



**MEMORANDUM**

To: Nationally Recognized Securities Municipal Information Repositories

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Issuer Name: City and County of San Francisco

Six-digit CUSIP No.: 797645  
79765D  
797700  
79765X  
79765V

Date: May 10, 2005

Information Provided: Rating Outlook Change (See Attachment A)

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Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, notice is hereby given that on Wednesday, April 27, 2005, Standard and Poor's Ratings Services affirmed its underlying AA rating of the City and County of San Francisco's General Obligation Bonds, underlying AA- rating of the City and County of San Francisco's Certificates of Participation, underlying AA- rating of the Parking Authority of the City and County of San Francisco's Lease Revenue Bonds, underlying AA- rating of the Redevelopment Agency of the City and County of San Francisco's Lease Revenue Bonds. Standard and Poor's Ratings Services revised its rating outlook on all of the bonds to STABLE from negative.

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 April 27, 2005, Standard and Poor's Ratings Services changed the City and County of San Francisco's rating outlook as follows:

**City and County of San Francisco General Obligation Bonds**

Six-digit CUSIP No. 797645

**City and County of San Francisco Certificates of Participation**

Six-digit CUSIP No. 79765D

**Parking Authority of the City and County of San Francisco**

Six-digit CUSIP No. 797700

**City and County of San Francisco Finance Corporation**

Six-digit CUSIP No. 79765X

**Redevelopment Agency of the City and County of San Francisco Lease Revenue Bonds**

Six-digit CUSIP No. 79765V

Outlook change to "Stable" from "Negative"

City and County of San Francisco

## Research:

### San Francisco City and County, California; Appropriation, Appropriations; Tax Secured, General Obligation

**Publication date:** 27-Apr-2005  
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#### Credit Profile

US\$110. mil GO bnds Fixed Rate Bonds (Laguna Honda Hosp 1999) ser 2005A due 06/15/2021 AA  
 Sale date: 10-MAY-2005  
 US\$40. mil GO var rate bnds (Laguna Honda Hosp 1999) ser 2005B due 06/15/2030 AA  
 Sale date: 25-MAY-2005  
 US\$40. mil GO var rate bnds (Laguna Honda Hosp 1999) ser 2005C due 06/30/2030 AA  
 Sale date: 25-MAY-2005  
 US\$40. mil GO var rate bnds (Laguna Honda Hosp 1999) ser 2005D due 06/15/2030 AA  
 Sale date: 25-MAY-2005

#### AFFIRMED

##### San Francisco City & Cnty, California

\$10.035 mil. San Francisco City & Cnty (SF Permit Ctr) cert of part ser 1993 AA-  
 \$47.665 mil. San Francisco City & Cnty (San Francisco Courthouse proj) cert of part ser 1995 AA-/NR(SPUR)  
 \$909.420 mil. San Francisco City & Cnty GO AA  
 \$1.000 mil. San Francisco City & Cnty GO (FGIC) AAA/AA(SPUR)  
 \$44.275 mil. San Francisco City & Cnty GO (FSA) AAA/AA(SPUR)  
 \$9.910 mil. San Francisco City & Cnty certs of part (2789 25th Str Prop) dtd 09/15/1997 due 09/01/1998-2017 AAA/AA-(SPUR)  
 \$35.320 mil. San Francisco City & Cnty certs of part (30 Van Ness Ave Prop) ser 2001A dtd 10/04/2001 due 09/01/2002-2022 2026 2031 AAA/AA-(SPUR)  
 \$1.850 mil. San Francisco City & Cnty certs of part (30 Van Ness Ave Property) taxable ser 2001B dtd 10/04/2001 due 09/01/2002-2006 AAA/AA-(SPUR)  
 \$8.510 mil. San Francisco City & Cnty certs of part (555 - 7th Street Prop) ser 1999 AAA/AA-(SPUR)  
 \$41.965 mil. San Francisco City & Cnty certs of part (Juvenile Hall Replacement Proj) ser 2003 AAA/AA-pr(SPUR)

