Bond Counsel

Lofton & Jennings
San Francisco, California
Disclosure Counsel

Montague DeRose and Associates, LLC
Walnut Creek, California

Backstrom McCarley Berry & Co., LLC
San Francisco, California
Co-Financial Advisors

Grant Thornton, LLP
Minneapolis, Minnesota
Verification Agent

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TABLE OF CONTENTS

Page

INTRODUCTION 1

THE BONDS 2
- Authority for Issuance 2
- Description 2
- Redemption of the Bonds 3
- Transfer and Exchange of Bonds 4

SOURCES AND USES OF FUNDS 5

PLAN OF REFUNDING 5

DEBT SERVICE SCHEDULE 6

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS 7
- General 7
- Rental Payments 7
- Covenant to Budget 8
- Reserve Fund 8
- City Budget and Finances 9
- Investment Policy 9
- Project Insurance 9
- Release of Project 9
- Substitution of Project 10

CERTAIN RISK FACTORS 10
- Base Rental Payments Not a Debt of the City; Additional City Obligations 10
- Abatement 10
- Proposition S and the Limitation of Hotel Tax Receipts 11
- Limited Recourse on Default 12
- Change in Law 12
- Bankruptcy 12
- Seismic Risks 13

BOND INSURANCE 13
- Payment Pursuant to Financial Guaranty Insurance Policy 13
- Ambac Assurance Corporation 14
- Available Information 15
- Incorporation of Certain Documents by Reference 15

THE AGENCY 15
- History 15
- Authority and Personnel 16
- The Project Area 16

THE PROJECT 17

Page

CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS 18
Article XIII A of the California Constitution 18
Article XIII B of the California Constitution 19
Articles XIII C and XIII D of the California Constitution 19
Statutory Limitations 20
Future Initiatives 21

NO LITIGATION 21

TAX MATTERS 21

CONTINUING DISCLOSURE 22

APPROVAL OF LEGAL PROCEEDINGS 23

PROFESSIONALS INVOLVED IN THE OFFERING 23

RATINGS 23

FINANCIAL STATEMENTS 24

VERIFICATION OF MATHEMATICAL COMPUTATIONS 24

SALE OF THE BONDS 24

MISCELLANEOUS 25

APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES A-1

APPENDIX B – CITY AND COUNTY OF SAN FRANCISCO - ECONOMY AND GENERAL INFORMATION B-1

APPENDIX C – EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003 .... C-1

APPENDIX D – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS D-1

APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE E-1

APPENDIX F – INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM F-1

APPENDIX G – FORM OF OPINION OF BOND COUNSEL G-1

APPENDIX H – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY H-1

$33,565,000
REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Refunding Bonds, Series 2004
(George R. Moscone Convention Center)

INTRODUCTION

The purpose of this Official Statement, including the appendices hereto, of the Redevelopment Agency of the City and County of San Francisco (the "Agency") is to furnish information regarding the issuance and sale of $33,565,000 aggregate principal amount of the Agency's Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center) (the "Bonds") pursuant to the provisions of Resolution No. 40-2004 of the Agency adopted on April 6, 2004 (the "Resolution") and a Trust Agreement dated as of June 1, 2004 (the "Trust Agreement") by and between the Agency and U.S. Bank National Association, as trustee thereunder (the "Trustee"). The Bonds will be issued in full conformity with the Constitution and laws of the State of California (the "State").

The Bonds are being issued to (i) refund and redeem, on July 1, 2004, all $38,390,000 principal amount outstanding of the Agency's Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center) (the "Refunded Bonds"), (ii) fund a deposit to the Reserve Fund (hereinafter defined), and (ii) pay costs incurred in connection with the issuance, sale and delivery of the Bonds, including premiums for a financial guaranty insurance policy, as described below.

The Bonds are payable solely from Revenues, consisting primarily of Base Rental payments paid to the Agency by the City and County of San Francisco (the "City") for its use and occupancy of the portion of the George R. Moscone Convention Center known as Moscone South (the "Project"), pursuant to the terms of the Amended and Restated Project Lease dated as of June 1, 2004 (the "Project Lease"), by and between the City, as lessee, and the Agency, as lessor, in amounts which are calculated to be sufficient to pay, when due, principal of, and interest on, the Bonds when due. Base Rental is payable from any available moneys of the City, including amounts in its General Fund, subject to certain limitations as described below. Pursuant to an Assignment Agreement, dated as of June 1, 2004 (the "Assignment Agreement"), the Agency will assign to the Trustee for the benefit of the Owners of the Bonds all of its rights (i) to receive and collect all of the Base Rental payments from the City under the Project Lease, (ii) to receive and collect any proceeds of any insurance maintained thereunder, or of any condemnation award rendered with respect to the Project, and (iii) to exercise such rights and remedies conferred on the Agency pursuant to the Project Lease as may be necessary or convenient to enforce payment of all amounts due thereunder.

The City is required under the Project Lease to make Base Rental Payments from any source of legally available funds in each year the City has use and possession of the Project, provided, however, that the amount of combined Base Rental and any Additional Rental (as defined herein) to be paid during any particular Lease Year (as defined herein) under the Project Lease shall be reduced if and to the extent necessary to cause such annual Base Rental and Additional Rental not to exceed an amount equal to that which would be payable to the City from a four percent transient occupancy tax imposed on hotels within the City (the "4% Limitation") for the Fiscal Year next preceding such Lease Year. The City currently imposes taxes and surcharges at the rate of 14% (collectively, the "14% Rate") on the transient occupancy of guest rooms in hotels located within the City. The 4% Limitation will be calculated by the same method which is used by the City to determine the amount of the 14% Rate. THE 4% LIMITATION ONLY REPRESENTS A DOLLAR LIMITATION ON THE COMBINED BASE RENTAL AND ADDITIONAL RENTAL PAYABLE AND DOES NOT REPRESENT AN ACTUAL TAX LEVIED OR COLLECTED, AND THE BONDS ARE NOT SECURED BY ANY TAX LEVIED BY THE CITY, INCLUDING ANY TRANSIENT OCCUPANCY TAX. The Tax Collector of the City reports that the amount of the 4% Limitation, calculated based on the applicable actual transient occupancy tax payable to the City for the Fiscal Year 2002-03 was $36,770,000, or approximately 10.87 times Maximum Annual Debt Service on the Bonds. See "CERTAIN RISK FACTORS–Proposition S and the Limitation of Hotel Tax Receipts" herein.

The City has covenanted in the Project Lease to make all Base Rental payments, provided for therein to the Agency, subject to complete or partial abatement of such Base Rental payments in the event of substantial interference with use and occupancy by the City of all or a portion of the Project caused by material damage or destruction of the Project or condemnation thereof. See "CERTAIN RISK FACTORS–Abatement." The City has also covenanted in the Project Lease to take such action as may be necessary to include such Base Rental payments in its annual budgets and to make the necessary annual appropriations thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

As additional security for the Bonds, payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac" the "Bond Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" and APPENDIX H–"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

For certain information concerning the City, including the City's current financial situation, see APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES," APPENDIX B–"CITY AND COUNTY OF SAN FRANCISCO - ECONOMY AND GENERAL INFORMATION" and APPENDIX C–"EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003."

Definitions of certain capitalized terms used in this Official Statement and not otherwise defined herein or in APPENDIX D hereto shall have the meanings set forth in the Trust Agreement and the Project Lease. The summaries of and references contained herein to the Trust Agreement, the Bonds, the Project Lease, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the provisions of the Law, the Resolution, and a resolution adopted by the Board of Supervisors of the City on May 11, 2004 and signed by the Mayor of the City on May 13, 2004.

Description

The Bonds will be dated their date of delivery and will be issued in denominations of $5,000 or any integral multiple of $5,000. Interest on the Bonds, until maturity or earlier redemption thereof, is payable from their date of delivery at the rates set forth on the cover of this Official Statement, on January 1 and July 1 of each year, commencing January 1, 2005. The Bonds will mature on July 1 in each of the years and in the principal amounts set forth on the cover of this Official Statement.

The Bonds will be issued as fully registered bonds, and will be initially registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Beneficial ownership interests in the Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the Bonds (each, a "Beneficial Owner") will not receive certificates representing their interests in the Bonds purchased. While the Bonds are held in book-entry only form, all payments of principal, premium, if any, and interest will be made by the Trustee to DTC, or its nominee, which is required in turn to remit such payments to DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Disbursement of such payments to Beneficial Owners are the sole responsibility of DTC Participants and Indirect Participants. See APPENDIX F–"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption of the Bonds

Optional Redemption. The Bonds maturing on or prior to July 1, 2011, are not subject to optional redemption. The Bonds maturing on or after July 1, 2012, are subject to optional redemption prior to their stated maturity date as a whole or in part by lot within a maturity, on any date on or after July 1, 2011, from amounts deposited with the Trustee by the Agency, at the following redemption prices (expressed as a percentage of the principal amount thereof), plus accrued interest to the date of redemption:

Redemption Date	Redemption Price
July 1, 2011 through June 30, 2012	102%
July 1, 2012 through June 30, 2013	101
July 1, 2013 and thereafter	100

Extraordinary Redemption from Proceeds of Insurance or Condemnation Awards. The Bonds are subject to redemption on any date, as a whole, or in part by lot within any maturity if less than all of the Bonds of such maturity are to be redeemed, in lots of $5,000 from proceeds of insurance or proceeds of eminent domain proceedings, upon the terms and conditions of, and as provided for in, the Trust Agreement at a redemption price equal to the principal amount of Bonds called for redemption, without premium, together with accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption. For purposes of selecting Bonds for redemption, Bonds shall be deemed to be composed of $5,000 portions or any integral multiple thereof. Whenever less than all the Outstanding Bonds maturing on any one date are called for optional redemption at any one time, the Trustee shall select the Bonds or portions thereof to be redeemed from the Outstanding Bonds maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems appropriate. If less than all Outstanding Bonds are called for optional redemption or extraordinary redemption at any one time, the Agency shall designate the maturity or maturities of the Bonds to be redeemed. If less than all the Outstanding Bonds are called for extraordinary redemption at any one time, the Agency shall specify to the Trustee a principal amount in each maturity to be redeemed, provided that if the Agency specifies Bonds to be redeemed in a manner which results in other than approximately equal annual debt service on the Bonds Outstanding following such redemption, the Agency or the City are required under the Trust Agreement, at the time of such specification, to deliver a Certificate of the Agency or a Certificate of the City, as applicable, to the effect that the resulting Base Rental payments and Additional Rental payable during the remaining term of the Project Lease shall not exceed the fair rental value of the Project during each subsequent Lease Year.

Notice of Redemption. Notice of redemption is to be mailed by first class mail by the Trustee, not less than 30 nor more than 45 days prior to the redemption date, to (i) the respective owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee; (ii) two or more Information Services; and (iii) the Securities Depositories. So long as DTC or a successor securities depository is acting as securities depository for the Bonds, notice of redemption will be mailed to DTC, or its successor securities depository, as the case may be, and not to be the beneficial owners of the Bonds. The failure of any registered owner to receive any redemption notice mailed to such registered owner or any defect in the notice so mailed will not affect the sufficiency of the proceedings for redemption.

Cancellation of Redemption. Notwithstanding any other provision of the Trust Agreement, in the event that Bonds are subject to extraordinary or optional redemption as described above and the Trustee shall not have on deposit available moneys sufficient to redeem the principal of plus the applicable premium, if any, and interest thereon on all of the Bonds proposed to be redeemed on the date fixed for redemption, on such date, the redemption shall be canceled and in each and every such case, the Agency, the Trustee and the Owners, as the case may be, shall be restored to their former positions and rights hereunder. Such a cancellation of a redemption shall not constitute a default under the Trust Agreement nor an event that with the passage of time or giving of notice or both shall constitute a default under the Trust Agreement and the Trustee and the Agency shall have no liability from such cancellation.

Purchase of Bonds. Unless expressly provided otherwise in the Trust Agreement, money held in the Revenue Fund may be used to reimburse the Agency for the purchase of Bonds that would otherwise be subject to redemption from such moneys upon the delivery of such Bonds to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select Bonds for redemption. The purchase price of any Bonds purchased by the Agency hereunder shall not exceed the applicable redemption price of the Bonds which would be redeemed but for the operation of this Section. Any such purchase must be completed prior to the time notice would otherwise be required to be given to redeem the related Bonds. All Bond so purchased shall be surrendered to the Trustee for cancellation and applied as a credit against the obligation to redeem such Bonds from such moneys.

Transfer and Exchange of Bonds

Any Bond may, in accordance with its terms, be transferred upon the books kept by the Trustee by the person in whose name it is registered, in person or by his or her duly authorized attorney in writing, upon surrender of such Bond for cancellation, accompanied by a duly executed written instrument of transfer in a form approved by the Trustee. Bond may also be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. The Trustee shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange of any Bond shall be required to be made during the period after the Record Date (as defined herein) through and including the next succeeding interest payment date or during the period designated for selection of Bonds for redemption, or of any Bond so selected for redemption. For so long as the Bonds are in book-entry form only, transfers and exchanges will be done by book-entry only as further described in APPENDIX F–"INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM."

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SOURCES AND USES OF FUNDS

The sources and uses of Bond proceeds and other moneys are shown below:

Sources:	
Principal Amount of Bonds	$33,565,000.00
Original Issue Premium	567,014.85
Refunded Bonds Reserve Fund	3,960,406.15
Refunded Bonds Additions and Betterments Fund[(1)]	8,730,841.00
Total Sources of Funds	$46,823,262.00
Uses:	
Refunding Fund[(2)]	$40,444,953.13
Additions and Betterments Fund	2,140,000.00
Reserve Fund	3,356,500.00
Costs of Issuance[(3)]	743,521.07
Underwriters' Discount	138,287.80
Total Uses of Funds	$46,823,262.00

(1) The Agency will withdraw all moneys in the Additions and Betterments Fund established with respect to the Refunded Bonds and deposit a portion of such amount in an Additions and Betterments Fund established under the Trust Agreement for improvements to the Project.

(2) For the refunding of the Refunded Bonds. See "PLAN OF REFUNDING" below.

(3) Includes legal fees and expenses, printing costs, rating fees, fees and expenses of the Co-Financial Advisors and the Trustee, Financial Guaranty Insurance Policy premium and certain other costs and amounts payable in connection with the issuance of the Bonds.

PLAN OF REFUNDING

The Agency will apply a portion of the proceeds from the sale of the Bonds, together with other available moneys, to establish an irrevocable escrow fund to refund and redeem the entire $38,390,000 principal amount outstanding of the Agency's outstanding Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center) (the "Refunded Bonds") as described below.

A portion of the proceeds of the Bonds and certain other amounts will be deposited into an escrow fund (the "Escrow Fund") established with BNY Western Trust Company, as trustee for the Refunded Bonds (the "Refunded Bonds Trustee") pursuant to Irrevocable Refunding Instructions dated the date of issuance of the Bonds given by the City and the Agency to the Refunded Bonds Trustee. The amounts deposited in the Escrow Fund, together with certain other available moneys, will be held by the Refunded Bonds Trustee and invested in noncallable federal securities, as specified therein, the principal of and interest on which, when received will be sufficient to pay (i) on July 1, 2004, the regularly scheduled debt service on the Refunded Bonds including the principal amount maturing July 1, 2004; and (ii) on July 1, 2004, the redemption price of the Refunded Bonds maturing after July 1, 2004 including accrued and unpaid interest and a redemption premium equal to 2% of the principal amount of Refunded Bonds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

DEBT SERVICE SCHEDULE

Set forth below is the schedule of Base Rental Payments and the debt service schedule for the Bonds.

Base Rental Payment Date†	Bond Payment Date	Principal	Interest	Total Bond Debt Service	Fiscal Year Base Rental††
December, 24, 2004	January 1, 2005	–	$881,974.74	$881,974.74	–
June 25, 2005	July 1, 2005	–	789,828.13	789,828.13	$1,671,802.87
December, 24, 2005	January 1, 2006	–	789,828.13	789,828.13	–
June 25, 2006	July 1, 2006	–	789,828.13	789,828.13	1,579,656.25
December, 24, 2006	January 1, 2007	–	789,828.13	789,828.13	–
June 25, 2007	July 1, 2007	$710,000	789,828.13	1,499,828.13	2,289,656.26
December, 24, 2007	January 1, 2008	–	779,178.13	779,178.13	–
June 25, 2008	July 1, 2008	805,000	779,178.13	1,584,178.13	2,327,356.26
December, 24, 2008	January 1, 2009	–	767,103.13	767,103.13	–
June 25, 2009	July 1, 2009	910,000	767,103.13	1,677,103.13	2,444,206.26
December, 24, 2009	January 1, 2010	–	751,178.13	751,178.13	–
June 25, 2010	July 1, 2010	1,025,000	751,178.13	1,776,178.13	2,527,356.26
December, 24, 2010	January 1, 2011	–	730,678.13	730,678.13	–
June 25, 2011	July 1, 2011	1,145,000	730,678.13	1,875,678.13	2,606,356.26
December, 24, 2011	January 1, 2012	–	707,778.13	707,778.13	–
June 25, 2012	July 1, 2012	1,265,000	707,778.13	1,972,778.13	2,680,556.26
December, 24, 2012	January 1, 2013	–	682,478.13	682,478.13	–
June 25, 2013	July 1, 2013	1,405,000	682,478.13	2,087,478.13	2,769,956.26
December, 24, 2013	January 1, 2014	–	654,378.13	654,378.13	–
June 25, 2014	July 1, 2014	1,550,000	654,378.13	2,204,378.13	2,858,756.26
December, 24, 2014	January 1, 2015	–	622,409.38	622,409.38	–
June 25, 2015	July 1, 2015	1,705,000	622,409.38	2,327,409.38	2,949,818.76
December, 24, 2015	January 1, 2016	–	585,751.88	585,751.88	–
June 25, 2016	July 1, 2016	1,865,000	585,751.88	2,450,751.88	3,036,503.76
December, 24, 2016	January 1, 2017	–	544,721.88	544,721.88	–
June 25, 2017	July 1, 2017	2,040,000	544,721.88	2,584,721.88	3,129,443.76
December, 24, 2017	January 1, 2018	–	498,821.88	498,821.88	–
June 25, 2018	July 1, 2018	2,225,000	498,821.88	2,723,821.88	3,222,643.76
December, 24, 2018	January 1, 2019	–	447,646.88	447,646.88	–
June 25, 2019	July 1, 2019	2,435,000	447,646.88	2,882,646.88	3,330,293.76
December, 24, 2019	January 1, 2020	–	383,728.13	383,728.13	–
June 25, 2020	July 1, 2020	2,665,000	383,728.13	3,048,728.13	3,432,456.26
December, 24, 2020	January 1, 2021	–	313,771.88	313,771.88	–
June 25, 2021	July 1, 2021	2,830,000	313,771.88	3,143,771.88	3,457,543.76
December, 24, 2021	January 1, 2022	–	237,715.63	237,715.63	–
June 25, 2022	July 1, 2022	2,975,000	237,715.63	3,212,715.63	3,450,431.26
December, 24, 2022	January 1, 2023	–	157,762.50	157,762.50	–
June 25, 2023	July 1, 2023	3,130,000	157,762.50	3,287,762.50	3,445,525.00
December, 24, 2023	January 1, 2024	–	75,600.00	75,600.00	–
June 25, 2024	July 1, 2024	2,880,000	75,600.00	2,955,600.00	3,031,200.00
TOTAL		$33,565,000	$22,712,519.29	$56,277,519.29	$56,277,519.29

† Base Rental is equal to the principal of and interest on the Bonds and is payable on June 25 and December 24 of each year for the related July 1 and January 1 payment dates on the Bonds.

†† For the Fiscal Year ending on the June 30 following the June 25 Base Rental payment date.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are special limited obligations of the Agency payable solely from and secured by the Revenues pledged therefore in the Trust Agreement, together with amounts on deposit from time to time in the funds and accounts held by the Trustee (other than the Rebate Fund and the Working Capital Fund). "Revenues" consist of the proceeds of the Bonds, if any, deposited in the Revenue Fund and the Reserve Fund, the Base Rental (which excludes Additional Rental, as hereinafter defined) received by the Agency from the City under the Project Lease, and all other revenues, proceeds, charges, income, rents, receipts, profits and benefits derived by the Agency as lessor under the Project Lease or otherwise from the use and operation of the Project or arising out of the Project, including interest or profits from the investment of money in any fund or account created under the Trust Agreement (other than the Rebate Fund and the Working Capital Fund) and any contributions from whatever source.

Rental Payments

Under the Project Lease, rental payments to be made by the City to the Agency, which payments are made directly to the Trustee, as assignee of the Agency, with respect to the Project are comprised of the following two components: Base Rental and Additional Rental.

Base Rental. The City has covenanted in the Project Lease that, so long as the City has the full use and occupancy of the Project, it will make Base Rental payments, from any source of legally available funds in each Lease Year the City has use and occupancy of the Project, to the Agency which are calculated to be adequate for the Agency to pay scheduled debt service on all outstanding Bonds. Base Rental payments are required to be made by the City on each June 25 and December 24, commencing on December 24, 2004. The amount of combined Base Rental and Additional Rental to be paid during any particular Lease Year shall be reduced if and to the extent necessary to cause such annual Base Rental and Additional Rental not to exceed an amount equal to the 4% Limitation for the Fiscal Year next preceding such Lease Year. See "CERTAIN RISK FACTORS–Proposition S and the Limitation of Hotel Tax Receipts." In the event that the amount of combined Base Rental and Additional Rental for any Lease Year exceeds the 4% Limitation for the prior Fiscal Year, available monies shall be first paid as Additional Rental and then paid as Base Rental. The amount of the 4% Limitation, calculated based on the actual transient occupancy tax payable to the City for Fiscal Year 2002-03 was $36,770,000, or approximately 10.87 times Maximum Annual Debt Service on the Bonds. Base Rental payments are an obligation of the City's general fund, and therefore are not limited by or to any particular revenue source of the City. The obligation of the City to make Base Rental payments is payable from annual appropriations of the City from funds lawfully available therefor and the City has covenanted in the Project Lease to take such action as may be necessary to include all rental payments due under the Project Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. **The obligation of the City to make Base Rental payments under the Project Lease does not, however constitute an obligation of the City for which the City is obligated to pledge any form of taxation or for which the City has pledged any form of taxation. Neither the full faith and credit nor the taxing power of the City or the State or any of its political subdivisions is pledged to make Base Rental payments under the Project Lease.**

The City shall pay all Base Rental payments directly to the Trustee. The Trustee shall deposit the Base Rental payments in the Revenue Fund to be used; first, for the payment of debt service on the Bonds; and second, for replenishment of the Reserve Fund in the event its balance is less than the Reserve Fund Requirement, as and to the extent required by the Trust Agreement.

Additional Rental. The City has agreed in the Project Lease to pay additional rental (the "Additional Rental") to the Agency to cover administrative costs of the Agency such as Trustee's fees, fees of auditors, accountants and attorneys, letter of credit fees, insurance premiums and taxes, if any. In the event that the amount of combined Base Rental and Additional Rental for any Lease Year exceeds the 4% Limitation for the prior Fiscal Year, available monies shall be first paid as Additional Rental and then paid as Base Rental. See APPENDIX D–"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–THE PROJECT LEASE–Additional Rental."

Covenant to Budget

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

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

Reserve Fund

A Reserve Fund is established and will be maintained under the Trust Agreement in an amount equal to the "Reserve Requirement" which initially is an amount equal to $3,356,500.

On or before each Interest Payment Date, after making all deposits to the Interest Fund and the Principal Fund as required under the Trust Agreement, the Trustee will deposit in the Reserve Fund such amounts as may be necessary to maintain on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement; provided, however, that following issuance of the Bonds, failure to so maintain such amounts on deposit in the Reserve Fund (because such amounts have been used for the purpose for which the Reserve Fund has been established) shall not constitute an Event of Default under the Trust Agreement, but only if and to the extent Revenues are not available for such purpose.

Moneys in (or available to) the Reserve Fund will be applied solely for the purpose of paying the interest on the Bonds as the same shall become due and payable, including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Trust Agreement, or for the purpose of paying the principal of the Bonds as the same become due (in both instances, however, only to the extent that there are insufficient moneys available for such purposes in the Interest Fund or the Principal Fund). Any moneys in excess of the Reserve Fund Requirement in the Reserve Fund shall, on or before each Interest Payment Date, be transferred to the Revenue Fund. To the extent that amounts are held in the Reserve Fund at such time, such amounts shall be used to pay, in whole or in part, the final payment of debt service due on the Bonds.

Notwithstanding anything in the Trust Agreement to the contrary, at the option of the Agency and with the prior written consent of the Bond Insurer, amounts required to be held in the Reserve Fund may be substituted, in whole or in part, by the deposit of a Credit Facility with the Trustee, the form and provider of which shall be subject to the prior written consent of the Bond Insurer; provided that with respect to any such substitution, (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Bonds (and the Agency shall notify each Rating Agency prior to making any such substitution), and (ii) the Trustee receives, prior to any such substitution becoming effective, an Opinion of Bond Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted shall be released to or at the direction of the City.

City Budget and Finances

For a discussion of the budget and finances of the City, see APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES–City Budget and Finances" and APPENDIX C–"EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003." In addition, the annual financial reports of the City are available on the internet at http://www.sfgov.org/site/controller_index.asp.

Investment Policy

For a discussion of the City's investment policy and description of investment portfolio regarding surplus cash, see APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES–Investment Policy."

Project Insurance

The City is required to maintain or cause to be maintained insurance policies against loss or damage to the Project resulting from fire and lightning and with an extended coverage endorsement. The City must also maintain public liability and property damage policies protecting both the City and the Agency. To insure against loss of rental income caused by perils mentioned above, the City is required to maintain or caused to be maintained throughout the term of the Project Lease, rental income insurance in an amount not less than the total Base Rental payable by the City for a period of at least twenty-four (24) months, plus Additional Rental expected to be payable for such period. The Project Lease further requires the City to maintain earthquake insurance on the Project to the extent commercially available, unless, based upon the written recommendation of the City's Risk Manager, it is not obtainable in reasonable amounts at a reasonable cost on the open market from reputable insurance companies. Based upon current market conditions and the recommendations of the Risk Manager, the City has determined that it is not required to obtain earthquake insurance at this time.

Release of Project

Pursuant to the Project Lease, the City, without the consent of the Owners, may at any time and from time to time release any portion of the Project by providing the Trustee with a supplement or amendment to the Project Lease and otherwise meeting the requirements of the Project Lease. No portion of the Project may be released unless the City files with the Agency and the Trustee an appraisal (prepared by an appraiser selected by the City and who may be an employee of the City) stating that the annual fair rental value of the Project, taking into consideration the removal of a portion of the Project, is no less than the maximum annual Base Rental and Additional Rental remaining unpaid at the term of such removal. See APPENDIX D–"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–THE PROJECT LEASE–Substitution of Leased Property."

Substitution of Project

Pursuant to the Project Lease, the City, without the consent of the Owners, may substitute other real property and/or improvements for all or any portion of the Project, by providing the Trustee with a supplement or amendment to the Project Lease and otherwise meeting the requirements of the Project Lease. All costs and expenses incurred in connection with any such substitution shall be borne by the City. No portion of the Project may be substituted unless certain requirements set forth in the Project Lease are met, including that the City deliver to the Agency and the Trustee a certificate of the City based on an appraisal (prepared by an appraiser selected by the City and who may be an employee of the City) stating that: (i) the annual fair rental value of the Substitute Project as of the date of Substitution is no less than the maximum annual Base Rental and Additional Rental remaining unpaid hereunder at the time of Substitution; (ii) the City will, at the time of the Substitution, have beneficial use and occupancy of the Substitute Project; (iii) the Substitute Project will be for the common benefit of the City and the residents therein, and (iv) the useful life of the Substitute Project is equal to or greater than that of the Project being replaced. See APPENDIX D–"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–THE PROJECT LEASE–Removal of Leased Property."

CERTAIN RISK FACTORS

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

Base Rental Payments Not a Debt of the City; Additional City Obligations

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

Subject to certain City Charter restrictions, the City may incur other obligations which may constitute additional charges against its general revenues. To the extent that the City incurs additional obligations, the funds available to make Base Rental may be decreased. The City is currently liable on other obligations payable from general revenues. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES–Statement of Direct and Overlapping Debt and Long-Term Obligations," "–Direct Tax Supported Debt Service" and "–Lease Payments and Other Long-Term Obligations." See also APPENDIX C–"EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003."

Abatement

The obligation of the City under the Project Lease to make Base Rental payments is in consideration for the use and right of possession of the Project. The obligation of the City to make Base Rental payments may be abated in whole or in part if the City does not have full use and occupancy of the Project, and if the Project then available for beneficial use and occupancy by the City has an aggregate fair rental value below the amount of the applicable Base Rental payments.

In the event Base Rental payments are abated, no assurances can be given that moneys on deposit in the Revenue Fund and Reserve Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service on the Bonds.

The amount of Base Rental payments due under the Project Lease will be abated during any period in which by reason of damage, destruction, condemnation or title defect there is substantial interference with the use and right of occupancy of the Project. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or title defect and shall end with the restoration of the Project or any portion thereof to useable condition or correction of the title defect. Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Bonds in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest on the Series Bonds as such amounts become due. **If damage, destruction, condemnation or title defect with respect to the Project or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the Reserve Fund and any proceeds of rental interruption insurance, are insufficient to make all payments with respect to the Bonds during the period that the Project, or portion thereof, is being restored, then such payments may not be made and no remedy is available to the Trustee or the Owners and Beneficial Owners under the Project Lease or Trust Agreement for nonpayment under such circumstances.**

The Project Lease provides that if substantial interference with use and occupancy of the Project occurs due to material damage or destruction to the Project, Base Rental payments shall be abated proportionately in accordance with the Project Lease. However, this provision limits the amount of Base Rental abated. A court of law could determine that Base Rental payments exceed fair rental value for the Project and order a reduction in Base Rental payable. In such event, the Base Rental payable by the City, as abated, may not be sufficient to pay the principal and interest on the then-outstanding Bonds.

Proposition S and the Limitation of Hotel Tax Receipts

The construction of the original portion of Moscone South was financed from proceeds of the Agency's Lease Revenue Bonds, Series 1979 (George R. Moscone Center) (the "Series 1979 Bonds"). The Series 1979 Bonds were issued and secured in accordance with Proposition S, a declaration of policy adopted by the qualified electors of the City on November 2, 1976 ("Proposition S"), and Resolution No. 186-77, adopted by the Board on March 14, 1977 ("Resolution No. 186-77"). Proposition S declared it is the policy of the City to construct a convention exhibit hall within the Project Area to be financed with lease revenue bonds the debt service on which would not exceed amounts that would be paid or payable to the City from the 4% Limitation. Resolution No. 186-77 approved in principle the construction of such convention center to be financed by lease revenue bonds. In 1991, the Agency issued its Refunding Lease Revenue Bonds, Series 1991 (George R. Moscone Convention Center) (the "Series 1991 Bonds"), which refunded the Series 1979 Bonds, which were issued and secured under Proposition S and Resolution No. 186-77. The Agency's Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center), which refunded the Series 1991 Bonds and which are being refunded from Bond proceeds, were issued and secured in accordance with Proposition S and Resolution No. 186-77. The Bonds will also be issued and secured in accordance with Proposition S and Resolution No. 186-77.

The 4% Limitation is not pledged as a source of payment for the Bonds, but serves as a measure of rental to be paid by the City. The total combined amount of Base Rental and Additional Rental in any Lease Year shall in no event exceed the amount paid or payable to the City from the 4% Limitation in the preceding Fiscal Year. Base Rental payments are calculated to be at least sufficient to meet debt service requirements on the Bonds for the next succeeding year. Therefore, in the event receipts from the 4% Limitation are insufficient in any year to allow payment of the full Base Rental and Additional Rental, the Agency would be required to draw on amounts available in the Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Reserve Fund" above. So long as the City pays Base Rental at the scheduled amount or such lesser amount as the 4% Limitation rate produces, no event of default under the Project Lease shall occur with respect to the payment of Base Rental.

Limited Recourse on Default

The Project Lease and Trust Agreement provide that, if there is a default by the City, the Trustee may take possession of and relet the Project. The amounts received from such reletting may be insufficient to pay the scheduled principal and interest on the Bonds when due. The Project is designed for use as a convention center and such design may limit the ability to relet the Project and limit any amounts received from reletting.

It is also not certain that a court would permit the exercise of the remedies of repossession, reletting, or sale with respect the Project. Furthermore, the enforcement of any remedies provided in the Project Lease and in the Trust Agreement could prove to be both expensive and time-consuming.

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

Change in Law

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

Bankruptcy

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

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Agency could be prohibited or severely restricted from taking any steps to enforce their rights under the Project Lease, and from taking any steps to collect amounts due from the City under the Project Lease.

Although the Agency's activities are limited and it generally does not have any assets or engage in activities that could give rise to debts and obligations, the City does not control the activities of the Agency. The Agency has entered into other financing leases with the City and other agencies. In the event the Agency declares bankruptcy, the bankruptcy court would have the power to review and abrogate lease arrangements entered into by the Agency involving the assignment of revenues to other parties, including the Trust Agreement. The court could order, at least for some period, that the Agency not allow any of its revenues received from the City under the Project Lease to be paid over to the Trustee.

Seismic Risks

The City is in a seismically active region of California. During the past 150 years, the San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2 on the Richter scale. Another was the 1868 Hayward earthquake along the Hayward Fault. The most recent significant earthquake was the October 1989 Loma Prieta earthquake with a magnitude of 7.1 on the Richter scale and an epicenter near Santa Cruz, approximately 55 miles south of San Francisco. The San Andreas Fault lies 7.5 miles immediately west of the City, and the Hayward fault is approximately 11.5 miles to the east. According to a recent study by the United States Geological Survey, there is a 67 percent probability of another earthquake the size of the Loma Prieta earthquake within the next 30 years. This report states that the next earthquake will most likely occur farther north than the Loma Prieta earthquake, somewhere between San Jose and Santa Rosa. Such an earthquake would cause more damage than the Loma Prieta earthquake because the epicenter would be closer to San Francisco. A significant earthquake along these or other faults is probable during the period the Bonds will be outstanding under the Trust Agreement. The City does not anticipate obtaining earthquake insurance for the Project. In addition, in the event the Project was damaged or destroyed in an earthquake, the rental interruption insurance would not provide coverage for any abatement of Base Rental. Accordingly, the risk that the Project may be damaged or destroyed and consequent abatement of Base Rental payments with respect thereto should be considered.

BOND INSURANCE

The following information has been provided by Ambac Assurance Corporation ("Ambac") for use in this Official Statement. Reference is made to APPENDIX H for a specimen of the financial guaranty insurance policy to be issued by Ambac upon issuance of the Bonds. Neither the Agency nor the City make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of thereof. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $7,670,000,000 (unaudited) and statutory capital of approximately $4,683,000,000 (unaudited) as of March 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004; a

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

THE AGENCY

History

The Agency was organized in 1948 by the Board of Supervisors of the City pursuant to the Law. Since its organization, the Agency has completed or nearly completed redevelopment plans for six redevelopment areas, and has eleven redevelopment plans now being implemented, including the plan for the Yerba Buena Center Redevelopment Project Area (the "Project Area") in which the Project is located. The redevelopment process seeks to increase the City's housing and tax base while accommodating needed public projects.

Authority and Personnel

The powers of the Agency are vested in its Commission which is comprised of seven members appointed by the Mayor of the City with the approval of the Board of Supervisors.

The current members of the Agency Commission, together with their principal occupations, the years of their first appointment to the Agency and the expiration date of their terms are as follows:

Name	Occupation	First Appointed	Term Expires
Ramon E. Romero, President	Attorney	1998	September 3, 2005
Mark Dunlop, Vice President	Community Activist	1997	September 3, 2004
Leroy King	Retired	1980	September 3, 2006
Kathryn C. Palamountain	Attorney	2000	September 3, 2004
Michelle Sexton	Attorney	2002	September 3, 2007
Darshan Singh	Business Owner	1995	September 3, 2007
Benny Y. Yee	Real Estate Broker	1994	September 3, 2006

The Agency employs approximately 115 persons. The Executive Director, Marcia Rosen, was appointed to that position in 2001. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development, the Deputy Executive Director, Finance and Administration and the Agency General Counsel.

The Project Area

The Project is located in the Project Area, which comprises an 87-acre area that formerly consisted of dilapidated hotels, commercial and industrial buildings and surface parking lots. The Project Area is located southwest of San Francisco's downtown office and retail districts and extends generally from Market Street on the north to Harrison Street on the south, and from Second Street on the east to Fourth Street to the west.

Over the past fifteen years or so, the Project Area has been transformed into a highly attractive destination for tourists and residents alike. The centerpiece of the project is a five-acre park that sits atop the Moscone North Convention Center facility and is immediately adjacent to an entertainment complex to the west and two cultural facilities, a Visual Art Center and a 700-seat theater, to the east. The Museum of Modern Art is located directly across the street from the Visual Art Center.

Aside from cultural attractions, the Project Area includes a Children's Park with a play area for young children, a small bowling alley, an ice rink, and other attractions, which was completed in the mid 1990's and built atop of the Moscone Center South Convention facility. The Sony Metreon, an entertainment complex that includes a multi-plex cinema with IMAX theater, other forms of entertainment, and restaurants, opened for business in the late 1990's.

Over the years the Project Area has attracted considerable private development, one of the first being the 1500-room Marriott Hotel, which opened in the late 1980's. Since then two additional hotels have been built in the Project Area and another is under construction. The Four Seasons Hotel opened for business in October of 2001, and the W Hotel opened in the spring of 1999. The third hotel is scheduled for completion in 2004. Another recently completed development is a 500-unit residential development on the northeast corner of Third and Mission streets. Though easily accessible by public transportation, parking in the Project Area is provided by the nearby Fifth and Mission Street garage. A new parking facility that is currently under construction and scheduled to open in late 2005 will provide additional parking to 457 vehicles to the Project Area.

Future development calls for the construction of a plaza that will run along the north side of Mission Street between Third and Fourth Streets and the construction of two buildings to be occupied by two museums. A third museum will occupy space within the mixed-use housing/hotel development that is under construction on the southeast corner of Third and Mission streets.

THE PROJECT

The Project consists of a portion of the Moscone Center discussed below.

The George R. Moscone Convention Center ("Moscone Center"), which was completed in December 1981, is the principal convention center facility in San Francisco. The facility as originally constructed consists of a three-level complex with 321,000 square feet of meeting and exhibition space within a 650,000 square foot structure located in one block. The street level contains a glass-enclosed 12,500 square foot lobby. The mezzanine level contains 31 meeting rooms, administrative offices, a security office and a building control system. The lowest level, which is 30 feet below street level, contains a 260,000 square foot column-free exhibit hall which has a ceiling height of 37 feet, a large meeting room which can hold up to 4,000 people, a kitchen capable of serving 6,000 meals at one time and a fully-equipped first aid station. This lowest level, which was the initial portion of Moscone Center is a portion of the structure now known as "Moscone South" and is the "Project" which is the subject of the Project Lease.

The initial portion of Moscone Center was completed in December 1981. The City embarked on a major expansion to these initial facilities, beginning construction in early 1989, and opening in two phases in 1991 and 1992.

The Esplanade Ballroom phase opened in February of 1991, with a 126,000 square foot building envelope. The 42,675 square foot ballroom, divisible into 10 sections, plus a freestanding room of 2,878 square feet opening off the lobby areas, introduced a highly flexible complex of meeting and banquet space with access to both Moscone South and Moscone North.

Moscone North opened in May 1992, adding 181,440 square feet of exhibition space in two halls, plus 53,415 square feet of meeting space. Of the meeting space, 37,355 is flexible space which is counted in totals for both meeting and exhibition uses. A below-grade concourse and escalator system connection Moscone North and South, and a 15,300 square foot registration lobby provides prefunction space to complete the 520,000 square foot Moscone North building envelope.

Prior to the first expansion, the original facility enjoyed consistently high occupancy. In fiscal year 1991-92, the year prior to opening Moscone North, the center hosted 58 major events attended by 611,000 registered attendees, posting an occupancy rate of 84% for the year. By 1994-95, the expanded facility had reached a mature level of operation. In that year the Moscone Center hosted 74 major events attended by nearly 800,000 registered attendees with an 82% occupancy rate. By fiscal year 1999, this had grown to 86 events, with 895,000 attendees.

Moscone West opened in June 2003, adding 300,000 square feet of convention space on three levels. Pre-function lobbies on each floor add 84,000 square feet, with all service and freight functions on the basement level.

Moscone North and Moscone West are not a part of the Project.

The Project was constructed in accordance with all California and San Francisco Building Code requirements for earthquake resistance in effect at the time.

Moscone Center has helped San Francisco to attract significant convention activity since its initial opening in 1981. Convention delegates play an important role in the San Francisco tourist industry, representing approximately 30% of visitors to the City. Moscone Center operates virtually at full capacity.

CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limits 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. 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, known as Proposition 13, was approved by the California voters in June of 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) indebtedness approved by the voters prior to July 1, 1978, (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or (3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in the Orange County Superior Court entitled *County of Orange v. Orange County Assessment Appeals Board No. 3* (Case No. 00CC03385 in files of that court) and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. In 2001, the Orange County Superior Court issued an order declaring the recapture practice to be unconstitutional as applied to the plaintiff taxpayer. In December 2002, the Superior Court certified the case as a class action, affecting all Orange County taxpayers subject to assessment recapture. The court's final judgment in favor of plaintiff was released April 18, 2003 and Orange County appealed. On March 26, 2004, the Court of Appeal held that the trial court erred in ruling that assessed value determinations are always limited to no more than 2% of the previous year's assessed value and reversed the judgment of the trial court. That ruling has been appealed to the California State Supreme Court, although the Supreme Court has not yet determined whether to hear the appeal. The City is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the City and on the City's property tax revenues.

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 bonds existing or authorized by January 1, 1979, or subsequently authorized by the 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 YEAR ENDED JUNE 30, 2003" 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 affects 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. 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.

With respect to the City's general obligation bonds, the State Constitution and the laws of the State impose a duty on the Board to levy a property tax sufficient to pay debt service coming due in each year; the initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the City's general obligation bonds or to otherwise interfere with performance of the duty of the City with respect to such taxes which are pledged as security for payment of those bonds.

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, an initiative statute that, among other matters, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local 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.

Following the adoption of Proposition 62, some courts held that the voter approval requirement for local taxes was unlawful. In *Santa Clara County Local Transportation Authority* v. *Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court overruled these decisions. The 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 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 it should be applied retroactively. In *McBrearty v. City of Brawle*y (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, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See, *Fielder 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, it 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, San Francisco's exposure would be insignificant. The effective date of Proposition 62 was November 1986. 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 these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - Organization and Finances–Other City Tax Revenues."

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Proposition 62 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.

NO LITIGATION

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

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bonds (said term being the shorter of the applicable maturity date of the Bonds or the call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders of the Bonds to provide certain financial information and operating data relating to the Agency (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 2003-04, 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 with the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX E–"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchasers in complying with paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 (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.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Agency by its General Counsel and for the City by the City Attorney. Lofton & Jennings, San Francisco, California is acting as Disclosure Counsel to the Agency and the City. Bond Counsel and Disclosure Counsel will receive compensation from the Agency contingent upon the sale and delivery of the Bonds.

PROFESSIONALS INVOLVED IN THE OFFERING

Montague DeRose and Associates, LLC, Walnut Creek, California and Backstrom McCarley Berry & Co., LLC, San Francisco, California have served as Co-Financial Advisors to the Agency with respect to the sale of the Bonds. The Co-Financial Advisors have assisted the Agency in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Agency or the City to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Co-Financial Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors will receive compensation from the Agency contingent upon the sale and delivery of the Bonds.

RATINGS

Standard & Poor's, A Division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") has assigned municipal bond ratings of "AAA," "Aaa" and "AAA," respectively, to the Bonds. Each such rating is conditioned upon the issuance of the Financial Guaranty Insurance Policy. The Bonds received underlying ratings without regard to the Financial Guaranty Insurance Policy of "AA-," "A1" and "A" from S&P, Moody's and Fitch, respectively. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained only from S&P, Moody's and Fitch, respectively. No assurance can be given that any rating issued by the rating agencies will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such rating agency, if in their judgment, circumstances so warrant. Except as provided under "CONTINUING DISCLOSURE" above, the Agency, the City and the Trustee undertake no responsibility to bring to the attention of the Owners of the Bonds any revision or withdrawal of the ratings. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the City for the Fiscal Year ended June 30, 2003 are included as part of APPENDIX C–"EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003." Such financial statements have been audited by KPMG LLP, independent certified public accountants, whose report also appears in APPENDIX C. KPMG LLP has not approved or verified any other information in this Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Grant Thornton, LLP, Minneapolis, Minnesota (the "Verification Agent"), will deliver a report stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of the securities deposited with the Trustee, as escrow agent, and the interest thereon to pay, when due, the principal or redemption price and interest on the Refunded Bonds on July 1, 2004.

SALE OF THE BONDS

The Bonds were sold at competitive bid on May 25, 2004. The Bonds were awarded to UBS PaineWebber, Inc. and the purchase price was $33,993,727.05. The Official Notice of Sale provides that all Bonds will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Bond Counsel, and certain other conditions. The Underwriter has represented to the Agency that the Bonds were reoffered to the public at the yields set forth on the cover page hereof. The Underwriter may offer and sell the Bonds to certain dealers and others at prices other than the initial public offering prices. The offering prices may be changed from time to time by the Underwriter.

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MISCELLANEOUS

The summaries of the Trust Agreement and the Project Lease are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Agency for further information in connection therewith.

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any such statements made will be realized. This Official Statement is not (and is not to be construed as) a contract with the Owners of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Agency.

REDEVELOPMENT AGENCY OF THE
CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Ayisha Benham
Deputy Executive Director,
Finance and Administration

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward M. Harrington
Controller

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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, San Francisco voters approved a new charter, which went into effect in most respects on July 1, 1996 (the "Charter"). As compared to the previous charter, the Charter generally expands the roles of the Mayor and the Board of Supervisors (the "Board") in setting policy and determining budgets, while reducing 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, Sheriff and Public Defender are also elected directly by the citizens. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District, each a separate legal entity with a separately elected governing board. The Charter provides a civil service system for City employees.

Gavin Newsom was elected the 42nd Mayor of San Francisco on December 9, 2003 and was sworn into office on January 8, 2004. Mayor Newsom had been elected to the San Francisco Board of Supervisors three times and served on the Board from 1997 until he became 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.

Matt Gonzalez, a former trial attorney in the Public Defender's Office, was elected to the Board in 2000 and was elected President of the Board by a majority of the Supervisors in January 2003. Tom Ammiano, former member of the Board of Education was elected to the Board in 1994 and re-elected in 1998 and 2000. The following Supervisors were elected in November 2000: Jake McGoldrick, a college English teacher; Aaron Peskin, president of an environmental non-profit organization; Chris Daly, an affordable housing organizer; Tony Hall, a City employee; Sophenia ("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 of Supervisors in January 2004. She previously served on the San Francisco Port Commission.

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 ten-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 $4.8 billion annual budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for 29,000 employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. 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.

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

Mabel Teng was elected as the City's first Asian-American Assessor-Recorder, assuming office on January 8, 2003. Prior to becoming Assessor-Recorder, Ms. Teng was the first Asian-American woman elected to the Board, serving from 1994 to 2000. During her tenure on the Board, she chaired the Finance Committee, Rules Committee and Neighborhood Services and Housing Committee. In 1990, Ms. Teng was elected to the San Francisco City College Board of Member Trustees and was installed as the President of the Board. Until 1990, Ms. Teng was a tenured faculty member of City College of San Francisco and served as Director of Development and Planning at San Francisco State University.

