OFFICE OF THE MAYOR
SAN FRANCISCO

GAVIN NEWSOM

MEMORANDUM

To: Nationally Recognized Securities Municipal Information Repositories

From: Nadia Sesay, Director
Mayor's Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102
Tel. (415) 554-5956
Fax. (415) 554-4864
email: nadia.sesay@sfgov.org
web address: www.sfgov.org/mopf

Issuer Name: City and County of San Francisco

Six-digit CUSIP No.: 797645

Date: March 22, 2005

Information Provided: Rating Outlook Change (See Attachment A)

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, notice is hereby given that on Tuesday, March 15, 2005, Moody's affirmed its Aa3 rating of the City and County of San Francisco's General Obligation Bonds and revised its rating outlook from Negative to STABLE.

Attached is the press release announcing the rating outlook change.

Any questions about the information contained in this notice should be directed to Nadia Sesay of the Mayor's Office of Public Finance at 415-554-5956.

Attachment A

On March 14, 2005, Moody's changed the City's Rating Outlook as follows:

City and County of San Francisco General Obligation Bonds
Six-digit CUSIP – 797645
Outlook Change "Stable" from "Negative"

CITY AND COUNTY OF SAN FRANCISCO

MOODY'S AFFIRMS Aa3 RATING ON SAN FRANCISCO GOS; RATING OUTLOOK REVISED TO STABLE FROM NEGATIVE

APPROXIMATELY $844 MILLION OF DEBT AFFECTED

San Francisco (City & County of) CA
Municipality
California

NEW YORK, March 14, 2005 -- Moody's has affirmed the Aa3 rating on the City and County of San Francisco's general obligation bonds. We have also revised our outlook for the city's long-term ratings to stable from negative. The outlook revision primarily reflects San Francisco's having successfully arrested the formerly rapid depletion of its financial reserves, the easing of local economic pressures, and the reduced uncertainty with regard to potential state budget impacts. The Aa3 rating continues to reflect what are by both national and California standards particularly thin reserves; the unlikely prospect of any significant improvement in reserves any time soon; and the sluggishness of the local economic recovery, particularly in the area of job creation. Notably offsetting these constraints are the city's continued, robust property tax base growth, a moderate debt position, and residents' well above average socio-economic profile.

FISCAL BRAKES SUCCESSFULLY APPLIED...

The city's fiscal 2004 audit and recently released six-month budget report indicate that San Francisco has for the most part brought its budget under control and into reasonable balance. In fiscal 2004 the city whittled its general fund operating deficit to a relatively modest $22 million (1% of revenues), compared to deficits of $162 million and $189 million in the prior two fiscal years.

General fund revenues (including transfers in) were up in fiscal 2004, after two years of declines, and the city reasonably forecasts solid (4.9%) overall revenue growth in fiscal 2005. Total general fund expenditures are projected to increase after declining 2.1% in fiscal 2004, but the growth rate is projected to be in line with projected revenue growth. In the prior two years expenditures had continued growing, albeit more slowly in 2003 than in 2002, despite the downturn in revenues.

The fact that the city's current (fiscal 2005) budget remains balanced at mid-year is a particularly positive sign. The prior three years' mid-year reports all showed projected revenue shortfalls on the order of $30-40 million. Voter rejection in November 2004 of two modest local tax increases would have repeated this pattern but for the city's timely implementation of mid-year budget cuts.

...BUT THE CITY'S BUDGET REMAINS TIGHTLY BALANCED, AND RESERVES ARE THIN

Except for during the latter few years of the recent economic boom, San Francisco has a very long history of maintaining relatively thin financial reserves. Fiscal 2005 and 2006 are not likely to be any different. As of its mid-year budget report, the city projects ending fiscal 2005 with about $100 million of combined budget reserves and resources in excess of total uses. If realized, this $100 million would represent about 4.5% of current revenues and transfers in. Nationally, Aa3-rated counties would typically have three or four times this much.

Just balancing San Francisco's fiscal 2006 budget is expected to require $113 million of budget adjustments. Continued weakness in the city's business payroll tax would also add to the disparity between projected baseline revenues and expenditures. As of mid-year, the city's business payroll tax was the one area of notable, local tax weakness. It is projected to be $27 million below its budgeted level. For business taxes to pick up, the local economy would need to accelerate considerably.

Moody's notes that the city's $113 million projected fiscal 2006 gap is not only substantially smaller than last year's gap ($299 m.), but it is qualitatively different as well. The 2006 projection is subject to less uncertainty, since most of the city's labor contracts are in place for the coming year and the state government appears less likely to balance its own budget at local governments' expense.

Like other counties, rapidly escalating health care costs remain a source of fiscal pressure for San Francisco. But in recent years the impact on the city's general fund has been well contained, primarily through improved cost recovery at its general hospital.

REAL ESTATE, CONSUMER SPENDING, AND TOURISM ARE BRIGHT(ER) SPOTS, BUT EMPLOYMENT GROWTH REMAINS SLOW

As the city's sagging payroll tax figures attest, local job growth has been lagging the otherwise now fairly well established economic recovery. Taxable transactions have improved three quarters running. San Francisco airport enplanements, hotel occupancy rates, and hotel room taxes, all suggest tourism is picking up. The local real estate market continues to outpace reasonable expectations, boosting the city's property and real estate transfer taxes. Employment growth, on the other hand, has been fairly slow, with only about 2.4% growth in the San Francisco MSA in 2004, and little to none of this thought to be in the city itself.

MODERATE DEBT BURDEN

As of fiscal 2004, San Francisco's overall debt burden was only 1.7%, which compares favorably to the national average for Aa3-rated counties (2.0%). Despite moderate new money debt issuance, the city's debt burden is down from 2.3% in the late 1990s, reflecting both the robust tax base growth and a fairly rapid rate of debt retirement. Some relative weakness in debt profile is suggested only by San Francisco's debt per capita figure, which at $2,109 is well above the national average for counties ($1,203). San Francisco's debt issuance for calendar 2005 is likely to be above its recent average, but not sufficiently so to significantly change its debt profile. This would likely be true even if a long anticipated financing for its Laguna Honda hospital is increased to accommodate substantially greater than expected construction costs. This hospital financing, most recently sized at $217 million, represents about half of the city's anticipated new money issuance for the year.

Recognizing that assessed valuation is generally a lagging indicator, Moody's notes that a reversal in the recent strong A.V. trend is possible, but unlikely. While assessed valuation appeals have increased and some downward reassessments have been granted, property turnover remains very rapid in the city. To date the related upward adjustments in property value assessments have more than compensated for the appeals reductions. Recent monthly sales figures for residential properties and the city's property transfer tax receipts suggest this trend should continue for a while.

2000 CENSUS CONFIRMED STRONG SOCIO-ECONOMIC PROFILE

As of the 2000 census, San Francisco remains at the high end of the distribution of incomes in its rating category. Income growth over the prior decade was particularly strong in San Francisco, with the percentage increase in median family and per capita incomes exceeding that of all the California counties in Moody's Major Metropolitan and Emerging Middle groups. With the much weaker economy in recent years, San Francisco's relative gains have likely been eroded, but its overall socio-economic profile should remain a credit positive. We do note, however, that San Francisco retains a broad spectrum of incomes, which results in median family income levels substantially below those in the surrounding, more suburbanized Bay Area counties.

ANALYSTS:
Eric Hoffmann, Analyst, Public Finance Group, Moody's Investors Service
Dari Barzel, Backup Analyst, Public Finance Group, Moody's Investors Service

CONTACTS:
Journalists: (212) 553-0376
Research Clients: (212) 553-1653