\$137.235 mil. San Francisco City & Cnty certs of part bnds (San Bruno Jail No. 3 Replacement Proj) ser 2000 dtd 08/31/2000 due 10/01/2004-2021 2026 2033	AAA/AA-pr(SPUR)
\$98.925 mil. San Francisco City & Cnty go (MBIA)	AAA/AA(SPUR)
\$39.350 mil. San Francisco City & Cnty rfdg certs of part (San Francisco Courthouse Proj) (MBIA)	AAA/AA-(SPUR)
\$15.460 mil. San Francisco City & Cnty rfdg certs part (San Francisco Courthouse & 25 Van Ness Ave Proj) ser 2001-1 dtd 07/25/2001 due 04/01/2003-2017	AAA/AA-(SPUR)
<b>San Francisco City &amp; Cnty Redev Agy, California</b>	
\$101.593 mil. SAN FRANCISCO CITY & CNTY REDEV AGY (GEORGE R MOSCONE CONV CTR) LSE SER 92	AA-
\$33.565 mil. San Francisco City & Cnty Redev Agy (San Francisco City & Cnty) lse rev rfdg bnds (AMBAC)	AAA/AA-(SPUR)
<b>San Francisco City &amp; Cnty Fin Corp, California</b>	
\$8.420 mil. San Francisco City & Cnty Fin Corp lse rev bnds ser 2002A	AA-
\$4.380 mil. San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds (XL CAPITAL)	AAA/AA-(SPUR)
\$9.545 mil. San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds (San Francisco City & Cnty) ser 2004A due 10/01/2009	AA-
\$13.750 mil. San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds ser 1997A	AA-
\$11.205 mil. San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds ser 2003A	AA-pr
<b>San Francisco City &amp; Cnty, California</b>	
San Francisco City & Cnty Fin Corp, California	
\$23.295 mil. San Francisco City & Cnty Fin Corp lse rev bnds (Comb Emergency Communications Sys Equip) dtd 06/15/1998 ser 1998 due 04/01/2000-2019	AAA/AA-(SPUR)
\$18.665 mil. San Francisco City & Cnty Fin Corp lse rev bnds (Citywide Emergency Radio Sys) ser 1999-I dtd 01/15/1999 due 04/01/2000-2013	AAA/AA-(SPUR)
\$31.250 mil. San Francisco City & Cnty Fin Corp lse rev bnds (Citywide Emergency Radio System) ser 1998-I dtd 01/01/1998 due 04/01/2000-2018	AAA/AA-(SPUR)
\$8.330 mil. San Francisco City & Cnty Fin Corp lse rev bnds ser 1999A	AA-
<b>San Francisco City &amp; Cnty Pkg Auth, California</b>	
\$8.185 mil. San Francisco City & Cnty Pkg Auth lse rev bnds (North Beach Pkg Garage Proj) ser 2000A dtd 07/12/2000 due 06/15/2003-2022	AAA/AA-pr(SPUR)
\$6.895 mil. San Francisco Pkg Auth (San Francisco City & Cnty) lse rev rfdg bnds (Moscone Ctr Garage Proj) ser 1998-1 dtd 11/1/98 due 12/1/1999-2008	AAA/AA-(SPUR)
<b>San Francisco City &amp; Cnty Redev Agy, California</b>	
San Francisco Redev Fincg Auth, California	
\$67.670 mil. San Francisco City & Cnty Redev Agy lse rev rfdg bnds (George R. Moscone Convention Ctr) ser 2002 dtd 01/09/2003 due 07/01/2004-2018	AAA/AA-(SPUR)
<b>OUTLOOK:</b>	STABLE

## Rationale

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Standard & Poor's Ratings Services revised the outlook to stable from negative and affirmed the 'AA' rating on the City and County of San Francisco, Calif.'s outstanding GO debt. In addition, Standard & Poor's assigned its 'AA' rating to the city and county's Laguna Honda Hospital 1999 GO bonds, series 2005A-D. The revised outlook reflects the recent signs of improvement in the overall local economy and financial results that indicate general fund balance drawdowns will moderate over the next three fiscal years. Since budgeted forecasts indicate further drawdowns, the rating is dependent on management's commitment in making the necessary adjustment in either revenues or expenditures to achieve structural balance such that severe drawdowns, as those experienced during fiscals 2002 and 2003, do not materialize. Additionally, Standard & Poor's expects that reserves will stay at levels consistent with a 'AA' rating.