Under the Charter, the City Administrator (formerly the Chief Administrative Officer) is a non-elective office appointed by the Mayor for a five-year term and confirmed by the Board. William L. Lee was appointed as Chief Administrative Officer by then-Mayor Frank M. Jordan on March 22, 1995. Pursuant to the Charter, on July 1, 1996, Mr. Lee succeeded to the position of City Administrator, for a five-year term from his initial appointment. On April 26, 2000, Mr. Lee was re-appointed by then-Mayor Willie L. Brown, Jr. Mr. Lee previously worked in the Department of Health and Human Services and the Department of Public Health. He has also worked for several Fortune 100 companies.

City Budget and Finances

General

The Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. An obligation to expend City funds cannot be incurred without a prior certification by the Controller that sufficient revenues are or will be available in the current fiscal year to meet such obligation as it becomes due. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board. The City's annual expenditures are often different from the estimated expenditures in the annual appropriation ordinance or "budget" due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

Budget Process

The City's budget process 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, then transmitted to the Mayor not later than the first working day of March. The Mayor is required to submit a balanced budget to the Board by June 1 each year. In December 2002, the Board of Supervisors adopted an ordinance amending the City's Administrative Code's budget timetable. Pursuant to the amendment, the Mayor is required to submit a proposed budget for each of the Enterprise departments, excluding the General Fund, to the Board each May 1, thereby providing the Board with additional time to review the City's budget. However, for the fiscal year 2004-05, pursuant to an ordinance adopted by the Board, all department budgets will be presented to the Board by the Mayor on June 1. Following 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 expenditure in the proposed budget, provided the total budgeted expenditure amount is not higher than the budgeted expenditure amount submitted by the Mayor on June 1. The Board must adopt the annual budget not later than the last working day of July each year. The Board adopted the fiscal year 2003-04 budget on July 15, 2003, and the Mayor approved it on July 31, 2003.

On March 19, 2004, the City Controller, the Mayor's Budget Director and the Budget Analyst to the Board of Supervisors issued the Three-Year Budget Projection (the "Budget Projection") as required by Administrative Code. The Budget Projection forecast $299.3 million general fund budget shortfall for fiscal year 2004-05, which shortfall reflects the estimated cost of providing the current level of City services through current business practices for general fund supported operations. By June 1, 2004, the Mayor must propose to the Board a fiscal year 2004-05 budget which closes the estimated $299.3 million budget gap. At this time, it is anticipated that the Mayor's balanced budget may include some or all of the following solutions: position reductions, programmatic changes, operation consolidations, possible adjustments in the State budget, various capital and equipment deferrals and savings from debt refinancing. Some changes to revenues may also provide a portion of the solution.

It is anticipated that the fiscal year 2004-05 proposed budget will assume a gradual recovery in discretionary General Fund revenues from the fiscal year 2003-04 projected levels. The achievement of the revenue estimates is dependent upon a variety of known and unknown factors, including in the general economy of the area and the State, and certain State budget decisions which could have a 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 are available on the Controller's website at www.sfgov.org/controller.

Under provisions of the City's Administrative Code, the Treasurer, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any idle funds then held in the pooled investment fund. The operating cash reserve is currently available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. See "Investment Policy" below. Additionally, in November 2003, voters approved the creation of the City's new 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 2004-05.

General Fund Results

The fiscal year 2003-04 budget maintained services at levels nearly equal to the prior fiscal year, despite the economic downturn that took hold in 2001 (see discussion below under "Impact of September 11, 2001"). The fiscal year 2003-04 budget totaled $4.8 billion, with $2.2 billion allocated to the General Fund. The remaining $2.6 billion was appropriated for expenditures of other governmental fund and enterprise fund departments including, but not limited to, the San Francisco International Airport, Municipal Transportation Agency, Water Department, Clean Water Program, Hetch Hetchy Water and Power System, and the Port of San Francisco, as well as for repayment of bonded indebtedness and other long-term obligations. Furthermore, the fiscal year 2003-04 budget contained no new taxes and only some adjustments in assessments, fines, user fees and service charges.

As a result of the continued delayed economic recovery in northern California and a review of the City's collections during the first nine months of fiscal year 2003-04, revenues are projected to be approximately $34.7 million lower by year-end than originally budgeted. This reduction includes the projected impact of State revenue reductions of $71.0 million, $41.0 million more than the $30.0 million reserve included in the budget (due to larger than budgeted Vehicle License Fee (VLF) revenue reductions). In response to the six- and nine-month revenue projections, the Mayor has been working with departments to prepare new spending plans to bring the fiscal year 2003-04 budget into balance. The Nine-Month Report, published on May 6, 2004, reflects both the reduced revenue assumptions and projected departmental savings as a result of the mid year adjustments, and projects a General Fund ending balance of $5.9 million.

The Budget Projection, jointly published by the Controller, the Mayor's Budget Director and the Board's Budget Analyst, contains a projected shortfall for fiscal year 2004-05 of $299.3 million assuming present trends continue, including the continuation of existing operations and staffing levels. Budgetary shortfalls are not permitted under the Charter, and the budget will be balanced during the upcoming budget process. Budget Status and Projection reports can be obtained from the Controller's website at www.sfgov.org/controller.

Table A-1 shows revised budgeted revenues and appropriations for fiscal years 1999-2000, 2000-01, 2001-02, 2002-03, and the original budget for fiscal year 2003-04 for the General Fund portion of the City's budget.

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TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 1999-00 through 2003-04
(000s)

	FY 1999-00 Revised Budget	FY 2000-01 Revised Budget	FY 2001-02 Revised Budget	FY 2002-03 Revised Budget	FY 2003-04 Original Budget
Prior Year Surplus	$359,952	$375,043	$489,347	$385,027	$58,483
Budgeted Revenues					
Property Taxes	$388,945	$426,305	$461,715	$513,203	$527,744
Business Taxes	246,450	270,077	275,669	282,230	288,619
Other Local Taxes	349,129	394,840	459,814	387,955	371,251
Licenses, Permits and Franchises	15,396	16,357	18,775	16,982	17,074
Fines, Forfeitures and Penalties	5,841	8,818	6,180	4,497	31,681
Interest and Investment Earnings	26,217	25,225	25,063	17,323	12,511
Rents and Concessions	19,059	18,922	19,993	17,833	20,015
Grants and Subventions	606,212	642,842	656,744	686,566	657,214
Charges for Services	88,943	95,831	102,942	102,801	90,063
Other	1,230	978	1,312	24,278	37,377
Total Budgeted Revenues	$1,747,422	$1,900,195	$2,028,207	$2,053,668	$2,053,549
Proceeds from Issuance of Bonds and Loans	-	-	$63,662	$13,451	-
Expenditure Appropriations					
Public Protection	$600,863	$630,727	$660,860	$695,409	$653,229
Public Works, Transportation & Commerce	87,004	98,558	103,295	59,646	58,856
Human Welfare & Neighborhood Development	411,984	463,334	483,523	517,334	508,422
Community Health	384,624	402,876	426,683	461,958	444,850
Culture and Recreation	88,218	107,318	113,453	102,354	79,836
General Administration & Finance	143,295	129,679	140,879	135,449	139,090
General City Responsibilities	49,739	46,141	116,861	61,416	46,860
Total Expenditure Appropriations	$1,765,727	$1,878,633	$2,045,554	$2,033,566	$1,931,143
Budgetary reserves and designations	($11,893)	$12,275	$123,346	$83,595	$38,412
Transfers In	$186,920	$156,996	$136,028	$137,672	$142,728
Transfers Out	(292,917)	(250,932)	(293,517)	(313,341)	(285,205)
Net Transfers In/Out	($105,997)	($93,936)	($157,489)	($175,669)	($142,477)
Excess (Deficiency) of Sources Over (Under) Uses	$247,543	$290,394	$254,827	$159,316	-

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2003 was $196.3 million prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of $1.96 billion for the same period. Audited General Fund balances as of June 30, 2003 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively.

TABLE A-2

General Fund Balances
As of June 30, 2003
(000s)

	June 30, 2003
Reserved for cash requirements	$55,139
Reserved for emergencies	4,198
Reserved for encumbrances	43,195
Reserved for appropriation carryforward	26,880
Reserved for subsequent years' budgets	15,414
Total Reserved Fund Balance	$144,826
Unreserved - designated for litigation & contingency	$14,490
Unreserved - available for appropriation	47,851
Total Unreserved Fund Balance	$62,341
Total Fund Balance, June 30 - Budget Basis	$207,167
Total Fund Balance - Budget Basis	$207,167
Unrealized gain on investments	3,266
Deferred charges and assets not available for appropriation	6,768
Cumulative excess property tax revenues recognized on a Budget basis	(20,889)
Total Fund Balance, June - GAAP Basis	$196,312

Source: Comprehensive Annual Financial Report, June 30, 2003.
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. The City's audited financials for the fiscal year ended June 30, 2003 is included herein as Appendix C—"EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003—Enterprise Funds." Prior years audited financials can be obtained from the Controller's website at www.sfgov.org/controller. Excluded from these General Fund statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City, including San Francisco International Airport, Port of San Francisco, Water Department, Hetch Hetchy Water and Power System, Municipal Transportation Agency, Laguna Honda Hospital, General Hospital Medical Center, and the Clean Water Program, 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)

	Fiscal Year Ended June 30				
	2003	2002	2001	2000	1999
Revenues:					
Property Taxes	$516,955	$507,308	$462,171	$405,560	$388,222
Business Taxes	276,126	274,125	277,094	267,197	229,171
Other Local Taxes	345,735	334,357	448,132	411,082	359,973
Licenses, Permits and Franchises	16,217	19,548	17,714	16,106	15,673
Fines, Forfeitures and Penalties	5,595	8,591	9,097	9,113	14,204
Interest and Investment Income	7,798	20,737	27,693	18,792	17,617
Rents and Concessions	17,576	17,636	19,298	20,395	19,373
Intergovernmental	667,172	661,396	636,430	615,318	520,580
Charges for Services	93,840	102,782	100,325	86,591	78,025
Other	11,880	10,338	17,395	9,706	11,034
Total Revenues	$1,958,894	$1,956,818	$2,015,349	$1,859,860	$1,653,872
Expenditures:					
Public Protection	$695,693	$650,019	$626,136	$597,949	$557,632
Public Works, Transportation & Commerce	57,458	103,579	95,486	85,655	60,720
Human Welfare and Neighborhood Development	492,083	467,688	431,266	383,305	338,372
Community Health	424,302	395,465	365,290	355,720	372,792
Culture and Recreation	96,959	108,810	106,728	87,373	81,536
General Administration & Finance	130,786	136,143	127,366	140,211	112,895
General City Responsibilities	52,308	50,105	45,380	45,194	48,093
Total Expenditures	$1,949,589	$1,911,809	$1,797,652	$1,695,407	$1,572,040
Excess of Revenues over Expenditures	$9,305	$45,009	$217,697	$164,453	$81,832
Other Financing Sources (Uses):					
Transfers In	$105,211	$109,941	$134,983	$156,984	$169,405
Transfers Out	(303,216)	(316,691)	(257,317)	(286,660)	(230,924)
Other Financing Sources	4,621	63,121	-	-	-
Other Financing Uses	-	(176)	-	-	-
Total Other Financing Sources (Uses)	($193,384)	($143,805)	($122,334)	($129,676)	($61,519)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	($184,079)	($98,796)	$95,363	$34,777	$20,313
Fund Balance at Beginning of Year, as restated before valuation of investments	$380,391	$479,187	$275,640	$240,863	$220,550
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	$380,391	$479,187	$383,824	$240,863	$220,550
Fund Balance at End of Year -- GAAP Basis [1]	$196,312	$380,391	$479,187	$275,640	$240,863
Unreserved and Undesignated Balance at End of Year -- GAAP Basis	$44,718	$136,664	$207,467	$45,090	$35,725
Unreserved & Undesignated Balance, Year End -- Budget Basis	$47,851	$130,200	$198,953	$148,581	$126,357

[1] Fund Balances include amounts reserved for cash requirements, emergencies, encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved and undesignated fund balances (which amounts constitute unrestricted general fund balances).

Source: Comprehensive Annual Financial Reports for the Years Ended June 30, 1999, 2000, 2001, 2002 and 2003.
Office of the Controller, City and 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 San Francisco International Airport ("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

Revenues from the State represent approximately 25% of the City's General Fund Budget. For fiscal year 2003-04, the City's Adopted Budget included a one-time $30 million State Revenue Loss Reserve, which was intended to address the impact to the City of the State's fiscal year 2003-04 Adopted Budget. The actual impact to the City increased to $71.0 million as of the Nine-Month Report, which is $41.0 million more than originally assumed in the City's adopted budget. This is further discussed in the "Intergovernmental Revenues, Grants and Subventions - Motor Vehicle License Fees " section below.

For fiscal year 2004-05, the Governor's Proposed Budget, released on January 9, 2004, included the $15.0 billion in long-term deficit bond financing which was ultimately approved by California voters on March 2, 2004. The Governor's Proposed Budget also included $96.8 million in on-going cuts to the City. The Governor's budget included revenue assumptions such as $500.0 million in tribal government gaming revenues, labor givebacks and the issuance of a $1.0 billion pension obligation bond. On May 13, 2004, the Governor's May Revise was released and resulted in less than $60.0 million in reductions to the City. However, the impact of potential changes in the State budget and allocations are unknown at this time as the legislature is deliberating the State's budget. These proposed reductions will be factored into the City's budget reserves.

Welfare Reform

On August 22, 1996, the United States Congress passed into law the "Personal Responsibility and Work Opportunity Reconciliation Act of 1996" (the "Welfare Reform Act"). The Welfare Reform Act restructured the welfare system, including Aid to Families with Dependent Children ("AFDC"), food stamps, Medicaid and Supplementary Security Income, and provide flexibility to the states while imposing various constraints designed to reduce the number of people receiving aid, including work requirements and limits on the amount of time a recipient may receive welfare. The Welfare Reform Act also created the Temporary Assistance for Needy Families "TANF" block grant to states, which is transferred by states to local administrators of the welfare system, such as the City.

On August 11, 1997, then-Governor Pete Wilson signed the State's welfare reform legislation into law. As of January 1, 1998, California's version of AFDC became "CalWORKs," and the City implemented its CalWORKs program on April 6, 1998. Authorization for the TANF program ended September 30, 2002. Congress has adopted temporary legislation to continue the program in its current form pending reauthorization and possible modification of the existing legislation. It is not possible, at this time, to predict the impact of any federal changes to this program on City finances received approximately $14.0 million in one-time incentive funds as a result of those reductions. This one-time funding is projected to be fully spent by the end of fiscal year 2003-04.

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, Bay Area Rapid Transit (BART) District, and San Francisco Redevelopment Agency, all of which are legally separate entities from the City. See also "Statement of Direct and Overlapping Bonded Debt" below.

Total assessed value has increased on average by 8.5% per year since fiscal year 1999-00; however, in fiscal year 2003-04, the increase was 4.7%. Property tax delinquencies based on the weighted average of the secured and unsecured delinquency rates, have averaged 1.65% over the four years ending in fiscal year 2002-03.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property [1]
Fiscal Years 1999-00 through 2003-04
($000s)

Fiscal Year	Assessed Valuation: Land	Assessed Valuation: Improvements on Land	Assessed Valuation: Personal Property	Total Assessed Valuation	% Change from Prior Year	Exclusions[2]	Total Tax Rate per $100[3]	Total Tax Levy (000s)[4]	Current Levy Delinquent June 30,
1999-00	$ 26,990,485	$ 43,148,894	$ 3,501,927	$ 73,641,306	9.6%	$ 3,159,743	$1.129	$ 799,385	1.49%
2000-01	30,294,991	46,572,658	4,198,154	81,065,803	10.1	3,416,264	1.136	892,675	1.48
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	1,087,191	n/a [5]

[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, Bay Area Rapid Transit District, and San Francisco Redevelopment Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.
[4] Final levy as of year end up through fiscal year 2002-03. Fiscal year 2003-04 is the tax levy based on the Certificate of Assessed Valuation.
[5] Fiscal year 2003-04 delinquencies are not yet available.

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

The fiscal year 2003-04 total assessed valuation of property within the City is $102,092,927,794. After non-reimbursable and homeowner exemptions, but including San Francisco Redevelopment Agency tax increment, net assessed valuation is $98,145,268,023. Of this total, $90,899,714,419 (93%) represents secured valuations and $7,245,553,604 (7%) represents unsecured valuations. The net valuation will result in total budgeted property tax revenues of $1,087,190,558 before correcting for delinquencies. The City's fiscal year 2003-04 general fund budgeted property tax revenues was $527.8 million, representing approximately 50% of all 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 Resource Augmentation Fund (also known as "ERAF") are collectively estimated to receive approximately $236 million and the San Francisco Redevelopment Agency will receive approximately $34.5 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 have filed 1,831 applications for assessment appeal against the fiscal year 2003-04 levy between July 1, 2003 and February 24, 2004. As in every year, some appeals are multiple-year or retroactive in nature. With respect to fiscal year 2003-04, property owners representing approximately 25% of the total assessed valuation of the City have filed appeals for 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 has experienced similar increases in appeals activity in other economic downturns and historically, on average, partial reductions totaling 22% to 23% of the total assessment valuations appealed were granted, depending on the severity of the market downturn. To mitigate the financial risk of pending assessment appeals, the City establishes a reserve for each fiscal year. In addition, appeals activity to date and projected for the subsequent year are factored into the current year's revenue projection and the subsequent year's budget. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" in the forepart of this Official Statement.

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

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

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

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer-Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

On October 6, 1993, the Board of Supervisors of the City 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% 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, together with the required reserve, from internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This has been funded at $8.1 million as of June 30, 2001, $9.1 million as of June 30, 2002, and $9.0 million as of June 30, 2003.

On April 6, 2001, Pacific Gas & Electric Company (PG&E) filed for voluntary protection under Chapter 11 of the Bankruptcy Code. PG&E is one of the largest taxpayers in the City with 0.92% of the total fiscal year 2003-04 assessed property values; however, since filing for bankruptcy protection, PG&E has continued to pay all taxes and franchise fees as they have come due. PG&E filed with the United States Bankruptcy Court a statement that all conditions to effectiveness of its plan of reorganization had been satisfied, and on April 13, 2004 filed a notice to advise creditors that the reorganization plan has become effective. The City continues to have a claim against PG&E totaling approximately $10 million. PG&E has also filed suit against the City for $19.5 million. Under its 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.

The Nine Month Report indicates utility taxes may come in under budget by about $0.9 million due to the rate reductions approved for commercial users pursuant to the Bankruptcy Court's adoption of PG&E's reorganization plan. See "Utility Users Tax" below.

Assessed valuations of the ten largest taxpayers in the City for the fiscal year ending June 30, 2004 are shown in Table A-5.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Principal Property Taxpayers
Fiscal Year Ending June 30, 2004

Fiscal Year 2003-04 Net Assessed Valuation (net of non-reimbursables exemptions) ($000s): $98,820,170

Taxpayer	Type of Business	AV ($000s)	% Total AV
Pacific Gas & Electric Co.	Utilities	$910,808	0.92%
555 California Street Partners	Offices, Commercial	907,510	0.92
Embarcadero Center Venture	Offices, Commercial	878,748	0.89
SBC California	Utilities, Communications	557,904	0.56
Post-Montgomery Associates	Commercial, Retail	375,146	0.38
YBG Associates LLC (Marriott Hotel)	Hotel	374,658	0.38
CB-1 Entertainment Partners	Misc.	349,652	0.35
China Basin Ballpark Company LLC	Possessory Interest - Stadium	344,474	0.35
101 California Venture	Offices	271,384	0.27
BRE-St Francis LLC	Offices, Commercial	254,207	0.26
Ten Largest Taxpayers		5,224,491	5.29%
All Other Taxpayers		93,595,679	94.71%
Total Taxable Assessed Valuation - All Taxpayers		$98,820,170	100.00%

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

Other City Tax Revenues

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

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

In 2001, the City entered into a settlement agreement resolving 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 could be covered by contingency reserves, judgment bonds or some combination thereof.

Sales and Use Tax

The State collects the City's 1% local sales tax on retail transactions, along with State and special district sales taxes, and rebates the local sales tax collections to the City. The 1% local sales tax is deposited in the City's General Fund. As a result of the economic slowdown and the drop in tourism and business travel, sales tax revenue in fiscal year 2002-03 declined 1.1% from fiscal year 2001-02, for a reduction of $1.3 million. This decline followed a 15.51% drop in sales and use tax receipts. A history of sales and use tax revenues is presented in Table A-6.

Budgeted revenue from the local sales and use tax for fiscal year 2003-04 is $122.5 million; however, as of the Nine-Month Report, the City was projecting sales and use taxes to be approximately $5.5 million under budget.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Receipts (000's)
Fiscal Years 1997-98 through 2002-03

Fiscal Year	Tax Rate	City Share	Revenue	% Change
1997-98	8.50%	1.00%	$112,950	4.49%
1998-99	8.50	1.00	116,760	3.37
1999-00	8.50	1.00	133,395	14.25
2000-01	8.50	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

State Sales Tax Rate for last six months of FY 1999-00 and first six months of fiscal year 2000-01 was 8.25%; the Local Share shown above remained unchanged at 1.00%. 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% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Budgeted revenue from transient occupancy tax for fiscal year 2003-04 is $138.8 million, including $5.7 million allocated to the Redevelopment Agency. In fiscal year 2002-03, revenue from the transient occupancy tax declined 2.75% (or approximately $3.6 million) from receipts in fiscal year 2001-02. This decline followed a 29.81% drop. As of the Nine-Month Report, the City is projecting the transient occupancy tax to be approximately $2.2 million under budget in the general fund. However, a portion of this shortfall appears to be mitigated by reduced spending by departments which receive dedicated hotel tax revenues, as indicated in the Nine-Month Report.

Table A-7 sets forth a history of transient occupancy tax receipts.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Receipts (000's)
Fiscal Years 1997-98 through 2002-03

Fiscal Year	Tax Rate	Revenue	% Change
1997-98	14.00%	$150,163	9.09%
1998-99	14.00	161,518	7.56
1999-00	14.00	182,102	12.74
2000-01	14.00	188,377	3.45
2001-02	14.00	132,226	-29.81
2002-03	14.00	128,590	-2.75

Revenues are adjusted so underlying tax revenue is reflected in the same fiscal year as 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 million or more. Budgeted revenue from real property transfer tax for fiscal year 2003-04 is $55.0 million. The Nine-Month Report projects that real property transfer taxes will be over budget by approximately $15.6 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 2003-04 is $68.4 million. The Nine-Month Report indicates utility users tax may come in under budget by about $0.9 million due to the rate reductions approved for commercial users pursuant to the bankruptcy court's adoption of PG&E's reorganization plan.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code and paid by the occupants of the spaces and generally remitted by the operators of the parking facilities monthly. A quarterly tax-filing requirement is also imposed. General Fund parking tax receipts in fiscal year 2002-03 totaled $29.7 million, a decline of $0.8 million from fiscal year 2001-02 levels. Budgeted General Fund revenue from the parking tax for fiscal year 2003-04 is $32.7 million; however, the Nine-Month Report projects parking taxes to be approximately $1.2 million under budget.

Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions are budgeted at $1,007.9 million for fiscal year 2003-04. This includes $286.8 million from the Federal government, $671.5 million from the State, and $49.6 million from other intergovernmental sources across all City funds. In the General Fund, intergovernmental revenues, grants and subventions are budgeted for a total of $657.2 million, including $156.9 million from the Federal government and $500.3 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 $193.7 million to the City's General Fund and its two county hospitals for fiscal year 2003-04, and the Nine-Month Report projects such sources to be approximately $1.3 million above budget.

Motor Vehicle License Fees

The City's discretionary allocation of vehicle license fees (VLF) as a city and county is budgeted to be $112.6 million for fiscal year 2003-04. In 1998, the State reduced the vehicle license fee to vehicle owners and agreed to make local governments whole by providing them with the difference out of the State's general fund (the "Backfill"), and VLF allocations to local governments had continued as if there had been no VLF rate reductions. However, in June 2003, the State determined that it had insufficient moneys to provide any Backfill to local governments, and as a result of the determination, the Backfill paid to local governments ended. On July 1, 2003, then-Governor Davis restored the funds not being backfilled by the State by increasing the VLF. At the time the City's fiscal year 2003-04 budget was adopted, it was estimated that the gap between the July 1 implementation and the resulting cash flow increase would be 90 days, during which time the State's budget assumed no Backfill to local governments. On November 18, 2003, newly elected Governor Schwarzenegger signed an executive order reducing the VLF back to its previously reduced level and on December 18, 2003, declared a public safety emergency and ordered the State Controller to make payments to local governments as a result of the reduction of the VLF. However, the Governor did not declare that such payments would be permanent. The City's fiscal year 2003-04 General Fund budget assumed the impact of the State's VLF policies to result in a revenue shortfall of $30.0 million; however, as of the Nine-Month Report, the estimated shortfall for the City's General Funds is $71.0 million. This is further discussed in the "Impact of State Budget" section above.

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 $65.3 million for fiscal year 2003-04; however, as of the Nine-Month Report, such revenues are anticipated to be approximately $4.3 million under budget, due to the City's lagging recovery and weak sales tax performance relative to statewide sales tax growth.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds, the City receives approximately $636.3 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.

Investment Policy

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

The investment portfolio is sufficiently flexible to enable the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of April 30, 2004 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 April 30, 2004

Type of Investment	Book Value	Par Value
Treasury Bills	$828,222,998	$831,000,000
Treasury Notes	235,488,286	240,000,000
FNMA Discount Notes	79,856,786	80,000,000
Federal Home Loan Disc Notes	210,429,485	211,000,000
FMC Discount Notes	119,725,794	120,000,000
Negotiable C. D.'s	274,844,069	275,000,000
Commercial Paper Disc	708,334,289	710,000,000
Public Time Deposit	100,000	100,000
Total	$2,457,001,707	$2,467,100,000

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 April 30, 2004

Maturity				Cost	Percentage
1	to	2	Months	$1,381,699,405	56.24%
2	to	3	Months	591,247,700	24.06
3	to	4	Months	77,686,832	3.16
4	to	5	Months	288,681,047	11.75
5	to	6	Months	-	0.00
6	to	12	Months	-	0.00
12	to	18	Months	50,075,786	2.04
18	to	24	Months	-	0.00
24	to	36	Months	47,867,187	1.95
36	to	48	Months	0	0.00
48	to	60	Months	19,743,750	0.80
				$2,457,001,707	100.00%

Weighted Average Maturity: 89 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 and Business Affairs. The Debt Report is included for general information purposes only.

The Debt Report generally includes long-term obligations sold in the public credit markets by 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

2003-2004 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 98,145,268,023	
DIRECT GENERAL OBLIGATION BOND DEBT	**Outstanding 5/1/2004**	**Self-Supporting, Enterprise Rev.**
General City Purposes Carried on the Tax Roll	$910,065,000	
Harbor Bonds (paid from Port revenues)	800,000	$800,000
GROSS DIRECT DEBT	$910,865,000	$800,000
NET DIRECT DEBT	$910,065,000	
LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS		
San Francisco Courthouse Corporation COPs, Series 1995	$40,635,000	
San Francisco COPs, Series 1997 (2789 25th Street Property)	8,320,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	7,650,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	7,680,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	137,235,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	13,870,000	
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1	44,275,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	35,960,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	41,965,000	
San Francisco Finance Corporation	236,150,000	
San Francisco Permit Center, Series 1993	5,000,000	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	3,745,000	
San Francisco Redevelopment Agency Moscone Convention Center	176,766,625	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	67,670,000	
LONG-TERM OBLIGATIONS	$826,921,625	
GROSS DIRECT DEBT & OBLIGATIONS	$1,737,786,625	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	$910,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	151,158,333	
San Francisco Community College District General Obligation Bonds - 2002	37,505,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	1,405,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,640,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	10,695,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	54,630,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	189,750,000	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	9,897,810	
San Francisco Unified School District COPs - 1996 Refunding	2,550,000	
San Francisco Unified School District COPs - 1998	3,035,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$483,176,143	
GROSS COMBINED TOTAL OBLIGATIONS	$2,220,962,768	[1][2][3]
Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)	0.93%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.93%	n/a
Gross Direct Debt & Obligations	1.77%	n/a
Gross Combined Total Obligations	2.26%	n/a
STATE SCHOOL BUILDING AID REPAYMENT FOR FY 03-04	$172,338	

[1] Reflects Cross-over Refunding and includes $33,888,558 in accreted value to be paid upon final maturity.
[2] Excludes revenue and mortgage revenue bonds notes, and non-bonded capital lease obligations.
[3] Reduced by principal payments through 5/1/04

Source: Mayor's Office of Public Finance and Business Affairs, 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 May 1, 2004, the full amount of general obligation bonds authorized by the electorate of the City and as yet unissued was $872,060,000. See Table A-12 below. As of May 1, 2004 the City had $910,865,000 in general obligation bonds outstanding, including $800,000 of general obligation bonds repaid from Port Commission revenues and not carried on the City's property tax roll.

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

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Direct Tax Supported Debt Service
As of May 1, 2004 [1]

Fiscal Year	Principal	Interest	Annual Debt Service
2004	$66,520,000	$22,569,577	$89,089,577 [2]
2005	62,435,000	42,323,027	104,758,027
2006	64,930,000	39,433,667	104,363,667
2007	68,050,000	36,057,889	104,107,889
2008	69,065,000	32,543,950	101,608,950
2009	72,355,000	29,146,312	101,501,312
2010	72,735,000	25,605,591	98,340,591
2011	73,835,000	21,942,717	95,777,717
2012	61,770,000	18,275,759	80,045,759
2013	52,170,000	15,306,857	67,476,857
2014	46,095,000	12,769,531	58,864,531
2015	38,365,000	10,387,849	48,752,849
2016	40,360,000	8,409,106	48,769,106
2017	29,550,000	6,326,265	35,876,265
2018	27,315,000	4,761,860	32,076,860
2019	26,980,000	3,302,484	30,282,484
2020	17,330,000	1,872,521	19,202,521
2021	12,090,000	975,311	13,065,311
2022	5,410,000	377,204	5,787,204
2023	3,505,000	148,959	3,653,959
TOTAL [3]	$910,865,000	$332,536,436	$1,243,401,436

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

[2] Reduced by debt service payments through 5/1/04.

[3] Total debt includes general obligation bonds repaid from Port revenues and not levied on the City's property tax roll.

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

In November 1992, voters approved Proposition A, which authorizes up to $350 million in general obligation bonds to provide moneys to fund the City's Seismic Safety 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 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed the remaining outstanding bonds. The City may issue up to $25 million of such bonds in fiscal year 2004-05.

In June 1997, voters also approved Proposition C, which authorizes up to $48 million in general obligation bonds for the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The City has issued a total of $40.5 million in three series of such bonds. It is anticipated that the City will issue the remaining $7.5 million in 2005.

In November 1999, voters approved Proposition A, which authorizes up to $299 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City anticipates issuing approximately $210 million of the total authorized amount for the project by the end of 2004.

In March 2000, voters approved Proposition A which authorizes up to $110,000,000 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 for a total of $41.2 million. The City anticipates issuing a fourth series in the summer of 2004.

The voters also approved Proposition B in March 2000, which authorizes up to $87,445,000 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 $29,245,000 to pay the cost of acquisition, construction and/or reconstruction of certain improvements to the Steinhart Aquarium and related facilities. Proposition C and Proposition B proceeds will be used together with other monies of the Academy of Sciences to reconstruct the existing structure. The City anticipates issuing the first series of the California Academy of Sciences Bonds in the summer of 2004.

In November 2000, voters approved Proposition A, which authorizes up to $105,865,000 in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City has issued two series of library bonds in July 2001 and October 2002 for a total of $40.8 million. The City anticipates issuing a third series in 2005.

Table A-12 below lists the City's voter-authorized general obligation bonds including authorized programs where bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of May 1, 2004, the City had authorized and unissued general obligation bond authority of $872,060,000.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of May 1, 2004)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Harbor Improvement Bonds	B	$10,000,000	$800,000	-
Public Safety Improvement Projects (11/7/89)	1996B	7,645,000	1,010,000	-
Public Safety Improvement Projects (6/5/90)	1995A	18,480,000	5,525,000	- [1]
Golden Gate Park Improvements (6/2/92)	1995B	26,000,000	8,130,000	-
	1997A	25,105,000	19,895,000	-
	2001A	17,060,000	15,885,000	-
Fire Department Facilities Project (11/3/92)	1996C	14,285,000	1,890,000	-
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	-	$315,000,000
School District Facilities Improvements (6/7/94)	1996D	42,300,000	5,590,000	-
	1997B	22,050,000	17,470,000	-
Asian Art Museum Relocation Project (11/8/94)	1996E	25,000,000	3,305,000	-
	1999D	16,730,000	14,620,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	11,545,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	17,090,000	-
	1999A	20,000,000	17,835,000	-
	2000D	20,000,000	18,165,000	-
	2001C	17,000,000	15,960,000	-
	2001D	23,000,000	21,780,000	-
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	17,705,000	-
	2000A	29,605,000	26,950,000	-
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	52,550,000	-
	2003B	29,480,000	29,480,000	-
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	14,625,000	-
	2000B	17,440,000	15,875,000	
	2002A	6,210,000	6,030,000	7,505,000
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,625,000	-
	2001B	14,060,000	13,090,000	
	2003A	20,960,000	20,960,000	68,800,000
California Academy of Sciences Improvement (3/7/00)		-	-	87,445,000
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	16,520,000	
	2002B	23,135,000	22,460,000	65,065,000
SUB TOTALS		**$685,740,000**	**$438,365,000**	**$872,060,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$358,440,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$114,060,000	
TOTALS		**$1,253,770,000**	**$910,865,000**	**$872,060,000**

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

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

Lease Payments and Other Long-Term Obligations

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Lease Payment and Other Long-Term Obligations
As of May 1, 2004

Fiscal Year	Principal	Interest	Annual Payment Obligation
2005	$48,141,625	$29,558,848	$77,700,473
2006	44,685,000	29,419,015	74,104,015
2007	42,245,000	28,275,386	70,520,386
2008	41,425,000	27,210,824	68,635,824
2009	41,535,000	26,135,069	67,670,069
2010	36,620,000	25,042,672	61,662,672
2011	37,520,000	24,103,597	61,623,597
2012	31,540,000	23,089,232	54,629,232
2013	32,640,000	22,119,519	54,759,519
2014	32,000,000	21,186,546	53,186,546
2015	32,700,000	20,137,877	52,837,877
2016	34,130,000	18,780,679	52,910,679
2017	33,730,000	17,142,924	50,872,924
2018	34,210,000	15,459,469	49,669,469
2019	34,660,000	13,743,393	48,403,393
2020	19,930,000	12,382,912	32,312,912
2021	20,985,000	11,387,734	32,372,734
2022	20,320,000	10,340,000	30,660,000
2023	20,700,000	9,339,508	30,039,508
2024	21,540,000	8,320,099	29,860,099
2025	21,450,000	7,256,075	28,706,075
2026	17,610,000	6,367,132	23,977,132
2027	18,690,000	5,592,998	24,282,998
2028	19,485,000	4,773,679	24,258,679
2029	20,605,000	3,915,329	24,520,329
2030	21,460,000	3,008,936	24,468,936
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	11,300,000	349,854	11,649,854
TOTAL [1][2][3]	$826,921,625	$428,982,404	$1,255,904,029

[1] Amount includes $33,888,558 in accreted value of capital appreciation bonds to be earned upon final maturity.

[2] Totals reflect rounding to nearest dollar.

[3] 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 3.50% - the approximate historical average of the Bond Market Association Index plus a spread.

Source: Mayor's Office of Public Finance and Business Affairs, 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 outstanding with respect to lease financings may not exceed $20 million, such amount increasing by five percent each fiscal year. Based on that formula, as of May 1, 2004, the total authorized amount for such financings was $37,712,983. The total principal amount outstanding as of May 1, 2004 was $20,592,983. It is anticipated that the Corporation will issue approximately $10 million in equipment lease revenue bonds under this authorization in June 2004.

In 1994, voters approved Proposition B, which authorized up to $60 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system 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 lease revenue bonds, respectively, but has no plans to utilize the remaining $14 million in authorization.

In June 1997, voters approved Proposition D, which authorizes up to $100 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers football team. If issued, the $100 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.

In November 2001, voters approved Propositions B and H. Proposition B authorizes the issuance of up to $100 million in revenue bonds to finance the acquisition, installation and improvement or rehabilitation of solar or other renewable energy facilities or equipment for City departments. Proposition H is a Charter amendment that adds another exception to the voter-approval requirement for issuing revenue bonds. Under Proposition H, the Board of Supervisors may authorize the issuance of revenue bonds to buy, build or improve renewable energy facilities or energy conservation facilities without further voter approval. No bonds have been issued under either Proposition B or Proposition H.

Overlapping Debt

In November 2001, voters approved Proposition A. Proposition A authorizes the issuance of general obligation bonds up to $195 million to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District, to improve access for the disabled and to make other improvements to existing facilities.

On November 4, 2003, voters approved Proposition A. Proposition A authorized the San Francisco Unified School District to issue up to $295 million of general obligation bonds to repair and rehabilitate its facilities. The San Francisco Unified School District has not yet issued bonds pursuant to this authorization.

Labor Relations

The Mayor's fiscal year 2003-04 budget includes approximately 30,000 full time personnel, not including San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court employees. City workers are represented by 48 different unions and labor organizations. The largest unions in the City are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, and transit workers and deputy sheriffs.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law and City 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.

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

In 2003, the City completed negotiations with all of the labor groups covered under Charter Section A8.409 and Charter Section A8.590-1 for successor agreements to be in effect from July 1, 2003 through June 30, 2005. Such 2003-05 collective bargaining agreements do not provide for any general wage increases. Furthermore, most labor unions agreed to have its represented employees resume payment of the 7.5% employee contribution to the retirement plans for fiscal year 2003-04, and in recognition therefor, the City provided additional floating holidays. Almost all of the labor agreements provided for negotiations to be reopened to discuss wages and retirement contributions for fiscal year 2004-05. Negotiations regarding such reopened labor agreements are currently in progress.

The contract covering transit operators expires June 30, 2004. Pursuant to the Charter, the Municipal Transit Agency ("MTA") shall negotiate contracts with labor unions representing employees in service-critical bargaining units and those agreements shall be subject to approval by the MTA Board.

The City also adopts an annual "Unrepresented Ordinance" for employees who are not exclusively represented by a union. As with the negotiated labor agreements, the present ordinance, for fiscal year 2003-04 also provides for unrepresented employees to resume payment of the employee contribution to their retirement plans and receive additional floating holidays.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Employee Organizations as of July 1, 2003

Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	420	June 30, 2005
Bricklayers, Local 3/Hod Carriers, Local 36	9	June 30, 2005
Building Inspectors Association	77	June 30, 2005
Carpenters, Local 22	107	June 30, 2005
Cement Masons, Local 580	23	June 30, 2005
Deputy Sheriffs Association	837	June 30, 2005
District Attorney Investigators Association	58	June 30, 2005
Electrical Workers, Local 6	788	June 30, 2005
Glaziers, Local 718	12	June 30, 2005
International Alliance of Theatrical Stage Employees, Local 16	3	June 30, 2005
Ironworkers, Local 377	18	June 30, 2005
Hod Carriers, Local 36	8	June 30, 2005
Laborers International Union, Local 261	1,068	June 30, 2005
Law Librarian	3	June 30, 2005
Municipal Attorneys' Association	417	June 30, 2005
Municipal Executives Association	924	June 30, 2005
MEA - Police Management	3	June 30, 2005
MEA - Fire Management	8	June 30, 2005
Operating Engineers, Local 3	57	June 30, 2005
Painters, Local 4	106	June 30, 2005
Pile Drivers, Local 34	15	June 30, 2005
Plumbers, Local 38	337	June 30, 2005
Probation Officers Assoc., Teamsters Local 856	164	June 30, 2005
Professional & Technical Engineers, Local 21	4,203	June 30, 2005
Roofers, Local 40	11	June 30, 2005
S.F. Institutional Police Officers Association	16	June 30, 2005
S.F. Firefighters, Local 798	1,759	June 30, 2005
S.F. Police Officers Association	2,474	June 30, 2007
SEIU, Local 250	1,875	June 30, 2005
SEIU, Local 535	1,410	June 30, 2005
SEIU, Local 790	7,728	June 30, 2005
SEIU, Local 790 (Staff Nurse)	1,447	June 30, 2005
SEIU, Local 790 (H-1 Rescue Paramedics)	24	June 30, 2005
Sheet Metal Workers, Local 104	45	June 30, 2005
Stationary Engineers, Local 39	634	June 30, 2005
Supervising Probation Officers, Operating Engineers, Local 3	22	June 30, 2005
Teamsters, Local 350	2	June 30, 2005
Teamsters, Local 853	166	June 30, 2005
Teamsters, Local 856 (multi-unit)	128	June 30, 2005
Teamsters, Local 856 (Supervising Nurses)	142	June 30, 2005
TWU, Local 200 (SEAM multi-unit & claims)	319	June 30, 2005
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2005
TWU, Local 250-A TWU - Miscellaneous	100	June 30, 2005
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2004
Union of American Physicians & Dentists	176	June 30, 2005
Unrepresented Employees	151	June 30, 2004
	30,552 [1]	

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

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

Risk Management

The City self-insures the majority of its property, liability and workers' compensation 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 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 focusing on accident prevention, investigation and by modifying the duty of injured employees with medical restrictions so they can return to work as early as possible.

Retirement System

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

The Retirement System estimates that the total active membership as of June 30, 2003 was 34,158, including 942 vested members and 643 reciprocal members, compared to 33,833 members a year earlier. The total new enrollees for fiscal year 2002-03 was approximately 844. Checks are mailed to approximately 18,135 benefit recipients monthly.

Net assets held in trust for pension benefits by the Retirement System as of June 30, 2003 were $10,533,013,000 compared to $10,415,950,000 as of June 30, 2002. As of June 30, 2003, the actuarial accrued liability was $10,249,896,000, and the actuarial value of assets was $11,173,636,000, reflecting funding at 109%.

Table A-15 shows Retirement System actual contributions for fiscal years 1997-98 through 2002-03.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System (000s)
Fiscal Years 1999-00 through 2002-03

Fiscal Years Ending June 30	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]
1999	10,868,542	8,862,168	6,430,740	137.8%	120,851
2000	12,931,306	10,076,469	7,258,394	138.8%	132,761
2001	11,246,080	10,797,024	8,371,843	129.0%	145,203
2002	10,415,950	11,102,516	9,415,905	118.0%	155,918
2003	10,533,013	11,173,636	10,249,896	109.0%	182,069

[1] For fiscal years 1999-00 through 2003-04, the City paid no employer contribution. However, based on the Retirement Board's Actuarial Valuation for July 1, 2003, employer contributions will resume at 4.48% of covered payroll beginning fiscal year 2004-05.

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2003 and 2002.
SFERS' Actuarial Valuation report as of July 1, 2003 and July 2002.

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

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically. The latest report was issued in January 2004 as of June 30, 2003.

In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded. That method is the entry age normal cost method with a level percentage supplemental cost element (supplemental costs to be fully amortized over no more than 20 years). Actuarial gains and losses are amortized over a 15-year period. Assets are calculated based on a 5-year phase-in of realized and unrealized capital gains and losses.

In fiscal year 1996-97, the City’s dollar contribution decreased to zero due to lowered funding requirements as determined by the Board’s actuary. Based upon the latest valuation report, as of June 30, 2003, the plan was over funded by $923.7 million based on actuarial value of assets. However, starting in fiscal year 2004-05, the City’s will contribute an estimated $44.6 million in employer contribution, which is 4.48% of pensionable salary.

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 791,600 as of January 2003, 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 1999 and 2003.

TABLE B-1

POPULATION AND INCOME
1999 - 2003

Year	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
1999	776,300	33,387,000	49,695	29,856
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	N/A *	32,898
2003	791,600	35,591,000	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 2002 approximately 15.7 million people (130,000 average per day) visited the city, generating roughly $5.9 billion. On average, these visitors spent about $127 per day and stayed three to four nights.

Hotel occupancy rates in San Francisco averaged 67.9% in calendar year 2003, an increase of 5.0% over the previous year; however, hotel room rates continued to decrease throughout 2003. Average daily San Francisco room rates for fiscal year 2003 were approximately $138 per night, down 5.1% from 2002 levels.

Although visitors who stay in San Francisco hotels account for only 36% of total out-of-town visitors, they generated 68.1% of total spending by visitors from outside the Bay Area. It is estimated that 44% of visitors come to the City are on vacation, 30% are convention and trade show attendees, 25% are individual business travelers and the remaining 1% are en route elsewhere. International visitors make up 36% of all visitors. Approximately 45% of the City's international visitors are from Europe and the United Kingdom, 31% are from Asia, 9% are from Canada, 5% are from Australia and New Zealand, 5% are from Central and South America, 3% are from Mexico, and 2% are from Africa and the Middle East. The following illustrates hotel occupancy and related spending from calendar years 1999 through 2003.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO
San Francisco Overnight Hotel Guests (000s)

Calendar Year	Annual Average Hotel Occupancy	Total Visitors Staying in Hotels or Motels	Total Hotel Visitor and Convention Related Spending
1999	80.7%	4,180	3,590,000
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	67.9%	N/A	N/A

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, professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the State of California Employment Development Department, the unemployment rate for San Francisco remained stable at 5.0 percent between February and March 2004. This rate is in comparison with an adjusted unemployment rate of 6.6 percent for California and 6.0 percent for the nation during the same period.

Total citywide employment peaked at just over 586,491 jobs in 2001, an increase of almost 10,000 from 1998. Based on 2002 estimates, total citywide employment is about 548,000 indicating a loss of about 39,000 jobs from 2001.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO

Reported Employment by Land Use Activities 1998-2002 [1]

	1998	1999	2000	*2001	*2002 (2) (3)
Office	203,512	211,499	224,167	236,959	213,514
Retail	94,220	97,159	103,508	101,505	96,714
Industrial	124,071	120,922	119,922	107,837	98,153
Hotel	19,498	19,522	18,862	17,962	16,447
Cultural/Institutional	134,816	142,064	140,573	122,222	122,714
Other	39	30	1,307	6	-
Total	576,156	591,196	608,339	586,491	547,542

* 2001 and 2002 Sectoral breakdowns except hotel are not comparable with 2000 and earlier breakdowns. This reflects Employment Development Department classification system.

[1] Most recent Employment Development Department data available.

[2] 2002 Office Land use activity group includes Government employment.

[3] 2002 is an estimate only.

Source: San Francisco Planning Department- California Employment Development Department.

Taxable Sales

The following table reflects a breakdown of taxable sales for the City from 1998 to 2002. Taxable sales information for 2003 taxable sales is not yet available. Total retail sales decreased in 2002 by 23% compared to 2001. When business and personal services and other outlet sales are included, taxable sales decreased by 14% in 2002.

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO
Taxable Sales 1998 - 2002
($000s)

	1998	1999	2000	2001	2002[1]
Retail Stores [2]					
Apparel	$688,770	$722,597	$792,508	$749,391	$737,396
General Merchandise	832,104	908,704	1,166,524	1,078,664	1,051,122
Drug Stores	172,188	187,630	153,291	149,638	143,999
Food	376,229	392,569	416,735	413,650	403,163
Packaged Liquor	70,885	77,452	81,800	81,705	79,757
Eating/Drinking	1,594,872	1,723,368	1,896,054	1,802,057	1,764,628
Furniture & Appliances	475,003	572,425	637,662	513,618	459,529
Building Materials and Farm Implements	260,749	292,107	321,632	313,277	310,111
Automotive	357,924	387,300	456,851	435,787	419,346
Service Stations	272,036	388,696	549,967	454,149	383,763
Other Retail Stores	1,785,928	2,023,242	2,277,432	1,998,450	1,889,144
Retail Stores Total	$6,886,688	$7,676,090	$8,750,456	$7,990,386	$7,641,958
Business and Personal Services [3]	$921,855	$1,063,729	$1,226,650	$1,107,028	$1,043,019
All Other Outlets [3]	3,460,146	3,596,942	4,112,820	3,357,822	2,904,463
Total All Outlets [2][3]	$11,268,689	$12,336,761	$14,089,926	$12,455,236	$11,589,440

[1] Most recent data available.
[2] See Table B-5. Taxable Sales in the 272 Largest Cities by Type of Business.
[3] See Table B-3. Taxable Sales in the 36 Largest Counties by Type of Business.

Source: California State Board of Equalization - Annual Reports.

Building Activity

Table B-5 shows a summary of building activity in the City for fiscal years 1998-99 through 2002-03, during which time approximately 13,578 total housing units were authorized in the City (both market rate and "affordable housing"). The total value of building permits was $1.3 billion in fiscal year 2002-03.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO
Building Activity 1999-2003

Fiscal Year Ended June 30	Authorized New Dwelling Units	Value of Building Permits: Residential	Non-Residential	Total
1999	4,057	$552,300,771	$1,924,558,750	$2,476,859,521
2000	3,357	368,791,123	1,242,879,291	1,611,670,414
2001	3,050	409,427,204	1,850,738,132	2,260,165,336
2002	1,421	289,382,554	1,281,810,827	1,571,193,381
2003	1,693	234,997,191	1,108,463,214	1,343,460,405

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, and Bank of the Orient are headquartered in the City, along with the Pacific Stock Exchange, and Charles Schwab & Co., the nation's largest discount broker. Investment banks located in the City include Banc of America Securities LLC, Deutsche Banc Alex Brown, Thomas Weisel Partners LLC, and Pacific Growth Equities.

Table B-6 below lists the ten largest employers in the City as of December 2003.

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO
Largest Employers in San Francisco
As of December 2003

Employer	Number of Employees	Nature of Business
City and County of San Francisco	28,718	Local government
University of California, San Francisco	8,630	Health services
Wells Fargo & Co. Inc.	7,279	Banks
State of California	7,048	State government
San Francisco Unified School District	6,600	Education
United States Postal Service, San Francisco District	5,295	Mail delivery
AT&T	5,200	Telecommunications
PG&E Corp.	4,700	Energy
SBC Communications Inc.	4,600	Telecommunications
California Pacific Medical Center	3,800	Health care

Source: San Francisco Business Times, Book of Lists 2003.

Commercial Real Estate

According to the 4th Quarter 2003 Report from Grubb & Ellis, the City's office market has continued to experience positive market performance. During 2003, net absorption went from a negative 324,000 square feet to a positive 139,000 square feet. Vacancy ended the year at 23.4% decreasing from a high point of 24.1% during the second quarter. However, there is currently 14.7 million square feet of vacant space that will take years to absorb. Market-wide lease rates continued steady at $27.87 per square foot for Class A, and $20.45 per square foot for Class B space. Total square footage was 62.7 million square feet.

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 newly 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-Capwell building between Market Street and Mission Street and 4th and 5th Streets is currently underway. It is estimated that this will be a $410 million project. The 1.2 million square foot retail, office, and entertainment complex is expected to be complete in 2006. Upon completion the center is expected to draw much business to the developing area resulting in an estimated $9.7 million in tax revenues. It will provide approximately 1,900 permanent jobs and roughly 1,000 construction 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 soul fusion of restaurants and lounges, approximately eighty condominium units (15% of which are designated "affordable") and a public parking garage.

Development has begun at the Mission Bay site, 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% 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 freeway 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 the summer of 2004. 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, with a focus on light industrial and research and development uses.

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO"), located approximately 14 miles south of downtown San Francisco, is a major commercial airport and has been serving the San Francisco Bay Area and Northern California for over 75 years. Traffic reports submitted by the airlines for fiscal year 2002-03 show that SFO served over 29 million passengers (enplanements and deplanements), and handled a total of 342,676 flight operations, 323,363 of which were scheduled air carrier operations. During fiscal year 2002-03, scheduled passenger aircraft arrivals and departures decreased by 4.5% and total enplanements decreased by 5.7% over the previous year.

Based on Airports Council International final ranking for calendar year 2002, SFO was ranked the eleventh most active airport in the United States in terms of total passengers. In fiscal year 2001-02, the most recent year for which complete data are available, approximately 73% of passenger traffic at the Airport was origin and destination traffic, which is generally not dependent on airline hubbing practices.

During fiscal year 2002-03, 60 airlines served the Airport with non-stop and one-stop service to 110 cities in the United States, and 23 of these airlines provided service to 62 international destinations. In fiscal year 2002-03, SFO handled 606,900 thousand metric tons of cargo and was ranked 13th in the United States in terms of air cargo volume, according to Airports Council International final ranking for calendar year 2002.

Following the terrorist events of September 2001 in New York, NY and Washington, DC, management at SFO developed a detailed financial plan to address the anticipated decline in revenues. Management and staff at SFO identified numerous expenditure reductions as well as additional funding sources, including the use of passenger facility charge revenues. Management continues to adhere to these plans and as a result does not anticipate a large deficit for the current fiscal year.

On December 9, 2002, UAL Corp. ("UAL"), the parent company of United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. UAL accounts for approximately 34% of total operating revenue at SFO. The filing under Chapter 11 permits a company to continue operations while it develops a plan of reorganization to address its existing debt, capital and cost structures.

On December 10, 2002, the U.S. Bankruptcy Court approved a series of motions, including a motion ordering the payment of sales and use taxes, transportation taxes, fees, passenger facilities charges and other similar government and airport charges. United Airlines therefore has been granted authority to pay certain ongoing landing fees, passenger facilities charges and similar charges to SFO and other parties, whether incurred prior to or after the bankruptcy filing. United Airlines has remained current in its payments to the Airport for rents and landing fees since January 2003.

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, 1999 through 2003

	Passengers		**Cargo Traffic**	
Fiscal year Ended June 30	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
1999	39,158,482	-1.6%	618,334	182,384
2000	40,238,576	2.8%	680,051	190,579
2001	38,723,290	-3.8%	621,434	150,538
2002	30,942,135	-20.1%	467,301	93,953
2003	29,165,073	-5.7%	517,410	89,469

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 a decrease in net assets of $6.4 million for fiscal year ending June 30, 2003. Port properties generated $54.5 million in operating revenue in fiscal year 2002-03 as shown in the table below.

TABLE B-8

PORT OF SAN FRANCISCO
FISCAL YEARS 2002 AND 2003 REVENUES
($000s)

Business Line	FY 01-02 Audited Revenue	Percentage of 2002 Revenue	FY 02-03 Audited Revenue	Percentage of 2003 Revenue
Commercial & Industrial Rent	$32,482	64.3%	$32,037	58.8%
Parking	7,380	14.6	7,466	13.7
Cargo	3,797	7.5	5,659	10.4
Fishing	1,488	3.0	1,554	2.8
Ship Repair	1,000	2.0	919	1.7
Harbor Services	915	1.8	967	1.8
Cruise	459	0.9	963	1.8
Other Maritime	1,445	2.9	1,413	2.6
Other	1,528	3.0	3,489	6.4
TOTAL	$50,494	100%	$54,467	100%

Source: Port of San Francisco Audited Financial Statements.

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

As a result of the finalization of the Port Plan, there are currently several major development projects in negotiation and/or construction including: 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 FY 2002-03. The park was a collaborative effort of the Port, the San Francisco Redevelopment Agency, and Gap Inc.

An $18 million project to relocate and expand the Downtown Ferry Terminal, and a $7 million project to provide new berthing and auxiliary facilities for commercial fisherman at Hyde Street Harbor were both completed during fiscal year 2001-02.

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 mechanisms throughout the Bay utilize San Francisco as a hub, and provide access into the City itself for jobs, entertainment, shopping and other activities. The major transportation facilities connecting the City to the remainder of the region include the Golden Gate and Bay Bridges, the Bay Area Rapid Transit rail line, CalTrain, 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 also serve 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 to the Bay Area as it provides a strong link to the Pacific Rim. The Port of Oakland is served by three major railroads with rail lines and/or connections to the Midwest and beyond.

Public School System

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

Colleges and Universities

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

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

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APPENDIX C

EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2003†

† 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.ci.sf.ca.us/controller.

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CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2003

Prepared by:
Office of the Controller

Edward Harrington
Controller

CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Controller's Letter of Transmittal	i
Certificate of Achievement - Government Finance Officers Association	xii
Organization Chart	xiii
List of Principal Officials	xiv
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	24
Statement of Activities	26
Fund Financial Statements:	
Balance Sheet - Governmental Funds	27
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	28
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
Budgetary Comparison Statement - General Fund	31
Statement of Net Assets - Proprietary Funds	34
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	36
Statement of Cash Flows - Proprietary Funds	38
Statement of Fiduciary Net Assets - Fiduciary Funds	40
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	41
Notes to the Basic Financial Statements:	
(1) The Financial Reporting Entity	42
(2) Summary of Significant Accounting Policies	44
(3) Reconciliation of Government-wide and Fund Financial Statements	55
(4) Budgetary Results Reconciled to Results in Accordance with Generally Accepted Accounting Principles	59
(5) Deposits and Investments	61
(6) Property Taxes	67
(7) Capital Assets	68

TABLE OF CONTENTS *(Continued)*

	Page
(8) Bonds, Loans, Capital Leases and Other Payables	76
(9) Employee Benefit Programs	93
(10) San Francisco County Transportation Authority	97
(11) Detailed Information for Enterprise Funds	98
(12) San Francisco Redevelopment Agency	110
(13) Treasure Island Development Authority	111
(14) Interfund Receivables, Payables and Transfers	112
(15) Commitments and Contingent Liabilities	114
(16) Risk Management	117
(17) Subsequent Events	120
Required Supplementary Information:	
Employees' Retirement System - Analysis of Funding Progress	124
California Public Employees' Retirement Systems - Analysis of Funding Progress	124
Combining Financial statements and supplemental information:	
Nonmajor Governmental Funds	125
Combining Balance Sheet - Nonmajor Governmental Funds	130
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	131
Combining Balance Sheet - Nonmajor Governmental Funds - Special Revenue	132
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Special Revenue	135
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budget Basis - Special Revenue Funds	138
Schedule of Expenditures by Department - Budget and Actual - Budget Basis - Special Revenue Funds	149
Combining Balance Sheet - Nonmajor Governmental Funds - Debt Service	154
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Debt Service	155
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis - Debt Service	156
Combining Balance Sheet - Nonmajor Governmental Funds - Capital Project	158
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Capital Project	160
Internal Service Funds	163
Combining Statement of Net Assets - Internal Service Funds	164
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds	165
Combining Statement of Cash Flows - Internal Service Funds	166
Fiduciary Funds	167
Combining Statement of Fiduciary Net Assets - Fiduciary Funds	168
Combining Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	169
Combining Statement of Changes in Assets and Liabilities - Agency Funds	170

TABLE OF CONTENTS *(Continued)*

Page

Capital Assets Used in the Operations of Governmental Funds:
- Schedule by Source 173
- Schedule by Function 173
- Schedule of Changes by Function 173

STATISTICAL SECTION

- General Governmental Revenues by Source - Last Ten Fiscal Years 176
- General Governmental Revenues by Source - Constant Dollar Value - Last Ten Fiscal Years 178
- General Governmental Expenditures by Function - Last Ten Fiscal Years 180
- General Governmental Expenditures by Function - Constant Dollar Value Last Ten Fiscal Years 182
- Property Tax Levies and Collections - Last Ten Fiscal Years 183
- Assessed Value of Taxable Property - Last Ten Fiscal Years 184
- Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years 185
- Ratio of Net General Obligation Bonded Debt to Net Assessed Value and Net General Obligation Bonded Debt per Capita - Last Ten Fiscal Years 186
- Computation of Legal Debt Margin 187
- Per Capita Direct Debt 188
- Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures - Last Ten Fiscal Years 188
- Debt Service Coverage by Enterprise Revenues - Airport, Port, Clean Water, Municipal Railway, Water, and Hetch Hetchy - Last Ten Fiscal Years 189
- Demographic Statistics - Last Ten Fiscal Years 190
- Construction, Bank Deposits and Property Value - Last Ten Fiscal Years 190
- Principal Taxpayers 191
- Miscellaneous Statistics 192

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Introductory Section

- Controller's Letter of Transmittal
- Certificate of Achievement –
  Government Finance Officers Association
- Organization Chart
- List of Principal Officials

January 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, 2003, with the Independent Auditors' Report, submitted in compliance with City Charter Sections 2.115 and 3.105 and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the City's operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

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

Our CAFR is divided into the following sections:

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

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

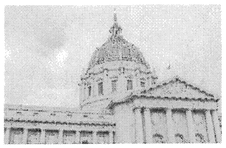
The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten–year revenue and expenditure information on an inflation-adjusted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

THE REPORTING ENTITY AND ITS SERVICES

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

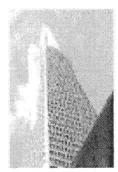
This CAFR includes the financial activities of the primary government, which encompasses several enterprise activities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the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

SAN FRANCISCO'S GOVERNMENT, ECONOMY AND OUTLOOK



San Francisco is the economic and cultural hub of the Bay Area. 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 grown by approximately six percent over the past ten years, to 791,600.[i] 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.[ii]

San Francisco is a charter city, exercising the powers and duties of both a city and county. The elected Mayor of San Francisco serves as the executive, and appoints the heads of most city departments. Many departments are also advised by commissions or boards whose members are appointed either by the Mayor, or, in some cases, by a combination of the Mayor, the Board of Supervisors, and other elected officials. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Treasurer, and Sheriff. In November 2000, the eleven members of the Board of Supervisors were elected by district for the first time since the 1970s. In order to provide for staggered terms of office, a lottery was held which determined that members elected to seats in the City's even-numbered supervisorial districts would serve a two-year initial term, with elections for these seats conducted again in the fall of 2002. All Board of Supervisors seats are now on the cycle of full four-year terms, with elections in even-numbered years.



In 2001 the United States economy contracted for the first time in ten years, with significant losses in the stock market, rising unemployment, and decreasing consumer confidence. With a high concentration of technology and internet companies, the Bay Area has been hit hard by the economic slowdown. San Francisco lost approximately 65,000 to 75,000 jobs in the current downturn, nearly twice as many as were lost in the last significant recession of 1991-1993.[iii] Job losses pushed the unemployment rate to a peak of 7.9 percent in July 2002. By the close of the City's fiscal year in June of 2003, San Francisco's unemployment rate had improved slightly and stood at 7.4 percent, but was still slightly worse than that of California as a whole at 6.8 percent.[iv] While the softening of the technology sector has stalled the local economy, some professional services categories that have long been critical to San Francisco's economy have displayed stability or growth over the last three years. Legal services, publishing, insurance, and securities, after experiencing some job losses, have recovered and improved to the point where these industries together now employ several thousand more people than during the economic peak in 2000.

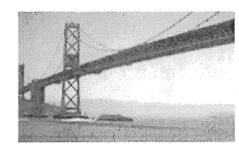
Downtown office vacancy rates, which decreased steadily for over eight years in the 1990s, dropping below one percent at certain points, have reversed and increased in each of the last two fiscal years. However by the middle of fiscal year 2002-2003 that trend had begun to stabilize and occupancy stood at levels comparable to the mid 1990s, before the run-up associated with the technology boom. At the close of the fiscal year the overall vacancy rate was 17.1 percent, including both direct and sublet space. Asking prices for office space rents have similarly declined from the high point by as much as 73 percent, from an

[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

average of $80 per square foot in July of 2000, to around $22 per square foot by June 2003.[v] San Francisco's downtown business district is now affordable for companies previously priced out of the local market, particularly small businesses, with approximately 45 percent of the vacant space in the range from one to 5,000 square feet.[vi] 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.

Despite weaknesses in areas of the economy, property values in San Francisco remain among the highest in the nation. Since 1993, 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 1,279 new units of housing permitted during fiscal year 2003, a housing shortage persists. The gap between demand and supply has contributed to a steadily worsening affordability gap in the City, with homeownership remaining out of reach for most residents and workers. As of June 2003, the median price for an average single family home in San Francisco had increased slightly from the prior year and stood at $543,000, a level that was affordable by less than 25 percent of the population.[vii] As of November 2003, the average assessed valuation in the City stood at $265,000 for single family homes and $366,000 for a condominium—both averages tend to be lower because the limits on property tax increases under California's Proposition 13 provide incentives for 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. During the November 2002 election, however, voters rejected an additional $250 million bond authorization, and the City is therefore exploring other options for housing construction and purchase programs.

The City's property tax revenue, the single largest source of tax revenue for the City's general fund, has grown in some cases by as much as 12 percent annually over the last five years, reflecting the steady growth in property values and prices during the time period. In fiscal year 2002-2003, this trend softened, with property tax revenues relatively flat overall, partly as a result of an increasing number and value of assessment appeals. 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. Over these last two fiscal years, hotel room tax revenues have exhibited among the most severe downturn, dropping from $188 million in fiscal year 2000-2001 to $132 million in fiscal year 2001-2002 and $127 million in fiscal year 2002-2003. Budgeted growth of five percent is forecast during fiscal year 2003-2004, which would mean revenues commensurate with the level of fiscal year 1996-1997. This trend represents a significant loss of funding for local cultural institutions and general City services which the government has had to absorb since 2001.



At San Francisco International Airport (SFO) passenger traffic continued to decline due to a number of factors including the sluggish economy, the war in Iraq and the outbreak of SARS in the Far East. Compared to the previous year, passengers using the airport in fiscal year 2002-2003 decreased by 5.8 percent from 31.6 million to 29.8 million. The Convention and Visitors Bureau estimates that 14 million people visited San Francisco in calendar year 2002, a 12.5 percent decrease from the year before. Visitor spending in the City totalled approximately $5.9 billion for the calendar year, down by 9.2 percent from the 2001 level of $6.5 billion.[x] In the two years prior to the travel downturn associated with both September 11 and with the contraction in the business cycle, hotel occupancy rates in the City averaged around 80 percent. During fiscal year 2002-2003 this figure

[v] Source: Newmark, Office Market Report, Second Quarter, 2003
[vi] Soucre: San Francisco Quarterly Economic Briefing, April 2003
[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

averaged 66 percent, a slight increase from the 63 percent rate in fiscal year 2001-2002. Occupancy rates for fiscal year 2003-2004 are projected to improve, as convention business is slated to be stronger.[xi]

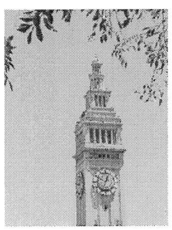
While the economic contraction in the nation and the Bay Area have affected the City's economy, San Francisco overall retains a solid foundation of business and industry diversification. The City's economic base includes national and global companies and locally owned small businesses. San Francisco has large employers ranging from Providian Financial to The Gap, yet the small business sector is also strong, with 96 percent of businesses employing fewer than fifty people.[xii] San Francisco is a financial and banking center of the West, with the Pacific Stock Exchange, Wells Fargo Bank and Charles Schwab among others headquartered here; in banking activity, San Francisco ranks second only to New York City. The City also functions as a center of world and Pacific Rim trade, with foreign consulates, trade offices, and significant activity in import/export and foreign investment.

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

San Francisco's new Moscone West Convention Center officially opened in June 2003. The 300,000 square foot addition to the City's convention facilities is located at Fourth and Howard Streets half a block west of the existing Convention Center and next to Yerba Buena Center—a center of downtown activity with theaters, retail, restaurants, and open space. The new building offers glass-walled, light-filled lobbies on three levels, movable walls on the second and third floors which can be configured into highly flexible meeting, exhibit, tradeshow and classroom space designs, and a theatre-style area on the third floor which can accommodate up to 7,000 people. Moscone West makes it possible for San Francisco to attract convention business that would have otherwise been turned away due to lack of sufficient space or available dates. Confirmed events booked through 2013 at the new facility are estimated to be worth over $950 million in direct expenditures in the City.



San Francisco's Embarcadero and waterfront were connected to the City in a new way in March 2003 with the reopening of the Ferry Building, complete now after a three-year, $90 million preservation effort by the Port of San Francisco. The building has been restored with glass fronts on the eastern side of the building facing the Bay, brick and marble surfaces throughout, and the re-creation of the central hall, over 650 feet long and illuminated with vaulted skylights. The first floor tenants, some operational and others still under construction, are primarily producers and vendors of local and gourmet food and wine, plus a number of new bars and restaurants. Prime office space makes up the second floor. The Ferry Plaza Farmer's Market moved back to its traditional location in the summer of 2003, taking over the public spaces in front and back of the building on Saturdays and Thursdays. Travelers going to and from the Marin, Oakland/Alameda and North Bay ferries are able to take advantage of the restored Ferry Building's public restrooms, new plazas, refurbished walkways, lighting and landscaping.

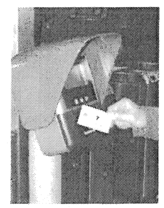
Housing and infrastructure development continues in the City's newest neighborhood in Mission Bay, south and east of downtown. Over the 20 to 30 year development period of Mission Bay, the area is projected to create over 31,000 new permanent jobs, and hundreds of ongoing jobs in construction. The Third Street Light Rail being built by the Municipal Railway (MUNI) will serve as the primary transit conduit for the area, which will also include approximately 1,700 affordable housing units, over 50 acres of open space, a new public school, and new Fire and Police station. Construction has been completed on 384 residential units, 27,500 square feet of neighborhood-serving retail, 285,000 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. The largest of the planned medical research buildings, UCSF Genentech Hall,

[xi] Source: PKF Consulting
[xii] Source: San Francisco Chamber of Commerce

was completed in October 2002 and opened in 2003, and a second facility, the Genetics Development and Behavioral Sciences Building, was completed in August 2003.

San Francisco's water system, including the Hetch Hetchy 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 that position the City's Public Utilities Commission (PUC) to build needed repairs and improvements throughout the system. A $1.6 billion bond measure, financed by the rates charged to retail water users, together with $2 billion in additional financing to be provided by the system's wholesale customers, will allow for seismic strengthening, upgrades in water storage systems, and improvements to distribution facilities. The second measure gives the PUC an increased ability to issue revenue bonds for water and sewer facilities, effectively repeals a sewer rate freeze which had been imposed in 1998, and gives the PUC more control over its contracting, employment, and financial management practices. Taken together, these changes give the PUC a significantly improved operating environment and will allow the agency to more effectively meet customer demands for reliable and quality utility services in the years to come.

Transportation



The City and the Bay Area's economic health and quality of life are recognized as being linked to its capacity to move people and goods efficiently throughout the nine-county area. In December of 2002, the City joined the other members of the regional Metropolitan Transportation Commission (MTC) in launching a new 511 information system providing real-time information via phone and web access on road and traffic conditions, transit information, and other services such as vanpool matching throughout the Bay Area. MUNI is a critical link in this and other regional efforts including a pilot program now underway with five other local transportation systems to implement TransLink, a smart-card system that will eventually be usable on all 21 transportation systems in the greater Bay Area.

BART opened four new stations in the summer of 2003 on the San Mateo peninsula south of the City including the station at SFO. The new BART connection provides direct rail service from downtown San Francisco and the Bay Area to the Airport for the first time. A trip from downtown to the SFO station takes approximately 30 minutes at a cost of $4.95. The BART station is connected to all terminals through the AirTrain, SFO's new automated people mover. The $430 million electronic system runs 24 hours a day on rubber wheels atop a concrete guideway. Opened in February 2003, AirTrain takes travelers to the passenger terminals and also to Airport parking and rental car lots on its five-mile circuit.

San Francisco continues to invest in its light rail system, the MUNI Metro, which serves the downtown underground along the Market Street corridor, fans out into above ground service in the neighborhoods west and south, and includes the historic F-line streetcar service from Castro Street down Market Street and along the Embarcadero bayfront to Fisherman's Wharf. The major expansion project now underway, the Third Street light rail, will link communities in the City's southeast neighborhoods to South of Market, Mission Bay, downtown, and the rest of the Metro system. Construction of Phase 1, which links the 4th and King Street area to the Bayshore Caltrain station, proceeded in fiscal year 2002-2003 with underground electrical work in the Mission and Islais Creek areas completed, and a contract for construction of the new $100 million Metro East LRV facility awarded. Design has begun for Phase 2, which will eventually build a new subway from 4th and King Streets north into Chinatown/North Beach. During the year, MUNI also completed track and system upgrades on both the L and K light rail lines, improving service to San Francisco City College, the Parkside neighborhood and the San Francisco Zoo among other areas. MUNI delivered a third year of special expanded hours service to the new downtown baseball stadium, PacBell Park, with ridership increasing to approximately 8,000 people on average for home Giants games. A series of information technology improvements at MUNI got underway in fiscal year 2002-2003 including a new maintenance and inventory system, new scheduling and dispatch, and expansion of the *NextBus* information system—providing expected bus arrival and wait time information for passengers at street stops.

The challenge of financing local public transit improvements and operations has been met creatively by both government and citizens over the last two fiscal years. New funding has come from two series of taxadvantaged public-private leases of MUNI's Breda light rail cars, a fare increase in September 2003 on MUNI for the first time in more than ten years, and increases to parking meter and garage rates that support the transit system. Unlike many large urban transportation systems, MUNI has been able to balance its budget and avoid service reductions during the current economic downturn. San Francisco voters also approved, in November 2003, a more than twenty-year extension of a one-half cent sales tax which funds transit, congestion management, road repair and other transportation improvements.

The 1989 Loma Prieta earthquake resulted in damage to and the eventual demolition of a number of elevated freeways in San Francisco including those along the Embarcadero and in the Hayes Valley area crossing over Market Street. The last of these demolitions was completed in the spring of 2003, with the ramps to Fell Street and the north Mission area being razed in preparation for construction of the new Octavia Boulevard. 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. The intent of the new boulevard, which will begin construction in 2004, is to provide a smooth transition of vehicle travel from local streets to arterials, and from those arterials to the remaining portion of the elevated new Central Freeway. Also among the street improvements in the City during the year was completion of a project to underground utilities, build streetscape improvements, and resurface the road along the major commercial and residential corridor on Ocean Ave.

Housing, Health and Safety

San Francisco's $100 million Affordable Housing and Home Ownership Bond Program, approved by the voters in 1996, combined with federal, state and other funding that the City has been able to leverage, successfully developed approximately 2,200 units of housing and beds in group housing, and assisted approximately 250 low and moderate-income households to become first-time homebuyers. Significant affordable housing projects completing construction during the year include Rich Sorro Commons (100 units of family rental housing), SOMA Studios (162 units of family rental housing), and Bayview Commons (30 units of family rental housing). An additional 71 units or beds were rehabilitated in four developments for special needs housing, including households that were formerly homeless and/or living with HIV/AIDS. The Treasure Island Homeless Development Initiative continued to develop housing on the former military base in San Francisco Bay, with renovation of 84 units of housing for homeless families getting underway in April 2002.

The majority of the individuals assisted by the City's affordable housing programs are considered at higher risk for homelessness and eviction—households headed by women, families with children, and seniors, with few other opportunities to become homeowners in San Francisco. As noted above, however, voters rejected a proposal for a second, $250 million affordable housing bond in November 2002, and the City is currently exploring other ways to fund affordable housing efforts.

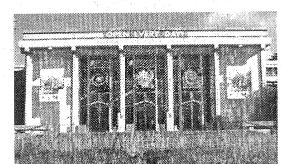
Groundbreaking was formally held in November 2003 for the new Laguna Honda complex, the City's project to rebuild existing hospital facilities, build supportive care housing and provide a complete continuum of long-term healthcare services. Financed by general obligation bonds, tobacco settlement funds and supplemental Medicaid payments, the new Laguna Honda will be built to modern design, environmental, seismic, and technological standards. The project's Environmental Impact Reports and community consultation processes were substantially completed in 2002, however community outreach and update efforts continue throughout construction of the project. Trenching and utility installation is currently underway, and construction activities will ramp up in early 2004.

With improvements made to San Francisco's 911 and wireless phone carrier systems, cell phone users gained faster access to emergency services as of July 2002. The City's 911 Center can now receive emergency calls directly from the user instead of having them routed through the California Highway Patrol, becoming the first city and county in the State to achieve this milestone. A second stage of this effort will implement changes giving the City better location information from cell phones, allowing tracking of calls where the user cannot or does not give an accurate location for emergency response.

Cultural and Recreational Facilities

The revitalization of the City's Civic Center achieved another significant milestone in March 2003 with the completion and grand opening of the City's Asian Art Museum—Chong Moon Lee Center for Asian Art and Culture. The opening completes an eight-year effort, financed with $51 million in voter-approved bonds and over $100 million in private gifts, to create a new home for the Museum's world-renowned collection of nearly 15,000 pieces representing cultures throughout Asia. The City's former Main Library, a 1917 Beaux Arts building, has been transformed into 40,000 square feet of galleries, educational and conservation space, while preserving historically significant architecture and features of the original building. The new facility more than doubles the number of objects from the collection that can be displayed, and includes a café, museum store, and terrace overlooking a refurbished public promenade on Fulton Street facing the new Main Library.

Construction at the Conservatory of Flowers was nearing completion at the end of fiscal year 2003. A gala re-opening was held in September 2003 for the unique 1878 Victorian building (see cover photo). The building is the oldest glass and wood conservatory in the United States, housing a collection of 1500 specimens of rare and endangered species, including carnivorous plants and a world-famous orchid collection. The Conservatory has been closed since 1995 when winter storms and 100 mph winds shattered over 40 percent of the glass panes and destroyed thousands of plants. The meticulous restoration of the Conservatory required specialized expertise to re-use the original redwood and glass building materials. The total project cost was over $25 million, including $15 million in private donations raised by the Friends of Recreation and Parks, a non-profit partner to the City's Recreation and Park Department. An ongoing collaboration between the two organizations will continue to raise funds and operate the Conservatory.



Golden Gate Park's other public and arts institutions also saw significant events during the year. Demolition of the old DeYoung Museum structures and site preparation for the new building was completed, and construction is underway for a scheduled opening in 2005. Across the concourse, the City's Academy of Sciences closed at the end of 2003 in preparation for relocation to a downtown site. The temporary location will house and display the fish and other natural history collections while the new Academy, supported by a bond issue, is built on the Golden Gate Park site for a 2008 opening.

A two-year, $16 million renovation of the City's 27-hole municipal golf complex at Harding Park was completed in July 2003, with the course re-opened to the public in August. The project was funded with California Resource Bonds, and an innovative fee structure will keep play affordable for local residents. The renovation respects the 1925 design of the original course, while adding bunkers and re-contoured surfaces. Added yardage on the course enhances Harding's ability to host professional golf events. The Professional Golf Association (PGA) is a partner in the project, and the first PGA event will take place at the refurbished courses in October 2005. Other improvements include a new driving range and maintenance facility. The Harding Park Golf Courses will also serve as a home base for the San Francisco First Tee Program, a youth golf and life skills teaching project.

In February 2003, the City opened Rincon Park, a new two-acre park and public open space along the San Francisco waterfront. Stretching 1,000 feet from the foot of Folsom Street, the park has new lawns, landscaping, seating along architectural walls, a waterfront promenade and a sculpture, Cupid's Span, by artists Claes Oldenburg and Coosje van Bruggen, framing views of San Francisco Bay, Treasure Island, and beyond. The park joins another significant completion in the Rincon Point-South Beach Redevelopment Area, of China Basin Park, located along McCovey Cove south of Pacific Bell Park. China Basin Park is a collaborative project of the Port, Redevelopment Agency, other local agencies and private funders, and the Giants, who constructed facilities including landscaping, historical markers and picnic areas. The Giants will maintain the area until 2010, when it will be turned back over to the Port of San Francisco for maintenance.

A June 1997 bond issue of $48 million, added to more than $25 million in private donations, funded extensive infrastructure improvements to sections of the San Francisco Zoo which opened in the summer of 2003. The construction moves the main entrance of the Zoo to its westernmost end, with entrances from Sloat Boulevard and the Great Highway, with a new visitor center, café, secured parking lot, new central walkway, Lemur Forest exhibit, and art installations throughout the Zoo through a program sponsored by the San Francisco Arts Commission. Further Zoo exhibit and infrastructure improvements are planned and scheduled for opening in 2003 and 2004.

Neighborhood parks, playgrounds, and other facilities are being built and renovated with a general obligation bond and the extension of the City's Open Space Fund, approved by voters in 2000. Play areas, gardens, clubhouses, tennis courts, benches and ballfields were built or upgraded in fiscal year 2002-2003 at sites all across the City including at the South Sunset Playground, Koshland Park, Excelsior Playground, and Parque Ninos Unidos. An agricultural area was built which will become the Visitation Valley Greenway including fruit trees, vegetable plots and pathways, and serving as an outdoor classroom for schoolchildren and visitors.

A $105.9 million bond program approved by the voters in November 2000 to improve San Francisco's branch libraries continued its work in 2003 with the acquisition of sites for the Glen Park, Ingleside, Visitacion Valley and Portola Branch Libraries and planning and design work for renovation of an additional thirteen branch libraries. Plans are in place and ground will be broken shortly for construction of the new Mission Bay Branch Library which will be part of a multi-use building including senior housing through an innovative project coordinated with the Redevelopment Agency. The Library successfully launched a new Integrated Library System that includes the on-line catalogue, community information and referrals, and many other electronic tools, culminating a three-year process to replace and upgrade this vital public service. Improvements that had been recommended in a Post-Occupancy Evaluation of the new Main Library were completed and the Library is developing plans for additional improvements including a redesign of the first floor service areas and opening up for public use of nearly 18,000 square feet of floor space currently housing back-office functions. A newly purchased building in the South of Market area will serve as the Library's Support Services Center.

Status of City Services

In the spring of 2003, the City, through the Controller's Office, conducted its eighth annual Citizen Survey. A total of 1,519 San Franciscans were surveyed, providing their opinions of recreation programs and parks, libraries, public transportation (MUNI), streets, public safety, general City performance and budget priorities.

The 2003 survey results show that:

- MUNI's ratings are the best of any year since the survey has been conducted. Citizen ratings of the system's timeliness and reliability have improved the most, with 41% positive ratings in 2003, up from only 15% in 1999.
- Public safety ratings improved, with San Franciscans reporting feeling safer walking alone in their neighborhoods in 2002 and 2003 than they did in any year from 1997-2001.
- Survey respondents report visiting the City's libraries and parks, and participating in recreation programs, more frequently than in the previous year.
- 45 percent of respondents rate the pavement condition of the streets in their neighborhood as "good" or "very good," whereas only 29 percent feel favorably about the pavement condition of City streets overall. Both neighborhood and citywide ratings of street quality are better than they were two years ago.

- A consistent proportion of residents—almost half of survey respondents, choose "fair" in assessing how well local government provides services overall.
- 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.
- Choosing among key services on a question related to the City budget, survey respondents are most willing to protect funding for fire/emergency medical services and health services. They are most willing to cut funds for street cleaning and parks and recreation. Those with household incomes of less than $50,000 per year express more support for funding health and human services than higher-income residents.

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, 2002, estimate the plan is 118% 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 2002-2003 was 2.77%. The Employees' Retirement System and the Redevelopment Agency deposits and investments are maintained outside the City Treasury and follow policies established by their respective governing boards.

Risk Management

With certain exceptions, it is the policy of the City not to purchase commercial insurance against property or liability risks. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations. The City maintains limited coverage for certain facilities, primarily property of the San Francisco International Airport, Port of San Francisco, Municipal Railway, Hetch Hetchy, Water Department, Moscone Convention Center and art at City-owned museums. Additionally, various types of liability insurance coverage are maintained by the City for the Port and the Airport. The City is self-insured for workers' compensation claims. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers' compensation outstanding liabilities for each department. The City's insurance/self–insurance program is reviewed annually in the budget process. The claims liabilities and workers' compensation liabilities reported on the 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, represented in the Comprehensive Annual Financial Report, have been audited by a consortium headed by the nationally recognized certified public accounting firm, KPMG LLP. The consortium also includes Calvin Louie CPA (representing a separate consortium known as Associated Asian CPA Firms), Lamorena and Chang CPAs, Yano and Associates, and Rodriguez, Perez, Delgado & Co. CPAs. The various enterprise funds, the Health Service System, the Employees' Retirement System, the San Francisco County Transportation Authority and the Redevelopment Agency have been separately audited. The Independent Auditors' Report on our current financial statements is presented in the Financial Section.

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, 2002. This was the twenty-first consecutive year (fiscal years ended June 30, 1982 – 2002) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,

Edward Harrington
Controller

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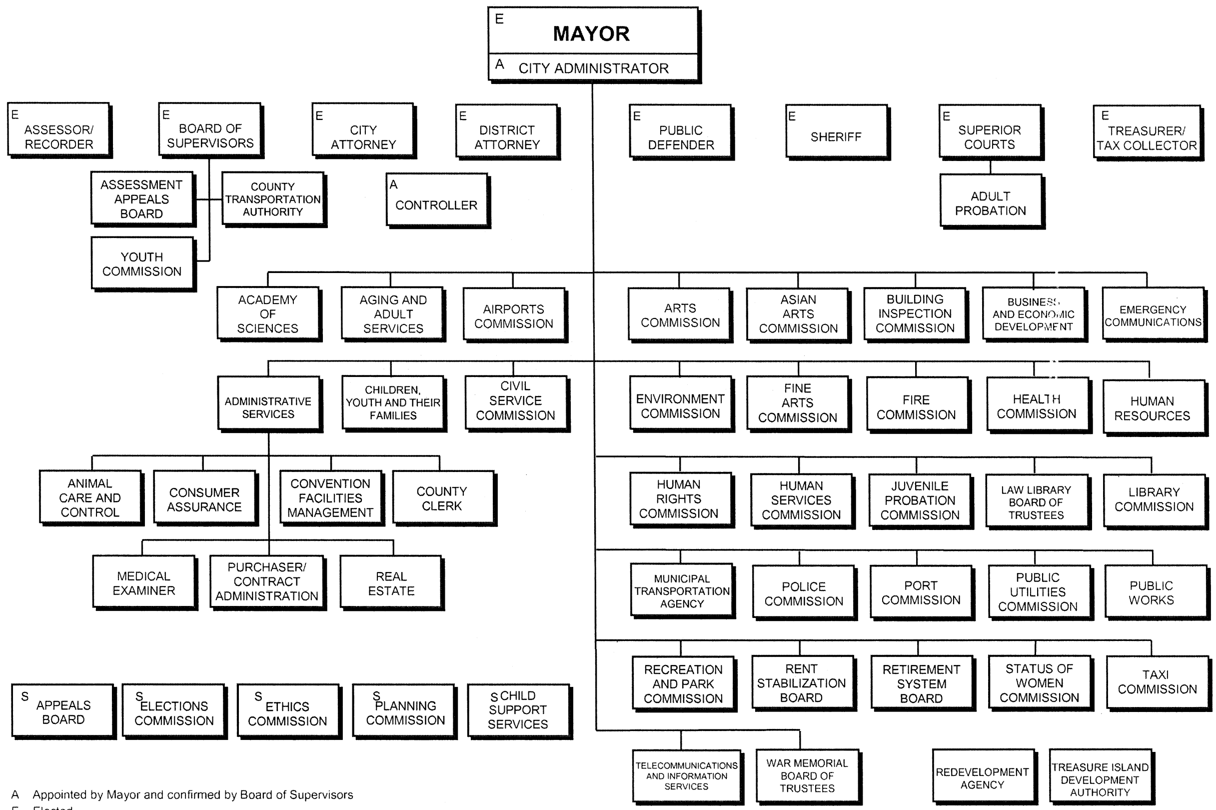
San Francisco City and County Government

(As of June 30, 2003)



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

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, 2002

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.

President

Executive Director

List of Principal Officials
As of June 30, 2003

ELECTED OFFICIALS

Mayor	Willie L. Brown, Jr.
Board of Supervisors:	
President	Matt Gonzalez
Supervisor	Tom Ammiano
Supervisor	Chris Daly
Supervisor	Bevan Dufty
Supervisor	Tony Hall
Supervisor	Fiona Ma
Supervisor	Sophie Maxwell
Supervisor	Jake McGoldrick
Supervisor	Gavin Newsom
Supervisor	Aaron Peskin
Supervisor	Gerardo Sandoval
Assessor-Recorder	Mabel Teng
City Attorney	Dennis J. Herrera
District Attorney	Terence Hallinan
Public Defender	Jeff Adachi
Sheriff	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	Jack Moerschbaecher
County Clerk	Nancy Alfaro
Medical Examiner	Boyd G. Stephens, M.D.
Purchaser – Office of Contract Administration	Judith Blackwell
Real Estate	Steve Legnitto
Academy of Sciences	J. Patrick Kociolek, Ph. D.
Adult Probation	Armando Cervantes
Aging and Adult Services	Darrick Lam
Airports Commission	John Martin
Appeals Board	Robert Feldman

DEPARTMENT DIRECTORS/ADMINSTRATORS-*(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	Leamon Abrams
Child Support Services	Milt Hyams
Children, Youth and Their Families	Brenda Lopez
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	Mario Trevino
Health Commission	Mitchell Katz, M.D.
Human Resources	Andrea Gourdine
Human Rights Commission	Virginia Harmon
Human Services Commission	Trent Rohrer
Juvenile Probation Commission	Gwendolyn B. Tucker (Acting)
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	Alex Fagan (Acting)
Port Commission	Douglas Wong
Public Utilities Commission	Patricia Martel
Public Works	Edwin Lee
Recreation and Park Commission	Elizabeth Goldstein
Rent Stabilization Board	Joseph Grubb
Retirement System Board	Clare M. Murphy
Status of Women Commission	Belle Taylor-McGhee
Superior Court	Gordon Park-Li
Taxi Commission	Naomi Little
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency	Marcia Rosen
Treasure Island Development Authority	Annemarie Conroy

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Financial Section

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

KPMG

Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2003, which collectively comprise of the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial and summarized comparative information has been derived from the City's 2002 financial statements and, in our report dated November 27, 2002, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the City and County of San Francisco, California, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedules of funding progress, on pages 3 through 21 and 124, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

January 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, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $5.61 billion (net assets). Of this amount, $277 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets decreased by $93 million, or 1.6 percent, during the fiscal year. While there were increases in the City's capital assets, they were offset by decreases in non-capital asset categories largely related to decreasing investment returns and the City's budgetary use of fund balances and reserves.

- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of $883 million. Approximately 18 percent of this total amount, $158 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 dropped by approximately 44 percent from the prior year amount of $283 million due to decreases in taxes, fees, service charges and other revenues and the City's related use of fund balances.

- At the close of the fiscal year, unreserved fund balance for the general fund was $44.7 million or 2.3 percent of total general fund expenditures of $1.95 billion. The general fund's unreserved fund balance dropped by approximately 67 percent from the prior year amount of $136.7 million due to decreases in local tax and other revenues compared to budget and the City's consequent use of fund balance and reserves to fund operating expenses.

- A Charter amendment passed in 1999 required the integration of San Francisco's Parking and Traffic function into the Municipal Transportation Agency in fiscal year 2003. As a result, approximately $36.8 million in debt and $28.9 million in capital assets were transferred from governmental to business-type activities.

- The City's total long-term debt including all bonds, loans, and commercial paper, decreased by $31.6 million, less than one percent, during the 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 $803 million in refunding bonds and certificates during the year to take advantage of favorable interest rates in the current market, retire outstanding commercial paper and higher interest rate revenue bonds held by the San Francisco International Airport (Airport), the Water Department and Clean Water Program enterprises, and lower debt service payments. During the fiscal year, $42 million in certificates of participation were issued to provide for the construction of new Juvenile Probation facilities, and $29 million in general obligation bonds were issued to fund ongoing construction in the Branch Library Improvement Program and to continue work on new facilities at the San Francisco Zoo.

- The City's revenues from local tax sources including hotel, sales, utility, business and parking taxes were less than budget estimates during fiscal year 2003. Business and construction activity remained weak and affected the fees and service charges collected by the City. Investment earnings also dropped sharply relative to fiscal year 2002 due to continued low interest rates and lower cash balances. Early in fiscal year 2003, these revenue factors were evaluated together with projections of continued economic weakness in fiscal year 2004 and anticipated cuts in state funding, and measures were taken to decrease spending. City management reduced general fund operating expenses by approximately $182 million from budgeted levels in order to improve San Francisco's position at the end of fiscal year 2003 and provide for an improved unreserved fund balance available for the fiscal year 2004 budget.

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

CAFR	Introductory Section	*INTRODUCTORY SECTION*			
		+			
	Financial Section	**Management's Discussion and Analysis**			
		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 revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net assets	
		Statement of activities	Budgetary comparison statement	Statement of cash flows	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.

	Government-wide Statement	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
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; capital assets and long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others and all liabilities
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All 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 operations 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 which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

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

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

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

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

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

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

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

Required Supplementary Information

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

Combining Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets
June 30, 2003 (in thousands)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	$ 1,535,643	$ 1,806,132	$ 1,975,760	$ 2,158,248	$ 3,511,403	$ 3,964,380
Capital assets	2,208,191	2,041,451	8,421,571	8,185,824	10,629,762	10,227,275
Total assets	3,743,834	3,847,583	10,397,331	10,344,072	14,141,165	14,191,655
Liabilities:						
Long-term liabilities outstanding	1,824,809	1,877,327	5,551,011	5,392,934	7,375,820	7,270,261
Other liabilities	606,203	495,235	547,507	721,128	1,153,710	1,216,363
Total liabilities	2,431,012	2,372,562	6,098,518	6,114,062	8,529,530	8,486,624
Net assets:						
Invested in capital assets, net of related debt	983,834	887,667	3,273,449	3,115,392	4,257,283	4,003,059
Restricted	594,938	717,879	482,551	546,019	1,077,489	1,263,898
Unrestricted	(265,950)	(130,525)	542,813	568,599	276,863	438,074
Total net assets	$ 1,312,822	$ 1,475,021	$ 4,298,813	$ 4,230,010	$ 5,611,635	$ 5,705,031

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 $5.61 billion at the close of the current fiscal year.

The largest portion of the City's net assets (76 percent) reflects its investment of $4.26 billion in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, $1.08 billion (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $277 million (five percent) may be used to meet the government's ongoing obligations to citizens and creditors. The proportion of net assets represented by these two categories together (24 percent) has dropped from the prior year's aggregate of 30 percent both due to increases in capital assets and expenses.

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 $266 million related in part to $120 million in debt from general obligation bonds for the San Francisco Unified School District which is recorded with no corresponding assets.

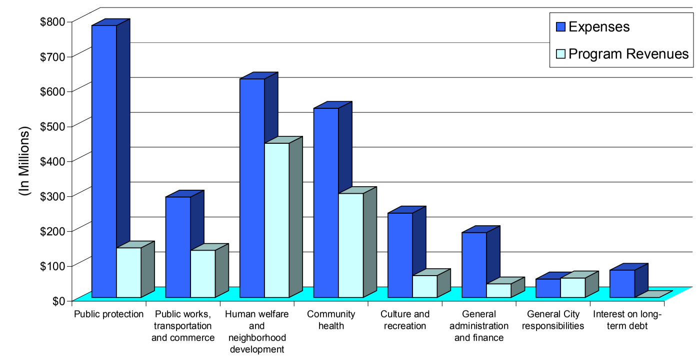
Changes in Net Assets
June 30, 2003 (in thousands)

	Governmental activities 2003	Governmental activities 2002	Business-type activities 2003	Business-type activities 2002	Total 2003	Total 2002
Revenues						
Program revenues:						
Charges for services	$ 318,880	$ 348,898	$ 1,577,851	$ 1,479,232	$ 1,896,731	$ 1,828,130
Operating grants and contributions	809,670	781,767	164,257	282,059	973,927	1,063,826
Capital grants and contributions	46,029	58,394	204,751	251,747	250,780	310,141
General revenues:						
Property taxes	686,858	697,703	-	-	686,858	697,703
Business taxes	276,651	274,848	-	-	276,651	274,848
Other local taxes	450,677	444,590	-	-	450,677	444,590
Interest and investment income	26,332	70,597	50,215	63,530	76,547	134,127
Other	196,496	115,943	188,446	85,425	384,942	201,368
Total revenues	2,811,593	2,792,740	2,185,520	2,161,993	4,997,113	4,954,733
Expenses						
Public protection	$ 778,710	$ 717,552	-	-	778,710	717,552
Public works, transportation and commerce	287,910	317,778	-	-	287,910	317,778
Human welfare and neighborhood development	626,306	586,188	-	-	626,306	586,188
Community health	542,480	493,856	-	-	542,480	493,856
Culture and recreation	242,398	246,620	-	-	242,398	246,620
General administration and finance	186,144	156,770	-	-	186,144	156,770
General City responsibilities	53,026	55,551	-	-	53,026	55,551
Unallocated Interest on long-term debt	77,827	77,335	-	-	77,827	77,335
Airport	-	-	641,036	599,335	641,036	599,335
Transportation	-	-	628,180	528,725	628,180	528,725
Port	-	-	61,074	58,694	61,074	58,694
Water	-	-	186,579	165,362	186,579	165,362
Power	-	-	95,427	113,754	95,427	113,754
Hospitals	-	-	561,673	525,045	561,673	525,045
Sewer	-	-	153,845	159,896	153,845	159,896
Garages/Market	-	-	894	32,274	894	32,274
Total expenses	2,794,801	2,651,650	2,328,708	2,183,085	5,123,509	4,834,735
Increase/(decrease) in net assets before special items and transfers	16,792	141,090	(143,188)	(21,092)	(126,396)	119,998
Special items	-	-	33,000	-	33,000	-
Transfers	(178,991)	(124,399)	178,991	124,399	-	-
Change in net assets	(162,199)	16,691	68,803	103,307	(93,396)	119,998
Net assets at beginning of year	1,475,021	1,458,330	4,230,010	4,126,703	5,705,031	5,585,033
Net assets at end of year	$ 1,312,822	$ 1,475,021	$ 4,298,813	$ 4,230,010	$ 5,611,635	$ 5,705,031

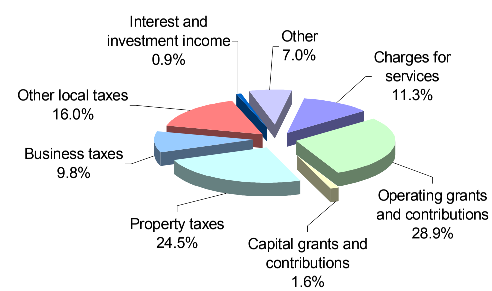
Analysis of Changes in Net Assets

The City's net assets overall decreased by $93 million during the current fiscal year. These decreases are discussed in the government and business-type activities discussion below, and are primarily a result of flat and decreasing revenues from some tax sources and from fees and services charges, and the use of balances to fund expenses, particularly for governmental activities. Governmental activities reported a decrease in net assets during the fiscal year while the business-type activities reported less of an increase in net assets than in the previous year. Transfers from governmental to business activities increased over the prior year, to $179 million, due in part to the Charter-required integration of the City's Parking and Traffic function, a governmental activity in fiscal year 2002, into the Municipal Transportation Agency, an enterprise activity, in fiscal year 2003.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities decreased the City's net assets by $162 million, accounting for all of the aggregate loss. Key factors of this decrease are as follows:

- Interest and investment income dropped by approximately $44 million or 63 percent during the year due to a decrease in the average yield of City pooled investments from 4.14 percent to 2.77 percent, and to lower cash balances available for investment. Interest and investment income's proportion of overall revenues for governmental activities dropped from 2.5 percent in fiscal year 2002 to one percent in 2003. In addition to the overall weakness in equity markets, because the City's investments are concentrated in Treasury Bills and Notes and other short-term instruments, the Federal Reserve's interest rate cuts have significantly affected the City's investment returns. Deposits and investments with the City Treasury as of the end of the fiscal year for governmental activities were down by approximately 32 percent from fiscal year 2002, from over $1 billion to $714 million.

- Governmental activities' net assets have decreased in large part due to the use of reserves for budgetary purposes across all program areas. Fund balances in governmental funds decreased by $366 million during fiscal year 2003. The majority of the City's governmental funds also had operating expenses in excess of revenues during the fiscal year.

- The continued weakness in the local and California economies during fiscal year 2003 kept revenues from most local tax sources either flat or decreasing from the prior year. Hotel, sales, business, and utility users taxes grew between one and two percent from the prior year, though at less than budgeted levels. Fees and service charges which fund governmental activities dropped by ten percent in the aggregate from the prior year.

- Property tax revenue, which grew by more than ten percent in each of the last two fiscal years offsetting weak or decreasing income from other sources, was flat in fiscal year 2003, decreasing by $11 million or two percent in governmental activities. San Francisco's real estate market has largely held its value with a consequent rise in the assessed value of property, and the City continues to improve its ability to issue supplemental tax bills within a shorter time period following the sale of a property. However, tax revenue from these gains is reduced in part in 2003 by a higher proportion of the tax roll, approximately 18 percent as of June 30, being under appeal than in previous years. As a result the City's estimated assessment appeals reserve is also higher.

- In fiscal year 2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities. As a result, approximately $36.8 million in debt and $28.9 million in capital assets were transferred from governmental to business activities.

- Operating grants and contributions increased by $28 million, or approximately four percent, largely related to increases in federal grants for health programs and federal funding for community development.

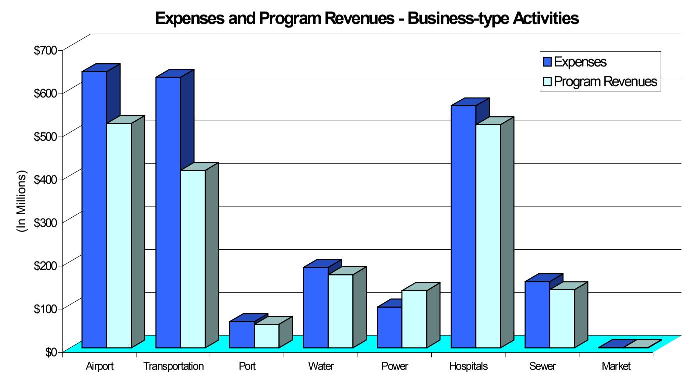
- Governmental activities showed an increase in capital assets related to projects in the culture and recreation programs including completions at the Asian Art Museum, Moscone West Convention Center, parks and libraries which increased the value of facilities, improvements, and infrastructure, while reducing construction in progress.

For the most part, increases in expenses paralleled increases in the cost of living in the San Francisco Bay Area and growth in the demand for government services. However, the City's spending in some program areas increased at greater rates notably in Public Protection where the City had both scheduled labor rate increases and greater security program costs than in the prior year. General Administration and Finance also showed an increase in expenses in part through claims activity including payment of some remaining amounts for settlements related to repeal of a portion of the City's business tax.

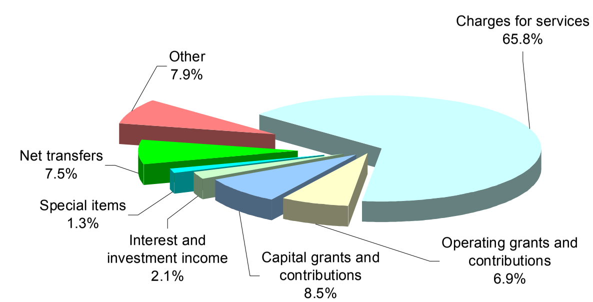
The City's General Fund subsidy transfer to the Municipal Transportation Agency as required by the Charter increased by approximately 52 percent, from $94 million in 2002 to $143 million in 2003. In addition, the transfers that the City makes each year to help finance the operations of the San Francisco General Hospital and Laguna Honda Hospital enterprises increased by ten percent in the aggregate from $101 million in 2002 to $119 million in 2003. The hospitals' improved proportion of patients covered by Medicare, Medi-Cal or other insurers, and increases in reimbursement rates have allowed them to recover a rising share of the cost of service in 2002 and 2003, however the cost of non-reimbursed health care programs also continues to rise. Both hospitals experienced operating cost increases including labor costs associated with the competitive market for nursing skills in California and scheduled raises under City labor agreements.

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 (22 percent) and community health (19 percent). General revenues such as property, business, and sales taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, operating

grants and contributions are the largest single source of funds (28.9 percent), followed by property taxes (24.5 percent) and other local taxes (16 percent). These ratios are substantially similar to 2002, with the notable exception as noted above of interest and investment income, which dropped in 2003 related to the City's decreased rates for its investments and relatively lower cash balances available to invest.



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by $68.8 million, reducing the overall decrease in net assets to $93 million. Key factors of this increase are as follows:

- The Municipal Transportation Agency's net assets overall increased by $116.5 million, primarily due to increases in the total value of equipment with the acquisition of new rolling stock including 13 additional light rail vehicles, 96 electrical trolley coaches, and 95 motor coaches, and to capitalization of infrastructure investments, primarily the L-line light rail line improvements. In addition, $49 million of this increase is due to the integration of the Department of Parking and Traffic and the Parking Garages Fund into MTA. MUNI's operating revenues rose by approximately $2 million due to increased advertising and net passenger revenues, and it received an approximately $7 million increase in the subsidy transfer from the City's General Fund. Offsetting decreases occurred in interest income, capital contributions from Federal and State agencies, and non-operating revenues, which include other state and federal grants as well as parking fees and fines.

- Laguna Honda Hospital's net assets overall increased by $19 million largely related to increases in the value of construction in progress associated with the new hospital complex now underway, and including the receipt of an additional approximately $21 million in cash from tobacco settlement monies. San Francisco's tobacco settlement receipts are primarily used for contract costs and debt service for the Laguna Honda Replacement Project. Both Laguna Honda and San Francisco General Hospitals experienced an increase in net patient revenues of five and three percent respectively, with Laguna Honda's linked in part to increased Medi-Cal reimbursement rates for skilled nursing facilities.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by $73 million partly as a result of a legal settlement from energy companies paid in the form of generating facilities (gas turbine generators) recorded as capital assets. In fiscal year 2003 Hetch Hetchy renegotiated contracts for purchasing power and in general benefited from the normalization of the highly volatile electricity market that affected California during the prior fiscal year. The cost of purchasing power dropped by 34 percent, for a savings in operating costs of approximately $22 million, and total expenses for the enterprise dropped by over 16 percent.

- San Francisco International Airport's net asset decrease of $50 million is partly attributable to its major capital assets being depreciated on a straight-line basis over an average of 30 years, while principal retirement of debt escalates over time. During fiscal year 2003, depreciation expense exceeded the principal retirement of outstanding debt by $96 million. In fiscal year 2003, the Airport's accumulated costs for a project to configure a new runway that had previously been recorded as a capital asset were instead recognized as an expense, in the amount of $37 million. The cash transfer from the Airport to the City's General Fund has been reduced in the last two fiscal years $25 million in fiscal year 2001 to $17.8 million in fiscal year 2002 to $16.8 million in fiscal year 2003, reflecting ongoing weakness in Airport concession revenues for the period.

- The Clean Water Department's net assets decreased by $15.6 million, approximately 1.6 percent, during the year. Approximately $14 million in available revenues were used to fund capital expenditures during the year, resulting in a decrease in unrestricted net assets of approximately 22 percent. The department also retired $394 million in outstanding bonds with the use of new bond issues at lower rates and approximately $30 million in available debt service reserve funds. The Water Department's net assets also decreased by $3.3 million overall, less than one percent, due to use of revenues to fund capital expenditures during the year, offset by increases in capital assets due to improved debt management.

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 2003. The City's long-term and acute care hospitals together recorded expenses of over $500 million. These three enterprises together make up almost 80 percent of the total business activities. For all of the business-type activities, as in prior years, charges for services provide the largest share of revenues at 65.8 percent. In 2003, Other Revenues increased to 7.9 percent of the total from less than four percent in 2002 because of increasing other income to a number of the enterprises, most notably the Airport's reimbursement from the Federal Transportation Security Administration for law enforcement costs and, similarly, a Federal grant to the Port of San Francisco for security assessment. Capital grants and contributions, which are primarily received by the Municipal Railway, made up the next largest source of revenue at 8.5 percent, though the amount is reduced from the prior year due to reduced reimbursable capital expenditures by MUNI. Operating grants received by the enterprises in 2003 dropped significantly as a share of revenue from

12.3 percent to 6.9 percent due in part to a decrease in State sales tax support to the Municipal Railway as a result of economic conditions. The proportion of business activity revenue overall which is attributable to net transfers has increased from 5.4 percent in 2002, to 7.5 percent in 2003, as noted above due to the increases in the hospital subsidy transfers, and to the integration of Parking and Traffic with the Municipal Transportation Agency.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $883 million, a decrease of $366 million in comparison with the prior year. As noted previously, the decrease represents 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 2003.

Approximately $157 million of the combined ending fund balance in the governmental funds constitutes unreserved fund balance, which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders ($322 million), (2) to fund continued programs or projects in future fiscal periods ($278 million), (3) to pay debt service ($34 million), and (4) for a variety of other purposes ($92 million).

Revenues for governmental funds overall totaled approximately $2.81 billion in the fiscal year ended June 30, 2003, which represents an increase of approximately one percent from the fiscal year ended June 30, 2002. Expenditures for governmental funds, totaling $3.08 billion, increased by approximately four percent from the fiscal year ended June 30, 2002. In the aggregate, expenditures for governmental funds exceeded revenues by approximately $273 million, or approximately 10 percent.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was $44.7 million, while total fund balance was $196.3 million. Total fund balance decreased in the City's general fund by $184 million during the fiscal year mainly due to continued decreases in revenues, especially local taxes, increasing expenses from the prior year, and to consequent use of fund balance and other reserves. These factors were partly offset by management controls on general fund expenditures put in place early in the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2003 of $9.3 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 2003, unreserved fund balance represents 2.3 percent of total general fund expenditures of $1.95 billion, while total fund balance represents ten percent of that same amount. For 2002, the general fund's unreserved fund balance was approximately 7.2 percent of total expenditures of $1.91 billion, and the total fund balance represented approximately 20 percent of expenditures. These positions also reflect the City's relatively higher budgetary use of balances and reserved funds in 2003.

Proprietary funds

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

At the end of the fiscal year, the unrestricted net assets for the San Francisco International Airport were $291.7 million, the Water Department $139.9 million, the Hetch Hetchy Project $83.7 million, the Clean Water Program $52.5 million, the Port of San Francisco $43.7 million, and the San Francisco Market Corporation $6.5 million. Three proprietary funds had deficits in unrestricted net assets—the Municipal Transportation Agency had a deficit of $44.6 million, and Laguna Honda Hospital and San Francisco General Hospital had deficits in unrestricted net assets of $17.2 million and $13.5 million respectively. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $7.7 million.

The total growth in net assets for the enterprise funds was $68.8 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. In particular, the Municipal Transportation Agency's net assets increased with the integration of the Parking and Traffic Department, and with the acquisition of capital assets including new rolling stock. The Airport's decrease in net assets is related to its major capital assets being depreciated on a straight-line basis over an average of 30 years, while principal retirement of debt escalates over time, and to the write-off of costs related to the runway project from capital assets.

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	$ 500,116	$ 447,006	$ 53,110	$ (106,833)	$ 20,678	$ (16,823)	$ (49,868)
Water	170,253	167,523	2,730	(5,986)	-	-	(3,256)
Hetch Hetchy	132,190	95,410	36,780	3,400	33,000	-	73,180
Municipal Transportation Agency	155,656	622,667	(467,011)	214,910	162,712	205,928	116,539
General Hospital	312,347	407,336	(94,989)	73,085	-	16,636	(5,268)
Clean Water	134,745	129,177	5,568	(21,133)	-	-	(15,565)
Port	54,467	58,758	(4,291)	(2,855)	726	-	(6,420)
Laguna Honda Hospital	116,781	152,302	(35,521)	678	20,635	33,110	18,902
Market Corporation	1,296	878	418	1	-	(59,860)	(59,441)
Total	$ 1,577,851	$ 2,081,057	$ (503,206)	$ 155,267	$ 237,751	$ 178,991	$ 68,803

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 2003, the net assets of the Retirement System and Health Service System totaled $10.6 billion, representing an increase of $117 million in total net assets since June 30, 2002. The change is primarily related to employer contributions to the fund and to the stabilization of the market value of the Retirement Trust's investments following large losses incurred in fiscal year 2002. The Investment Trust Fund's net assets totaled $224 million, with a decrease in net assets over the prior fiscal year of $76.6 million, resulting from withdrawals and distributions to external participants to the fund.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2003, significant supplemental appropriations were approved for the Police Department ($4.2 million) and Sheriff's Department ($495,000) for overtime and other personnel costs associated with the cost of large anti-war demonstrations in the City and, in the case of the Police Department, with workers compensation costs. The Department of Elections received an additional $2.4 million in appropriations to move forward with implementing a voter-mandated ranked-choice voting system and related voter education. Appropriations were also increased for the Trial Courts ($1.2 million) for the increased cost of indigent defense cases where the Public Defender cannot serve due to a conflict, for the Planning Department ($714,000) for the cost of environmental reviews related to community planning processes in southern and eastern neighborhoods of the City and for the Treasurer/Tax Collector ($120,000) for a program to accelerate the collection of business taxes and penalties. The final budget for the General City Responsibilities function differs from the original in that it includes payments by the City to settle final claims related to litigation over San Francisco's business tax structure.

During the year, actual revenues and other resources lagged budgetary estimates by $134 million. The majority of this amount is attributable to local taxes—specifically the hotel, sales, utility, business and parking taxes where actual performance was less than estimates, and to reduced programmatic service charge collections. In addition, transfers to the General Fund were $33 million less than estimates due to a reduction in the funds transferred from the San Francisco General Hospital Fund to the General Fund for the City's participation in the State cost-sharing program among county hospitals. There is no net loss to the General Fund as a result of the hospital transaction since expenses were also reduced. Budgetary shortfalls were offset in part by receipts greater than estimates in property taxes allocated to the General Fund, general government service charges and subvention of federal health and social services funds.

Differences between the final budget and the actual (budgetary basis) resulted in a $182 million decrease in total charges to appropriations. This is primarily due to the following factors:

- Budgetary reserves of $78.3 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.

- A decrease in expenditures by the Department of Public Health of approximately $37.9 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 $22.6 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 San Francisco is able to claim under these programs.

- A decrease in expenditures of approximately $2.3 million in the Mayor's Office Grants for the Arts program resulted from hotel tax revenue and consequent grant activity less than the budgeted level.

- Expenditures less than budgeted by the Fire Department of approximately $2 million related to fewer retirements than had been anticipated, and the resulting decrease in the required recruitment, Fire Academy training classes, and hiring expenses need to fulfill the Department's personnel needs.

- The General Fund was able to reduce its transfers to other funds by $16.5 million from budget, primarily through improved revenue performance at the City's hospitals, though these amounts still increased over the prior year actual levels.

The net effect of the under-utilization of appropriations and the receipt of some actual revenues greater than estimates resulted in a positive budgetary fund balance variance of $47.9 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2004, the City used an estimated budgetary fund balance of $47.1 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, 2003, amount to $10.6 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.

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

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 141,608	$ 139,534	$ 194,024	$ 186,508	$ 335,632	$ 326,042
Facilities and Improvement	1,656,169	1,223,619	6,171,196	5,455,192	7,827,365	6,678,811
Machinery and equipment	62,899	77,609	911,497	694,659	974,396	772,268
Infrastructure	131,321	23,663	506,495	481,128	637,816	504,791
Property held under lease	536	536	103	309	639	845
Easements	-	-	92,053	99,631	92,053	99,631
Construction in progress	215,658	576,490	546,203	1,268,397	761,861	1,844,887
Total	$ 2,208,191	$ 2,041,451	$ 8,421,571	$ 8,185,824	$ 10,629,762	$ 10,227,275

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

- The Municipal Transportation Agency's capital assets increased by $243 million over the previous year. Of this increase, $28.9 million is related to assets of the Parking and Traffic Department that were transferred to this enterprise. The larger portion is due to acquisition of 191 electric trolleys and motor coaches and 13 light rail vehicles, and to completion and capitalization of the L-Line light rail improvements and the emergency lighting system for the Muni Metro subway. During fiscal year 2003, Muni amortized $1.3 million of a total deferred gain of $35.5 million that was recorded in April 2002. The gain is related to a lease transaction involving 118 Breda light rail vehicles which allows equity investors holding title to the vehicles to take advantage of tax benefits not available to public entities. During the term of the lease Muni maintains custody and use of the vehicles, and is obligated to insure and maintain them.

- The Water Department's capital asset additions of $85 million during the fiscal year include improvements at the Sunol Valley Water Treatment Plant of $50 million, improvements to Bay pipeline facilities valued at $5.3 million and to City water treatment and distribution systems valued at $4.6 million, and many smaller projects. The Clean Water Program completed sewer replacement projects at eight sites within the City for a capital asset addition of $4.9 million, and upgrade projects at the Southeast Treatment Plant for $1.7 million.

- Hetch Hetchy Water and Power increased net capital assets by $42 million, including completed improvements to its San Jose Pipeline at a value of $6.6 million, and approximately $3 million in road repairs in the Southfork area. As noted previously, Hetch Hetchy recorded as capital assets approximately $33 million for the value of four gas turbine generator sets that the City will receive as part of a settlement of a lawsuit against certain energy companies (see Note 11 to the Financial Statements).

- Capital asset increases of approximately $4 million at the Port of San Francisco were recorded in fiscal year 2003. The Port carried out construction and repairs at Pier 48, at Pier 43 and at the wharf area and public access to Pier 3. At Pier 48, the work included fire damage repairs, seismic strengthening, and electrical upgrades, and will allow the Port to begin leasing this facility again in fiscal year 2004.

- The Airport showed an overall decrease of $41 million or one percent in capital assets (net of depreciation) during 2003. As noted previously, the Airport reduced capital assets during the year by recognizing costs associated with the runway reconfiguration project as an expense. Final completion of some additional projects under the Near Term Master Plan Program also occurred during fiscal year 2003. The Plan includes new parking facilities, roadways, runway improvements, and the new International Terminal and was substantially completed in 2001 with the Airport reporting a 13 percent increase in capital assets that year. In 2003, the Bay Area Rapid Transit (BART) station at SFO and the Air Train (people mover) were put into service, providing direct rail service to the Airport from downtown San Francisco, the East Bay and the Peninsula for the first time. Other capital asset completions during the year include an aircraft taxiway and bypass construction, and a field lighting raceway system.

- Capital assets in governmental activities under facilities and improvements increased by $433 million due to completion of work on the Moscone Center West facility, the Asian Art Museum, and other public works, libraries, and recreation and park sites.

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 from 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 obligations outstanding of $7.4 billion. Of this amount, $860 million is general obligation bonds (including $0.8 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 $6.3 billion is revenue bonds, loans, certificates of participation, leases, and other debts of the City secured solely by specified revenue sources. The remainder includes accrued leave and worker's compensation long-term obligations.

As noted previously, San Francisco's total long-term debt including all bonds, loans, and commercial paper, decreased by $31.6 million during fiscal year 2003. However, the City's overall bonded debt increased by approximately $60.5 million, primarily due to revenue bonds being issued and commercial paper repaid in some enterprise activities. Within the bonded debt overall increase there is a decrease for governmental activities of $67 million, and an increase of $128 million in business activities. The City issued $803 million in refunding bonds and certificates to take advantage of favorable interest rates and reduce debt payments, and of this amount, $646 million was for the purpose of largely refunding revenue bonds and commercial paper at the Water and Clean Water enterprises. The City issued $42 million in certificates of participation to finance the construction of new facilities for Juvenile Probation and $11 million in lease-revenue bonds to finance equipment through the San Francisco Finance Corporation. The only general obligation bonds issued during the fiscal year were $29 million to fund continued work on the Branch Library Facilities Improvement Program and the Zoo Facilities Improvement Program.

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 $94.7 billion in value (net of unreimbursable exemptions) as of the close of the fiscal year. As of June 30, 2003, the City had $860 million in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.91 percent of the taxable assessed value of property. As of June 30, 2003, there were an additional $922.5 million in bonds that were authorized but unissued. If all of these bonds were issued and outstanding in full, the total debt burden would be approximately two percent of the taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2003 were:

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

During the fiscal year, all three rating agencies affirmed San Francisco's underlying rating for general obligation debt, however Moody's, Standard & Poor's and Fitch Ratings also revised their outlook on the City's debt from stable to negative. The agencies noted that while San Francisco has taken reasonable steps to control spending, this outlook reflects the sluggish economy, tax revenue less than budgeted, the City's use of budgetary reserves and other one-time funds, and a poor outlook for state financial assistance to local governments.

The City's enterprise activities have experienced some changes in debt ratings since June 30, 2002. San Francisco International Airport's debt was downgraded by Fitch from A+ to A, reflecting vulnerabilities in the market including the bankruptcy of United Airlines and decreased passenger volume related to the war with Iraq, Sudden Acute Respiratory Syndrome (SARS), and the overall weakness in travel and tourism in the Bay Area. Other agencies however affirmed their current ratings for Airport debt.

The underlying ratings of A2 by Moody's and A+ by Standard and Poor's of the Clean Water Program's revenue and refunding bonds issued during the year were affirmed. However, Moody's revised its outlook to stable from negative in part due to passage on the November 2002 ballot of Proposition E, which effectively repealed a 1998 voter-approved rate freeze and established procedures for rate increases, thereby providing increased financial stability for the Clean Water Program.

Since the close of the 2003 fiscal year, the City has issued additional debt of $50.4 million in general obligation bonds for construction in the Neighborhood Recreation and Parks Facilities Improvement Program and for the San Francisco Unified School District's construction and facilities improvements programs. In addition $44.3 million in refunding settlement obligation bonds were sold for the purpose of refunding, at lower interest rates, the settlement bonds issued to pay obligations resulting from a final judgement entered into in connection with various business tax cases.

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 $350 million at the beginning of its annual budget process for fiscal year 2004. As a result, significant spending cuts were made across General Fund functions, the City proposed and most San Francisco public employees' unions agreed in labor contracts then under negotiation to contribute 7.5 percent of salary to fund the cost of pension benefits. The City was able to appropriate $58.5 million in estimated available fund balance and liquidated reserves in the General Fund budget for 2004. It is intended that these cuts and the use of fund balance will avoid the need to make more drastic 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 increased substantially over the last two fiscal years, to a high of 7.9 percent in July 2002, dropping slightly to 7.4 percent by June 2003, and other economic indicators are similarly flat or indicating at best a gradual economic recovery.

- As of November 2003, the State of California has made several decisions which will reduce the revenues available to cities and counties including reductions in the vehicle license fee, a failure to budget funds for State-mandated reimbursements to counties (the SB90 Program), and reductions in the amounts available for human services, health, criminal justice, library, and other programs. In developing its fiscal year 2003-2004 budget, San Francisco reserved $30 million in general fund revenues to be able to respond to State reductions, however it is now likely that the actual amount of the impact will be greater. City management will continue to closely monitor this issue during the fiscal year.

- Hotel, sales, and parking taxes, which were projected to improve slightly following two years of losses related to the economic downturn and the aftermath of September 11, 2001 have lagged relative to budget in fiscal year 2004. As of the end of the first fiscal quarter, actual revenue on an annual basis from these sources has decreased approximately $8 million from budgeted levels.

- Given ongoing local tax revenue weakness and the State budget uncertainties, the City has restricted and will work to reduce departmental spending in fiscal year 2004, and is preparing to further reduce its budget in 2005.

All of the above factors were considered in preparing the City's budget for fiscal year 2004.

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

Port of San Francisco
Fiscal Officer
Pier 1
San Francisco, CA 94111

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

Laguna Honda Hospital
Chief Financial Officer
375 Laguna Honda Blvd.
San Francisco, CA 94116

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

Health Service System
Department of Human Resources
44 Gough Street
San Francisco, CA 94103

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

San Francisco Employees' Retirement System
Finance Department
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

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

San Francisco Finance Corporation
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

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Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets
June 30, 2003
(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	$ 714,107	$ 656,155	$ 1,370,262	$ -	$ 4,250
Deposits and investments outside City Treasury	153,338	8,008	161,346	230,276	-
Receivables (net of allowance for uncollectible amounts of $39,734 for the primary government):					
Property taxes and penalties	30,749	-	30,749	-	-
Other local taxes	160,415	-	160,415	-	-
Federal and state grants and subventions	220,082	45,700	265,782	-	12
Charges for services	18,041	149,538	167,579	-	694
Interest and other	8,131	62,111	70,242	3,729	33
Loans and capital lease receivables	-	85	85	13,294	-
Due from component unit	11,720	-	11,720	-	-
Inventories	-	45,014	45,014	-	-
Deferred charges and other assets	2,858	8,534	11,392	-	-
Total current assets	1,319,441	975,145	2,294,586	247,299	4,989
Restricted assets:					
Deposits and investments with City Treasury	-	554,302	554,302	-	-
Deposits and investments outside City Treasury	-	354,896	354,896	218,492	-
Grants and other receivables	-	25,209	25,209	1,754	-
Total restricted assets	-	934,407	934,407	220,246	-
Noncurrent assets:					
Loan (net of allowance for uncollectible amounts of $183,424 and $117,815 for the primary government and component units, respectively) and capital lease receivables	198,966	767	199,733	203,640	-
Deferred charges and other assets	17,236	65,441	82,677	6,124	-
Property held for resale	-	-	-	4,781	-
Capital assets:					
Land and other assets not being depreciated	357,266	740,227	1,097,493	85,184	-
Facilities, infrastructure, and equipment, net of depreciation	1,850,925	7,681,344	9,532,269	123,954	-
Total capital assets	2,208,191	8,421,571	10,629,762	209,138	-
Total noncurrent assets	2,424,393	8,487,779	10,912,172	423,683	-
Total assets	$ 3,743,834	$ 10,397,331	$ 14,141,165	$ 891,228	$ 4,989

(Continued)

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, 2003
(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	$ 136,498	$ 104,540	$ 241,038	$ 7,515	$ 168
Accrued payroll	88,364	66,791	155,155	-	61
Accrued vacation and sick leave pay	63,836	39,566	103,402	1,095	-
Accrued workers' compensation	41,059	37,946	79,005	-	-
Estimated claims payable	18,855	13,786	32,641	-	-
Bonds, loans, capital leases, and other payables	107,997	95,467	203,464	26,183	-
Accrued interest payable	7,294	15,146	22,440	52,655	-
Unearned grant and subvention revenues	1,166	-	1,166	-	-
Due to primary government	-	-	-	11,720	-
Internal balances	33,458	(33,458)	-	-	-
Deferred credits and other liabilities	107,676	110,542	218,218	8,063	-
Total current liabilities	606,203	450,326	1,056,529	107,231	229
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	15,367	15,367	-	-
Accrued interest payable	-	37,977	37,977	-	-
Other	-	43,837	43,837	-	-
Total liabilities payable from restricted assets	-	97,181	97,181	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay	65,057	31,063	96,120	1,805	-
Accrued workers' compensation	154,041	131,210	285,251	-	-
Estimated claims payable	39,478	21,185	60,663	-	-
Bonds, loans, capital leases, and other payables	1,566,233	5,323,517	6,889,750	699,597	-
Accrued interest payable	-	-	-	126,709	-
Deferred credits and other liabilities	-	44,036	44,036	-	-
Total noncurrent liabilities	1,824,809	5,551,011	7,375,820	828,111	-
Total liabilities	2,431,012	6,098,518	8,529,530	935,342	229
NET ASSETS					
Invested in capital assets, net of related debt	983,834	3,273,449	4,257,283	106,473	-
Restricted for:					
Cash and emergencies requirements by Charter	59,337	-	59,337	-	-
Debt service	7,795	273,242	281,037	153,522	-
Capital projects	86,912	147,693	234,605	-	-
Community development	158,591	-	158,591	-	-
Transportation Authority activities	149,070	-	149,070	-	-
Other purposes	133,233	61,616	194,849	3,466	4,760
Unrestricted (deficit)	(265,950)	542,813	276,863	(307,575)	-
Total net assets (deficit)	$ 1,312,822	$ 4,298,813	$ 5,611,635	$ (44,114)	$ 4,760

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, 2003
(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$ 778,710	$ 44,291	$ 97,996	$ -	$ (636,423)	$ -	$ (636,423)	$ -	$ -
Public works, transportation and commerce	287,910	84,057	21,880	28,626	(153,347)	-	(153,347)	-	-
Human welfare and neighborhood development	626,306	26,349	415,398	-	(184,559)	-	(184,559)	-	-
Community health	542,480	41,906	255,649	-	(244,925)	-	(244,925)	-	-
Culture and recreation	242,398	44,629	2,236	16,390	(179,143)	-	(179,143)	-	-
General administration and finance	186,144	36,525	1,772	1,013	(146,834)	-	(146,834)	-	-
General City responsibilities	53,026	41,123	14,739	-	2,836	-	2,836	-	-
Unallocated Interest on long-term debt	77,827	-	-	-	(77,827)	-	(77,827)	-	-
Total governmental activities	2,794,801	318,880	809,670	46,029	(1,620,222)	-	(1,620,222)	-	-
Business-type activities:									
Airport	641,036	500,116	-	20,678	-	(120,242)	(120,242)	-	-
Transportation	628,180	155,656	94,093	162,712	-	(215,719)	(215,719)	-	-
Port	61,074	54,467	-	726	-	(5,881)	(5,881)	-	-
Water	186,579	170,253	230	-	-	(16,096)	(16,096)	-	-
Power	95,427	132,190	1,197	-	-	37,960	37,960	-	-
Hospitals	561,673	429,128	68,702	20,635	-	(43,208)	(43,208)	-	-
Sewer	153,845	134,745	35	-	-	(19,065)	(19,065)	-	-
Market	894	1,296	-	-	-	402	402	-	-
Total business-type activities	2,328,708	1,577,851	164,257	204,751	-	(381,849)	(381,849)	-	-
Total primary government	$ 5,123,509	$ 1,896,731	$ 973,927	$ 250,780	$(1,620,222)	$ (381,849)	$(2,002,071)	$ -	$ -
Component units:									
San Francisco Redevelopment Agency	$ 119,911	$ 24,696	$ 14,266	$ -	$ -	$ -	$ -	$ (80,949)	$ -
Treasure Island Development Authority	9,454	10,290	48	-	-	-	-	-	884
Total component units	$ 129,365	$ 34,986	$ 14,314	$ -	$ -	$ -	$ -	$ (80,949)	$ 884
General Revenues:									
Taxes:									
Property taxes					$ 686,858	$ -	$ 686,858	$ 42,138	$ -
Business taxes					276,651	-	276,651	-	-
Other local taxes					450,677	-	450,677	5,738	-
Interest and investment income					26,332	50,215	76,547	14,135	-
Other					196,496	188,446	384,942	6,044	-
Special item					-	33,000	33,000	-	-
Transfers - internal activities of primary government					(178,991)	178,991	-	-	-
Total general revenues and transfers					1,458,023	450,652	1,908,675	68,055	-
Change in net assets					(162,199)	68,803	(93,396)	(12,894)	884
Net assets (deficit) - beginning					1,475,021	4,230,010	5,705,031	(31,220)	3,876
Net assets (deficit) - ending					$ 1,312,822	$ 4,298,813	$ 5,611,635	$ (44,114)	$ 4,760

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet
Governmental Funds
June 30, 2003
(with comparative financial information as of June 30, 2002)
(in thousands)

	General Fund 2003	General Fund 2002	Other Governmental Funds 2003	Other Governmental Funds 2002	Total Governmental Funds 2003	Total Governmental Funds 2002
ASSETS						
Deposits and investments with City Treasury	$ 137,738	$ 311,466	$ 567,264	$ 724,801	$ 705,002	$ 1,036,267
Deposits and investments outside City Treasury	4,149	361	126,034	132,498	130,183	132,859
Receivables:						
Property taxes and penalties	25,455	26,948	5,294	6,447	30,749	33,395
Other local taxes	149,138	147,368	11,277	26,505	160,415	173,873
Federal and state grants and subventions	50,119	56,890	169,963	83,085	220,082	139,975
Charges for services	11,356	16,125	6,685	5,630	18,041	21,755
Interest and other	4,469	7,506	3,201	3,105	7,670	10,611
Due from other funds	72,730	66,651	9,665	54	82,395	66,705
Due from component unit	444	400	11,276	22,187	11,720	22,587
Loans receivable (net of allowance for uncollectable amount of $183,424 in 2003; $165,637 in 2002)	1,043	183	197,923	148,942	198,966	149,125
Deferred charges and other assets	6,224	5,862	1,832	1,338	8,056	7,200
Total assets	$ 462,865	$ 639,760	$ 1,110,414	$ 1,154,592	$ 1,573,279	$ 1,794,352
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 70,157	$ 92,514	$ 61,628	$ 58,214	$ 131,785	$ 150,728
Accrued payroll	70,902	66,071	14,998	14,167	85,900	80,238
Accrued interest payable	-	-	-	398	-	398
Deferred tax, grant and subvention revenues	28,622	27,604	11,743	11,680	40,365	39,284
Due to other funds	700	-	115,105	33,893	115,805	33,893
Agency obligations	-	-	40	-	40	-
Deferred credits and other liabilities	96,172	73,180	219,874	167,669	316,046	240,849
Total liabilities	266,553	259,369	423,388	286,021	689,941	545,390
Fund balances:						
Reserved for cash requirements	55,139	93,293	-	-	55,139	93,293
Reserved for emergencies	4,198	4,198	-	-	4,198	4,198
Reserved for assets not available for appropriation	6,768	6,406	25,906	41,233	32,674	47,639
Reserved for debt service	-	-	33,866	36,548	33,866	36,548
Reserved for encumbrances	43,195	52,735	278,656	340,591	321,851	393,326
Reserved for appropriation carryforward	26,880	61,716	227,818	285,508	254,698	347,224
Reserved for subsequent years' budgets	15,414	25,379	8,004	18,604	23,418	43,983
Unreserved (deficit), reported in:						
General fund	44,718	136,664	-	-	44,718	136,664
Special revenue funds	-	-	67,988	97,167	67,988	97,167
Capital project funds	-	-	40,561	44,487	40,561	44,487
Permanent fund	-	-	4,227	4,433	4,227	4,433
Total fund balances	196,312	380,391	687,026	868,571	883,338	1,248,962
Total liabilities and fund balances	$ 462,865	$ 639,760	$ 1,110,414	$ 1,154,592	$ 1,573,279	$ 1,794,352

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, 2003

(In Thousands)

Fund balances - total governmental funds	$ 883,338
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.	2,205,571
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	8,424
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,797,131)
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 not short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	248,968
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.	(230,149)
Net assets of governmental activities	$ 1,312,822

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, 2003
(with comparative financial information for the year ended June 30, 2002)

(in thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2003	2002	2003	2002	2003	2002
Revenues:						
Property taxes	$ 516,955	$ 507,308	$ 169,199	$ 179,842	$ 686,154	$ 687,150
Business taxes	276,126	274,125	525	723	276,651	274,848
Other local taxes	345,735	334,357	104,942	110,233	450,677	444,590
Licenses, permits and franchises	16,217	19,548	5,431	6,214	21,648	25,762
Fines, forfeitures and penalties	5,595	8,591	3,405	3,454	9,000	12,045
Interest and investment income	7,798	20,737	17,772	44,860	25,570	65,597
Rents and concessions	17,576	17,636	37,793	45,987	55,369	63,623
Intergovernmental:						
Federal	151,790	150,444	168,464	157,499	320,254	307,943
State	515,382	510,952	174,889	97,852	690,271	608,804
Other	-	-	24,623	33,924	24,623	33,924
Charges for services	93,840	102,782	128,043	122,765	221,883	225,547
Other	11,880	10,338	15,212	16,067	27,092	26,405
Total revenues	1,958,894	1,956,818	850,298	819,420	2,809,192	2,776,238
Expenditures:						
Current:						
Public protection	695,693	650,019	39,118	40,031	734,811	690,050
Public works, transportation and commerce	57,458	103,579	209,576	192,832	267,034	296,411
Human welfare and neighborhood development	492,083	467,688	178,587	145,445	670,670	613,133
Community health	424,302	395,465	100,469	89,361	524,771	484,826
Culture and recreation	96,959	108,810	155,518	129,516	252,477	238,326
General administration and finance	130,786	136,143	32,962	28,602	163,748	164,745
General City responsibilities	52,308	49,571	1,015	5,057	53,323	54,628
Debt service:						
Principal retirement	-	-	100,902	69,536	100,902	69,536
Interest and fiscal charges	-	-	64,243	68,111	64,243	68,111
Bond issuance costs	-	534	1,646	2,453	1,646	2,987
Capital outlay	-	-	248,928	276,662	248,928	276,662
Total expenditures	1,949,589	1,911,809	1,132,964	1,047,606	3,082,553	2,959,415
Excess (deficiency) of revenues over expenditures	9,305	45,009	(282,666)	(228,186)	(273,361)	(183,177)
Other financing sources (uses):						
Transfers in	105,211	109,941	121,309	157,166	226,520	267,107
Transfers out	(303,216)	(316,691)	(120,720)	(219,989)	(423,936)	(536,680)
Issuance of bonds and loans						
Face value of bonds issued	-	60,755	71,310	189,240	71,310	249,995
Premium on issuance of bonds	-	-	323	3,095	323	3,095
Discount on issuance of bonds	-	(176)	-	(62)	-	(238)
Payment to refunded bond escrow agent	-	-	-	(136,230)	-	(136,230)
Other financing sources-capital leases	3,686	1,417	28,899	90,007	32,585	91,424
Other	935	949	-	-	935	949
Total other financing sources (uses)	(193,384)	(143,805)	101,121	83,227	(92,263)	(60,578)
Net change in fund balances	(184,079)	(98,796)	(181,545)	(144,959)	(365,624)	(243,755)
Fund balances at beginning of year	380,391	479,187	868,571	1,013,530	1,248,962	1,492,717
Fund balances at end of year	$ 196,312	$ 380,391	$ 687,026	$ 868,571	$ 883,338	$ 1,248,962

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, 2003

(In Thousands)

Net change in fund balances - total governmental funds	$ (365,624)
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.	196,681
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.	(50,667)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	704
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.	18,248
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.	28,143
Bond issue costs are expended 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.	1,241
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 bond proceeds and capital lease financing exceeded principal retirement in the current period.	(2,993)
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.	(323)
Reduction in accrued interest calculated on bonds and notes payable.	1,917
Increase in accreted interest on capital lease obligations.	(11,255)
Amortization of bond premiums, discounts and refunding losses.	(380)
Reduction in interest calculated pertaining to the City's arbitrage rebate liability.	467
The net revenues of certain activities of internal service funds is reported with governmental activities.	3,414
During the current fiscal year, certain long-term assets and liabilities were transferred from governmental activities to the Municipal Transportation Agency enterprise fund which is reported within business-type activities. This is the amount by which the long-term liabilities transferred exceeded the corresponding long-term capital assets.	21,900
During the current fiscal year, certain long-term liabilities were transferred from the General Hospital Medical Center enterprise fund which is reported within business-type activities to governmental activities. This is the amount by which long-term liabilities increased in governmental activities.	(3,672)
Changes in net assets of governmental activities	$ (162,199)

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, 2003

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 173,289	$ 385,027	$ 385,027	$ -
Resources (inflows):				
Property taxes	513,235	513,203	518,689	5,486
Business taxes	282,110	282,230	276,126	(6,104)
Other local taxes:				
Sales tax	130,529	130,529	115,578	(14,951)
Hotel room tax	97,070	97,070	74,729	(22,341)
Utility users tax	78,208	78,208	71,378	(6,830)
Parking tax	34,350	34,350	29,715	(4,635)
Other local taxes	47,798	47,798	54,335	6,537
Licenses, permits, and franchises:				
Licenses and permits	5,650	5,650	5,485	(165)
Franchise tax	11,332	11,332	10,732	(600)
Fines, forfeitures, and penalties	4,497	4,497	5,595	1,098
Interest and investment income	17,132	17,323	15,909	(1,414)
Rents and concessions:				
Garages - Recreation and Park	6,658	6,658	6,232	(426)
Rents and concessions - Recreation and Park	11,004	11,004	11,029	25
Other rents and concessions	171	171	315	144
Intergovernmental:				
Federal subventions:				
Health and social service subventions	145,177	143,885	145,489	1,604
Other grants and subventions	3,429	2,170	6,301	4,131
State subventions:				
Social service subventions	108,511	112,507	101,730	(10,777)
Health and welfare realignment	93,826	94,390	88,294	(6,096)
Health/mental health subventions	127,688	127,687	129,600	1,913
Public safety sales tax	71,864	71,864	64,284	(7,580)
Motor vehicle in-lieu - county	105,645	105,645	103,897	(1,748)
Other grants & subventions	28,376	28,418	27,577	(841)
Charges for services:				
General government service charges	30,730	31,851	34,072	2,221
Public safety service charges	15,990	15,999	10,832	(5,167)
Recreation charges - Recreation and Park	5,806	5,806	4,189	(1,617)
MediCal, MediCare and health service charges	47,861	49,145	44,747	(4,398)
Other financing sources:				
Transfers from other funds	130,747	137,672	104,935	(32,737)
Proceeds from issuance of bonds and loans	13,422	13,451	935	(12,516)
Other resources (inflows)	24,156	24,278	8,070	(16,208)
Total amounts available for appropriation	$ 2,366,261	$ 2,589,818	$ 2,455,826	$ (133,992)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2003

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to appropriations (outflows):				
Public Protection				
Administrative Services - Animal Care and Control	$ 3,257	$ 3,211	$ 3,202	$ 9
Administrative Services - Consumer Assurance	1,981	1,541	1,527	14
Administrative Services - Medical Examiner	4,095	4,245	4,245	-
Adult Probation	9,356	9,335	9,261	74
District Attorney	24,345	24,307	24,307	-
Fire Department	208,224	210,285	208,299	1,986
Juvenile Probation	29,965	29,066	29,066	-
Mayor - Office of the Emergency Services	1,305	1,214	849	365
Police Department	258,705	265,501	265,474	27
Public Defender	13,071	13,211	13,211	-
Sheriff	95,694	98,717	98,717	-
Trial Courts	33,290	34,776	34,751	25
Public Works Transportation and Commerce				
Board of Appeals	443	444	418	26
Business and Economic Development	2,373	2,843	2,737	106
Clean Water	403	235	228	7
Department of Public Works	25,097	27,861	27,178	683
Emergency Communications	26,648	26,297	25,397	900
Light, Heat and Power	-	241	3	238
Telecommunications and Information Services	2,242	1,725	1,496	229
Human Welfare and Neighborhood Development				
Adult and Aging Services	21,626	21,192	20,578	614
Children, Youth and Their Families	10,792	13,888	12,707	1,181
Commission on the Status of Women	2,441	2,422	2,262	160
Environment	568	3,565	3,002	563
Human Rights Commission	1,808	1,727	1,648	79
Human Services	473,481	474,139	451,512	22,627
Mayor - Housing and Neighborhood	100	377	85	292
Rent Arbitration Board	-	24	24	-
Public Health	456,539	461,958	424,016	37,942
Culture and Recreation				
Academy of Sciences	1,977	1,978	1,954	24
Administrative Services - Convention Facilities	400	515	515	-
Art Commission	6,696	6,904	6,812	92
Asian Art Museum	5,983	5,961	5,163	798
County Education Office	68	69	69	-
Fine Arts Museum	5,001	5,014	4,383	631
Law Library	525	509	495	14
Mayor - Grants for the Arts	15,858	15,702	13,377	2,325
Recreation and Park Commission	64,268	65,702	64,191	1,511
General Administration and Finance				
Administrative Services	14,233	11,243	11,108	135
Administrative Services - Office of Contract Administration	2,844	2,889	2,547	342
Assessor/Recorder	10,170	10,299	10,226	73
Board of Supervisors	9,003	8,736	8,733	3

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2003

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	9,149	8,640	7,523	1,117
City Planning	12,316	12,821	12,821	-
Civil Service	703	743	710	33
Controller	20,958	20,978	19,875	1,103
Elections	8,939	8,862	8,486	376
Ethics Commission	2,156	2,178	1,357	821
Human Resources	21,056	22,386	22,017	369
Mayor	7,367	7,319	7,265	54
Retirement Services	246	156	156	-
Treasurer/Tax Collector	17,595	18,199	17,925	274
General City Responsibilities				
General City Responsibilities	54,556	61,416	52,677	8,739
Other financing uses:				
Debt Service	7,259	-	-	-
Transfers to other funds	301,969	313,341	296,795	16,546
Budgetary reserves and designations	57,117	83,595	5,279	78,316
Total charges to appropriations	2,366,261	2,430,502	2,248,659	181,843
Budgetary fund balance, June 30	$ -	$ 159,316	$ 207,167	$ 47,851

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 2,455,826
Difference - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(385,027)
Property tax revenue - Teeter Plan	(1,734)
Unrealized loss on investment	(8,111)
Interest reclassified as transfers from other funds	3,810
Proceeds from issuance of bonds and loans	(935)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(104,935)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,958,894
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 2,248,659
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation	(3,686)
Other budget to GAAP differences	2,362
Pension reimbursement	4,328
Change recognized in budget basis reserves	(5,279)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(296,795)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,949,589

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets - Proprietary Funds

June 30, 2003
(with summarized financial information as of June 30, 2002)

(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco Interna-tional 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	2003	2002	2003	2002
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 271,646	$ 189,359	$ 83,317	$ 9,110	$ 874	$ 49,007	$ 52,842	$ -	$ -	$ 656,155	$ 754,778	$ 9,105	$ 14,499
Deposits and investments outside City Treasury	10	40	10	6,764	10	-	9	1	1,164	8,008	3,508	23,155	51,732
Receivables (net of allowance for uncollectible amounts of $23,093 and $13,462 in 2003 and 2002, respectively):													
Federal and state grants and subventions	-	-	32	41,720	3,474	35	439	-	-	45,700	39,306	-	-
Charges for services	38,969	25,959	9,855	3,354	29,041	20,923	2,885	18,524	28	149,538	156,220	-	-
Interest and other	1,899	3,068	420	6,377	48,948	550	849	-	-	62,111	68,364	461	1,251
Loan and capital lease receivables	-	-	85	-	-	-	-	-	-	85	-	16,980	16,922
Due from other funds	-	-	6,869	60,395	48	-	-	-	-	67,312	13,529	-	-
Inventories	120	1,687	237	36,250	4,612	-	1,193	915	-	45,014	37,801	-	-
Deferred charges and other assets	1,979	-	-	5,212	-	-	1,322	-	21	8,534	6,266	294	390
Total current assets	314,623	220,113	100,825	169,182	87,007	70,515	59,539	19,440	1,213	1,042,457	1,079,772	49,995	84,794
Restricted assets:													
Deposits and investments with City Treasury	255,301	112,680	-	45,614	-	85,356	3,859	51,492	-	554,302	601,351	-	-
Deposits and investments outside City Treasury	273,329	13,504	-	23,630	26	32,649	11,360	296	102	354,896	390,938	-	-
Grants and other receivables	17,372	734	-	6,001	-	289	-	813	-	25,209	33,960	-	-
Total restricted assets	546,002	126,918	-	75,245	26	118,294	15,219	52,601	102	934,407	1,026,249	-	-
Noncurrent assets:													
Deferred charges and other assets	45,980	4,223	-	4,414	-	2,765	8,059	-	-	65,441	65,756	2,510	2,266
Loan and capital lease receivables	-	-	767	-	-	-	-	-	-	767	-	236,263	241,863
Capital assets:													
Land and other assets not being depreciated	109,283	135,425	61,879	216,434	2,869	30,692	142,221	41,424	-	740,227	1,454,905	-	-
Facilities, Infrastructrure, and equipment, net of depreciation	3,862,056	573,912	188,919	1,586,137	56,835	1,295,265	105,434	7,279	5,507	7,681,344	6,730,919	2,620	3,597
Total capital assets	3,971,339	709,337	250,798	1,802,571	59,704	1,325,957	247,655	48,703	5,507	8,421,571	8,185,824	2,620	3,597
Total noncurrent assets	4,017,319	713,560	251,565	1,806,985	59,704	1,328,722	255,714	48,703	5,507	8,487,779	8,251,580	241,393	247,726
Total assets	4,877,944	1,060,591	352,390	2,051,412	146,737	1,517,531	330,472	120,744	6,822	10,464,643	10,357,601	291,388	332,520

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)

(In Thousands)

	Business-type Activities - Enterprise 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	Parking Garages and Market Corporation	Total 2003	Total 2002	Governmental Activities-Internal Service Funds 2003	Governmental Activities-Internal Service Funds 2002
Operating revenues:													
Aviation	$ 347,998	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 347,998	$ 318,772	$ -	$ -
Water and power service	-	157,727	131,963	-	-	-	-	-	-	289,690	260,712	-	-
Passenger fees	-	-	-	97,764	-	-	-	-	-	97,764	97,162	-	-
Net patient service revenue	-	-	-	-	296,974	-	-	116,431	-	413,405	398,782	-	-
Sewer service	-	-	-	-	-	130,013	-	-	-	130,013	129,925	-	-
Rents and concessions	62,790	8,611	227	14,460	3,183	-	43,512	-	-	132,783	117,913	8	31
Parking and transportation	49,367	-	-	29,803	-	-	7,466	-	-	86,636	96,111	-	-
Charges for services	-	-	-	668	-	-	-	-	-	668	-	96,334	102,331
Other revenues	39,961	3,915	-	12,961	12,190	4,732	3,489	350	1,296	78,894	59,855	-	-
Total operating revenues	500,116	170,253	132,190	155,656	312,347	134,745	54,467	116,781	1,296	1,577,851	1,479,232	96,342	102,362
Operating expenses:													
Personal services	152,586	50,859	19,406	428,362	238,130	37,480	50,103	132,359	170	1,109,455	1,005,778	42,030	39,819
Contractual services	54,713	5,168	4,072	32,890	105,475	5,432	-	3,187	346	211,283	221,118	33,010	37,216
Light, heat and power	21,028	-	43,118	1,179	-	-	-	-	79	65,404	87,812	-	-
Materials and supplies	6,519	6,842	1,914	25,344	38,349	7,288	-	11,666	3	97,925	112,823	15,100	16,331
Depreciation and amortization	148,294	31,430	9,572	69,332	6,432	38,369	8,655	1,260	272	313,616	286,834	1,438	2,709
General and administrative	4,304	22,685	11,941	30,155	870	11,974	-	-	6	81,935	89,280	889	1,737
Services provided by other departments	10,837	30,496	2,857	25,627	18,080	20,656	-	3,740	-	112,293	100,449	2,832	2,985
Other	48,725	20,043	2,530	9,778	-	7,978	-	90	2	89,146	35,511	1,888	2,778
Total operating expenses	447,006	167,523	95,410	622,667	407,336	129,177	58,758	152,302	878	2,081,057	1,939,605	97,187	103,575
Operating income (loss)	53,110	2,730	36,780	(467,011)	(94,989)	5,568	(4,291)	(35,521)	418	(503,206)	(460,373)	(845)	(1,213)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	230	565	18,667	-	-	-	-	-	19,462	5,151	-	-
State / other	-	-	632	75,426	68,702	35	-	-	-	144,795	162,654	-	-
Interest and investment income	33,137	7,576	1,365	2,223	-	4,123	1,774	-	17	50,215	63,530	4,258	7,003
Interest expense	(194,030)	(19,056)	(17)	(5,513)	(1,807)	(24,668)	(2,316)	(228)	(16)	(247,651)	(243,480)	(4,333)	(7,432)
Other, net	54,060	5,264	855	124,107	6,190	(623)	(2,313)	906	-	188,446	199,679	-	18
Total nonoperating revenues (expenses)	(106,833)	(5,986)	3,400	214,910	73,085	(21,133)	(2,855)	678	1	155,267	187,534	(75)	(411)
Income (loss) before capital contributions, transfers and special items	(53,723)	(3,256)	40,180	(252,101)	(21,904)	(15,565)	(7,146)	(34,843)	419	(347,939)	(272,839)	(920)	(1,624)
Capital Contributions	20,678	-	-	162,712	-	-	726	20,635	-	204,751	251,747	-	-
Transfers in	-	-	-	260,459	89,943	-	-	33,110	-	383,512	214,381	197	512
Transfers out	(16,823)	-	-	(54,531)	(73,307)	-	-	-	(59,860)	(204,521)	(89,982)	-	-
Net income (loss) before special item	(49,868)	(3,256)	40,180	116,539	(5,268)	(15,565)	(6,420)	18,902	(59,441)	35,803	103,307	(723)	(1,112)
Special item	-	-	33,000	-	-	-	-	-	-	33,000	-	-	-
Change in net assets	(49,868)	(3,256)	73,180	116,539	(5,268)	(15,565)	(6,420)	18,902	(59,441)	68,803	103,307	(723)	(1,112)
Net assets (deficit) at beginning of year	561,472	452,104	261,326	1,553,140	48,679	950,380	274,492	62,480	65,937	4,230,010	4,126,703	(4,406)	(3,294)
Net assets (deficit) at end of year	$ 511,604	$ 448,848	$ 334,506	$ 1,669,679	$ 43,411	$934,815	$ 268,072	$ 81,382	$ 6,496	$4,298,813	$4,230,010	$ (5,129)	$ (4,406)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets - Proprietary Funds *(Continued)*

June 30, 2003
(with summarized financial information as of June 30, 2002)

(In Thousands)

	Business-type Activities - Enterprise 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 2003	Total 2002	Governmental Activities-Internal Service Funds 2003	Governmental Activities-Internal Service Funds 2002
LIABILITIES													
Current liabilities:													
Accounts payable	13,566	8,718	11,423	48,562	12,874	4,071	2,396	2,762	168	104,540	119,989	4,713	6,814
Accrued payroll	8,824	6,508	1,302	24,452	13,711	2,298	1,463	8,233	-	66,791	61,174	2,464	2,315
Accrued vacation and sick leave pay	5,757	3,894	880	13,857	7,484	1,986	1,006	4,702	-	39,566	38,811	1,833	1,434
Accrued workers' compensation	1,305	2,074	384	24,841	5,007	829	644	2,862	-	37,946	30,476	244	250
Estimated claims payable	209	1,025	38	10,754	-	260	1,500	-	-	13,786	16,668	-	-
Due to other funds	320	1,043	-	1,600	23,009	-	2,000	5,882	-	33,854	44,314	48	2,027
Deferred credits and other liabilities	37,602	42,412	550	6,826	15,663	-	7,260	184	45	110,542	107,474	28,772	58,752
Accrued interest payable	-	4,136	17	589	-	10,255	149	-	-	15,146	12,381	1,095	2,997
Bonds, loans, capital leases, and other payables	58,858	13,345	103	6,705	787	14,929	518	222	-	95,467	185,185	17,931	16,094
Total current liabilities	126,441	83,155	14,697	138,186	78,535	34,628	16,936	24,847	213	517,638	616,472	57,100	90,683
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	11,772	-	-	-	-	-	3,595	-	-	15,367	12,115	-	-
Accrued interest payable	37,037	-	-	-	-	-	940	-	-	37,977	42,666	-	-
Other	26,666	10,522	-	904	26	638	4,130	951	-	43,837	63,404	-	-
Total liabilities payable from restricted assets	75,475	10,522	-	904	26	638	8,665	951	-	97,181	118,185	-	-
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,400	3,923	705	10,177	5,355	1,637	884	2,982	-	31,063	30,617	1,754	1,382
Accrued workers' compensation	4,454	7,747	1,509	84,212	17,418	3,001	2,287	10,582	-	131,210	96,928	835	762
Estimated claims payable	250	2,798	105	16,918	-	714	400	-	-	21,185	28,618	-	-
Deferred credits and other liabilities	-	3,997	-	36,876	-	91	2,959	-	113	44,036	52,929	-	-
Bonds, loans, capital leases, and other payables	4,154,320	499,601	868	94,460	1,992	542,007	30,269	-	-	5,323,517	5,183,842	236,828	244,099
Total noncurrent liabilities	4,164,424	518,066	3,187	242,643	24,765	547,450	36,799	13,564	113	5,551,011	5,392,934	239,417	246,243
Total liabilities	4,366,340	611,743	17,884	381,733	103,326	582,716	62,400	39,362	326	6,165,830	6,127,591	296,517	336,926
NET ASSETS													
Invested in capital assets, net of related debt	(13,205)	273,644	250,798	1,652,327	56,925	782,268	222,211	48,481	-	3,273,449	3,115,392	2,620	4,164
Restricted:													
Debt service	224,521	14,712	-	679	-	33,330	-	-	-	273,242	334,747	-	-
Capital projects	8,550	20,611	-	3,887	-	66,679	-	47,966	-	147,693	141,154	-	-
Other purposes	-	-	-	57,346	26	-	2,128	2,116	-	61,616	70,118	-	-
Unrestricted (deficit)	291,738	139,881	83,708	(44,560)	(13,540)	52,538	43,733	(17,181)	6,496	542,813	568,599	(7,749)	(8,570)
Total net assets (deficit)	$ 511,604	$ 448,848	$ 334,506	$ 1,669,679	$ 43,411	$934,815	$268,072	$ 81,382	$ 6,496	$4,298,813	$4,230,010	$ (5,129)	$ (4,406)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2003
(with summarized financial information for the year ended June 30, 2002)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional 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	Parking Garages and Market Corporation	Total 2003	Total 2002	Governmental Activities-Internal Service Funds 2003	Governmental Activities-Internal Service Funds 2002
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 490,743	$ 150,814	$ 131,142	$ 157,585	$ 315,041	$ 135,992	$ 7,081	$ -	$ 1,296	$ 1,389,694	$ 1,359,427	$ 111,900	$ 115,302
Cash received from patients and third party payors	-	-	-	-	-	-	-	120,371	-	120,371	103,145	-	-
Cash received from tenants for rent	-	8,611	227	16,971	3,183	-	43,998	-	-	72,990	57,802	-	-
Cash paid to employees for services	(151,608)	(43,845)	(20,258)	(395,833)	(236,562)	(35,222)	(19,995)	(134,106)	(170)	(1,037,599)	(942,718)	(41,043)	(38,873)
Cash paid to suppliers for goods and services	(99,443)	(77,363)	(71,560)	(147,144)	(162,419)	(54,969)	(19,271)	(19,860)	(443)	(652,472)	(665,031)	(95,268)	(155,795)
Cash paid for judgements and claims	-	(4,141)	(2,295)	(6,963)	-	(1,158)	-	-	-	(14,557)	(12,414)	-	-
Net cash provided by (used in) operating activities	239,692	34,076	37,256	(375,384)	(80,757)	44,643	11,813	(33,595)	683	(121,573)	(99,789)	(24,411)	(79,366)
Cash flows from noncapital financing activities:													
Operating grants	2,541	230	1,344	182,294	65,228	-	-	-	-	251,637	287,158	-	-
Transfers in	-	-	-	202,465	86,271	-	-	33,110	-	321,846	214,381	197	512
Transfers out	(16,823)	-	-	(54,531)	(73,307)	-	-	-	(1,866)	(146,527)	(89,982)	-	-
Transit Impact Development fees received	-	-	-	3,199	-	-	-	-	-	3,199	7,062	-	-
Other noncapital increases	-	-	-	-	6,190	-	-	-	-	6,190	5,224	-	-
Other noncapital decreases	-	-	-	(171)	-	-	-	-	-	(171)	(536)	-	-
Net cash provided by (used in) noncapital financing activities	(14,282)	230	1,344	333,256	84,382	-	-	33,110	(1,866)	436,174	423,307	197	512
Cash flows from capital financing activities:													
Capital grants	27,523	-	-	128,360	-	-	1,145	-	-	157,028	272,423	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-	145,791
Bond sale proceeds and loans received	507	164,665	971	66,988	-	32,998	-	-	(251)	265,878	200,623	11,070	7,928
Proceeds from sale of capital assets	13	1,200	-	661	-	-	-	-	-	1,874	1,868	-	-
Loss from disposition of fixed assets	-	-	-	(69)	-	-	-	-	-	(69)	-	-	-
Proceeds from commercial paper borrowings	-	-	-	-	-	-	-	-	-	-	260,847	-	-
Loans received	-	-	-	-	-	-	-	-	-	-	-	2,091	3,541
Proceeds from passenger facility charges	53,435	-	-	-	-	-	-	-	-	53,435	30,606	-	-
Acquisition of capital assets	(124,385)	(115,997)	(18,712)	(225,585)	(2,437)	(15,114)	(14,448)	(20,269)	(134)	(537,081)	(676,185)	(339)	(3,627)
Retirement of capital leases, bonds and loans	(52,260)	(11,789)	-	(3,609)	-	(69,871)	(4,720)	(210)	-	(142,459)	(48,184)	(16,869)	(16,902)
Retirement of commercial paper borrowings	-	(90,000)	-	-	-	-	-	-	-	(90,000)	(85,000)	-	-
Bond issue costs paid	(736)	-	-	-	-	-	-	-	-	(736)	(3,764)	(264)	(67)
Interest paid on long term debt	(221,220)	(21,655)	-	(4,686)	(1,807)	(15,820)	(2,253)	(228)	(153)	(267,822)	(342,736)	(6,129)	(7,468)
Other capital financing increases	-	-	-	-	-	-	437	20,635	-	21,072	65,769	-	-
Other capital financing decreases	(4,358)	-	-	(2,650)	-	-	(5,968)	-	-	(12,976)	(12,528)	-	-
Net cash provided by (used in) capital financing activities	(321,481)	(73,576)	(17,741)	(40,590)	(4,244)	(67,807)	(25,807)	(72)	(538)	(551,856)	(336,261)	(10,440)	129,196
Cash flows from investing activities:													
Purchases of investments with trustees	(2,157,006)	(205,149)	-	(1,376)	-	(58,390)	-	-	24	(2,421,897)	(2,057,219)	-	-
Proceeds from sale of investments with trustees	2,166,717	204,945	-	4,600	-	68,372	5,359	-	-	2,449,993	1,959,929	-	-
Purchases of restricted deposits and investments	(119,357)	-	-	-	-	-	-	-	-	(119,357)	(608,085)	-	-
Proceeds from sale of restricted deposits and investments	324,859	-	-	-	-	-	-	-	-	324,859	1,063,255	-	-
Interest income received	33,519	6,958	1,353	2,310	-	3,072	2,083	1,047	17	50,359	63,904	789	8,178
Other investing activities	-	4,064	855	7,969	-	(573)	-	(33)	-	12,282	10,552	(106)	(85)
Net cash provided by investing activities	248,732	10,818	2,208	13,503	-	12,481	7,442	1,014	41	296,239	432,336	683	8,093
Net increase (decrease) in cash and cash equivalents	152,661	(28,452)	23,067	(69,215)	(619)	(10,683)	(6,552)	457	(1,680)	58,984	419,593	(33,971)	58,435
Cash and cash equivalents-beginning of year	347,602	330,531	60,260	130,864	1,503	145,046	73,270	50,284	2,844	1,142,204	722,611	66,231	7,796
Cash and cash equivalents-end of year	$ 500,263	$ 302,079	$ 83,327	$ 61,649	$ 884	$ 134,363	$ 66,718	$ 50,741	$ 1,164	$ 1,201,188	$ 1,142,204	$ 32,260	$ 66,231

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 Fiduciary Net Assets

Fiduciary Funds

June 30, 2003

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 75,943	$ 223,074	$ 87,338
Deposits and investments outside City Treasury	11,139,540	-	1,005
Receivables:			
Payroll contribution	14,619	-	51,849
Interest and other	162,749	1,535	86,453
Invested securities lending collateral	1,107,990	-	-
Deferred charges and other assets	175	-	24,869
Total assets	12,501,016	224,609	251,514
Liabilities			
Accounts payable	16,165	652	52,687
Estimated claims payable	15,044	-	-
Agency obligations	-	-	198,827
Obligations under fixed coupon dollar repurchase agreements	205,782	-	-
Payable to brokers	560,809	-	-
Securities lending collateral	1,107,990	-	-
Deferred credits and other liabilities	24,043	-	-
Total liabilities	1,929,833	652	$ 251,514
Net Assets			
Held in trust for pension and other employee benefits and pool participants	$ 10,571,183	$ 223,957	

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, 2003
(with summarized financial information for the year ended June 30, 2002)
(In Thousands)

	Business-type Activities - Enterprise 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	Parking Garages and Market Corporation	Total 2003	Total 2002	Governmental Activities-Internal Service Funds 2003	Governmental Activities-Internal Service Funds 2002
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 53,110	$ 2,730	$ 36,780	$ (467,011)	$ (94,989)	$ 5,568	$ (4,291)	$ (35,521)	$ 418	$ (503,206)	$ (460,373)	$ (845)	$ (1,213)
Adjustments for non-cash activities:													
Depreciation and amortization	151,334	31,430	9,572	69,332	6,432	38,369	8,655	1,260	272	316,656	289,211	1,438	2,709
Provision for uncollectibles	39,917	-	-	2	31,351	461	365	946	-	73,042	28,788	-	-
Write off of capital assets	-	4,076	-	-	-	-	-	-	-	4,076	5,822	-	-
Other	-	(561)	(162)	-	-	147	(831)	-	-	(1,407)	(1,475)	-	-
Changes in assets/liabilities:													
Receivables, net	(8,793)	711	(1,315)	2,104	(24,268)	786	25	4,410	-	(26,340)	(70,553)	13,937	13,327
Due from other funds	-	-	(6,663)	-	754	-	-	-	-	(5,909)	(802)	-	-
Inventories	255	291	30	(6,452)	(942)	-	(40)	(20)	-	(6,878)	5,439	-	-
Deferred charges and other assets	-	-	-	(2,646)	2,742	-	3,766	-	(7)	3,855	(5,549)	(95)	(387)
Accounts payable	(4,691)	2,939	3,360	(5,193)	(6,452)	2,508	1,166	(1,079)	(13)	(7,455)	4,728	(2,101)	1,573
Accrued payroll	978	854	222	2,767	987	55	66	38	-	5,967	2,057	149	246
Accrued vacation and sick leave pay	-	733	(159)	3,051	584	168	95	187	-	4,659	3,409	771	266
Accrued workers' compensation	-	2,514	268	26,711	7,749	1,135	461	2,557	-	41,395	24,209	67	434
Estimated claims payable	-	(1,145)	(3,477)	(1,039)	3,980	(3,754)	300	-	-	(5,135)	(9,060)	-	-
Due to other funds	114	1,043	(1,200)	1,600	(8,684)	(800)	2,000	(4,532)	-	(10,459)	41,878	-	-
Deferred credits and other liabilities	7,468	(11,539)	-	1,390	(1)	-	76	(1,841)	13	(4,434)	42,482	(37,732)	(96,321)
Total adjustments	186,582	31,346	476	91,627	14,232	39,075	16,104	1,926	265	381,633	360,584	(23,566)	(78,153)
Net cash provided by (used in) operating activities	$ 239,692	$ 34,076	$ 37,256	$ (375,384)	$ (80,757)	$ 44,643	$ 11,813	$ (33,595)	$ 683	$ (121,573)	$ (99,789)	$ (24,411)	$ (79,366)
Reconciliation of cash and cash equivalents to the balance sheet:													
Deposits and investments with City Treasury:													
Unrestricted	$ 271,646	$ 189,359	$ 83,317	$ 9,110	$ 874	$ 49,007	$ 52,842	$ -	$ -	$ 656,155	$ 754,778	$ 9,105	$ 14,499
Restricted	255,301	112,680	-	45,614	-	85,356	3,859	51,492	-	554,302	601,351	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	6,764	10	-	9	1	1,164	8,008	3,508	23,155	51,732
Total deposits and investments	526,957	302,079	83,327	61,488	884	134,363	56,710	51,493	1,164	1,218,465	1,359,637	32,260	66,231
Add: Restricted deposits outside City Treasury meeting the definition of cash equivalents	-	-	-	161	-	-	10,567	100	-	10,828	15,322	-	-
Less: Deposits and investments not meeting the definition of cash equivalents	(26,694)	-	-	-	-	-	(559)	(852)	-	(28,105)	(232,755)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 500,263	$ 302,079	$ 83,327	$ 61,649	$ 884	$ 134,363	$ 66,718	$ 50,741	$ 1,164	$ 1,201,188	$ 1,142,204	$ 32,260	$ 66,231

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, 2003

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 230,173	$ -
Employer contributions	309,682	-
Contributions on pooled investments	-	1,890,091
Total contributions	539,855	1,890,091
Investment income:		
Interest	175,941	5,449
Dividends	73,415	-
Net increase in fair value of investments	171,972	-
Securities lending income	22,288	-
Fixed coupon dollar repurchase agreement income	4,197	-
Total investment income	447,813	5,449
Less investment expenses:		
Securities lending borrower rebates and expenses	(15,778)	-
Fixed coupon dollar repurchase finance charges and expenses	(3,038)	-
Other expenses	(21,454)	-
Total investment expenses	(40,270)	-
Total additions, net	947,398	1,895,540
Deductions:		
Benefit payments	811,584	-
Refunds of contributions	8,214	-
Distribution from pooled investments	-	1,972,156
Administrative expenses	10,744	-
Total deductions	830,542	1,972,156
Change in net assets	116,856	(76,616)
Net assets at beginning of year	10,454,327	300,573
Net assets at end of year	$ 10,571,183	$ 223,957

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

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

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

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

San Francisco Parking Authority (Parking Authority) – The Parking Authority was created in October 1949. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. 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. Accordingly, the assets and liabilities of the DPT were transferred from the general and other governmental funds to the MTA (Note 2(b)) which is reported as an enterprise fund. 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.

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 Ave., San Francisco, CA 94102.

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

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

Non Disclosed Organizations

There are other governmental agencies that provide services within the City and County of San Francisco. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

(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, 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. 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. Through June 30, 2002, DPT's activities were reported in the general fund, other governmental funds and the parking garages fund. The 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.

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

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

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

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

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

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, telecommunication and information system support charges, and equipment rentals of the Finance Corporation. 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 modified accrual basis of accounting except for capital project funds, and certain debt service funds which adopt project length budgets.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The 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 and data reflected in the financial statements is as follows:

Original Budget

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.

(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.

(3) By the first working day of May, the Mayor submits the Proposed Budget to the Board of Supervisors for departments that are not supported by the City's General Fund or departments that 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 appropriate Committee of the Board of Supervisors conducts hearings, obtains public comment, and reviews the Mayor's proposed annual budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim budget.

(7) Not later than the last working day of July, the Board of Supervisors adopts the annual budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

Final Budget

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

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

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make

certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

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

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors as a supplemental appropriation.

(d) Deposits and Investments

Investment in the Treasurer's Pool

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

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

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2003, $224 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 9.69%. 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, 2003 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 overdraft is reported as a due to the General Fund. Certain US government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

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

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2003, the fair value of open purchase contracts was $757.8 million, offset by the fair value of open sales contracts of ($755) million for a net fair value of $2.8 million. The Retirement System utilized contracts netting to $303.8 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to $306.6 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, 2003, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan. Non cash collateral cannot be pledged or sold unless the borrower defaults.

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

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2003 was approximately $1.8 million.

Investments in S&P 500 futures contracts are used to replicate the performance of the S&P 500 index while lowering transaction costs. Changes in market value of open contracts are immediately recognized as gains or losses. At June 30, 2003, the fair value of total open contracts was $0. Changes in market value of open contracts are immediately recognized as gains or losses.

Investments in fixed income future contracts are used to hedge two fixed income portfolios as their assigned performance benchmark is the Lehman Brothers Global Aggregate Index-Hedged. As of June 30, 2003, the market value of open contracts was $92 thousand. Changes in the market value of open contracts are immediately recognized as gains or losses.

Other funds – Non-pooled investments are also generally carried at fair value. However, money market investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less are carried at amortized cost which approximates market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

Component Unit - San Francisco Redevelopment Agency - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2003, and reflects the values as if the Agency were to liquidate the securities on that date.

Investment Income

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

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

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an 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. During the year ended June 30, 2003, re-built inventory items including motors, transmissions, and other smaller parts from MUNI coaches were included in materials and supplies inventory. Previously, the actual costs of in-house re-built inventory items were expensed as incurred. 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.

(g) Redevelopment Agency Property Held for Resale

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

(h) Capital Assets

Capital assets, which include land, facilities and 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 lease 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. 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 negotiated as part of the July 1, 2001 to June 30, 2003 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in a Memorandum of Understanding (MOU) dated July 1, 2001, between the City and the effected labor organizations. Under the terms of this MOU and the labor contracts, the Program is in effect from July 1, 2002 to 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 includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

Effective July 1, 2002, management adopted a policy to charge accrued vacation and sick leave for certain health employees to the Department of Public Health to reflect the organization's structure. Prior to July 1, 2002, accrued vacation and sick leave for these employees were charged to the General Hospital Medical Center. Due to the new policy, certain long-term liabilities were transferred from the General Hospital Medical Center enterprise fund which is reported within business-type activities to governmental activities.

(j) Bond Issuance Costs, Premiums, and Discounts

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

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

(k) Fund Equity

Reservations of Fund Equity

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

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

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

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

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

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

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

Reserve for subsequent years' budgets – A portion of fund 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.

Restricted Assets

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

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2003.

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

The Telecommunications and Information Internal Service Fund had a $4.6 million deficit total net assets as of June 30, 2003. Approximately $1.2 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a $1.2 million deficit as of June 30, 2003. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

(l) Interfund Transfers

Interfund transfers are generally recorded as transfers in (out) except for certain types of transactions that are described below.

(1) Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund at the end of the fiscal year.

(2) Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

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

(n) Cash Flows

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

(o) Estimates

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

(p) Reclassifications

Certain amounts presented as 2002 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2003 basic financial statements.

(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, $883,338, differs from net assets of governmental activities, $1,312,822, 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)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 705,002	$ -	$ 9,105	$ -	$ 714,107
Deposits and investments outside City Treasury	130,183	-	23,155	-	153,338
Receivables, net:					
Property taxes and penalties	30,749	-	-	-	30,749
Other local taxes	160,415	-	-	-	160,415
Federal and state grants and subventions	220,082	-	-	-	220,082
Charges for services	18,041	-	-	-	18,041
Interest and other	7,670	-	461	-	8,131
Due from other funds	82,395	-	-	(82,395)	-
Due from component unit	11,720	-	-	-	11,720
Loans receivable, net	198,966	-	-	-	198,966
Capital assets, net	-	2,205,571	2,620	-	2,208,191
Deferred charges and other assets	8,056	8,424	3,614	-	20,094
Total assets	1,573,279	2,213,995	38,955	(82,395)	3,743,834
Liabilities					
Accounts payable	131,785	-	4,713	-	136,498
Accrued payroll	85,900	-	2,464	-	88,364
Accrued vacation and sick leave pay	-	125,306	3,587	-	128,893
Accrued workers' compensation	-	194,021	1,079	-	195,100
Estimated claims payable	-	58,333	-	-	58,333
Accrued interest payable	-	6,199	1,095	-	7,294
Deferred tax, grant and subvention revenues	40,365	(39,199)	-	-	1,166
Due to other funds/internal balances	115,805	-	48	(82,395)	33,458
Deferred credits and other liabilities	316,086	(209,769)	1,359	-	107,676
Bonds, loans, capital leases, and other payables	-	1,419,471	254,759	-	1,674,230
Total liabilities	689,941	1,554,362	269,104	(82,395)	2,431,012
Fund balances/net assets					
Total fund balances/net assets	883,338	659,633	(230,149)	-	1,312,822
Total liabilities and fund balances/net assets	$ 1,573,279	$ 2,213,995	$ 38,955	$ (82,395)	$ 3,743,834

(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	$ 2,708,976
Accumulated depreciation	(503,405)
	$ 2,205,571

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. $ 8,424

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	$ (125,306)
Accrued workers' compensation	(194,021)
Estimated claims payable	(58,333)
Bonds, loans, capital leases, and other payables	(1,419,471)
	$ (1,797,131)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (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 (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	$ 39,199
Deferred credits and other liabilities	209,769
	$ 248,968

(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. $ (230,149)

(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, ($365,624), differs from the change in net assets for governmental activities ($162,199) reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities (in thousands)

	Total Governmental Funds	Long-term Revenues/ Expenses (3)	Capital-related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues						
Property taxes	$ 686,154	$ 704	$ -	$ -	$ -	$ 686,858
Business taxes	276,651	-	-	-	-	276,651
Other local taxes	450,677	-	-		-	450,677
Licenses, permits and franchises	21,648	-	-	-	-	21,648
Fines, forfeitures and penalties	9,000	-	-	-	-	9,000
Interest and investment income	25,570	-	-	762	-	26,332
Rents and concessions	55,369	-	-	-	-	55,369
Intergovernmental:						
Federal	320,254	-	-	-	-	320,254
State	690,271	-	-	-	-	690,271
Other	24,623	-	-	-	-	24,623
Charges for services	221,883	-	-	-	-	221,883
Other revenues	27,092	-	-	-	-	27,092
Total revenues	2,809,192	704	-	762	-	2,810,658
Expenditures/Expenses						
Current:						
Public protection	734,811	37,204	10,971	(4,276)	-	778,710
Public works, transportation and commerce	267,034	13,928	15,589	(8,641)	-	287,910
Human welfare and neighborhood development	670,670	(44,832)	535	(67)	-	626,306
Community health	524,771	17,047	998	(336)	-	542,480
Culture and recreation	252,477	3,034	10,824	4,206	(28,143)	242,398
General administration and finance	163,748	9,173	13,330	(107)	-	186,144
General City responsibilities	53,323	(3,135)	-	2,433	405	53,026
Debt service:						
Principal retirement	100,902	-	-	-	(100,902)	-
Interest and fiscal charges	64,243	-	-	4,333	9,251	77,827
Bond issuance costs	1,646	-	-	-	(1,646)	-
Capital outlay	248,928	-	(248,928)	-	-	-
Total expenditures/expenses	3,082,553	32,419	(196,681)	(2,455)	(121,035)	2,794,801
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(197,416)	10,361	(28,964)	197	36,831	(178,991)
Issuance of bonds and loans						
Face value of bonds issued	71,310	-	-	-	(71,310)	-
Premium on issuance of bonds	323	-	-	-	(323)	-
Other Financing sources - capital leases	32,585	-	-	-	(32,585)	-
Other	935	-	-	-	-	935
Total other financing sources (uses)/changes in net assets	(92,263)	10,361	(28,964)	197	(67,387)	(178,056)
Net change for the year	$ (365,624)	$ (21,354)	$ 167,717	$ 3,414	$ 53,648	$ (162,199)

(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. $ 704

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. $ (50,667)

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenses are not reported in the statement of activities. 18,248

$ (32,419)

(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	$ 252,456
Depreciation expenses	(51,855)
Loss on disposal of capital assets	(3,920)
Difference	$ 196,681

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. $ 3,414

(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 the lessee.

Total property rent payments	$ 28,143

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

Bond issuance costs	$ 1,646
Amortization of bond issuance costs	(405)
Difference	$ 1,241

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period: $ (323)

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	$ 100,902

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	(29,345)
Certificate of participation	(41,965)
	(71,310)
Capital leases	(32,585)
	$ (2,993)

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 expended within the fund statements, and (3) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

Reduction in accrued interest	$ 1,917
Increase in accreted interest on capital lease obligations	(11,255)
Amortization of bond premiums, discounts and refunding losses	(380)
Reduction in arbitrage rebate liability	467
	$ (9,251)

(3,4,6) During the current fiscal year, certain long-term assets and liabilities were transferred from governmental activities to the Municipal Transportation Agency enterprise fund which is reported within business-type activities. This is the amount by which the long-term liabilities transferred exceeded the corresponding long-term capital assets.

Long-term debt transferred	$ 36,831
Capital assets transferred	$ (28,964)
Other long-term liabilities transferred	$ 14,033

(3) During the current fiscal year, certain long-term liabilities were transferred from the General Hospital Medical Center enterprise fund which is reported in the business-type activities to governmental activities. This is the amount by which the long-term liabilities increased in governmental activities. (3,672)

$ 10,361

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

Budgetary Results Reconciliation

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

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

(a) Basis differences

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

(b) Timing differences

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

The fund balances as of June 30, 2003 on a Budget basis are reconciled to the fund balances on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis	$207,167
Unrealized gain on investments	3,266
Deferred charges and assets not available for appropriation	6,768
Cumulative excess property tax revenues recognized on a Budget basis	(20,889)
Fund balance - GAAP basis	$196,312

General Fund Budget basis fund balance at June 30, 2003 is composed of the following (in thousands):

Reserved for cash requirements	$55,139	
Reserved for emergencies	4,198	
Reserved for encumbrances	43,195	
Reserved for appropriation carryforward	26,880	
Reserved for subsequent years' budgets:		
Reserved for budget incentive program	4,018	
Reserved for salaries and benefits (MOU)	4,421	
Reserved for nurses' childcare (MOU)	1,100	
Reserved for litigation	4,364	
Reserved for Recreation & Park savings	1,511	
Total reserved amounts		$144,826
Designated for litigation and contingencies	14,490	
Unreserved – available for appropriation	47,851	
Total unreserved amounts		62,341
Fund Balance, June 30, 2003 - Budget basis		$207,167

Of the $47.9 million unreserved-available for appropriation, $47.1 million has been subsequently appropriated as part of the General Fund budget for fiscal year 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, 2003, 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.

Component Units

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

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

Deposits and investments

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 714,107 [1]	$ 656,155	$ 386,355 [2]	$ 1,756,617	$ 4,250
Deposits and investments outside City Treasury	153,338 [3]	8,008	11,140,545	11,301,891	230,276
Restricted assets:					
Deposits and investments with City Treasury	-	554,302	-	554,302	-
Deposits and investments outside City Treasury	-	354,896	-	354,896	218,492
Invested securities lending collateral	-	-	1,107,990	1,107,990	-
Total deposits and investments	$ 867,445	$ 1,573,361	$ 12,634,890	$ 15,075,696	$ 453,018
Deposits	$ (13,219)	$ 5,000	$ 9,252	$ 1,033	$ 35,590
Investments	880,664	1,568,361	12,625,638	15,074,663	417,428
Total deposits and investments	$ 867,445	$ 1,573,361	$ 12,634,890	$ 15,075,696	$ 453,018

[1] Includes deposits and investments with the City Treasury of total governmental funds ($705,002) and internal service funds ($9,105).
[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($75,943), investment trust fund ($223,074) and agency funds ($87,338).
[3] Includes deposits and investments outside the City Treasury of total governmental funds ($130,183) and internal service funds ($23,155).

Cash and Deposits

The City had cash and deposits at June 30, 2003, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 3,866	$ -	$ 831	$ -	$ 1,005	$ -	$ 1	$ -
Federally insured deposits	500	500	1,155	1,154	-	-	334	1,164
Collateralized deposits *	(18,067)	84,362	170	50	-	-	35,255	35,255
Uninsured and uncollateralized	482	482	2,844	2,790	8,247	8,247	-	-
	$ (13,219)	$ 85,344	$ 5,000	$ 3,994	$ 9,252	$ 8,247	$ 35,590	$ 36,419

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2003, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $102 million. Of the $102 million of outstanding checks, $38.8 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

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

The $11.6 million of uncollateralized cash outlined above consists of $8.2 million of cash held on behalf of the Employees' Retirement System by a third party trustee, $0.13 million, $1.5 million, $1 million, $0.19 million, $0.48 million, of cash held on behalf of Port Commission, MTA, Market Corporation, Laguna Honda Hospital, and the Social Services Corporation, respectively, by third party trustees.

Investments

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

Category 1 - includes investments that are insured or registered or securities held by the City or its agent in the City's name;

Category 2 - includes uninsured and unregistered investments, with the securities held by counterparty's trust department or agent in the City's name;

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

At June 30, 2003, investments included the following (in thousands):

Type of Investment	Category 1	Category 2	Category 3	Carrying value
Primary Government including Pension and Investment Trust Funds				
Investments in City Treasury:				
U.S. government securities	$ 1,593,898	$ -	$ -	$ 1,593,898
Federal agencies	228,027	-	-	228,027
Negotiable certificates of deposit	516,049	-	-	516,049
Total Investments in City Treasury	2,337,974	-	-	2,337,974
Employees' Retirement System (ERS):				
U.S. government securities	292,384	-	2,129	294,513
Short term bills and notes	18,200	-	57,295	75,495
Debt securities	1,092,143	-	87,711	1,179,854
Equity securities	3,717,602	-	-	3,717,602
Total categorized investments	5,120,329	-	147,135	5,267,464
Non-categorized investments:				
Mortgage backed securities				447,358
Fixed interest mutual funds				483,502
Equity investments, inlcuding mutual funds				567,351
Real estate				953,533
Venture capital				1,249,167
Money market mutual funds				1,085,987
Forward currency contracts				2,802
Investment in lending agents' short-term Investment pool				1,107,990
Investments lent to broker-dealers				1,074,129
Total non-categorized investments				6,971,819
Total Employees' Retirement System				12,239,283
Other Funds:				
U.S. government securities	56,049	4,433	407,675	468,157
Total categorized investments	56,049	4,433	407,675	468,157
Non-categorized investments:				
Money market mutual funds				29,249
Total Other Funds				497,406
Total Primary Government including Pension and Investment Trust Funds	$ 7,514,352	$ 4,433	$ 554,810	$ 15,074,663
Component Units - Redevelopment Agency				
U.S. government securities and Federal agencies	$ 17,857	$ 57,802	$ 108,283	$ 183,942
Bankers' acceptances	-	18,186	-	18,186
Commercial paper	-	10,774	-	10,774
Repurchase agreements	-	-	1,717	1,717
Total categorized investments	17,857	86,762	110,000	214,619
Non-categorized investments:				
Guaranteed investment contracts				34,220
Local agency investment fund				123,657
Money market mutual funds				40,682
Total non-categorized investments				198,559
Total Redevelopment Agency				413,178
Treasure Island Development Authority				
Investments in City Treasury:				
U.S. government securities	4,250	-	-	4,250
Total Treasure Island Development Authority	4,250	-	-	4,250
Total Component Units	$ 22,107	$ 86,762	$ 110,000	$ 417,428

The types of investments made during the year were substantially the same as those held as of June 30, 2003. 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, 2003 (in thousands):

Interest and dividends, net of amounts capitalized	$ 354,692
Net increase in the fair value of investments	152,478
Total investment gain	$507,170

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 the fair value of pension investments.

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2003 was 2.766%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2003 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants.......	$ 2,315,169
Equity of internal pool participants..........................	$ 2,091,212
Equity of external pool participants.........................	223,957
Total equity...	$ 2,315,169
Statement of Changes in Net Assets	
Net assets at July 1, 2002.......................................	$ 2,885,772
Net change in investments by pool participants.......	(570,603)
Net assets at June 30, 2003...............................	$ 2,315,169

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2003 (in thousands):

Type of Investment	Rates	Maturities	Par Value	Carrying Value
US government securities.........	1.00% - 7.52%	7/03/03 - 11/15/06	$ 1,587,005	$ 1,598,148
Federal agencies........................	0.85% - 1.33%	7/08/03 - 11/04/03	229,000	228,027
Certificate of deposits................	0.90% - 1.24%	7/01/03 - 08/12/03	516,000	516,049
			$ 2,332,005	2,342,224
Carrying amount of deposits in Treasurer's Pool....................................				(27,055)
Total cash and investments in Treasurer's Pool.....................................				$ 2,315,169

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

Supplemental disclosure of non-cash investing and financing activities

San Francisco International Airport

During fiscal year 2003, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 29 to refund previously issued debt. Proceeds from Issue 29 in the amount of $161.5 million were deposited immediately into irrevocable trusts for the defeasance of $157.1 million of Second Series Revenue Bonds.

Bond issuance costs of $2.4 million that was deducted from the proceeds of the Second Series Revenue Bonds was capitalized and will be amortized over the debt repayment period.

Clean Water Program

During fiscal year 2003, the CWP issued 2003 Refunding Bonds Series A (Refunding Bonds) to refund previously issued debt. The $383.3 million in proceeds was deposited immediately into irrevocable trusts for the defeasance of $394.4 million of Revenue Bonds and $6.9 million of current interest. Of the total debt refunded, $363.9 million was done so with proceeds from the Refunding Bonds and $30.5 million was done so with available debt service funds held by the CWP.

Bond issuance costs of $3.4 million that was deducted from the proceeds of the Refunding Bonds was capitalized and will be amortized over the debt repayment period.

Water Department

During fiscal year 2003, the Water Department issued Water Revenue Refunding Bonds Series B (Refunding Bonds) to refund previously issued debt. The $88.9 million in proceeds was deposited immediately into irrevocable trusts for the defeasance of $92.1 million of Water Revenue Refunding Bonds and $1.5 million of current interest. Of the total debt refunded, $85.7 million was done so with proceeds from the Refunding Bonds and $6.4 million was done so with available debt service funds held by the Water Department.

Bond issuance costs of $2.3 million that were deducted from the proceeds of the Water Revenue Refunding Bonds 2002 Series A and the Refunding Bonds were capitalized and will be amortized over the debt repayment period

Municipal Transportation Agency and Parking Garages

In conjunction with the incorporation of the DPT (including the Parking Garages) into the MTA, $66.5 million (including $59.9 million from the Parking Garages) of net assets, were transferred into the MTA.

Other Non Cash Transactions

	General Hospital Medical Center	Port of San Francisco	Laguna Honda Hospital	Total 2003	Total 2002
Loss on abandonment of property and equipment....................................	$ -	$ 119	$ -	$ 119	$ 259
Acquisition of capital assets on accounts payable and capital leases....	754	473	389	1,616	3,151
	$ 754	$ 592	$ 389	$ 1,735	$ 3,410

(6) PROPERTY TAXES

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

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

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. These "override" taxes for debt service amounted to approximately $102.3 million for the year ended June 30, 2003, of which $2.8 million was for the San Francisco Community College District (CCD).

Taxable valuation for the year ended June 30, 2003 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $90.3 billion, an increase of 6.8%. The secured tax rate was $1.117 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, $0.117 for bond debt service, and $0.350 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 1.96% and 4.94%, respectively, of the current year tax levy, for an average delinquency rate of 2.21% 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, 2003 was $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 *(Continued)*
June 30, 2003

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2003, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 139,534	$ 9,838	$ (7,764)	$ 141,608
Construction in progress	576,490	239,998	(600,830)	215,658
Total capital assets, not being depreciated	716,024	249,836	(608,594)	357,266
Capital assets, being depreciated:				
Facilities and improvements	1,571,321	479,114	(34,454)	2,015,981
Machinery and equipment	231,222	39,990	(38,749)	232,463
Infrastructure	23,663	108,145	-	131,808
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	1,831,022	627,249	(73,203)	2,385,068
Less accumulated depreciation for:				
Facilities and improvements	347,702	28,017	(15,907)	359,812
Machinery and equipment	153,613	24,666	(8,715)	169,564
Infrastructure	-	487	-	487
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	505,595	53,170	(24,622)	534,143
Total capital assets, being depreciated, net	1,325,427	574,079	(48,581)	1,850,925
Governmental activities capital assets, net	$ 2,041,451	$ 823,915	$ (657,175)	$ 2,208,191

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	777,739	152,879	(823,651)	106,967
Total capital assets, not being depreciated	780,055	152,879	(823,651)	109,283
Capital assets, being depreciated:				
Facilities and improvements	3,827,200	778,066	(539)	4,604,727
Machinery and equipment	70,480	1,239	(1,479)	70,240
Easements	132,939	3,286	(4,377)	131,848
Total capital assets, being depreciated	4,030,619	782,591	(6,395)	4,806,815
Less accumulated depreciation for:				
Facilities and improvements	715,221	135,100	(310)	850,011
Machinery and equipment	49,664	6,707	(1,418)	54,953
Easements	33,308	6,487	-	39,795
Total accumulated depreciation	798,193	148,294	(1,728)	944,759
Total capital assets, being depreciated, net	3,232,426	634,297	(4,667)	3,862,056
Capital assets, net	$ 4,012,481	$ 787,176	$ (828,318)	$ 3,971,339

Water Department

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 18,083	$ 29	$ -	$ 18,112
Construction in progress	103,385	128,129	(114,201)	117,313
Total capital assets, not being depreciated	121,468	128,158	(114,201)	135,425
Capital assets, being depreciated:				
Facilities and improvements	790,817	76,870	(3,942)	863,745
Machinery and equipment	66,950	29,422	(691)	95,681
Total capital assets, being depreciated	857,767	106,292	(4,633)	959,426
Less accumulated depreciation for:				
Facilities and improvements	306,986	24,844	-	331,830
Machinery and equipment	47,754	6,586	(656)	53,684
Total accumulated depreciation	354,740	31,430	(656)	385,514
Total capital assets, being depreciated, net	503,027	74,862	(3,977)	573,912
Capital assets, net	$ 624,495	$ 203,020	$ (118,178)	$ 709,337

Hetch Hetchy Water and Power

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	18,461	53,397	(14,194)	57,664
Total capital assets, not being depreciated	22,676	53,397	(14,194)	61,879
Capital assets, being depreciated:				
Facilities and improvements	391,023	11,130	-	402,153
Machinery and equipment	35,618	1,383	(89)	36,912
Total capital assets, being depreciated	426,641	12,513	(89)	439,065
Less accumulated depreciation for:				
Facilities and improvements	217,733	8,063	-	225,796
Machinery and equipment	22,926	1,509	(85)	24,350
Total accumulated depreciation	240,659	9,572	(85)	250,146
Total capital assets, being depreciated, net	185,982	2,941	(4)	188,919
Capital assets, net	$ 208,658	$ 56,338	$ (14,198)	$ 250,798

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

Municipal Transportation Agency

	Balance July 1, 2002	Increases*	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 18,481	$ 7,764	$ -	$ 26,245
Construction in progress	291,645	188,728	(290,184)	190,189
Total capital assets, not being depreciated	310,126	196,492	(290,184)	216,434
Capital assets, being depreciated:				
Facilities and improvements	231,967	142,971	-	374,938
Machinery and equipment	814,000	252,394	(23,501)	1,042,893
Infrastructure	646,276	46,753	-	693,029
Total capital assets, being depreciated	1,692,243	442,118	(23,501)	2,110,860
Less accumulated depreciation for:				
Facilities and improvements	81,413	33,794	-	115,207
Machinery and equipment	195,944	49,292	(22,254)	222,982
Infrastructure	165,148	21,386	-	186,534
Total accumulated depreciation	442,505	104,472	(22,254)	524,723
Total capital assets, being depreciated, net	1,249,738	337,646	(1,247)	1,586,137
Capital assets, net	$ 1,559,864	$ 534,138	$ (291,431)	$ 1,802,571

* The increases include the transfers of DPT and Parking Garages beginning balances.

General Hospital Medical Center

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	2,918	492	(1,083)	2,327
Total capital assets, not being depreciated	3,460	492	(1,083)	2,869
Capital assets, being depreciated:				
Facilities and improvements	123,434	1,230	-	124,664
Machinery and equipment	41,757	3,774	-	45,531
Total capital assets, being depreciated	165,191	5,004	-	170,195
Less accumulated depreciation for:				
Facilities and improvements	74,898	4,211	-	79,109
Machinery and equipment	32,030	2,221	-	34,251
Total accumulated depreciation	106,928	6,432	-	113,360
Total capital assets, being depreciated, net	58,263	(1,428)	-	56,835
Capital assets, net	$ 61,723	$ (936)	$ (1,083)	$ 59,704

Clean Water Program

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 22,445	$ -	$ (277)	$ 22,168
Construction in progress	10,613	14,971	(17,060)	8,524
Total capital assets, not being depreciated	33,058	14,971	(17,337)	30,692
Capital assets, being depreciated:				
Facilities and improvements	1,901,865	14,965	-	1,916,830
Machinery and equipment	22,141	1,342	(39)	23,444
Total capital assets, being depreciated	1,924,006	16,307	(39)	1,940,274
Less accumulated depreciation for:				
Facilities and improvements	588,428	36,969	-	625,397
Machinery and equipment	18,251	1,400	(39)	19,612
Total accumulated depreciation	606,679	38,369	(39)	645,009
Total capital assets, being depreciated, net	1,317,327	(22,062)	-	1,295,265
Capital assets, net	$ 1,350,385	$ (7,091)	$ (17,337)	$ 1,325,957

Port of San Francisco

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 119,512	$ -	$ -	$ 119,512
Construction in progress	18,784	12,941	(9,016)	22,709
Total capital assets, not being depreciated	138,296	12,941	(9,016)	142,221
Capital assets, being depreciated:				
Facilities and improvements	249,828	7,300	(7,007)	250,121
Machinery and equipment	11,480	1,571	(174)	12,877
Total capital assets, being depreciated	261,308	8,871	(7,181)	262,998
Less accumulated depreciation for:				
Facilities and improvements	149,870	7,341	(6,888)	150,323
Machinery and equipment	6,102	1,314	(175)	7,241
Total accumulated depreciation	155,972	8,655	(7,063)	157,564
Total capital assets, being depreciated, net	105,336	216	(118)	105,434
Capital assets, net	$ 243,632	$ 13,157	$ (9,134)	$ 247,655

Laguna Honda Hospital

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	22,693	20,130	(2,313)	40,510
Total capital assets, not being depreciated	23,607	20,130	(2,313)	41,424
Capital assets, being depreciated:				
Facilities and improvements	24,251	2,313	-	26,564
Machinery and equipment	12,472	139	-	12,611
Property held under lease	824	-	-	824
Total capital assets, being depreciated	37,547	2,452	-	39,999
Less accumulated depreciation for:				
Facilities and improvements	19,532	823	-	20,355
Machinery and equipment	11,413	231	-	11,644
Property held under lease	515	206	-	721
Total accumulated depreciation	31,460	1,260	-	32,720
Total capital assets, being depreciated, net	6,087	1,192	-	7,279
Capital assets, net	$ 29,694	$ 21,322	$ (2,313)	$ 48,703

Other Fund - Parking Garages and San Francisco Market Corporation

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Construction in progress	$ 22,159	$ -	$ (22,159)	$ -
Total capital assets, not being depreciated	22,159	-	(22,159)	-
Capital assets, being depreciated:				
Facilities and improvements	84,002	134	(74,664)	9,472
Machinery and equipment	3,949	-	(3,924)	25
Total capital assets, being depreciated	87,951	134	(78,588)	9,497
Less accumulated depreciation for:				
Facilities and improvements	15,114	263	(11,387)	3,990
Machinery and equipment	104	-	(104)	-
Total accumulated depreciation	15,218	263	(11,491)	3,990
Total capital assets, being depreciated, net	72,733	(129)	(67,097)	5,507
Capital assets, net	$ 94,892	$ (129)	$ (89,256)	$ 5,507

Total Business-type Activities

	Balance July 1, 2002	Increases*	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	$ 186,508	$ 7,793	$ (277)	$ 194,024
Construction in progress	1,268,397	571,667	(1,293,861)	546,203
Total capital assets, not being depreciated	1,454,905	579,460	(1,294,138)	740,227
Capital assets, being depreciated:				
Facilities and improvements	7,624,387	1,034,979	(86,152)	8,573,214
Machinery and equipment	1,078,847	291,264	(29,897)	1,340,214
Infrastructure	646,276	46,753	-	693,029
Property held under lease	824	-	-	824
Easements	132,939	3,286	(4,377)	131,848
Total capital assets, being depreciated	9,483,273	1,376,282	(120,426)	10,739,129
Less accumulated depreciation for:				
Facilities and improvements	2,169,195	251,408	(18,585)	2,402,018
Machinery and equipment	384,188	69,260	(24,731)	428,717
Infrastructure	165,148	21,386	-	186,534
Property held under lease	515	206	-	721
Easements	33,308	6,487	-	39,795
Total accumulated depreciation	2,752,354	348,747	(43,316)	3,057,785
Total capital assets, being depreciated, net	6,730,919	1,027,535	(77,110)	7,681,344
Business-type activities capital assets, net	$ 8,185,824	$ 1,606,995	$ (1,371,248)	$ 8,421,571

* The increases include the transfers of DPT and Parking Garages beginning balances.

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

Governmental Activities:	
Public protection	$ 11,035
Public works transportation and commerce	13,965
Human welfare and neighborhood development	540
Community Health	857
Culture and recreation	12,070
General administration and finance	13,388
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	1,315
Total depreciation expense - governmental activities	$ 53,170
Business-type activities:	
Airport	148,294
Water	31,430
Power	9,572
Transit	69,221
Hospitals	7,692
Sewer	38,369
Port	8,655
Market	263
Total depreciation expense - business-type activities	$ 313,496

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 of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.5 billion as of June 30, 2003. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled $4.5 million at June 30, 2003.

During the fiscal year ended June 30, 2003, in conjunction with the incorporation of the DPT into the MTA enterprise fund, net capital assets were transferred from governmental activities and the parking garages enterprise fund to the MTA enterprise fund in the amounts of $29 million and $89.2 million, respectively.

During the fiscal year ended June 30, 2003, the City's enterprise funds incurred total interest expense and interest income of approximately $292.7 million and $50.3 million, respectively. Of these amounts, interest expense and interest income of approximately $45 million and $0.1 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately $44.9 million was capitalized into capital assets.

During fiscal year ended June 30, 2003, Water, Hetch Hetchy, and CWP expensed $18.3 million, $2.5 million, $2.2 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.

During the fiscal year ended June 30, 2003, the City's board of supervisors suspended all activities of the Airfield Development Bureau (ADB) relating to the evaluation, planning, design, and construction of any future runway and configuration project of the Airport. As a result, of approximately $80 million of costs incurred to date and capitalized under the ADB program, the Airport expensed $37 million of costs. The expensed items were primarily related to industry forecasting tasks, legal services, public relations, and program management. 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, 2003 was as follows (in thousands):

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, not being depreciated:				
Property held under lease	$ 64,150	$ 13,462	$ -	$ 77,612
Construction in progress	648	6,924	-	7,572
Total capital assets not being depreciated	64,798	20,386	-	85,184
Capital assets, being depreciated:				
Facilities and improvements	135,608	1,604	-	137,212
Leasehold improvements	21,602	-	-	21,602
Machinery and equipment	7,606	121	-	7,727
Total capital assets being depreciated	164,816	1,725	-	166,541
Less accumulated depreciation and amortization for:				
Facilities and improvements	25,492	3,410	-	28,902
Leasehold improvements	6,490	432	-	6,922
Machinery and equipment	6,266	497	-	6,763
Total accumulated depreciation and amortization	38,248	4,339	-	42,587
Total capital assets being depreciated, net	126,568	(2,614)	-	123,954
Redevelopment Agency capital assets, net	$ 191,366	$ 17,772	$ -	$ 209,138

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

The following is a summary of long-term obligations of the City as of June 30, 2003 (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%	$ 90,830
City hall improvement project	2007	4.875 to 5.125%	11,545
Fire protection	2006	5.1 to 5.3%	1,890
Library	2022	2.5 to 7.0%	38,980
Museums	2019	5.1 to 5.5%	17,925
Parks and playgrounds	2021	3.5 to 6.5%	62,625
Public safety improvements	2014	5.1 to 5.5%	6,535
Schools	2020	4.25 to 6.5%	120,265
Zoo facilities	2022	2.5 to 6.5%	36,530
Refunding	2016	3.0 to 5.75%	472,500
General obligation bonds - governmental activities			859,625
LEASE REVENUE BONDS:			
San Francisco Finance Corporation* (b) & (e)	2030	2.0 to 5.5%	252,035
Lease revenue bonds - governmental activities			252,035
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c)	2034	3.0 to 5.875%	296,135
Loans (c) & (f)	2012	4.5 to 6.7%	9,278
Capital leases payable (c) & (f)	2024	2.0 to 8.5%	212,649
Settlement Obligation Bonds (d)	2011	3.0 to 4.0%	49,470
Accrued vacation and sick leave (d) & (f)			128,893
Accrued workers' compensation (d) & (f)			195,100
Estimated claims payable (d) & (f)			58,333
Other long-term obligations - governmental activities			949,858
DEFERRED AMOUNTS:			
Bond issuance premiums			3,852
Bond issuance discounts			(2,737)
Bond refunding			(6,077)
Deferred amounts			(4,962)
Governmental activities total long-term obligations			$ 2,056,556

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

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

*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, 2003 was 1.72%.

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%	$ 4,270,600
Water Department:			
Revenue bonds	2032	2.5 to 7.4%	514,370
Accreted interest			2,396
Hetch Hetchy Water and Power:			
Notes, loans and other payables	2010	3%	971
Municipal Transportation Agency:			
Municipal Railway			
Capital leases	2005	3.43%	331
Parking and Traffic			
Revenue bonds	2020	4 to 5%	23,045
Lease revenue bonds	2022	3.5 to 6%	12,355
Capital leases	2006	2.25 to 4.87%	810
Notes, loans and other payables*	2010	3.0 to 5.25%	26,511
Downtown Parking - parking revenue refunding bonds	2018	3.0 to 5.375%	12,740
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%	19,000
General Hospital Medical Center:			
Capital leases	2007	3.0 to 3.8%	2,779
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%	165,125
Port of San Francisco:			
General Obligation Bonds -			
City and County of San Francisco	2005	6.30%	800
Revenue bonds	2010	5.0 to 9.0%	30,690
Notes, loans and other payables	2029	4.50%	3,510
Capital leases	2005	6.31%	68
Laguna Honda Hospital:			
Capital leases	2003	5.40%	222
Accrued vacation and sick leave			70,629
Accrued workers' compensation			169,156
Estimated claims payable			34,971
Deferred Amounts:			
Bond issuance premiums			46,226
Bond issuance discounts			(22,579)
Bond refunding			(77,354)
Business-type activities total long-term obligations			$ 5,709,107

*Includes an unamortized loan premium of $1.4 million for DPT.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective Enterprise Funds.

COMPONENT UNIT

Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2024	2.0 to 8.5%	$ 187,210
Hotel Tax Revenue Bonds (b)	2025	4.1 to 6.75%	72,515
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2025	3.0 to 8.3%	438,536
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.05 % at 6/30/03)	11,500
Less deferred amounts:			
Bond issuance premiums			8,232
Refunding loss			(213)
Sub-total			717,780
California Department of Boating and Waterways Loan (e)	2037	4.50%	8,000
Accreted interest payable			159,478
Accrued vacation and sick leave pay			2,900
Component unit total long-term obligations			$ 888,158

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, 2003, the City's debt limit (3% of valuation subject to taxation) was $2.8 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 $2.0 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 $1.6 million as of June 30, 2003. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation had an independent consultant perform a separate calculation on their lease revenue bonds and a liability of $1.4 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2003. Each Enterprise Fund has performed a similar analysis of its debt which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued $1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 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. During the fiscal year 2003, the City issued multifamily housing revenue bonds in the amount of $31.3 million and single-family mortgage revenue draw down bonds in the amount of $24.1 million. As of June 30, 2003, the aggregate outstanding obligation of such bonds was $138.6 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2003, are as follows (in thousands):

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 917,220	$ 29,345	$ (86,940)	$ 859,625	$ 64,155
Lease revenue bonds	293,810	10,975	(52,750)	252,035	15,885
Certificates of participation	259,360	41,965	(5,190)	296,135	5,500
Settlement obligation bond	54,820	-	(5,350)	49,470	5,510
Less deferred amounts:					
For issuance premiums	3,805	417	(370)	3,852	-
For issuance discounts	(2,840)	-	103	(2,737)	-
On refunding	(6,670)	-	593	(6,077)	-
Total bonds payable	1,519,505	82,702	(149,904)	1,452,303	91,050
Loans	13,007	-	(3,729)	9,278	1,824
Capital leases	226,541	79,092	(92,984)	212,649	15,123
Accrued vacation and sick leave pay	121,960	79,990	(73,057)	128,893	63,836
Accrued workers' compensation	176,777	49,090	(30,767)	195,100	41,059
Estimated claims payable	41,445	30,533	(13,645)	58,333	18,855
Governmental activities long-term obligations	$ 2,099,235	$ 321,407	$ (364,086)	$ 2,056,556	$ 231,747

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ending June 30, 2003, $252 million of lease revenue bonds, $2 million of capital leases, $0.6 million of loans, $3.6 million of accrued vacation and sick leave pay and $1.1 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2003, are as follows (in thousands):

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,323,005	$ 156,975	$ (209,380)	$ 4,270,600	$ 70,630
Less deferred amounts:					
For issuance premiums	7,836	7,457	196	15,489	-
For issuance discounts	(20,537)	-	591	(19,946)	-
On refunding	(39,246)	(5,714)	3,767	(41,193)	-
Total bonds payable	4,271,058	158,718	(204,826)	4,224,950	70,630
Accrued vacation and sick leave pay	10,945	957	(745)	11,157	5,757
Accrued workers' compensation	5,403	2,393	(2,037)	5,759	1,305
Estimated claims payable	459	77	(77)	459	209
Long-term obligations	$ 4,287,865	$ 162,145	$ (207,685)	$ 4,242,325	$ 77,901

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2003, are as follows (in thousands) - continued:

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
Water Department					
Bonds payable:					
Revenue bonds	$ 362,604	$ 249,260	$ (97,494)	$ 514,370	$ 13,345
Less deferred amounts:					
For issuance premiums	755	6,650	(227)	7,178	-
For issuance discounts	(4,693)	2,160	(100)	(2,633)	-
On refunding	(4,162)	(4,673)	470	(8,365)	-
Total bonds payable	354,504	253,397	(97,351)	510,550	13,345
Accreted interest payable	2,237	159	-	2,396	-
Commercial paper	90,000	-	(90,000)	-	-
Accrued vacation and sick leave pay	7,084	5,836	(5,103)	7,817	3,894
Accrued workers' compensation	7,307	5,428	(2,914)	9,821	2,074
Estimated claims payable	4,968	82	(1,227)	3,823	1,025
Long-term obligations	$ 466,100	$ 264,902	$ (196,595)	$ 534,407	$ 20,338
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ -	$ 971	$ -	$ 971	$ 103
Accrued vacation and sick leave pay	1,744	754	(913)	1,585	880
Accrued workers' compensation	1,625	568	(300)	1,893	384
Estimated claims payable	3,620	-	(3,477)	143	38
Long-term obligations	$ 6,989	$ 2,293	$ (4,690)	$ 4,592	$ 1,405
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ -	$ 79,930	$ (19,680)	$ 60,250	$ 920
Lease revenue bonds	-	13,245	(890)	12,355	1,840
Less deferred amounts:					
For issuance premiums	-	945	(37)	908	-
Total bonds payable	-	94,120	(20,607)	73,513	2,760
Notes, loans, and other payables	-	28,620	(2,109)	26,511 *	3,342
Capital leases	-	1,656	(515)	1,141	603
Accrued vacation and sick leave pay	20,983	21,203	(18,152)	24,034	13,857
Accrued workers' compensation	82,342	49,326	(22,615)	109,053	24,841
Estimated claims payable	29,911	4,775	(7,014)	27,672	10,754
Long-term obligations	$ 133,236	$ 199,700	$ (71,012)	$ 261,924	$ 56,157

*Includes an unamortized loan premium of $1.4 million for DPT

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
General Hospital Medical Center					
Capital leases	$ 802	$ 3,054	$ (1,077)	$ 2,779	$ 787
Accrued vacation and sick leave pay	15,927	5,563	(8,651)	12,839	7,484
Accrued workers' compensation	14,675	12,728	(4,978)	22,425	5,007
Long-term obligations	$ 31,404	$ 21,345	$ (14,706)	$ 38,043	$ 13,278

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2003, are as follows (in thousands) – continued:

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
Clean Water Program					
Bonds payable:					
Revenue bonds	$ 418,809	$ 396,834	$ (419,373)	$ 396,270	$ -
Less deferred amounts:					
For issuance premiums	-	22,809	(418)	22,391	-
For issuance discounts	(4,345)	-	4,345	-	-
On refunding	(8,925)	(27,569)	9,644	(26,850)	-
Total bonds payable	405,539	392,074	(405,802)	391,811	-
State of California - Revolving fund loans	179,591	-	(14,466)	165,125	14,929
Accrued vacation and sick leave pay	3,455	2,148	(1,980)	3,623	1,986
Accrued workers' compensation	2,695	2,035	(900)	3,830	829
Estimated claims payable	4,728	-	(3,754)	974	260
Long-term obligations	$ 596,008	$ 396,257	$ (426,902)	$ 565,363	$ 18,004
Port of San Francisco					
Bonds payable:					
General obligation bonds	$ 2,000	$ -	$ (1,200)	$ 800	$ 400
Revenue bonds	34,095	-	(3,405)	30,690	3,595
Less deferred amounts:					
For issuance premiums	303	-	(43)	260	-
On refunding	(1,103)	-	157	(946)	-
Total bonds payable	35,295	-	(4,491)	30,804	3,995
Notes, loans, and other payables	3,584	-	(74)	3,510	74
Capital leases	108	-	(40)	68	44
Accrued vacation and sick leave pay	1,795	1,489	(1,394)	1,890	1,006
Accrued workers' compensation	2,470	1,205	(744)	2,931	644
Estimated claims payable	1,600	326	(26)	1,900	1,500
Long-term obligations	$ 44,852	$ 3,020	$ (6,769)	$ 41,103	$ 7,263
Laguna Honda Hospital					
Capital leases	$ 432	$ -	$ (210)	$ 222	$ 222
Accrued vacation and sick leave pay	7,495	6,050	(5,861)	7,684	4,702
Accrued workers' compensation	10,887	4,235	(1,678)	13,444	2,862
Business-type activity					
Long-term obligations	$ 18,814	$ 10,285	$ (7,749)	$ 21,350	$ 7,786
Other Fund - Parking Garages and San Francisco Market Corporation					
Bonds payable:					
Revenue bonds	$ 37,010	$ -	$ (37,010)	$ -	$ -
Less deferred amounts:					
For issuance premiums	620	-	(620)	-	-
For issuance discounts	(130)	-	130	-	-
Total bonds payable	37,500	-	(37,500)	-	-
Notes, loans, and other payables	492	-	(492)	-	-
Long-term obligations	$ 37,992	$ -	$ (37,992)	$ -	$ -

A summary of the changes in long-term obligations for each enterprise fund for the year ended June 30, 2003, are as follows (in thousands):

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 2,000	$ -	$ (1,200)	$ 800	$ 400
Revenue bonds	5,175,523	882,999	(786,342)	5,272,180	88,490
Lease revenue bonds	-	13,245	(890)	12,355	1,840
Less deferred amounts:					
For issuance premiums	9,514	37,861	(1,149)	46,226	-
For issuance discounts	(29,705)	2,160	4,966	(22,579)	-
On refunding	(53,436)	(37,956)	14,038	(77,354)	-
Total bonds payable	5,103,896	898,309	(770,577)	5,231,628	90,730
Accreted interest payable	2,237	159	-	2,396	-
Commercial paper	90,000	-	(90,000)	-	-
State of California - Revolving fund loans	179,591	-	(14,466)	165,125	14,929
Notes, loans, and other payables	4,076	29,591	(2,675)	30,992	3,519
Capital leases	1,342	4,710	(1,842)	4,210	1,656
Accrued vacation and sick leave pay	69,428	44,000	(42,799)	70,629	39,566
Accrued workers' compensation	127,404	77,918	(36,166)	169,156	37,946
Estimated claims payable	45,286	5,260	(15,575)	34,971	13,786
Business-type activities long term obligations	$ 5,623,260	$ 1,059,947	$ (974,100)	$ 5,709,107	$ 202,132

The changes in long term obligations for the component unit for the year ended June 30, 2003, are as follows (in thousands):

	July 1, 2002	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2003	Amounts Due Within One Year
Component unit:					
Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 569,477	$ 212,105	$ (83,321)	$ 698,261	$ 26,183
Refunding bonds	12,500	-	(1,000)	11,500	-
Less deferred amounts:					
For issuance premiums	-	8,232	-	8,232	-
For issuance discounts	-	(213)	-	(213)	-
Total bonds payable	581,977	220,124	(84,321)	717,780	26,183
Accreted interest payable	154,859	16,582	(11,963)	159,478	33,684 [1]
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	1,870	1,030	-	2,900	1,095
Component unit - long term obligations	$ 746,706	$ 237,736	$ (96,284)	$ 888,158	$ 60,962

[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 *(Continued)*
June 30, 2003

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2003, for governmental activities are as follows (in thousands):

Governmental Activities [1] [2]

Fiscal Year Ending	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 64,155	$ 43,338	$ 15,885	$ 5,321	$ 12,834	$ 16,586	$ 92,874	$ 65,245
2005	60,150	40,462	16,880	4,818	15,554	16,363	92,584	61,643
2006	63,005	37,635	15,210	4,303	15,840	15,730	94,055	57,668
2007	66,075	34,356	12,975	3,871	15,462	15,064	94,512	53,291
2008	67,030	30,921	12,135	3,495	14,934	14,428	94,099	48,844
2009-2013	321,720	103,299	40,440	13,139	69,079	61,982	431,239	178,420
2014-2018	168,375	37,733	34,685	8,822	51,930	47,570	254,990	94,125
2019-2023	49,115	4,591	40,025	5,309	43,605	35,244	132,745	45,144
2024-2028	-	-	43,700	2,138	47,315	23,831	91,015	25,969
2029-2033	-	-	20,100	247	57,030	10,524	77,130	10,771
2034-2038	-	-	-	-	11,300	350	11,300	350
Total	$ 859,625	$ 332,335	$ 252,035	$ 51,463	$ 354,883	$ 257,672	$ 1,466,543	$ 641,470

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2003, for each enterprise fund is as follows (in thousands):

San Francisco International Airport [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ -	$ 70,630	$ 222,223	$ -	$ -	$ 70,630	$ 222,223
2005	-	-	93,070	218,926	-	-	93,070	218,926
2006	-	-	98,260	214,490	-	-	98,260	214,490
2007	-	-	107,870	209,636	-	-	107,870	209,636
2008	-	-	114,430	204,304	-	-	114,430	204,304
2009-2013	-	-	668,125	929,868	-	-	668,125	929,868
2014-2018	-	-	818,780	742,734	-	-	818,780	742,734
2019-2023	-	-	1,029,930	499,477	-	-	1,029,930	499,477
2024-2028	-	-	997,615	211,499	-	-	997,615	211,499
2029-2033	-	-	271,890	24,941	-	-	271,890	24,941
Total	$ -	$ -	$ 4,270,600	$ 3,478,098	$ -	$ -	$ 4,270,600	$ 3,478,098

(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) Includes the Moscone Center Expansion Project Lease Revenue Bonds with variable rate bonds currently reset weekly.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2003, for each enterprise fund is as follows (in thousands) – continued:

Water Department [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ -	$ 13,345	$ 24,537	$ -	$ -	$ 13,345	$ 24,537
2005	-	-	14,055	23,939	-	-	14,055	23,939
2006	-	-	14,790	23,315	-	-	14,790	23,315
2007	-	-	15,450	22,666	-	-	15,450	22,666
2008	-	-	16,225	21,921	-	-	16,225	21,921
2009-2013	-	-	93,470	97,385	-	-	93,470	97,385
2014-2018	-	-	100,685	73,209	-	-	100,685	73,209
2019-2023	-	-	79,210	51,914	-	-	79,210	51,914
2024-2028	-	-	87,175	30,847	-	-	87,175	30,847
2029-2033	-	-	79,965	9,507	-	-	79,965	9,507
Total	$ -	$ -	$ 514,370	$ 379,240	$ -	$ -	$ 514,370	$ 379,240

Hetch Hetchy Water and Power [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ -	$ -	$ -	$ 103	$ 45	$ 103	$ 45
2005	-	-	-	-	123	25	123	25
2006	-	-	-	-	127	21	127	21
2007	-	-	-	-	130	18	130	18
2008	-	-	-	-	134	14	134	14
2009-2013	-	-	-	-	354	16	354	16
Total	$ -	$ -	$ -	$ -	$ 971	$ 139	$ 971	$ 139

Municipal Transportation Agency [1][2]

Fiscal Year Ending	General Obligation Bonds		Revenue and Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ -	$ 2,760	$ 3,551	$ 3,341	$ 1,283	$ 6,101	$ 4,834
2005	-	-	3,030	3,422	3,559	1,066	6,589	4,488
2006	-	-	3,375	3,281	3,741	883	7,116	4,164
2007	-	-	3,500	3,147	3,934	691	7,434	3,838
2008	-	-	3,650	3,003	4,136	489	7,786	3,492
2009-2013	-	-	15,925	12,792	6,275	278	22,200	13,070
2014-2018	-	-	20,245	8,461	170	59	20,415	8,520
2019-2023	-	-	9,200	3,881	-	-	9,200	3,881
2024-2028	-	-	-	2,125	-	-	-	2,125
2029-2033	-	-	10,920	452	-	-	10,920	452
Total	$ -	$ -	$ 72,605	$ 44,115	$ 25,156	$ 4,749	$ 97,761	$ 48,864

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) Unamortized loan premiums of $1.4 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2003, for each enterprise fund is as follows (in thousands) – continued:

Clean Water Program [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ -	$ -	$ -	$ 20,233	$ 14,929	$ 5,203	$ 14,929	$ 25,436
2005	-	-	-	17,219	15,414	4,718	15,414	21,937
2006	-	-	-	17,219	15,914	4,218	15,914	21,437
2007	-	-	33,445	16,718	16,430	3,701	49,875	20,419
2008	-	-	34,500	15,698	13,337	3,168	47,837	18,866
2009-2013	-	-	144,220	60,556	60,525	9,395	204,745	69,951
2014-2018	-	-	102,005	31,915	23,612	2,354	125,617	34,269
2019-2023	-	-	73,235	11,678	4,964	291	78,199	11,969
2024-2028	-	-	8,865	674	-	-	8,865	674
Total	$ -	$ -	$ 396,270	$ 191,910	$ 165,125	$ 33,048	$ 561,395	$ 224,958

Port of San Francisco [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 400	$ 50	$ 3,595	$ 1,719	$ 74	$ 158	$ 4,069	$ 1,927
2005	400	25	3,920	1,449	77	155	4,397	1,629
2006	-	-	4,135	1,226	81	151	4,216	1,377
2007	-	-	4,370	985	84	148	4,454	1,133
2008	-	-	4,615	727	88	144	4,703	871
2009-2013	-	-	10,055	602	503	656	10,558	1,258
2014-2018	-	-	-	-	627	532	627	532
2019-2023	-	-	-	-	781	377	781	377
2024-2028	-	-	-	-	973	182	973	182
2029-2033	-	-	-	-	222	9	222	9
Total	$ 800	$ 75	$ 30,690	$ 6,708	$ 3,510	$ 2,512	$ 35,000	$ 9,295

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2003, for business type activities follows (in thousands):

Total Business-type Activities [1][2]

Fiscal Year Ending	General Obligation Bonds		Revenue / Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 400	$ 50	$ 90,330	$ 272,263	$ 18,447	$ 6,689	$ 109,177	$ 279,002
2005	400	25	114,075	264,955	19,173	5,964	133,648	270,944
2006	-	-	120,560	259,531	19,863	5,273	140,423	264,804
2007	-	-	164,635	253,152	20,578	4,558	185,213	257,710
2008	-	-	173,420	245,653	17,695	3,815	191,115	249,468
2009-2013	-	-	931,795	1,101,203	67,657	10,345	999,452	1,111,548
2014-2018	-	-	1,041,715	856,319	24,409	2,945	1,066,124	859,264
2019-2023	-	-	1,191,575	566,950	5,745	668	1,197,320	567,618
2024-2028	-	-	1,093,655	245,145	973	182	1,094,628	245,327
2029-2033	-	-	362,775	34,900	222	9	362,997	34,909
Total	$ 800	$ 75	$ 5,284,535	$ 4,100,071	$ 194,762	$ 40,448	$ 5,480,097	$ 4,140,594

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) Unamortized loan premiums of $1.4 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2003, for the component unit are as follows (in thousands):

Component Unit: Redevelopment Agency [1]

Fiscal Year Ending June 30	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Tax Revenue Bonds Principal	Tax Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2004	$ 10,734	$ 39,381	$ 15,449	$ 25,381	$ -	$ 679	$ 26,183	$ 65,441
2005	33,776	84,130	20,861	26,489	-	679	54,637	111,298
2006	5,875	13,338	22,347	25,600	-	679	28,222	39,617
2007	5,606	13,680	21,960	24,641	675	679	28,241	39,000
2008	5,399	13,957	24,283	21,957	806	664	30,488	36,578
2009-2013	24,793	73,109	129,228	99,599	6,110	2,669	160,131	175,377
2014-2018	62,652	36,187	164,769	54,621	5,515	1,702	232,936	92,510
2019-2023	30,615	5,755	91,035	26,572	1,358	1,322	123,008	33,649
2024-2028	7,760	532	21,119	22,858	1,692	988	30,571	24,378
2029-2033	-	-	-	-	2,110	570	2,110	570
2034-2038	-	-	-	-	1,234	101	1,234	101
Total	$ 187,210	$ 280,069	$ 511,051	$ 327,718	$ 19,500	$ 10,732	$ 717,761	$ 618,519

[1] The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities; however, general obligation bonds have not been issued for business-type activities since 1979. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2003, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2002	$	951,845
Bonds issued:		
Series 2002A, Zoo Facilities Bonds		(6,210)
Series 2002B, Branch Library Facilities Improvement Bonds		(23,135)
Net authorized and unissued as of June 30, 2003	$	922,500

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2003.

In October 2002, the City issued General Obligation Bonds, Zoo Facilities, Series 2002A in the amount of $6.2 million. Interest rates range from 2.5% to 5.0%. The bonds mature from June 2003 through June 2022. The bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

In October 2002, the City issued General Obligation Bonds, Branch Library Facilities Improvement Bonds, Series 2002B in the amount of $23.1 million. Interest rates range from 2.5% to 5.0%. The bonds mature from June 2003 through June 2022. The bonds were issued to finance the acquisition of sites to be used for the construction of new branch libraries to replace currently leased facilities, the renovation and rehabilitation of branch libraries, and acquisition and construction of a new branch library in the Mission Bay neighborhood. Debt service payments are funded through ad valorem taxes on property.

The Port of San Francisco is the only business-type activity that has General Obligation Bonds outstanding which amount to $0.8 million as of June 30, 2003. 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.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2003 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2002*	$	129,492
Increase in authorization in this fiscal year:		
Current year annual increase in Finance Corporation's equipment program		1,710
Current year maturities in Finance Corporation's equipment program		5,880
Bonds issued:		
Series 2003A, San Francisco Finance Corporation		(10,975)
Net authorized and unissued as of June 30, 2003	$	126,107

*Amount net of authorization for DPT. Starting July 1, 2002, the activities of the DPT are accounted for under the MTA.

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance through lease financing the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of 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, 2003, the total authorized amount is $35.9 million. The total accumulated annual authorization since 1990 is $15.9 million of which $1.7 million is new annual authorization for the fiscal year ending June 30, 2003.

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 $94.5 million in equipment lease revenue bonds since 1991. As of June 30, 2003, $70.5 million has been repaid leaving $24 million in equipment lease revenue bonds outstanding and $11.9 million available for new issuance.

In March 2003, the Finance Corporation issued its eleventh Series of equipment lease revenue bonds Series 2003A in the amount of $11 million with interest rates ranging from 2.0% to 2.4%. The bonds mature from April 2004 through October 2008.

(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, 2003, 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, 2003, 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. Funds deposited to the Capitalized Interest Account on the issue date were calculated to be sufficient to pay interest on the Bonds based on an assumed interest rate of 5.02% through August 1, 2003. The average actual rate of interest through June 30, 2003 was 1.72%. The final maturity date is April 2030. The expansion project was completed in fiscal year 2003.

Certificates of Participation

In April 2003, the City issued $42 million in Certificates of Participation to finance a portion of the costs of the acquisition, improvement, construction and/or reconstruction of a new juvenile detention facility and related improvements at the site of the existing San Francisco Juvenile Hall located at 375 Woodside Avenue in the City. The Series 2003 Certificates have interest rates ranging from 3.0% to 5.0% and the final maturity date is June 2034.

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

On February 5, 2003, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 29 (issue 29) in the amount of $156.9 million with interest rates ranging from 1.55% to 5.50%. Proceeds from issue 29 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	Average Interest Rate
Second Series Revenue Bond Issuance:		
Issue 2	$ 72,440	6.35 - 6.75%
Issue 3	31,430	5.6 - 6.2%
Issue 4	53,250	5.5 - 6.0%
	$ 157,120	

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2004 to May 1, 2020 and a call date of May 1, 2003.

The net proceeds of $161.6 million (including original issue premium of $7.5 million, and after depositing $0.5 million in a construction account to provide funding for future construction activity and the payment of $2.4 million in underwriting fees, insurance and other issuance costs) plus an additional $3.3 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, 2003.

The refunded bonds were called and redeemed on May 1, 2003. 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 $5.7 million for the fiscal year ended June 30, 2003, the SFO in effect reduced its aggregate debt service payments by approximately $20.8 million over the next eighteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $19.6 million.

Upon the terms and conditions set forth in a letter of credit dated May 1, 1997, SFO obtained a $300 million standby letter of credit that may be increased to $400 million and commenced issuing commercial paper as a means of interim financing. The rates on this letter of credit vary from 2.9% to 3.9%. During the fiscal year 2002, SFO refinanced the commercial paper outstanding with Second Series Revenue Bonds. Moreover, SFO obtained a $200 million standby letter of credit in May 2002 that may be increased to $400 million upon the terms and conditions set forth in the letter of credit dated as of May 1, 2002. As at June 30, 2003, there was no commercial paper balance outstanding.

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. There was no commercial paper outstanding as of June 30, 2003.

During fiscal year 2003, the San Francisco Water Department (Water Department) issued $164 million of Water Revenue Bonds 2002 Series A (2002 Series A Bonds). The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard and Poor's respectively. A portion of the proceeds from the issuance of the 2002 Series A Bonds was used to refund all of the Water Department's outstanding commercial paper. The Revenue Bonds include interest and serial and term bonds with interest rates varying from 2.5% to 5.0%. The current interest serial bonds mature through November 1, 2026 and the current interest term bonds mature on November 1, 2025 and 2032.

On August 8, 2002, the Water Department issued 2002 Water Revenue Refunding Bonds, Series B (the 2002B Refunding Bonds) in the amount of $85.3 million with interest rates ranging from 3% to 5%. A portion of the proceeds from the 2002B Refunding Bonds were deposited into an irrevocable trust with an escrow agent to advance refund the $92.1 million outstanding balance of the 1992A Water Revenue Refunding Bonds with interest rate ranging from 5.35% to 6.5%.

The refunded 1992A Water Revenue Refunding Bonds have a final maturity date of November 1, 2015 and a call date of November 1, 2002.

The net proceeds of $88.9 million (including original issue premium of $4.8 million and the payment of $1.1 million in underwriting fees, insurance and other issuance costs) plus an additional $6.4 million of available debt service funds were used to purchase noncallable Federal 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 on November 1, 2002.

The refunded 1992A Water Revenue Refunding Bonds were called and redeemed on November 1, 2002. 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 $4.7 million for the fiscal year ended June 30, 2003, the Water Department in effect reduced its aggregate debt service payments by approximately $21.7 million over the next 13 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $11.6 million.

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. The issuance of the bonds will be contingent upon the amendment of certain provisions in the City's Administrative Code. The Commission shall be authorized to impose a surcharge on retail water rates for City customers to pay its share of the debt service on the bonds issued.

Hetch Hetchy Water and Power

In December 2002, Hetch Hetchy received a $971 thousand loan from the California Energy Commission with an annual interest rate of 3%, and semi-annual repayments of $74 thousand beginning on December 22, 2003 with a final maturity date of December 22, 2010. Proceeds from the loan were used to provide funding for an energy conservation project undertaken at San Francisco General Hospital (the Hospital). In accordance with the terms of the loan agreement, Hetch Hetchy is required to prepare and submit annual energy use reports to the California Energy Commission for three years following the completion of the project. The reports are to demonstrate the cost of energy saved as a result of the project.

Pursuant to the terms of a memorandum of understanding agreement entered into between the Hospital and Hetch Hetchy, the Hospital is required to repay Hetch Hetchy for the cost of the project less any amounts received by Hetch Hetchy under State grant programs. Payments received from the Hospital will be used to satisfy the debt service requirements of the loan.

Municipal Transportation Agency

Effective July 1, 2002, DPT was accounted for in the MTA enterprise fund. Prior to this, the operations of DPT were accounted for in the general fund, other governmental funds and the parking garage fund. The MTA enterprise fund formerly accounted for the activities MUNI and SFMRIC. Further information can be found in note (11) (e). DPT long-term liabilities of $50.9 million was transferred from governmental activities to business-type activities under MTF. Additionally, the Parking Garages long-term liabilities of $38 million was transferred to MTA.

MUNI entered into a lease-purchase agreement with System Finance Corporation for network infrastructure upgrade amounting to $511 thousand. The first payment of $100 thousand was paid on November 1, 2002, and the balance to be paid in five equal installments of $86 thousand due and payable semi-annually. The total principal and interest payments for the year ended June 30, 2003 were $180 thousand and $6 thousand, respectively.

In July 2002, the Downtown Parking Corporation issued $13.6 million of bonds for the purpose of refunding the 1993 bond series. These bonds have maturity dates from April 2003 through April 2018. The bonds bear interest rates from 3.0% to 5.375%.

In April 2002, the Ellis-O'Farrell Parking Corporation issued $5.5 million of bonds for the purpose of refunding the 1992 bond series. These bonds have maturity dates from April 2005 through April 2017. The bonds bear interest at rates from 3.5% to 4.7%.

Both corporations have pledged their gross revenues, and all funds and amounts held under the trust indentures as security for payment of the bonds. Additionally, the trust indentures require the Corporations to maintain certain ratios and level of cash and cash equivalents.

Clean Water Program

On January 28, 2003, the Clean Water Program (CWP) issued 2003 Refunding Bonds, Series A (Refunding Bonds) in the amount of $396.8 million with interest rates ranging from 3% to 5.25%. A portion of the proceeds from the Refunding Bond were deposited into an irrevocable trust with an escrow agent to advance refund all of the CWP's Sewer Revenue Bonds as follows:

Clean Water Program Sewer Revenue Refunding Bonds
(in thousands)

	Amount Refunded	Interest Rates
Sewer revenue bond issuance:		
1992 Series	$ 171,950	5.5 to 6.0%
1994 Series	166,235	4.7 to 5.38%
1995A Series	38,910	5.38 to 5.95%
1995B Series	17,348	5.55 to 5.99%
	$ 394,443	

The refunded Sewer Revenue Bonds have final maturity dates ranging from October 1, 2010 to October 1, 2025 and call dates ranging from March 1, 2003 to October 1, 2010.

The net proceeds of $383.3 million (including original issue premium of $22.8 million, and after depositing $32.4 million in a Bond Reserve Fund to provide funding for future debt service on the Refunding Bonds and the payment of $3.4 million in underwriting fees, insurance and other issuance costs) plus an additional $30.5 million of available debt service funds were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed.

The 1992 and 1994 Series were called and redeemed on March 1, 2003, and the 1995 Series are considered defeased in-substance. Accordingly the liability for these bonds has been removed from the accompanying statement of net assets.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $27.6 million for the fiscal year ended June 30, 2003, the CWP in effect reduced its aggregate debt service payments by approximately $57.2 million over the next 22 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $32.8 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, 2003 was $2,019 million. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2002, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits	1,957	1,719	14,277	17,953
Active members:				
Vested	1,886	1,373	18,986	22,245
Nonvested	372	409	7,613	8,394
Subtotal	2,258	1,782	26,599	30,639
Total	4,215	3,501	40,876	48,592

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 2002-03 varied from 7.00% to 8.00% as a percentage of gross salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2002-03 because the City is funded at 118.0% of liability. Due to certain bargaining agreements effective in 2003 which mandated certain groups of employees to contribute 2.75% of covered payroll as employee-paid employee contributions, the City's contributions to the Retirement System on behalf of some of its employees was reduced to 4.25% to 5.25% for 2003. For those groups of employees not mandated to contribute to the Retirement System, the City's contributions remained at 7.0% to 8.0% of covered payroll. the City's contributions in 2002 and 2001 were equal to the required employee contributions.

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, 2002. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.25%; (2) inflation element in wage increase of 4.5%; and (3) salary merit increases of 1.25%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2001	$ 0	N/A	$ 0
6/30/2002	$ 0	N/A	$ 0
6/30/2003	$ 0	N/A	$ 0

California Public Employees' Retirement System

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

Plan Description - The City and County of San Francisco contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Miscellaneous Plan

Funding Policy - Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2002-03 contribution rate is 0% of annual covered payroll because the City is funded at 145.2%. 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 2002-03 was equal to the City's required and actual contributions which was determined as part of the June 30, 2000 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2000 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3 .75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1998	$ 0	N/A	$0
6/30/1999	$ 0	N/A	$0
6/30/2000	$ 0	N/A	$0

Safety Plan

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 5.115% because the City is funded at 128.2%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2002-03 was equal to the City's required and actual contributions which was determined as part of the June 30, 2000 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2000 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 Pension Obligation
6/30/1998	$ 8,392	100%	$0
6/30/1999	$ 0	N/A	$0
6/30/2000	$ 0	N/A	$0

(b) Deferred Compensation Plan

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

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

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and

Unified School District, amounted to approximately $309.7 million in fiscal year 2003. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is $78.4 million to provide post-retirement health care benefits for 18,350 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the Health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 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 was awarded $6 million in federal grant funds.

Following is a summary of the Authority's financial position and results of operations as of and for the year ended June 30, 2003 (in thousands).

ASSETS	
Deposits and investments	$ 139,427
Receivables	79,222
Total assets	$ 218,649
LIABILITES AND FUND BALANCE	
Due to other funds	$ 68,719
Other liabilities	843
Total liabilities	69,562
Fund balance:	
Reserved for encumbrances	115,099
Unreserved	33,988
Total fund balance	149,087
Total liabilities and fund balance	$ 218,649

OPERATIONS	
Revenues:	
Sales tax	$ 56,818
Interest and investment income	2,287
Intergovernmental	75,452
	134,557
Expenditures and other financing uses:	
Public works, transportation, and commerce	112,500
Transfer to other funds	15,710
	128,210
Deficiency of revenues under expenditures and other financing uses	6,347
Fund balance at beginning of year	142,740
Fund balance at end of year	$ 149,087

(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 2002 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (11th) and air cargo (12th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The 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 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.

SFO is in the process of developing a revised Capital Plan to better fit the changes in the aviation industry. The Commission expects that a revised Capital Plan will be completed in the Fall of 2003 and will include 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 $4.3 billion in aggregate principal amount of Second Series Revenue Bonds. SFO has issued $1.4 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 ITC.

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 fiscal year ending June 30, 2003, SFO reported approximately $51.8 million of PFC revenue, which is included in other non-operating revenues in the accompanying basic financial statements. SFO designated $13 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2003. In addition, during the fiscal year ended June 30, 2003, SFO designated $56.1 million of PFC revenues as "Revenues" for the purpose of paying debt service in fiscal year 2004, as required in the 1991 Master Bond Resolution.

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 fiscal year ended June 30, 2003 was $16.8 million.

During the fiscal year ended June 30, 2003, the City's Board of Supervisors suspended all activities of the Airfield Development Bureau (ADB) relating to the evaluation, planning, design, and construction of any future runway and configuration project of the Airport. As a result, of approximately $80 million of costs incurred to date and capitalized under the ADB program, the Airport expensed $37 million of costs. The expensed items were primarily related to industry forecasting tasks, legal services, public relations, and program management.

Purchase commitments for construction, material and services as of June 30, 2003 are as follows (in thousands):

Construction..	$	38,132
Operating..		10,147
Total	$	48,279

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, 2003, approximately $118 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 $546 million. SFO spent $80.7 million for these projects as of June 30, 2003.

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

On November 26, 1996, a fire at the east end of Pier 48 destroyed the interconnecting wood frame structure and caused substantial structural damage to the steel frames, walls, and roof at the easterly end of Sheds A and B on the pier. On July 14, 1998, a fire damaged the historic ferry slip arch structure at Pier 43 and the one-story auxiliary building connected to the arch's west tower. Insurance was in force to cover fire damage to the Port's property at both piers. The Port received insurance payments of $14.8 million for approved and completed repairs, including certain seismic retrofit work at Pier 48. Through June 30, 2003, the Port received interim insurance payments $0.9 million for Pier 43. The Port is involved in discussions with its insurers as to additional insurance proceeds which the Port believes it is entitled for the repair of the Pier 43 arch. Receivables at June 30, 2003 include an additional $0.4 million for approved construction repairs.

In September 2002, the Port received a notice of violation from the California Department of Toxic Substance Control (DTSC) in connection with the presence of approximately 22,000 tons of soil contaminated with soluble lead in concentrations that classify it as hazardous waste in California. A former tenant operated a soil disposal service and abandoned the contaminated soil after declaring bankruptcy in 1995 and ceasing operations. The soil had been tested to identify potential disposal and re-use options. In January 2003, the Port completed removal of the soil to an appropriate out-of-state landfill with DTSC approval. The total cost of soil removal and related expenses totaled $1.6 million.

In November 2002, a maritime vessel known as Dry Dock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The Port entered into emergency contracts to recover the dry dock vessel and to complete certain repairs to restore and maintain its watertight condition. The Port is evaluating options for the final disposition of this surplus vessel. During the fiscal year ended June 30, 2003, $1.7 million was expended for the recovery and repairs.

The Port is presently planning various development projects which involve a commitment to expend significant funds. Purchase commitments at June 30, 2003 were $4.6 million for capital projects and $3 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, 2003 $3.1 million has been appropriated and $0.9 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 90,885 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 CWP. 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 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2003, water sales to suburban resale customers were $79.1 million. As of June 30, 2003, the Water Department owed suburban resale customers approximately $2.1 million under the Suburban Water Rate Agreement.

As of June 30, 2003, the Water Department had outstanding commitments with third parties of $51.8 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 is estimated to be $22.7 million and was accrued in fiscal year 2001. During fiscal year 2003, The Water Department expended $1.8 million in accordance with the Plan.

(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, 2003 include $66.7 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, 2003, Hetch Hetchy had outstanding commitments with third parties of $24.7 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, 2003, 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 2003, Hetch Hetchy purchased $13.8 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.

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 2003, power sales to the Districts totaled 871,807 MWhrs or $28.6 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 $28.8 million in fiscal year 2003.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed on January 18, 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) in the amount of $13.3 million to assist with the costs of siting and developing electric generating equipment in the City, and (iii) payment to the City of $500 thousand for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement (the 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 the event that the (i) City has not secured a site for the construction of the Facility by December 31, 2003, (ii) the Attorney General determines that the City has ceased development of the Facility, or (iii) the City decides not to develop the Facility pursuant to the terms of the Agreement, the Financing Authority shall have the right (but not the obligation) to purchase any or all of the gas turbine generator sets from the City at a price of $2.5 million per unit and terminate the Agreement. Should the Financing Authority elect not to exercise its option to acquire the gas turbine generator sets from the City pursuant to the terms of the Agreement, the City must promptly sell the units by means of a public bidding process. The City is entitled to retain (i) the first $2.5 million from the sale of each unit, plus 5% of any amount in excess of $2.5 million and (ii) any eligible amounts incurred by the City in excess of the amount provided by the Fund.

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 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 state 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.

As the energy agency for the City, the Commission is responsible for the development of the Facility. As such, the four gas turbine generator sets are included within Hetch Hetchy's construction-in-progress at their estimated fair value as of June 30, 2003, in the accompanying statement of net assets. Hetch Hetchy has also reported settlement revenue of $33 million as a special item in the accompanying statement of revenues, expenses, and changes in fund net assets for the year ended June 30, 2003.

In conjunction with the execution of the Settlement Agreement, the Attorney General has received the first $2.6 million from the defendants, and deposited that amount into the Fund. However, no costs have been claimed for reimbursement from the Fund by the City, and no revenue has been recognized from the $2.6 million during the year ended June 30, 2003. 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 are incurred by the City.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

(e) Municipal Transportation Agency

The MTA is responsible for overseeing the City's public transportation operations, including those of MUNI, SFMRIC, 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 SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of the DPT (Notes 1 and 2(b)).

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 $6.2 million interagency accounts payables and receivables:

	MUNI	DPT	Parking Garages	Total
Assets				
Current Assets	$ 147,995	$ 16,814	$ 4,373	$ 169,182
Restricted Assets	56,208	-	19,037	75,245
Noncurrent Assets	1,656,658	55,040	95,287	1,806,985
Total Assets	1,860,861	71,854	118,697	2,051,412
Liabilities				
Current liabilities	108,238	17,995	11,953	138,186
Liabilities payable from restricted assets	904	-	-	904
Noncurrent liabilities	137,292	68,199	37,152	242,643
Total liabilities	246,434	86,194	49,105	381,733
Net assets				
Invested in capital assets, net of related debt	1,652,327	-	-	1,652,327
Restricted net assets	55,304	6,608	-	61,912
Unrestricted net assets (deficit)	(86,992)	(20,948)	63,380	(44,560)
Total net assets (deficit)	$ 1,620,639	$ (14,340)	$ 63,380	$ 1,669,679

	MUNI	DPT	Parking Garages	Total
Operating Revenues	$ 109,490	$ 13,949	$ 32,217	$ 155,656
Operating Expenses	529,307	64,933	28,427	622,667
Net Operating Income (Loss)	(419,817)	(50,984)	3,790	(467,011)
Nonoperating Income (Loss)	210,060	7,560	(2,710)	214,910
Capital Contributions	160,272	-	2,440	162,712
Transfers In	116,984	83,615	59,860	260,459
Transfers Out	-	(54,531)	-	(54,531)
Change in Net Assets	67,499	(14,340)	63,380	116,539
Net Assets at Beginning of Year	1,553,140	-	-	1,553,140
Net Assets (Deficit) at End of Year	$ 1,620,639	$ (14,340)	$ 63,380	$ 1,669,679

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 $143 million ($101 million for MUNI and $42 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2003, MUNI had approved capital grants with unused balances amounting to $288.1 million. Capital grants receivable as of June 30, 2003 totaled $74.8 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, 2003, MUNI had various operating grants receivable of $25.9 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2003, the SFCTA approved $122.8 million in new capital grants and $16.2 million in new operating grants for MUNI. During the same period, MUNI received total payments of $22.7 million for capital grants and $13.6 million in operating grants from the Authority. As of June 30, 2003, MUNI had $57.2 million due from the SFCTA for capital grants and $2.1 million due from the SFCTA for operating grants.

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

MUNI has outstanding contract commitments of approximately $96 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 $7 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 $2.6 million.

In March 2001, MUNI and the Port entered in to a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. This amount was reported as a Special Item in the proprietary funds statement of revenues, expenses and changes in fund net assets for the year ended June 30, 2001. 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 2004 provided the Port has demonstrated good faith efforts toward construction of the bridge The Port is currently in the selection process for procuring the design and contract to build the bridge.

In April 2001, the MTA Board of Directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback financing involving up to 150 Breda light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain economic benefit in return for transferring the tax benefit of depreciation on the vehicles to another party, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-lease back transaction of 118 Breda light rail vehicles to a group of equity investors and a sublease of the vehicles back from the investors over a period of 27 years. MUNI maintains custody of the light rail vehicles and is obligated to insure and maintain the vehicles throughout the life of the lease.

MUNI received $388.2 million from the equity investors as full payment of the cost to lease the vehicles based on fair value of the vehicles. MUNI paid $352.7 million to an irrevocable trust to be used solely for

satisfying scheduled payments of both interest and principle of the sublease to the equity investors. The trust assets are invested in U.S. government bonds with maturity dates that match the completion date of the sublease. While these payments to the trust did not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the possibility that MUNI will be required to make future payments to the trust is remote based on the stability of the investment and the limited risks to the physical assets. Therefore, the trust assets and the sublease obligation is not recorded in the accompanying statement of net assets of MUNI as of June 30, 2003.

As a result of the cash transactions above, MUNI recorded deferred revenue in the year ended June 30, 2003, of $35.5 million, for the difference between the amount received of $388.2 million and the amount paid to the trust for the future sublease payments of $352.7 million, which will be amortized over the life of the sublease. The amount of $1.3 million was amortized in the year ended June 30, 2003.

Department of Parking and Traffic

The DPT receives grants from various federal, state, and local agencies that result in City assets. As a result, they are shown in the MTA budget and then transferred to the City as assets.

During the year ended June 30, 2003, the DPT entered into three loan agreements for the purchase of capital equipment. DPT entered into loan agreement with the state of California GS Smart Program to replace all of the City's parking meters with new electronic parking meters. On October 9, 2002, the City received funds of $26.3 million for this project. The term of the loan is 7 years, with the final payment in October 2009. The two other loan agreements are with the California Energy Commission for the purchase of LED bulbs for traffic signals. DPT borrowed a total of $1.8 million and will make its final payment in June 2010.

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, 2003 follows (in thousands), including $6.2 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 9,998	$ 13,238	$ 2,162	$ 3,699	$ 3,120	$ 32,217
Depreciation	695	-	-	-	126	821
Operating income (loss)	1,463	1,978	156	27	166	3,790
Interest and other non-operating revenues (expenses)	(1,555)	(898)	-	(249)	(8)	(2,710)
Change in net assets	9,750	31,502	7,074	12,505	2,549	63,380
Capital assets, increases	550	28,340	145	(99)	(112)	28,824
Capital assets, decreases	-	(22,127)	-	-	-	(22,127)
Net working capital (deficit)	(5,274)	(8,806)	158	(627)	758	(13,791)
Total assets	28,542	61,246	7,385	18,702	2,822	118,697
Total liabilities	18,792	29,744	311	6,197	273	55,317
Net assets	9,750	31,502	7,074	12,505	2,549	63,380
Total debt outstanding	$ 13,000	$ 19,599	$ -	$ 5,473	$ -	$ 38,072

(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, 2003, the subsidy for LHH was $33 million.

	(in thousands)
Changes in net assets of LHH on a GAAP basis	$18,902
Tobacco claims settlement*	(20,635)
Net loss on specific/donor restricted funds	(795)
Operating subsidy from City General Fund	(32,568)
Operating subsidy from General Hospital Medical Center	(425)
Net loss on LHH on a GAAP basis before operating subsidy	(35,521)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(265)
Change in encumbrances and appropriation carry forwards	(1,213)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	4,006
Net loss of LHH requiring General Fund subsidy on a budget basis	$(32,993)

*During the fiscal year ended June 30, 2003, LHH received approximately $21 million of the tobacco settlement funds. In addition, LHH received approximately $1.1 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, 2003, Medicare and Medi-Cal charges for services amounted to approximately $3.6 million and $107 million, respectively. As of June 30, 2003, LHH had net patient receivables from Medicare of $1.3 million and net patient receivables from Medi-Cal of $17 million.

During fiscal year ended June 30, 2003, LHH received approximately $17 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, 2003, no bonds have been sold. LHH is actively involved in the planning and design phase for new facilities to replace Laguna Honda Hospital.

(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 expense is 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, 2003, the subsidy for SFGH was $78 million.

	(in thousands)
Loss before transfers of SFGH on a GAAP basis	$(21,904)
Reimbursement to City General Fund for SB 855 matching program	(73,307)
Transfer of accrued vacation and sick leave liability to governmental activities	3,672
Transfers from City General Fund to support SFGH on:	
Operation of Mental Health Rehabilitation Facility	(587)
Other Program Support	5,959
Interest expense on the overdraft funds with the City Treasury	1,708
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(4,413)
Change in encumbrances and appropriation carryforwards	4,727
Other expenses	(302)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,432
Net loss of SFGH requiring General Fund subsidy on a Budget basis	$(78,015)

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).

During the year ended June 30, 2003, Medicare and Medi-Cal revenue accounted for $50 million and $59 million of net patient service revenue respectively. As of June 30, 2003, SFGH had net patient receivables from Medicare of $5.8 million and net patient receivables from Medi-Cal of $16.4 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 $103.3 million for the fiscal year ended June 30, 2003. This revenue was offset by a reduction in the General Fund operating subsidy of $73.3 million for net SB 855 revenues of $30 million for the year ended June 30, 2003.

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, 2003, SFGH recognized gross patient revenue in the amount of $54.5 million offset by a reduction in the contribution provided by the City of $30.5 million for net SB 1255 revenues of $24 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, 2003, SFGH recognized net patient service revenue in the amount of $1.3 million pertaining to this program.

As of June 30, 2003, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately $45.1 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, 2003, 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, 2003, reimbursement under the Short-Doyle program amounted to approximately $4.4 million and is included in transfers in.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2003, amounted to $3.1 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 $98.4 million and estimated costs and expenses to provide charity care were $61.7 million in fiscal year 2003.

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, 2003, was approximately $58.4 million.

(h) Clean Water Program

The 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.

In 1995, CWP entered into a forward purchase and sale agreement with an investment bank (Bank). Under the agreement, CWP received an up front fee of $8.9 million from the Bank. In exchange, CWP used its debt service payments deposited but not yet due to bondholders to purchase short-term U.S. Treasury bills at face value from the Bank. The fee was recorded as deferred revenue, and the unamortized balance as of June 30, 2002 was $1.3 million. In conjunction with the advance refunding of debt that occurred in January 2003, the CWP terminated the forward purchase agreement by paying an early termination fee of $449 thousand to the Bank, which included a contract termination value of $425 thousand. As of June 30, 2003, no unamortized amounts are remaining for this agreement.

As of June 30, 2003, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling $10.6 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 three new redevelopment survey areas designated by the Board of Supervisors of the City and County of San Francisco.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS (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 a 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, 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.

As of June 30, 2003, 384 residential units, including 121 affordable units, 24,000 square feet of office space, and 19,000 square feet of neighborhood retail space have been completed in Mission Bay North. A commercial office building totaling 285,000 square feet and one UCSF research building of 385,000 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 of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $42 million.

Outstanding bond issues had cumulative interest accretion of approximately $159.5 million as of June 30, 2003. 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 $723 million at June 30, 2003, 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.

The Agency had commitments under contracts for capital improvements of approximately $57.2 million at June 30, 2003.

(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 2003, 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.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

(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, 2003, is as follows (in thousands):

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Fund	$ 42,290
	San Francisco International Airport	320
	General Hospital Medical Center	22,238
	Port of San Francisco	2,000
	Laguna Honda Hospital	5,882
		72,730
Nonmajor Governmental Fund	Nonmajor Governmental Fund	9,362
	Municipal Transportation Agency	303
		9,665
Municipal Transportation Agency	Nonmajor Governmental Fund	59,352
	Water Department Fund	1,043
		60,395
Hetch Hetchy Water and Power	General	700
	Nonmajor Governmental Fund	4,101
	Municipal Transportation Agency	1,297
	General Hospital Medical Center	771
		6,869
General Hospital Medical Center	Internal Service Funds	48
Total		$ 149,707

Due to / from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component unit - SF Redevelopment Agency	$ 11,720

Transfers Out: Funds	Transfers In: Funds — General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital	Laguna Honda Hospital	Government-wide — Governmental Activities	Total
General fund	$ -	$ 41,110	$ 197	$ 143,115	$ 85,684	$ 33,110	$ -	$ 303,216
Nonmajor governmental funds	15,081	76,532	-	28,520	587	-	-	120,720
San Francisco International Airport	16,823	-	-	-	-	-	-	16,823
Municipal Transportation Agency	-	3,667	-	-	-	-	50,864	54,531
San Francisco General Hospital	73,307	-	-	-	-	-	-	73,307
Parking Garages and Market Corporation	-	-	-	59,860	-	-	-	59,860
Government-wide								
Governmental Activities	-	-	-	28,964	3,672	-	-	32,636
Total transfers out	$ 105,211	$ 121,309	$ 197	$ 260,459	$ 89,943	$ 33,110	$ 50,864	$ 661,093

The $303.2 million General Fund transfer out includes a total of $261.9 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $41.1 million from the General Fund to the non major governmental funds is to provide support to various City programs such as the public library and community health services. The transfers between the non major governmental funds are to provide support for various City programs and to provide resources for the payment of debt services.

The General Fund received transfers in of $73.3 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), $16.8 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)).

Due to the incorporation of the DPT into the MTA, certain assets and liabilities were transferred from governmental activities, governmental funds, and the Parking Garages enterprise fund. These transfers consist of the following:

Approximately $29 million of capital assets and $50.9 million of long-term liabilities were transferred from governmental activities.

Approximately $28.5 million of assets in excess of liabilities were transferred from non-major governmental funds.

Approximately $59.9 million of assets in excess of liabilities were transferred from the Parking Garages enterprise fund.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(b) Operating Leases

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

Primary Government

Governmental Activities

Fiscal Years	
2004	$ 23,130
2005	22,229
2006	19,953
2007	15,913
2008	11,392
2009-2013	13,487
Total	$ 106,104

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Transportation Agency	General Hospital Medical Center	Total Business-type Activities
2004	$ 5,398	$ 5,471	$ 4,982	$ 15,851
2005	5,247	3,029	1,011	9,287
2006	5,507	1,042	454	7,003
2007	5,714	416	5	6,135
2008	5,714	210	-	5,924
2009-2013	4,604	307	-	4,911
2014-2018	-	121	-	121
2019-2023	-	121	-	121
2024-2028	-	121	-	121
2029-2033	-	49	-	49
Total	$ 32,184	$ 10,887	$ 6,452	$ 49,523

Component Unit - Redevelopment Agency

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

Fiscal Years	
2004	$ 2,159
2005	2,198
2006	1,115
2007	757
2008	765
2009-2013	3,825
2014-2018	3,825
2019-2023	3,825
2024-2028	3,825
2029-2033	3,825
2034-2038	3,825
2039-2043	3,825
2044-2048	3,825
2049-2050	1,530
Total	$ 39,124

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2004	$ 1,351
2005	968
2006	831
2007	569
2008	440
2009-2013	2,360
2014-2018	2,669
2019-2023	418
2024-2028	190
2029-2033	33
Total	$ 9,829

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2004	$ 64,774	$ 26,726	$ 1,829	$ 2,537	718	$ 96,584
2005	44,497	23,790	1,958	1,981	731	72,957
2006	37,617	19,930	1,998	1,535	719	61,799
2007	29,693	18,488	2,038	1,054	667	51,940
2008	27,600	17,796	2,080	966	747	49,189
2009-2013	65,159	76,864	2,124	2,747	3,057	149,951
2014-2018	-	68,365	-	-	-	68,365
2019-2023	-	60,537	-	-	-	60,537
2024-2028	-	47,756	-	-	-	47,756
2029-2033	-	42,991	-	-	-	42,991
2034-2038	-	36,894	-	-	-	36,894
2039-2043	-	23,375	-	-	-	23,375
2044-2048	-	17,506	-	-	-	17,506
2049-2053	-	10,071	-	-	-	10,071
2054-2058	-	7,023	-	-	-	7,023
2059-2063	-	7,023	-	-	-	7,023
2064-2068	-	5,308	-	-	-	5,308
Total	$ 269,340	$ 510,443	$ 12,027	$ 10,820	$ 6,639	$ 809,269

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	
2004	$ 2,940
2005	3,016
2006	2,900
2007	2,839
2008	2,839
2009-2013	14,641
2014-2018	15,256
2019-2023	14,661
2024-2028	14,796
2029-2033	15,815
2034-2038	16,914
2039-2043	18,169
2044-2048	12,809
2049-2053	684
2054-2058	380
2059-2063	325
2064-2068	317
2069-2073	250
2074-2078	198
2079-2083	150
2084-2088	150
2089-2093	150
2094-2098	128
Total	$ 140,327

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $20 million per year through the year 2024. The lease payments are intended to approximate the debt service on Series 1988 Lease Revenue Bonds which are recorded as a long term obligation of the Agency. The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided from capital leases are as follows:

Fiscal Years	Moscone Convention Center	Other	Total
2004	$ 23,895	$ 1,887	$ 25,782
2005	19,041	221	19,262
2006	20,073	-	20,073
2007	20,146	-	20,146
2008	20,216	-	20,216
2009-2013	102,202	-	102,202
2014-2018	103,139	-	103,139
2019-2023	36,370	-	36,370
2024-2025	8,292	-	8,292
Total minimum lease payments	$ 353,374	$ 2,108	$ 355,482
Less amounts representing interest	(142,770)	(63)	(142,833)
Present value of maximum lease payments	$ 210,604	$ 2,045	$ 212,649

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.1 billion at June 30, 2003.

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, 2003, the City contributed approximately $8.7 million to the PCJPB.

(16) RISK MANAGEMENT

Risk Retention Program Description

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

The City maintains limited excess coverage for certain facilities. The 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

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, 2003 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, 2001, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2001-2002	$ 191,462	$ (16,305)	$ (88,426)	$ 86,731
2002-2003	$ 86,731	$ 35,793	$ (29,220)	$ 93,304

Breakdown of the estimated claims payable at June 30, 2003 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables	$ 18,855
Long-term portion of estimated claims payable	39,478
Business-type activities:	
Current portion of estimated claims payables	13,786
Long-term portion of estimated claims payable	21,185
Total	$ 93,304

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 $1 billion. The actual loss could exceed this range. No liability has been accrued by the City relating to these lawsuits as of June 30, 2003.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2003 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, 2003 was $ 364.3 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, 2001, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2001-2002	$ 256,792	$ 109,671	$ (62,282)	$ 304,181
2002-2003	304,181	127,008	(66,933)	364,256

Breakdown of the accrued workers' compensation liability at June 30, 2003 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 41,059
Long-term portion of accrued workers' compensation liability	154,041
Business-type activities:	
Current portion of accrued workers' compensation liability	37,946
Long-term portion of accrued workers' compensation liability	131,210
	$ 364,256

(17) SUBSEQUENT EVENTS

Short term Debt

On November 3, 2003, the Water Department issued commercial paper in the amount of $25 million to provide short-term financing for certain projects. The financing was issued in two segments, $5 million at an interest rate of 1%, maturing on April 1, 2004, and $20 million at an interest rate of .96%, maturing on November 12, 2003.

On November 12, 2003, the Water Department resold $20 million of commercial paper at an interest rate of 1.06%, maturing on December 19, 2003.

Long-term Debt

In July 2003, the City issued a total of $50.4 million in General Obligation Bonds. They consist of the following two bonds: $21 million Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2003A, and $29.4 million Educational Facilities Bonds, San Francisco Unified School District, Series 2003B. The 2003A Bonds will finance the acquisition, construction, and reconstruction of certain improvements to recreation and park facilities in the City. The 2003B Bonds will provide funds to finance the acquisition, construction, installation, equipping and/or reconstruction or completion of educational facilities and other related improvements used or to be used by the San Francisco Unified School District.

In December 2003, the City issued Refunding Settlement Obligation Bonds, Series 2003-R1 in the amount of $44.3 million to refund from savings a portion of the $49.5 million outstanding principal amount of the City and County of San Francisco Settlement Obligation Bonds, Series 2001 (Business Tax Judgment). The Series 2001 Bonds were issued to refund certain obligations resulting from certain final judgments entered pursuant to California Code of Civil Procedure Section 998 by the Superior Court of the County of San Francisco in connection with various business tax cases.

Elections

On November 4, 2003 the San Francisco voters approved the following propositions that will have fiscal impact on the City:

Proposition A - School General Obligation Bonds This authorizes the San Francisco School District (School District) to borrow $295 million by issuing general obligation bonds, to complete some of the projects in the District's Facilities Master Plan. The District will use this money to renovate classrooms, kitchens and bathrooms; improve accessibility for students with disabilities;

correct environmental hazards such as asbestos; make health and safety repairs to electrical and plumbing systems; replace bungalows; and rebuild outdoor areas for hands-on environmental learning. For the first time, the School District is issuing bonds under its own authority.

Proposition C - City Services Auditor This amends the City's Charter to require the Controller to serve as City Services Auditor (CSA). The CSA would be required to monitor the level and effectiveness of services provided by the City to its residents. The City would set aside at least two-tenths of one percent (0.2%) of the City's annual budget to fund the CSA program.

Proposition F - Targeted Early Retirement This amends the City's Charter to authorize early retirement of City employees if the employees are in job classifications where individual positions are being eliminated because of the City's budget shortfall. Employees who receive this benefit would be treated as if they had worked three years longer and were three years older. This would allow some employees to retire who are not now eligible. Also, it would increase the retirement pay of employees who are already eligible to retire. The number of City employees who receive early retirement could not exceed the number of jobs eliminated because of the budget shortfall.

Proposition G - Rainy Day Reserve This amends the City's Charter to require 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 would be able to spend those reserved funds in years in which revenues decline or grow by less than two percent. This new approach replaces the existing requirement (Charter Section 9.113) for a Cash Reserve Fund equal to ten percent of the last preceding tax levy. The amendment includes other specifications such as a cap on the total amount of money that must be set aside, and limits as to how reserved funds may be spent. In the aggregate, while the total amount of City revenue or expenditure would not change, this will cause the City to budget less in some years, and to fund the budget with reserved funds in other years.

Proposition I - Child Care for Low Income Families This ordinance creates a separate program to pay part of the cost of child care and preschool for certain families. Families with at least one child between 3 and 5 years old could receive this subsidy if they live in San Francisco; have an income at or below 75% of the California median income; and do not receive a child care or preschool subsidy from the State. Money from the Children's Fund could not be used to pay for this child care program. It would be up to the Mayor and the Board of Supervisors whether to fund this program each year.

Proposition K - Sales Tax for Transportation This amends the City Business and Tax Code to continue the existing one-half cent sales tax, and replace the current transportation spending plan with a new, 30-year plan. Under the new plan, the money would be used for maintenance of local streets; transportation for the elderly and disabled; construction of a Central Subway; upgrades to the bus system, including new buses, stations and dedicated lanes; a Caltrain extension to a new Transbay Terminal; projects to improve pedestrian and bicycle safety; support for regional transportation systems (BART, Caltrain, and ferries); and replacing the roadway to Golden Gate Bridge (Doyle Drive). The Transportation Authority could modify the plan if voters approved. The sales tax would continue as long as the new or modified plan is in effect. The Transportation Authority would continue to direct use of the sales tax. It could spend up to $485.2 million per year and issue up to $1.88 billion in bonds, to be repaid from the one-half cent sales tax.

Passenger Facility Charges

On July 14, 2003, the Airport Commission authorized the Airport Director to finalize and submit the third PFC application (PFC#3) to the FAA to continue collections of a PFC at the Airport in the amount of $4.50 per enplaning passenger. PFC#3 amount is estimated at approximately $539 million and that the collections would extend through November 1, 2018. PFC#3 revenues would be used as a funding source to pay principal and interest on bonds issued for certain eligible costs associated with the development of the new international terminal complex, which consists of Boarding areas A and G and the International Terminal Complex.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

On July 31, 2003, SFO submitted PFC application #3 to the FAA. On August 27, 2003, the FAA determined PFC#3 as substantially complete in accordance with 14 Code of Federal Regulation Part 158. On September 15, 2003, the FAA published notice in Federal Register for public comments regarding PFC#3.

Leverage Lease - Lease Back Transaction (Unaudited)

In September 2003, MUNI entered into a second leveraged lease-lease back transaction over 21 Breda 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 be need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI will record deferred revenue in fiscal year 2004 of between $4.7 and $5 million for the difference between the amount received of $72.6 million and the amount paid to the escrows of $67.5 million (minus certain transaction expenses). The deferred revenue will be amortized over the life of the sublease.

As of September 30, 2003, 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.

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APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix contains certain summaries of the Trust Agreement and the Project Lease which are in addition and complimentary to the summaries found in the Official Statement under the captions "INTRODUCTION," "THE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." The following summaries are qualified in their entirety by reference to the complete Trust Agreement and the Project Lease, a copy of which can be obtained from the Agency.

CERTAIN DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

Additional Rental

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

Additions and Betterment Fund

The term "Additions and Betterment Fund" means the fund by that name established pursuant to the Trust Agreement.

Annual Debt Service

The term "Annual Debt Service" means, for each Fiscal Year, the sum of (1) the interest falling due on such series of Bonds in such twelve-month period, assuming that the Bonds of such series are retired as scheduled; and (2) the principal amount of such series of Bonds, if any, falling due by their terms in such twelve-month period.

Base Rental

The term "Base Rental" means all amounts payable to the Agency from the City as Base Rental pursuant to the Project Lease (but excluding Additional Rental).

Bond Insurance Policy

The term "Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

Bond Insurer

The term "Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, and its successors and assigns, as issuer of the Insurance Policy.

Bondowner; Bondholder; Holder; Owner

The term "Bondowner," "Bondholder," "Holder" or "Owner" means the person in whose name a particular Bond shall be registered.

Bonds

The term "Bonds" means the $33,565,000 aggregate principal amount of Redevelopment Agency of the City and County of San Francisco Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center).

Business Day

The term "Business Day" means any day other than a Saturday, a Sunday, a day on which banking institutions are authorized or required by law or executive order to be closed in the State for commercial banking purposes or a day on which trading on the New York Stock Exchange is suspended for more than four hours or a day on which the New York Stock Exchange is closed for a state or national holiday.

Certificate, Certificate of the Agency or Certificate of the City; Statement, Statement of the Agency or Statement of the City; Request, Request of the Agency or Request of the City; Requisition, Requisition of the Agency or Requisition of the City

The terms "Certificate", "Certificate of the Agency" or "Certificate of the City"; "Statement," "Statement of the Agency" or "Statement of the City"; "Request," "Request of the Agency" or "Request of the City"; and "Requisition", "Requisition of the Agency" or "Requisition of the City" mean, respectively, a written certificate, statement, request or requisition signed in the name of the Agency by its Executive Director or Deputy Executive Director-Finance and Administration or by the City by its Mayor, Controller, Director of Property or Director of Public Finance, or, with respect to a Requisition with respect to the Additions and Betterments Fund, also means its Director of Convention Facilities, or such other person as may be designated in writing to the Trustee and authorized to sign for the Agency or the City. Any such instrument and supporting opinions or representations, if any, may be, but need not be, combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

Any Certificate or Statement of the Agency or the City, as applicable, may be based, insofar as it relates to legal, accounting or engineering matters, upon the opinion or representation of counsel, accountants or engineers, unless the officer signing such certificate or statement knows, or in the exercise of reasonable care should have known, that the opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. The same officer of the Agency or the City, or the same counsel or accountant or engineer, as the case may be, need not certify to all of the matters required to be certified under any provision of the Trust Agreement, but different officers, counsel, accountants or engineers may certify to different facts.

Costs of Issuance

The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Agency or the City and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, credit enhancement fees, if any, and fees and charges for preparation, execution, transportation and safekeeping of the Bonds and premiums for bond insurance.

Credit Facility

The term "Credit Facility" means any letter of credit, line of credit, insurance policy, surety bond or other credit source deposited with the Trustee pursuant to the Trust Agreement. Any Credit Facility in the form of a letter of credit or line of credit shall be provided by any entity which maintains a rating of at least equal to the rating on the Bonds from Moody's and S&P and any Credit Facility in the form of an insurance policy, surety bond or other credit source shall be provided by an entity which maintains a rating of Aaa from Moody's, AAA from Fitch and AAA from S&P, such ratings to be in effect at the time of provision of such letter of credit, line of credit, insurance policy, surety bond or other credit source.

Defeasance Securities

The term "Defeasance Securities" means (i) Government Obligations and (ii) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or Government Obligations; (c) the principal of and interest on the Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the Government Obligations are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (f) the municipal obligations are rated AAA by S&P and Aaa by Moody's.

Event of Default

The term "Event of Default" shall have the meaning set forth under the caption "Defaults and Remedies" below.

Fiscal Year

The term "fiscal year" means the period beginning July 1 of each year and ending on the next succeeding June 30.

Fitch

The term "Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Agency.

Government Certificates

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

Government Obligations

The term "Government Obligations" 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, 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.

Insurance and Eminent Domain Fund

The term "Insurance and Eminent Domain Fund" means the fund by that name established pursuant to the Trust Agreement.

Interest Payment Date

The term "Interest Payment Date" means each January 1 and July 1, commencing on January 1, 2005.

Irrevocable Refunding Instructions

The term "Irrevocable Refunding Instructions" means the Irrevocable Refunding Instructions, dated the date of issuance and delivery of the Bonds, by the Agency and the City to the 1994 Trustee.

Law

The term "Law" means the Community Redevelopment Law, constituting Part 1 of Division 24 of the Health and Safety Code of the State of California, as amended.

Lease Year

The term "Lease Year" means the period from each July 1 to and including June 30 of the next succeeding calendar year, continuing throughout the term of the Project Lease;

provided that the first Lease Year shall commence on the date of issuance and delivery of the Bonds, and end on June 30, 2005.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

Moody's

The term "Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

Net Proceeds

The term "Net Proceeds" means any net proceeds of insurance or condemnation awards paid with respect to the Project or any portion thereof remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

1994 Bonds

The term "1994 Bonds" means the Agency's Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center) initially issued in the aggregate principal amount of $38,755,000.

1994 Trust Agreement

The term "1994 Trust Agreement" means Trust Agreement dated as of December 1, 1994 between the Agency and First Interstate Bank of California, as succeeded by the 1994 Trustee, as trustee.

1994 Trustee

The term "1994 Trustee" means BNY Western Trust Company, as successor to First Interstate Bank of California, as trustee for the 1994 Bonds.

Opinion of Bond Counsel

The term "Opinion of Bond Counsel" means a written opinion of an attorney at law, or a firm of such attorneys, in each case designated by the City, of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

Opinion of Counsel

The term "Opinion of Counsel" means a written opinion of counsel (who may be counsel for the Agency) retained by the Agency. Any opinion of counsel may be based, insofar as it relates to factual matters, upon information which is in the possession of the Agency, upon a certificate or opinion of, or representation by, an officer or officers of the Agency, unless such counsel knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which his or her opinion may be based is erroneous.

Outstanding

The term "Outstanding," when used as of any particular time with reference to any Bonds, means (subject to the provisions of the Trust Agreement) all Bonds theretofore executed, issued and delivered by the Agency under the Trust Agreement except:

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which funds in the necessary amount shall have been deposited theretofore with the Trustee (whether upon or prior to the maturity or redemption date of such Bonds), provided, that if such Bonds are to redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Trust Agreement or some other provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Bonds in lieu of or in substitution for which other Bonds of the same series shall have been executed, issued and delivered by the Agency pursuant to the Trust Agreement.

Bonds the principal of and/or interest on which have been paid by the Bond Insurer pursuant to the Bond Insurance Policy shall remain Outstanding for all purposes, as more fully set forth in the Trust Agreement.

Permitted Encumbrances

The term "Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Assignment Agreement; (iii) the Project Lease; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of initial delivery of the Bonds and which an independent third party certifies in writing will not materially impair the use of the Project by the City; and (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Project Lease and to which the Agency, the City and the Trustee consent in writing.

Permitted Investments

The term "Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the Agency:

(a) Government Obligations or Government Certificates;

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

(i) Rural Economic Community Development Administration - Certificates of beneficial ownership;

(ii) Federal Housing Administration Debentures (FHA);

(iii) General Services Administration - Participation Certificates;

(iv) Government National Mortgage Association (GNMA or "Ginnie Mae") - guaranteed mortgage-backed bonds and GNMA guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration - Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds; and

(vii) any other agency or instrumentality of the United States of America;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States of America government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation certificates (mortgage-backed securities) and senior debt obligations;

(iii) Fannie Mae - mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae") - Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form;

(vi) Federal Farm Credit System - Consolidated systemwide bonds and notes; and

(vii) any other agency or instrumentality of the United States of America;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm-G or AAAm and by Moody's of Aaa;

(e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan, provided that such certificates of deposit shall be either (i) continuously and fully insured by the FDIC, or (ii) have a maturity of not greater than 365 days and have the highest short-term letter and numerical ratings of Moody's and S&P;

(f) Savings accounts or money market deposits that are fully insured by the FDIC;

(g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated in the highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates.

(h) Commercial paper of "prime" quality rated in the highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P, provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated A or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) above, which, exclusive of accrued interest, shall be maintained at least 100% of par. In addition, repurchase agreements shall meet the following criteria: (i) the third party (who shall not be the provider of the collateral) has possession of the repurchase securities and the Government Obligations or Government Certificates; (ii) failure to maintain the requisite collateral levels shall require liquidation; and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities; and

(l) Any other debt or fixed income security specified by the City (except securities of the City and any agency, department, commission or instrumentality thereof) and rated in the highest rating category by Moody's and S&P, including "pre-funded" municipal obligations.

Principal Payment Date

The term "Principal Payment Date" means any July 1 on which principal is scheduled to be paid, commencing July 1, 2007.

Project

The term "Project" means those parcels of real property and improvements thereon identified in Exhibit A to the Project Lease.

Project Lease

The term "Project Lease" means the Amended and Restated Project Lease, dated as of June 1, 2004 and by and between the Agency, as lessor, and the City, as lessee, providing for the lease of the Project from the Agency to the City, as the same may be amended or supplemented, including as amended or supplemented.

Rating Agency

The term "Rating Agency" means, severally, Moody's, S&P and Fitch so long as each such organization maintains a rating on the Bonds.

Rebate Fund

The term "Rebate Fund" means the fund by that name established pursuant to the Trust Agreement.

Refunding Fund

The term "Refunding Fund" means the fund by that name established pursuant to the Trust Agreement.

Reserve Fund

The term "Reserve Fund" means the fund by that name established pursuant to the Trust Agreement.

Reserve Fund Requirement

The term "Reserve Fund Requirement" means, , as of any date of calculation, the least of (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service or (iii) 10% of the original principal amount of the Bonds.

Revenues

The term "Revenues" means proceeds of the Bonds, if any, deposited in the Revenue Fund and the Reserve Fund, the Base Rental payments set forth in Exhibit B to the Project Lease that are received by the Trustee for the benefit of the Owners of the Bonds pursuant to the Assignment Agreement, other amounts received by the Trustee for the benefit of the Owners of the Bonds under the Assignment Agreement, and all other revenues, proceeds, charges, income, rents, receipts, profits and benefits derived by the Agency as lessor of the Project under the Project Lease or otherwise from the use and operation of the Project or arising out of the Project (other than Additional Rental) and payable to the Trustee under the terms of the Assignment Agreement, including interest or profits from the investment of money in any fund or account created under the Trust Agreement (other than the Rebate Fund, the Working Capital Fund and the Additions and Betterments Fund), and any other contributions from whatever source that are available for the payment of debt service on the Bonds.

S&P

The term "S&P" means Standard & Poor's Ratings Services - a division of the McGraw-Hill Companies, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

Site

The term "Site" means that certain real property situated in the City and County of San Francisco, State of California, more particularly described in the Project Lease; subject, however, to the Redevelopment Plan and to any conditions, reservations and easements of record or known to the City.

Substitute Project

The term "Substitute Project" means any and all real property and the improvements thereon in the City and all additions and extensions or improvements thereto, whether or not related to the Project, that are hereafter described as a Substitute Project by an amendment to the Project Lease as provided in the Project Lease, provided that such property, improvements, additions and extensions shall be used for a governmental purpose, and further provided that the useful life thereof is equal to or greater than that of the Project being replaced.

Tax Certificate

The term "Tax Certificate" means, collectively, the Certificate as to Arbitrage and the Certificate Regarding Use of Proceeds, both dated as of the date of issuance and delivery of the Bonds, and executed by the Agency and the City.

Value

The term "Value" means the value of any investments as of any time of determination, calculated as the greater of cost or accreted value.

Working Capital

The term "Working Capital" means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Project, including all reasonable expenses of management, repair and replacement, utilities, security, janitorial services and all other expenses necessary to maintain and preserve the Project in good repair and working order, and including all administrative costs of the City that are charged directly or apportioned to the operation of the Project or the administration of the Bonds, the Trust Agreement and the Project Lease, including amounts payable as Additional Rental.

Working Capital Fund

The term "Working Capital Fund" means that fund created pursuant to the Trust Agreement.

THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement, is not intended to be comprehensive or definitive, and is qualified in its entirety by the Trust Agreement.

Funds Established Under the Trust Agreement

The Trust Agreement establishes the following funds, among others:

(i) Refunding Fund;
(ii) Costs of Issuance Fund;
(iii) Rebate Fund;
(iv) Revenue Fund;
(v) Reserve Fund;
(vi) Operation and Maintenance Fund;
(vii) Additions and Betterments Fund; and
(viii) Working Capital Fund.

Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust the Costs of Issuance Fund. All money in the Costs of Issuance Fund shall be withdrawn and applied by the Agency to pay Costs of Issuance relating to the Bonds upon a Requisition of the Agency pursuant to the Trust

Agreement. All moneys remaining in the Costs of Issuance Fund on November 1, 2004 shall be transferred by the Trustee to the Revenue Fund.

Refunding Fund

The Trustee shall establish, maintain and hold in trust the Refunding Fund. The Trustee shall apply amounts on deposit in the Refunding Fund pursuant to and in accordance with the Irrevocable Refunding Instructions to redeem the portion of the Bonds described in the Irrevocable Refunding Instructions.

Pledge of Revenues

The Agency has pledged, granted and assigned to the Trustee (and, on a subordinate basis, to the Bond Insurer) a lien on and security interest in all right, title and interest of the Agency in and to all of the following, which lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Agency therein: (i) the Revenues, (ii) all moneys and securities (excluding moneys and securities on deposit in the Rebate Fund, the Working Capital Fund or the Additions and Betterment Fund) held from time to time by the Trustee under the Trust Agreement, (iii) earnings on amounts included in provisions the preceding (i) and (ii), and (iv) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be, with respect to the security provided thereby, of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds.

Allocation of Revenues

The Agency has pledged and assigned all of its rights, title and interest of the Agency in and to all of the following, , which lien and security interest, except as otherwise expressly set forth in the Trust Agreement, shall be prior in right to any other pledge, lien or security interest created by the Agency therein: (i) the Revenues, (ii) all moneys and investments (excluding moneys on deposit in the Rebate Fund, the Working Capital Fund or the Additions and Betterment Fund) held from time to time by the Trustee under the Trust Agreement, (iii) earnings on amounts included in provisions (i) and (ii), and (iv) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be, with respect to the security provided thereby, of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds.

The Trustee will deposit and allocate all Revenues in the Revenue Fund in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Payments. The Trustee, on each Interest Payment Date, shall first apply amounts on deposit in the Revenue Fund to pay the aggregate amount of interest becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date.

(b) Principal Payments. The Trustee, on each Principal Payment Date, after making the payments required on such date by subsection (a) above, shall next apply amounts on deposit in the Revenue Fund to pay the principal of the Bonds then due or required to be paid on such Principal Payment Date with respect to the Bonds in accordance with the terms of the Trust Agreement.

(c) Reserve Fund. On each Interest Payment Date, after making all payments required by subsections (a) and (b) above, the Trustee shall deposit in the Reserve Fund such amounts as may be necessary to maintain on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement; provided, however, that following issuance of the Bonds, failure to so maintain such amounts on deposit in the Reserve Fund (because such amounts have been used for the purpose for which the Reserve Fund has been established) shall not constitute an Event of Default under the Trust Agreement, but only if and to the extent Revenues are not available for such purpose.

Moneys in (or available to) the Reserve Fund shall be applied solely for the purpose of paying the interest on the Bonds as the same shall become due and payable, including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Trust Agreement, or for the purpose of paying the principal of the Bonds as the same become due (in both instances, however, only to the extent that there are insufficient moneys available for such purposes in the Revenue Fund). Any moneys in excess of the Reserve Fund Requirement in the Reserve Fund shall, on or before any June 1 and December 1 occurring while any Bonds are Outstanding, be transferred to the Revenue Fund. For purposes of determining the amount or existence of any such excess, the Trustee shall cause the investments in the Reserve Fund to be valued at their Value as of the Business Day immediately preceding the applicable June 1 or December 1. To the extent that amounts are held in the Reserve Fund at the time of the final payment of debt service due on the Bonds, such amounts shall be used to pay, in whole or in part, such final payment.

Notwithstanding anything in the Trust Agreement to the contrary, at the option of the City, amounts required to be held in the Reserve Fund may be substituted, in whole or in part, by the deposit of a Credit Facility with the Trustee; provided that with respect to any such substitution, (i) such substitution shall not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Bonds (and the City shall notify each Rating Agency prior to making any such substitution), and (ii) the Trustee shall receive prior to any such substitution becoming effective an Opinion of Bond Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted shall be released to or at the direction of the City, or transferred to another fund under the Trust Agreement as directed by the City.

(e) Insurance and Eminent Domain Proceeds Fund. The Net Proceeds resulting from any insurance claim or eminent domain proceedings and payable to the Trustee pursuant to the Assignment Agreement shall be deposited in the Insurance and Eminent Domain Proceeds Fund and applied as set forth in the Trust Agreement, as applicable.

Working Capital Fund

There shall be deposited in the Working Capital Fund all Additional Rental delivered by the City to the Trustee for deposit therein. The Trustee shall, from time to time, disburse money from the Working Capital Fund to pay Working Capital, in each case promptly after receipt of, and in accordance with, a Request of the City.

In the event the Trustee receives Additional Rental pursuant to the Project Lease, the Trustee shall, unless the City Representative directs the Trustee to deposit all such Additional Rental in the Working Capital Fund, establish a separate fund for such Additional Rental and deposit any such amounts therein and such Additional Rental shall be applied by the Trustee solely to the payment of any costs in respect of which such Additional Rental was received, and shall not be commingled in any way with any other funds received by the Trustee pursuant to the Project Lease or the Trust Agreement, other than with amounts on deposit in the Working Capital Fund. Notwithstanding the foregoing, to the extent such Additional Rental was paid to replenish amounts on deposit in the Reserve Fund or for deposit into the Rebate Fund, such amounts shall be deposited into such funds.

Additions and Betterments Fund

There shall be deposited in the Additions and Betterments Fund $2,140,000, representing amounts held by the City that are derived from the Additions and Betterments Fund established pursuant to the 1994 Trust Agreement.

The Trustee shall, from time to time, disburse money from the Additions and Betterments Fund to pay Improvement Costs, as hereinafter provided, in each case promptly after receipt of, and in accordance with, a Requisition of the City. Each officer of the City required to execute such Requisition shall have full authority to execute such Request without any further approval of the Board of Supervisors of the City.

Reimbursement of Rental

All moneys in the Revenue Fund may be used at any time for reimbursement to the City for any rental paid by the City under the Project Lease for a period of time during which the payment of rental under the Project Lease is abated pursuant to the terms thereof and for which no other moneys are available.

Investment of Funds

Any moneys in any of the funds established by the Trustee pursuant to the Trust Agreement, upon the Request of the City, shall be invested in Permitted Investments (subject in each case to the limitations as to maturities hereinafter described). The Trustee shall notify the City not less than two (2) Business Days prior to the date moneys held under the Trust Agreement will be available for investment requesting that the City deliver to the Trustee a Request of the City specifying the Permitted Investments to be acquired by the Trustee with such moneys. The City, in issuing such Request, shall comply with the restrictions and instructions set forth in the Tax Certificate.

Moneys in the Revenue Fund may be invested in obligations which will, as nearly as practicable, mature on or before the respective Interest Payment Dates or Principal Payment Dates on which such moneys will be needed for the payment of interest or the retirement of Bonds. Moneys in the Reserve Fund may be invested in Permitted Investments (i) that have an average aggregate weighted term to maturity of not greater than five (5) years, unless such moneys will be needed sooner for the payment of principal of or interest on the Bonds, or (ii) that are subject to redemption at par on any Interest Payment Date, Principal Payment Date and redemption date at the option of the Agency, the City or the Trustee. Moneys in all other funds which may be invested as herein described may be invested in obligations which will, as nearly as practicable, mature on or before the date on which the invested moneys are estimated by the City to be required for expenditure.

Eminent Domain Proceedings and Insurance Proceeds

(a) Application of Insurance Proceeds. If the Project or any portion thereof shall be damaged or destroyed, the City shall make an election either to redeem Bonds or to repair or replace the Project or affected portion thereof in accordance with the provisions of the Project Lease. Notwithstanding the provisions of the Project Lease, the City shall, within 90 days of making its decision whether to repair or replace the Project or affected portion thereof or to redeem Bonds, notify the Trustee, the Bond Insurer and the Agency in writing of its election. The Net Proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Project or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in the Insurance and Eminent Domain Proceeds Fund and made available for and, to the extent necessary, shall be applied to redeem Bonds or applied to the cost of repair or replacement of the Project or the affected portion thereof, in either case upon receipt of a Request of the Agency. The Trustee may conclusively rely on any such Request of the City. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The Net Proceeds of any insurance, including the proceeds of any self-insurance, remaining after the portion of the Project which was damaged or destroyed is restored to and made available to the City in substantially the same condition and fair rental value as that which existed prior to the damage or destruction or the redemption, or provision for the redemption, of Bonds as provided in the Trust Agreement, in each case as evidenced by a Certificate of the City to such effect, shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement. Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence shall, if there is first delivered to the Trustee a Certificate of the City to the effect that the annual fair rental value of the Project after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to the maximum amount of Base Rental payments and Additional Rental becoming due under the Project Lease in the then current Lease Year or any subsequent Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then any excess amounts shall be used to redeem Bonds.

(b) Eminent Domain. If the Project or any portion thereof shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) then the provisions set forth in the Project Lease shall apply. Notwithstanding the provisions of the Project Lease, the City shall, within 90 days of making its decision whether or not the Project will be replaced or the Bonds redeemed, notify the Trustee, the Bond Insurer and the Agency in writing of whether or not the Project will be replaced or the Bonds redeemed. The Net Proceeds of any condemnation award shall as soon as possible be deposited with the Trustee and be held by the Trustee in the Insurance and Eminent Domain Proceeds Fund and made available for and, to the extent necessary, shall be applied to redeem Bonds in accordance with the Trust Agreement or applied to the cost of replacement of the Project, in either case upon receipt of a Request of the City. The Trustee may conclusively rely on any such Request of the City. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The Net Proceeds of any condemnation award remaining after the Project has been replaced by property available to the City in substantially the same condition and fair rental value as that which existed prior to the eminent domain proceedings or the redemption, or provision for the redemption, of Bonds as required in the Trust Agreement, in each case as evidenced by a Certificate of the City to such effect, shall be deposited into the accounts of the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement. Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence shall, if there is first delivered to the Trustee a Certificate of the City to the effect that the annual fair rental value of the replacement Project is at least equal to the maximum amount of Base Rental payments and Additional Rental becoming due under the Project Lease in the then current Lease Year or any subsequent Lease Year, be paid to the Agency to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then any excess amounts shall be used to redeem Bonds pursuant to the Trust Agreement.

(c) Application of Proceeds In the Event of Substitution. In the event of insurable damage to or destruction of the Project or in the event of a taking by eminent domain or the sale of the Project upon the threat thereof, if the City determines to substitute a Substitute Project in lieu of redeeming Bond, the proceeds of such insurance or eminent domain proceedings shall be transferred by the Trustee to the City for use on any capital project of the City, provided that the City shall have first obtained an Opinion of Bond Counsel to the effect that such use of proceeds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

(d) Title Insurance. Net Proceeds of any policy of title insurance received by the Trustee in respect of the Project or any portion thereof shall be deposited by the Trustee in the Insurance and Eminent Domain Proceeds Fund and disbursed by the Trustee as follows:

(i) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Project and will not result in an abatement of Base Rental payable by the City under the Project Lease, such Net Proceeds shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement. Amounts not required to be so deposited shall, if there is first delivered to the Trustee a Certificate of the City to the effect that the annual fair rental value of the Project, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental and Additional Rental becoming due under the Project Lease in the then current Lease Year or any subsequent Lease Year, be paid by to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts shall be used to redeem Bonds.

(ii) If any portion of the Project has been affected by such title defect, and if the City determines that such title defect will result in an abatement of Base Rental payable by the City under the Project Lease, then either (1) the City shall use the Net Proceeds to remove the title defect, or (2) the Trustee shall, if not notified in writing by the City within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, apply such proceeds to the redemption of Bonds in the manner provided in the Trust Agreement.

Covenants

The Agency covenants in the Trust Agreement that:

(a) it will pay the principal and the interest (and premium, if any) to become due in respect of the Bonds at the times and places and in the manner provided in the Trust Agreement;

(b) it will not directly or indirectly extend the dates upon which principal of or interest on the Bonds are required to be paid or redeemed.

(c) all Revenues when and as received shall be received by the Agency in trust under the Trust Agreement for the benefit of the Owners and shall be deposited when and as received by the Agency in the Revenue Fund. All Revenues shall be accounted for through and held in trust in the Revenue Fund and the Agency shall have no beneficial right or interest in any of the Revenues except as provided in the Trust Agreement. All Revenues, whether received by the Agency in trust or deposited with the Trustee, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, moneys or other resources of the Agency;

(d) it will keep (or cause to be kept) proper books of record and account and not more than 180 days after the close of the Fiscal Year have an audit report prepared;

(e) it will observe and perform all the covenants, conditions and requirements of the Trust Agreement faithfully, and will not suffer or permit any default to occur under the Trust Agreement, nor do or permit to be done in, upon or about the Project, or any part thereof, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Trust Agreement;

(f) it will keep, perform and comply promptly and faithfully in all respects with all the terms, provisions, covenants, conditions and agreements of the Project Lease to be kept, performed and complied with by it;

(g) it will keep, perform and comply promptly and faithfully in all respects with all the terms, provisions, covenants, conditions and agreements of the Project Lease to be kept, performed and complied with by it and will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Project Lease, or would or might be a ground for cancellation or termination of the Project Lease by the lessee thereunder;

(h) it will pay or cause to be paid all taxes, assessments and other governmental charges, if any, that may be levied, assessed or charged upon the Project or any part thereof, or upon the Revenues or any part thereof, promptly as and when the same shall become due and payable; and the Agency will keep the Trustee advised of such payments, upon request of the Trustee, from time to time. The Agency will not suffer the Project, or any part thereof, to be sold for any taxes, assessments or other charges whatsoever, or to be forfeited therefor;

(i) to the extent material to the issuance of and security for the Bonds, it will keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the Agency, including its right to exist and carry on business as a public body, corporate and politic, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired;

(j) it will maintain or cause the Project to be maintained in good condition and repair and all buildings, facilities and equipment now or hereafter constituting any part of the same, and shall not commit or allow any waste with respect to the Project;

(k) so long as any Bonds are Outstanding, the Agency will not create or suffer to be created any mortgage, pledge, lien or charge upon the Project or any part thereof or the Revenues, or upon any real or personal property essential to the operation of the Project, other than the pledge, lien and charge referred to in the Project Lease or provided for in the Trust Agreement, and other than Permitted Encumbrances. The Agency will not issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues, other than the Bonds, and will not sell or otherwise dispose of any property essential to the proper operation of the Project or to the maintenance of the Revenues;

(l) it will not create any mortgage, pledge or lien or charge upon any part of the Project essential to its proper operation or upon the Revenues or issue any bonds or obligations payable from Revenues or secured by a pledge, lien or charge upon Revenues, other than the Bonds and any Additional Bonds; and

(m) it will comply with applicable requirements with respect to the Bonds under the Internal Revenue Code of 1986, as amended.

Trustee

U.S. Bank National Association, San Francisco, California and St. Paul, Minneapolis, is the Trustee under the Trust Agreement.

Pursuant to the Trust Agreement, the Agency agrees that it will maintain a Trustee having a corporate trust office in the State of California, with a combined capital and surplus of at least Fifty Million ($50,000,000), and subject to supervision or examination by federal or state authority, so long as any Bonds are Outstanding.

The Agency, unless the Agency is in default under the Trust Agreement, may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company meeting the requirements set forth above.

The Trustee may resign at any time by giving written notice to the Agency, upon which notice the Agency shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. Upon acceptance of appointment by a successor Trustee, the Agency shall give notice of the succession of such Trustee to the trusts to the City and by mail to the registered owners of the Bonds at the addresses shown on the registration books maintained by the Trustee.

Defaults and Remedies

The following are events of default under the Trust Agreement:

(a) a default shall occur under the Project Lease; or

(b) the Agency shall fail to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement, other than such failure as may constitute an Event of Default under clause (a) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Agency by the Trustee, or to the Agency and the Trustee by the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding; provided, however, that failure to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default under the Trust Agreement; provided further, however, if the failure stated in the notice cannot be corrected within such period, then such period will be extended so long as corrective action is instituted by the Agency within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner.

Upon the occurrence and continuance of any Event of Default specified in (a) above, the Trustee shall proceed, or upon the occurrence and continuance of any other Event of Default under the Trust Agreement, the Trustee may, proceed (and upon written request of the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction by such Owners shall proceed) to exercise the remedies set forth in the Project Lease to the extent an event of default has occurred under the Project Lease.

If an Event of Default occurs, the Trustee shall, unless such Event of Default is immediately remedied, promptly give notice, at the expense of the Agency, of such Event of Default to the Owners. Such notice shall state that a default has occurred and shall provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interest of the Owners. The notice shall be given by first-class mail, postage prepaid, to the Owners within 30 days of the occurrence of such Event of Default.

No remedy conferred upon or reserved to the Trustee under the Trust Agreement is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it shall not be necessary to give any notice other than such notice as may be required in the Trust Agreement or by law.

The Trustee may in its discretion waive any Event of Default and its consequences and shall also do so upon the written request of the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding; provided, however, that no default in the payment of the principal of, premium, if any, or interest on any Bond shall be waived unless prior to such waiver, all arrears of such payments have been made and all fees and expenses of the Trustee have been paid. In case of any such waiver, the Trustee, the Agency, the City and the Owners shall be restored to their former positions and rights under the Trust Agreement, respectively, but such waiver shall be limited to the particular breach so waived and shall not be deemed to waiver any other breach under the Trust Agreement.

In the event the Trustee fails to take any action to eliminate an Event of Default under the Trust Agreement, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding may institute a suit, action, mandamus, or other proceeding in equity or at law for the protection or enforcement of any right under the Trust Agreement, but only if such Owners shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Trust Agreement or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee shall have been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Notwithstanding any other provision in the Trust Agreement, the right of any Owner to receive principal and interest in accordance with the terms of his or her Bond or to institute suit for the enforcement of any such payment on or after such payments become due shall not be impaired or affected without the consent of such Owner.

Except to the extent necessary to compensate the Trustee for its reasonable fees and expenses (including reasonable attorneys' fees and expenses) and to pay all principal of and interest then due and unpaid on all Outstanding Bonds, all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Trust Agreement or the Project Lease shall be deposited by the Trustee into the Revenue Fund and used first to pay interest on the Bonds and then to pay the principal of the Bonds. If the amount deposited into the Revenue Fund is not sufficient to pay all overdue interest payments, the amounts deposited shall be distributed pro rata to Owners on the basis of the amount of interest due and unpaid to such Owners. If the amount deposited into the Revenue Fund is not sufficient to pay all overdue payments of principal, the amounts deposited shall be distributed pro rata to Owners on the basis of the amount of principal due and unpaid to such Owners.

To the extent not required to be deposited into the Revenue Fund pursuant to the immediately preceding paragraph, all damages or other payments received by the Trustee from the enforcement of any rights and powers under the Trust Agreement shall be applied as follows in the order of priority indicated: (i) deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Fund Requirement; and (ii) any remaining amounts shall be deposited into and retained in the Revenue Fund for application to the payments due with respect to the Bonds on the next succeeding payment dates thereof.

Anything in the Trust Agreement to the contrary notwithstanding, so long as the Bond Insurance Policy is in effect with respect to the Bonds and the Bond Insurer is not in default of its obligation to make payments thereunder, the Bond Insurer shall be deemed to be the Owner of all Bonds then Outstanding for all purposes (including, without limitation, all approvals, consents, requests, waivers, authorizations, directions, inspections and the institution of any action), provided that nothing in the Trust Agreement shall impair the rights of the Owners to receive all payments due under the Bonds, and the Bond Insurer shall have the exclusive right to exercise or direct the exercise of remedies on behalf of the Owners of such Bonds in accordance with terms of the Trust Agreement following an Event of Default, and the principal of all such Bonds Outstanding may not be declared to be due and payable immediately without the prior written consent of the Bond Insurer nor shall any declaration of acceleration be rescinded without the prior written consent of the Bond Insurer.

In addition to the consents of the Bond Insurer required under other provisions of the Trust Agreement, the following provisions relating to the Bond Insurer shall apply:

(a) Any reorganization or liquidation plan with respect to the Agency or the City must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Bondholders absent a default by the Bond Insurer under the Bond Insurance Policy.

(b) The initiation or approval of any action requiring Bondholder consent shall also require the consent of the Bond Insurer.

Amendment

The Trust Agreement and the rights and obligations of the Agency and of the Owners of the Bonds may be modified or amended at any time by a supplement or amendment thereto which shall become effective when the written consents of the Bond Insurer and of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such supplement or amendment shall (1) extend the fixed maturity of any Bonds or reduce the interest rate thereon or extend the time of payment of interest, or reduce the amount of principal thereof or reduce any premium payable upon the redemption thereof, without the express consent of the Owner of such Bond, or (2) reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without the written assent thereto by the Trustee.

The Trust Agreement may also be amended or without the consent of any of the Owners of the Bonds, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Agency contained in the Trust Agreement other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the Agency which in either case shall not materially adversely affect the interest of the Owners of the Bonds.

(b) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement, as the Agency may deem necessary or desirable and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(c) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or statute, and which shall not materially adversely affect the interest of the Owners of the Bonds;

(d) to maintain the exclusion of interest on the Bonds from gross income for Federal income tax purposes; or

(e) to modify any of the provisions of the Trust Agreement in any other respect, including, but not limited to, in connection with the substitution of a Credit Facility as set forth in the Trust Agreement, provided that such modifications shall not have a material adverse effect on the interests of the Owners of the Bonds.

Notwithstanding any other provision of the Trust Agreement, any provision of the Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Trust Agreement without the prior written consent of the Bond Insurer.

Discharge of Liability on the Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or Defeasance Securities in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Trust Agreement or provisions satisfactory to the Trustee shall have been made for the giving of such notice, all liability of the Agency in respect of such Bonds shall cease, terminate and be completely discharged and the Owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Securities deposited with the Trustee as aforesaid for their payment.

In the event that debt service on the Bonds is not paid in full by June 30, 2034 due solely to abatement occurring under of the Project Lease, the Bonds will be deemed discharged and no longer outstanding under the Trust Agreement, and the Agency shall cease to have any liability thereunder.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge of the Revenues and all covenants, agreements and other obligations of the Agency to the registered owners shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners.

Bond Insurance Policy

Payment Procedure-Insurance Policy. Payments under the Bond Insurance Policy shall be made in accordance with the following provisions, with which the Agency and the Trustee agree to comply, so long as the Bond Insurance Policy shall be in full force and effect.

(a) At least one (1) day prior to each Interest Payment Date, the Trustee will determine whether there will be sufficient funds in the funds and accounts established under the Trust Agreement to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest or both. If the Trustee has not so notified the Bond Insurer at least one (1) day prior to an Interest Payment Date, the Bond Insurer will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which the Bond Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Bond Insurer as provided in (a) above, make available to the Bond Insurer and, at the Bond Insurer's direction, to The Bank of New York, New York, New York, as insurance trustee for the Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Agency maintained by the Trustee and all records relating to the funds and accounts maintained under the Trust Agreement.

(c) The Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Trustee shall, at the time it provides notice to the Bond Insurer pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Trustee and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their Bonds for payment thereon first to the Trustee who shall note on such Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest on a Bond which has become due for payment and which is made to a Bondholder by or on behalf of the Agency has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, promptly upon receiving such notice, notify the Bond Insurer of such notice and notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted the Bond Insurer under the Trust Agreement, the Bond Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Agency maintained by the Trustee upon receipt from the Bond Insurer of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Agency maintained by the Trustee upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

<u>Additional Provisions</u>.

(a) While the Bond Insurance Policy is in effect, the Agency, the City or the Trustee, as appropriate, shall furnish to the Bond Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

> (i) as soon as practicable after the filing thereof, a copy of any financial statement of the Agency and the City and a copy of any audit and annual report of the Agency and the City and;
>
> (ii) such additional information it may reasonably request.

(b) a copy of any notice to be given to the Owners of the Bonds, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Bonds.

(c) To the extent that the City has entered into a continuing disclosure agreement with respect to the Bonds, the Bond Insurer shall be included as party to be notified.

(d) The Trustee or the Agency, as appropriate, shall notify the General Counsels' office of any failure of the Trustee or the Agency to provide relevant notices, certificates, or filings.

(e) Notwithstanding any other provision of the Trust Agreement, the Trustee or the Agency, as appropriate, shall immediately notify the Bond Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default under the Trust Agreement.

(f) The Agency will permit the Bond Insurer to discuss the affairs, finances and accounts of the Agency or City or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Agency. The City or Agency, as appropriate, will permit the Bond Insurer to have access to the Project and have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

(g) The Bond Insurer shall have the right to direct an accounting at the Agency's expense, and the Agency's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default under the Trust Agreement; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any Owners of the Bonds.

(h) Notwithstanding any other provision of the Trust Agreement or the Project Lease, the City may not amend the Project Lease for the purposes of substituting or releasing all or a portion of the Project pursuant to the provisions thereof without the consent of the Bond Insurer (which consent shall not be unreasonably withheld).

(i) The Bond Insurer shall have the right to approve of any action taken under the Trust Agreement which requires the consent of the Owners of the Bonds.

(j) To the extent that the Trust Agreement confers upon or gives the Bond Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Bond Insurer is explicitly recognized as being a third-party beneficiary and may enforce any such right, remedy or claim conferred, given or granted thereunder.

(k) Notwithstanding any other provision of the Trust Agreement, in determining whether the rights of Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

(m) All provisions in the Trust Agreement relating to the rights of the Bond Insurer to consent to supplements to or amendments of the Trust Agreement or the Project Lease or to direct remedies after an Event of Default shall be of no force and effect if the Bond Insurer is in default of its payment obligations under the Bond Insurance Policy.

THE PROJECT LEASE

The following is a summary of certain provisions of the Project Lease, is not intended to be comprehensive or definitive, and is qualified in its entirety by reference to the Project Lease.

Certain Definitions

In addition to the terms defined above under the caption "THE TRUST AGREEMENT", the following terms have the following meanings when used in the Project Lease:

Base Rental Payment Date

The term "Base Rental Payment Date" means any date on which Base Rental is scheduled to be paid under the Project Lease, being June 25 and December 24 of each year, commencing on December 24, 2004 (subject to the abatement provisions of the Project Lease)

Hotel Tax

The term "Hotel Tax" means the hotel room tax levied by the City at a rate of four percent (4%) pursuant to Section 502, Part III of the San Francisco Municipal Code, as directed by Proposition S, approved by the voters of the City on November 2, 1976.

Hotel Tax Receipts

The term "Hotel Tax Receipts" means the amount paid or payable to the City in any Fiscal Year from the levy of the Hotel Tax.

1994 Project Lease

"1994 Project Lease" means the Amended and Restated Project Lease dated as of December 1, 1994, between the Agency, as lessor, and the City, as lessee, which was recorded on December 20, 1994 in the Recorder's Office of the City as document no. 94-F731605-00.

Risk Manager

The term "Risk Manager" means such person or firm of favorable reputation, qualified and experienced in the field of insurance and risk management consultation with respect to structures of the same nature as the Project, as may from time to time be designated by the City, and who may be employed by the City.

Substitution

The term "Substitution" means the release of the Project or any portion thereof from the leasehold created by the Project Lease and the lease of a Substitute Project, as provided in the Project Lease.

Term

The term of the Project Lease shall commence on the date of issuance and delivery of the Bonds, and shall end on June 30, 2024.

If on June 30, 2024, the Bonds shall not have been fully paid, or provision therefor made, then the term of the Project Lease shall be extended until ten (10) days after all Bonds shall have been fully paid, or provision therefor made, or otherwise discharged, provided that in no event shall the term of the Project Lease extend beyond June 30, 2034. If prior to June 30, 2024, the Bonds shall have been fully paid, or provision therefor made, then the term of the Project Lease shall terminate ten (10) days after all the Bonds shall have been fully paid, or provision therefor made.

Base Rental

The City shall pay to the Agency as Base Rental for the use and occupancy of the Project (subject to the provisions of the Project Lease and after the payment of Additional Rental) the amounts at the times specified in and in accordance with the Base Rental Payment Schedule set forth in the Project Lease; provided, however, the amount of Base Rental to be paid on any particular Base Rental Payment Date shall be reduced if and to the extent necessary in order that the aggregate of Base Rental and Additional Rental paid during any Fiscal Year do not exceed the amount of Hotel Tax Receipts during the Fiscal Year next preceding the date such rental payment is due. The amount of Hotel Tax Receipts during each preceding Fiscal Year shall be established by the City at least ten (10) days prior to each December 24 Base Rental Payment Date.

Base Rental shall be payable commencing on December 24, 2004, and on each June 25 and December 24 thereafter during the term of the Project Lease. Base Rental shall be for the use and occupancy of the Project for the Lease Year in which such June 25 and December 24 occur, provided that the Base Rental paid on any June 25 or December 24 shall only be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Project. If the term of the Project Lease shall be extended pursuant to the terms thereof, the payments of Base Rental shall continue to and including such time the Project Lease shall terminate in accordance with the terms thereof.

Each installment of Base Rental payable under the Project Lease and each installment of Additional Rental payable under the Project Lease shall be paid in lawful money of the United States of America. Any delinquent installment of Base Rental or Additional Rental accruing under the Project Lease which shall not be paid when due shall bear interest at the actual rate or rates of interest on the Bonds coming due with respect to such payment. Notwithstanding any dispute between the Agency and the City, the City shall make all rental payments when due under the Project Lease without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute.

The City shall receive a credit for any Base Rental payment if and to the extent (i) moneys are on deposit in the Revenue Fund held under the Trust Agreement and are available for the payment of debt service on the Bonds which is to be made from such Base Rental payment, (ii) investments earnings on Permitted Investments (as defined in the Trust Agreement) will be deposited or credited in the Revenue Fund on or after a Base Rental Payment Date but on or prior to the applicable Interest Payment Date, or (iii) a credit is due to the City.

Additional Rental

The City shall also pay to the Agency (prior to the payment of Base Rental but only to the extent that such Additional Rental payable under the Project Lease during any Fiscal Year does not exceed the amount of Hotel Tax Receipts during the prior Fiscal Year), as Additional Rental under the Project Lease such amounts as shall be required by the Agency for the payment of the following:

(a) All taxes, assessments or governmental charges of any type or nature charged to the Agency or affecting the Project or the respective interests or estates of the Agency and the City therein, or affecting the amount available to the Agency from rentals received under the Project Lease for the retirement of the Bonds (including taxes, assessments or governmental charges assessed or levied by any governmental agency or district having power to levy taxes, assessments or governmental charges).

(b) All reasonable administrative costs of the Agency relating to the Project including, but without limiting the generality of the foregoing, all expenses and compensation of the Trustee under the Trust Agreement of auditors, rebate analysts, accountants, attorneys or engineers or to defend the Agency and its members, officers, agents and employees.

(c) Any amounts required to be deposited by the Agency in the Rebate Fund of the Trust Agreement which are not otherwise available to the Agency under the Trust Agreement.

(d) Insurance premiums for all insurance required pursuant to Article VI of the Project Lease and not obtained by the City.

Such Additional Rental shall be billed to the City by the Agency or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Agency or by the Trustee on behalf of the Agency, for one or more of the items above described, or that such amount is then payable by the Agency or the Trustee for such items. Amounts so billed shall be paid by the City within sixty (60) days after receipt of the bill by the City. The City may at its option, pay all or any portion of Additional Rental to the Trustee for deposit in the Working Capital Fund.

Appropriations Covenant

The City covenants in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental payments due under the Project Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. The appropriations covenants on the part of the City in the Project Lease shall be deemed to be and shall be construed to be a duty imposed by law and it shall be the duty of each and every public official of the City to take such action and do such thing as are required by law in the performance of the official duty of such official to enable the City to carry out and perform the covenants and agreements in the Project Lease agreed to be carried out and performed by the City.

Abatement

Except to the extent of amounts available to the City for payments under the Project Lease and except as otherwise specifically provided in the Project Lease, during any period in which, by reason of material damage or destruction there is substantial interference with the use and occupancy by the City of any portion of the Project, rental payments due under the Project Lease shall be abated proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Project Lease by virtue of any such interference and the Project Lease shall continue in full force and effect. Subject to the Project Lease, the amount of abatement shall be in the proportion in which the initial cost of that portion of the Project rendered unusable bears to the initial cost of the whole of the Project. The City shall calculate such abatement and shall provide the Agency and the trustee for each series of bonds with a certificate setting forth such calculation and the basis therefor. Such abatement shall continue for the period commencing with the date of such damage or destruction and ending with the substantial completion of the work of repair or replacement of the Project so damaged or destroyed; and the term of the Project Lease shall be extended by the period during which the rental is abated under the Project Lease, except that the term shall in no event be extended beyond July 1, 2034.

The City hereby acknowledges and agrees that during any period of abatement with respect to all or any part of the Project, the Agency shall use the proceeds of rental interruption insurance maintained by the City and moneys on deposit in the Reserve Fund maintained under the Trust Agreement to make debt service payments on the Bonds.

The City has the option, but not the obligation, to deliver a Substitute Project during any period of abatement.

Fair Rental Value

The payments of the foregoing Base Rental and Additional Rental during the term of the Project Lease shall constitute the total rental for the City's use and occupancy of the Project for the Lease Year in which such payments are scheduled to be made, and the Agency and the City have agreed and determined that such total rental represents the fair rental value of the Project. In making such determination, consideration has been given to the costs of financing and leasing of the Project by the Agency, the uses and purposes which may be served by the Project, and the benefits which will accrue to the Agency, the City and the general public therefrom. Hotel Tax Receipts are not pledged, assigned or required to be set aside in any manner for the payment of rental under the Project Lease. The Agency and the City have agreed and determined that Hotel Tax Receipts paid to the City from time to time shall serve solely as an index of the City's tourist and convention center business and of the benefits accruing to the City by virtue of the Project, and therefore as the measure of the City's rental obligation under the Project Lease, calculated in the manner described in the Project Lease. Said total rental shall be paid for and in consideration of the continued quiet use and enjoyment thereof during each Lease Year for which said rental is to be paid.

Notwithstanding any other provision of the Project Lease, in the event that rental payments due under the Project Lease shall be subject to partial abatement for any period of time due to the unavailability of a portion of the Project for use and occupancy by the City, the rental payments due for such period of time shall not exceed the fair rental value of that portion of the Project available for use and occupancy by the City during such period of time (which fair rental value may, at the option of the City, be recalculated at the time such unavailability occurs).

Substitution of Leased Property

(a) Whenever the City determines that the annual fair rental value of a proposed Substitute Project is at least equal to the maximum annual Base Rental payments and Additional Rental payments yet unpaid under the Project Lease and that the Substitute Project is complete and is available for beneficial use and occupancy by the City, the City may amend Exhibit A to the Project Lease to substitute such Substitute Project for all or a portion of the Project leased under the Project Lease upon compliance with all of the conditions set forth in (b) below, and after a Substitution, all or a portion of the Project originally leased under the Project Lease shall be released from the leasehold under the Project Lease, as appropriate. The Agency and the City shall also make any amendments needed to be made to the Project Lease, and shall enter into any necessary site or ground leases in connection with such Substitution. Such amendments may be made without the consent of Bondowners, but with the prior written consent of the Bond Insurer (which consent shall not be unreasonably withheld). The City shall cause the Project Lease, as so amended, to be recorded in the Official Records of the City and County of San Francisco.

(b) No Substitution shall take place under the Project Lease until the City delivers to the Agency, the Bond Insurer and the Trustee the following:

(1) A certificate of the City based (with respect to clauses (i) and (ii) below) on an appraisal (which shall be prepared by an appraiser selected by the City and who may be an employee of the City) stating that: (i) the annual fair rental value of the Substitute Project as of the date of Substitution is no less than the maximum annual Base Rental and Additional Rental remaining unpaid under the Project Lease at the time of Substitution; (ii) the City will, at the time of the Substitution, have beneficial use and occupancy of the Substitute Project, (iii) the Substitute Project will be for the common benefit of the City and the residents therein, and (iv) the useful life of the Substitute Project is equal to or greater than that of the Project being replaced;

(2) An Opinion of Counsel to the effect that the amendment to the Project Lease has been duly authorized, executed and delivered and the Project Lease as so amended represents a valid and binding obligation of the City and the Agency and an Opinion of Bond Counsel to effect that the Substitution will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes or the exemption of interest on the Bonds from State of California personal income tax;

(3) A CLTA or ALTA standard form policy of title insurance in substantially the same form as delivered in connection with the issuance and delivery of the Bonds in at least the amount of the aggregate principal amount of

outstanding Bonds at the time of the Substitution insuring the City's leasehold interest in the Substitute Project under the Project Lease together with an endorsement thereto making such policy payable to the Trustee for the benefit of the Owners, and an Opinion of Counsel to the City to the effect that the exceptions, if any, contained in such policy do not interfere with the beneficial use and occupancy of the Substitute Project by the City; and

(4) Evidence of the recordation of the amended Project Lease.

Removal of Leased Property

The City shall have the option at any time and from time to time during the term of the Project Lease to remove from the Project Lease any portion of the Project without the consent of Bondowners; provided that the City shall receive the prior written consent of the Bond Insurer (which consent shall not be unreasonably withheld) and shall satisfy all of the following requirements which are conditions precedent to such removal:

(a) No event of default has occurred and is continuing under the Project Lease;

(b) The City shall file with the Agency, the Bond Insurer and the Trustee an appraisal (which shall be prepared by an appraiser selected by the City and who may be an employee of the City) stating that the annual fair rental value of the Project, taking into consideration the removal of a portion of the Project, is no less than the maximum annual Base Rental and Additional Rental remaining unpaid under the Project Lease at the time of such removal;

(c) The City shall file with the Agency, the Bond Insurer and the Trustee an amended Exhibit A to the Project Lease which deletes the legal description of such portion of the Project being removed, and shall also amend the definition of Project, as applicable; and

(d) The City shall cause to be recorded in the Office of the Recorder of the City and County of San Francisco a copy of the Project Lease containing such amended Exhibit A, or a memorandum of the Project Lease reflecting such amendment to Exhibit A.

Addition of Leased Property

The City may, at any time it deems it necessary or advisable, amend the Project Lease, and enter into any necessary or advisable site or ground lease, to add additional property to the property originally leased under the Project Lease. No such addition shall take place under the Project Lease until the following conditions have been satisfied:

(a) The City shall deliver to the Agency, the Bond Insurer and the Trustee the opinions required under (b)(2) in "Substitution of Lease Property" above, provided that in such instance such opinions shall relate to the addition of leased property and not the substitution or removal of leased property;

(b) The City shall deliver to the Agency, the Bond Insurer and the Trustee the title insurance policy described under (b)(3) in "Substitution of Leased Property" above, provided that in such instance such policy shall relate to the addition of leased property and not the substitution of leased property;

(c) The City shall file with the Agency, the Bond Insurer and the Trustee an amended Exhibit A to the Project Lease which adds the legal description of such additional property; and

(d) The City shall cause to be recorded in the Official Records of the City and County of San Francisco a copy of the Project Lease containing such amended Exhibit A, or a memorandum of the Project Lease reflecting such amendment to Exhibit A.

Insurance

So long as any of the Bonds are outstanding, the City is required to maintain or cause to be maintained the following insurance:

(a) General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Project. Said policy or policies shall provide coverage in the following minimum amount: $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained.

(b) All risk property insurance on all structures constituting any part of the Project in an amount equal to the lesser of the Outstanding principal amount of the Bonds or the replacement cost of the Project. Said insurance shall, as nearly as practicable, cover loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall contain a replacement cost endorsement.

(c) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Bonds or the replacement cost of the Project; provided that no such earthquake insurance shall be required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable upon reasonable terms and conditions on the open market from reputable insurance companies. To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Bonds or the replacement cost of the Project; provided that no such earthquake insurance shall be required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable upon reasonable terms and conditions on the open market from reputable insurance companies.

(d) Rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of twenty-four (24) months (such amount to be adjusted annually on or prior to July 1 of each year, commencing July 1, 2005, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months), to insure against loss of rental income from the Project caused by perils covered by the insurance required by clause (b) above and, if applicable, clause (c) above.

(e) Boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than $5,000,000 per accident.

All policies of insurance required under clauses (2), (3), (4) and (5) above shall name the City, the Agency and the Trustee as the insured parties and shall provide that all proceeds thereunder shall be payable to the Trustee pursuant to a lender's loss payable endorsement substantially in accordance with an appropriate form approved by the Insurance Services Office and the California Bankers Association, and all amounts so paid to the Trustee shall be applied as provided in the Trust Agreement. All policies of insurance required under clauses (1), (2), (3) and (5) may provide for a deductible amount which is commercially reasonable.

All policies of insurance required by the Project Lease shall be in form certified by the Risk Manager to be in compliance with the requirements of the Project Lease. The Agency or the City shall pay when due the premiums for all insurance policies required by the Project Lease. All insurance under the Project Lease shall be primary to any other insurance available to the Agency, and shall apply separately to each insured against whom claim is made or suit is brought and shall provide that the Trustee shall be given 30 days' notice of cancellation thereof. All insurance required to be maintained pursuant to the Project Lease may be maintained either separately or as a part of any insurance carried by the Agency or the City or required by either to be carried, but if maintained as part of other insurance carried by the Agency or the City, shall specifically identify the Project as being covered by such insurance, the amount of coverage applicable to the Project, and the amount of the deductible applicable to the Project. All insurance must be provided by a commercial insurer rated not less than A+ by A.M. Best Company or in one of the two highest rating categories of Moody's and S&P. The City shall certify in writing to the Trustee and the Bond Insurer by no later than June 15 of each year commencing June 15, 2005, that there is has in effect the insurance or self-insurance required by the Project Lease. The Risk Manager will also, at that time, file the written recommendation required by (a)(3) if no earthquake insurance has been obtained by the City, and shall also certify that the insurance the City has obtained pursuant to the Project Lease is in a form or forms which are in compliance with the requirements of the Project Lease.

Notwithstanding anything in the Project Lease to the contrary, the Agency or the City shall have the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under the Project Lease, including a program of self-insurance (other than rental interruption insurance and title insurance), in whole or in part; provided that (i) any such alternative risk management program has been approved as reasonable and appropriate risk management by the Risk Manager, and (ii) any reserves set aside for such program shall be certified at least annually on each June 15 as to their adequacy by the Risk Manager in a certificate delivered to the Trustee. In addition, any of the Mayor, Controller, Director Property or Director of Public Finance of the City may, if in the best interests of the City, approve such other types of insurance, including any increases in the insurance coverage required by the Project Lease, upon the recommendation of the Risk Manager, or in connection with obtaining or maintaining any rating on the Bonds. The Trustee shall not be responsible for the adequacy, sufficiency or coverage of the insurance or self-insurance required or allowed by the Project Lease.

Insurance required to be maintained by the City as provided above may be maintained as part of or in conjunction with other insurance carried by the City. All insurance obtained shall be provided by an insurer rated A- or better by S&P or A.M. Best unless such rating is waived by the Bond Insurer.

The City may adopt alternative risk management programs to insure against any of the risks required to be insured against under the terms of the Project Lease, including a program of self-insurance, in whole or in part; provided that any such alternative risk management program has been approved annually as reasonable and appropriate risk management by an independent person or firm of favorable reputation, qualified and experienced in the field of insurance consultation with respect to convention facilities or similar structures, and is also subject to the prior written consent of the Bond Insurer.

Default and Remedies

The City shall be deemed to be in default under the Project Lease:

(i) if the City shall (A) fail to pay any Regular Base Rental and Additional Rental payable under the Project Lease other when the same becomes due and payable, (B) fail to keep, observe or perform any other term, covenant or condition contained in the Project Lease to be kept or performed by the City; or

(ii) upon the happening of any of the other events of default specified in the Project Lease (including assignment or transfer of the City's interest in the Project Lease without the Agency's consent, insolvency or bankruptcy of the City and abandonment or vacating of the Project by the City).

The Agency may exercise any and all remedies available pursuant to law or granted pursuant to the Project Lease upon the occurrence of any default.

The City will not be in default in the observance or performance of any covenant, condition or agreement in the Project Lease on its part to be observed or performed (other than as referred to in clause (i) or (ii) above) unless the City has failed, for a period of 30 days or such additional time as is reasonably required, to correct any such default after notice by the Agency to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement.

Upon any such default, the Agency, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(a) To terminate the Project Lease in the manner provided in the Project Lease, notwithstanding any re-entry or re-letting of the Project as provided in the Project Lease and to re-enter the Project and remove all persons in possession thereof and all personal property whatsoever situated upon the Project and place such personal property in storage in any warehouse or other suitable place in the City and County of San Francisco, State of California.

(b) Without terminating the Project Lease, (i) to collect each installment of rent as it becomes due and enforce any other terms or provisions of the Project Lease to be kept or performed by the City or (ii) to exercise any and all rights of entry and re-entry upon the Project. In the event the Agency does not elect to terminate the Project Lease in the manner provided for in the Project Lease, the City will remain liable and agrees to keep or perform all covenants and conditions in the Project Lease to be kept or performed by the City and, if the Project is not re-let, to pay the full amount of the rent to the end of the term of the Project Lease, or, in the event that the Project is re-let, to pay any deficiency in rent that results therefrom.

In addition to the remedies set forth above, upon the occurrence of an Event of Default as defined in the Project Lease, the Agency and its assignee will be entitled to proceed to protect and enforce the rights vested in the Agency and the Trustee by the Project Lease or by law. The provisions of the Project Lease and the duties of the City and of its Board of Supervisors, officers or employees will be enforceable by the Agency or the Trustee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

Eminent Domain

If the Project (or portions thereof such that the remainder is not usable for public purposes by the City) shall be taken under the power of eminent domain, the term of the Project Lease shall cease as of the day that possession shall be so taken. If less than the entire Project shall be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Project Lease shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the rental due under the Project Lease in an amount to be agreed upon by the City and the Agency, but subject to the Project Lease, in no event shall the rental be less than the amount required for the retirement of the Bonds and the payment of the interest thereon as such bonds and interest become due. So long as any of the Bonds shall be outstanding, any award made in eminent domain proceedings for taking of the Project or any portion thereof shall be paid to the Trustee and applied as provided in the Trust Agreement. Any such award made after all of the Base and Additional Rental have been fully paid, or provision therefor made, shall be paid to the Agency and to the City as their respective interests may appear.

Prepayment

(a) The City may prepay, from any source of available funds, all or any portion of Base Rental payments due after June 25, 2011, in whole or in part in amounts which result in Bonds being redeemed in integral multiples of five thousand dollars ($5,000) on any date on or after July 1, 2011, from such Base Rental payments as are selected by the Agency as set forth in a Request of the Agency, in each case at a prepayment price equal to the sum of the Bonds being redeemed plus accrued interest thereon to the date of prepayment plus a prepayment premium equal to a percentage of the Bonds being redeemed, in accordance with the following schedule:

Prepayment Period	Prepayment Price
July 1, 2011 through June 30, 2012	102%
July 1, 2012 through June 30, 2013	101
July 1, 2013 and thereafter	100

(b) The City may prepay, from eminent domain proceeds or net insurance proceeds received by it, all or any portion of the Base Rental payments then unpaid, in whole on any date, or in part on any date in amounts which result in Bonds being redeemed in integral multiples of five thousand dollars ($5,000) so that the aggregate annual amount of Bonds maturing in each year after such prepayment date shall each be in an integral multiple of five thousand dollars ($5,000), at a prepayment price equal to the sum of the principal components prepaid plus accrued interest thereon to the date of prepayment, without premium. Such prepayment shall be apportioned among Base Rental payments as directed by the City in a Certificate of the City, provided that at the time of such apportionment, the City shall deliver to the Trustee a Certificate of the City to the effect that the resulting Base Rental payments and Additional Rental payable during the remaining term of the Project Lease shall not exceed the fair rental value of the Project during each subsequent Lease Year and that the resulting Base Rental payments are sufficient to pay the scheduled debt service on the Bonds.

Miscellaneous Provisions

Maintenance and Utilities. Throughout the term of the Project Lease, as part of the consideration for rental of the Project, all improvement, repair and maintenance of the Project shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Project, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water, sewer and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Project resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the rental payments provided for in the Project Lease, the Agency agrees to provide only the use, possession and quiet enjoyment of the Project.

Liens. In the event the City shall at any time during the term of the Project Lease cause any changes, alterations, improvements, or other work to be done or performed or materials to be supplied, in or upon the Project, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Project and which may be secured by a mechanics' materialmen's or other lien against the Project or the Agency's interest therein, and will cause each such lien to be full, discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

Quiet Enjoyment. The City by keeping and performing the covenants and agreements contained in the Project Lease, will at all times during the term of the Project Lease peaceably and quietly have, hold and enjoy the Project without suit, trouble or hindrance from the Agency.

Assignment. Neither the Project Lease nor any interest of the City under the Project Lease will be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation or law or otherwise, except with the prior written consent of the Agency, which will not be unreasonably withheld.

Title to Property. During the term of the Project Lease, the Agency shall hold a fee simple interest in the Project, and the City shall hold a leasehold interest in the Project. Title to all moveable property that is placed in or about the Project by the City during the term of the Project Lease shall remain in the City during the term of the Project Lease. The Agency shall take all necessary actions to execute and deliver or cause to be executed and delivered all such other and further instruments, documents and assurances as may be necessary or reasonably required in order to further and more fully vest in the City the City's leasehold interest in the Project.

The Agency's interest in and title to the Project shall be transferred, conveyed and assigned to and become vested in the City (upon the City's taking appropriate action) and the Project Lease shall terminate with respect thereto at the end of the term thereof, upon payment in full of all rental payments due under the Project Lease pertaining to the Project, and the Agency will execute and deliver such conveyances, registration documents and other instruments as may be necessary to effect such vesting of record.

Tax Covenants. The City and the Agency will not make any use of the proceeds of the Bonds or any other funds which will cause the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), or "federally-guaranteed" under Section 149(b) of the Code, or "private activity bonds" as described in Section 141 of the Code. To that end, so long as any Base Rental payments under the Project Lease are unpaid, the City and the Agency, with respect to such proceeds and such other funds, will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent that such requirements are, at the time, applicable and in effect.

The City and the Agency shall at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that interest on the Bonds will not be included in the gross income of the owner thereof for federal income tax purposes and shall take no action that would result in such interest being so included.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the CITY AND COUNTY OF SAN FRANCISCO (the "City") in connection with the issuance by the Redevelopment Agency of the City and County of San Francisco (the "Agency") of its $33,565,000 Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center) (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of June 1, 2004, between the Agency and U.S. Bank National Association, as trustee (the "Trust Agreement"). The City hereby covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, which has filed with the City and the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" shall mean the registered owner of any Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository. Information on the State Repositories can be found at www.sec.gov/info/municipal/nrmsir.htm#state.

SECTION 3. Provision of Annual Report.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (presently June 30), commencing with the report for the 2003-04 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of its Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the City's fiscal year changes, the Issuer shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the City (if the Dissemination Agent is other than the City) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the City's Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the City is available to provide to Repositories by the date required in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Report. The City's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If

the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. The amount of Bonds Outstanding under the Trust Agreement, and the balance of the Reserve Fund.

3. Summaries of the following:

a. budgeted general fund revenues and appropriations;

b. assessed valuation of taxable property in the City; and

c. ad valorem property tax levy and delinquency rate.

4. A schedule of the aggregate annual debt service on tax-supported indebtedness of the City and a summary of authorized, but unissued, tax-supported indebtedness of the City.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or the City or related public entities, which have been submitted to each of the Repositories or the SEC. 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. <u>Reporting of Significant Events</u>.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled Bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on credit enhancements reflecting financial difficulties;

10. substitution of credit or liquidity providers, or their failure to perform; and

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, or cause to have filed, a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 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 for a Listed Event under Section 5(c).

SECTION 7. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 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 either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation hereunder to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee, pursuant to the Project Lease, may (and, at the request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Bonds, shall), or any 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 only be instituted in a Federal or State Court located in the State. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement or the Project Lease, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, 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. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: June __, 2004

CITY AND COUNTY OF SAN FRANCISCO

By:___________________________________
Controller

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	City and County of San Francisco
Name of Bond Issue:	Redevelopment Agency of the City and County of San Francisco Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center)
Date of Issuance:	June __, 2004

NOTICE IS HEREBY GIVEN that the City and County of San Francisco ("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 dated June __, 2004. The City anticipates that the Annual Report will be filed by ____________________.

Dated: _______________, ____

___________________________________,
as Dissemination Agent on behalf of the
City and County of San Francisco

____

cc: [City]

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APPENDIX F

INFORMATION REGARDING DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC, and the Agency takes no responsibility for the completeness or accuracy thereof. The Agency cannot and does not give any assurances that DTC, DTC Participants or DTC 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.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 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.

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. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Loan Agreement. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Agency will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Agency or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by 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 Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of

DTC (nor its nominee), the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Agency nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the Agency nor the Trustee take any responsibility for the accuracy thereof.

The Agency and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Agency nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX G

FORM OF OPINION OF BOND COUNSEL

June __, 2004

Redevelopment Agency of the City
and County of San Francisco
770 Golden Gate Avenue
San Francisco, California 94102

OPINION: $33,565,000 Redevelopment Agency of the City and County of San Francisco Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center)

Members of the Agency:

We have acted as bond counsel in connection with the delivery by the Redevelopment Agency of the City and County of San Francisco (the "Agency") of its $33,565,000 Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center) (the "Bonds") issued pursuant to the provisions of Community Redevelopment Law of the State of California (being Part 1 of Division 24 of the Health and Safety Code of the State of California, as amended) (the "Law"), and pursuant to a Trust Agreement dated as of June 1, 2004 (the "Trust Agreement"), by and between the Agency and U.S. Bank National Association, as trustee (the "Trustee"). The issuance of the Bonds has been approved by a resolution of the Agency adopted on April 6, 2004. In connection with the issuance of the Bonds, the Agency and the City and County of San Francisco (the "City") have entered into an Amended and Restated Project Lease dated as of June 1, 2004 (the "Project Lease"), and the Agency and the Trustee are entering into an Assignment Agreement dated as of June 1, 2004 (the "Assignment Agreement"). The principal of and interest on the Bonds are payable primarily from base rental payments to be made by the City under the Project Lease. The proceeds of the Bonds are being used to provide funds to refund all of the outstanding Redevelopment Agency of the City and county of San Francisco Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center).

We have examined the such certified proceedings and other papers and documents as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Agency and the City contained in the Trust Agreement, in the Project Lease and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Agency is a public agency duly organized and existing under the laws of the State of California, with power to enter into the Trust Agreement, the Project Lease and the Assignment Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Agency and are legal, valid and binding obligations of the Agency, payable solely from the sources provided therefor in the Trust Agreement.

3. The Trust Agreement, the Project Lease and the Assignment Agreement have been duly approved by the Agency and constitute legal, valid and binding obligations of the Agency enforceable against the Agency in accordance with their terms.

4. Pursuant to the Law, the Trust Agreement establishes a valid lien on and pledge of the Revenues (as such term is defined in the Trust Agreement) for the security of the Bonds.

5. The City is a chartered city and county duly organized and existing under the laws of the State of California, with power to enter into the Project Lease to perform the agreements on its part contained therein. The Project Lease has been duly approved by the City and constitutes the legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency and the City have covenanted in the Trust Agreement, the Project Lease and in other instruments relating to the Bonds to comply with each of such requirements, and the Agency and the City have full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Interest on the Bonds is exempt from California personal income taxation.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Authorized Representative

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)