Rating factors include:

- A large local economy that, while severely impacted by the recession, has begun to show recovery, with large employing industries that consist of tourism, high-tech, financial and business services, manufacturing, retail trade, technology, and government;
- Continued sustained property value growth, driven by the appreciation of residential homes in the Bay Area;
- Very high wealth and income levels with recuperation in the overall unemployment rate; and
- A slightly improving financial position with management's commitment to make the necessary adjustment to balance operating results in the current and future fiscal years.

The series 2005 GO bonds are secured by an unlimited ad valorem pledge.

Proceeds from the series 2005 GO bonds will be used toward construction of new facilities at Laguna Honda Hospital.

San Francisco, with a population of 792,700, is Northern California's financial, services, and cultural center, and is the fourth-largest city in California. San Francisco has started to see a stabilization of its labor force and a recuperation of the unemployment rate, which was 5.2% as of March 2005, down from a rate of 6.5% in March 2004. Income levels remain high, as San Francisco attracts a very educated work force, demonstrated by median household incomes and per capita effective buying incomes that are respectively 34% and 58% above the national averages.

While overall residential growth is anticipated to slow with the incrementally rising interest rates, recent property values have yet to show any indication of softness. Assessed valuation (AV) for fiscal 2005 increased 6.6%, slightly more than growth of approximately 4.7% for fiscal 2004. Current AV for fiscal 2005 net of homeowner exemptions totaled approximately \$104.5 billion, or a strong \$131,790 per capita market value.

With a commitment from management, San Francisco's financial position has begun to show some modest improvement. With a number of expenditure reductions and slight growth in general fund revenues from sales and hotel taxes, which had experienced declines from fiscals 2001 through the first quarter of 2004, the significant drawdowns to San Francisco's general fund balances in prior fiscal years appear to have moderated. Despite the growth in sales and hotel taxes, a number of necessary expenditure reductions are pending board approval that will be needed to structurally balance operations over the coming fiscal years. These reductions are essential due to increasing fixed costs brought on by San Francisco's ongoing services as a city and county, as well as labor costs. Standard & Poor's expects that the reductions proposed will be implemented.

In fiscal 2004, the city and county for the first time in two fiscal years experienced balanced operations

at \$14.1 million or 0.7% of expenditures. Unreserved fund balances were low, but better than the prior year at \$64 million or 3.3% of expenditures. While unaudited actuals for fiscal 2005 indicate a slight overall drawdown of \$63 million, this is a significant change for the better from the original budgeted shortfall range of \$300 million-\$352 million. In the early part of fiscal 2005, balanced results were dependent on two local tax packages being passed on the November 2004 ballot. When both these measures failed, the San Francisco was left with an annual gap of \$72 million. During that time, management made a series of reductions to help minimize the drawdown of its 2005 operations, which then helped reduce the severity of the overall drawdown.

Under the current three-year projections, there are still shortfalls of \$102 million for fiscal 2006, \$120 million in fiscal 2007, and \$43 million in fiscal 2008; however, these budget shortfalls are significantly less substantial than in the last two fiscal years due to management's commitment to making expenditure reductions. Given the recent, albeit modest, growth in revenue sources from sales and hotel taxes and the expenditure reductions outlined for the next three fiscal years, Standard & Poor's expects that fiscal 2006 operations will be balanced and the drawdowns projected for fiscal 2007 and 2008 will have moderated. It is also expected that the city and county will maintain its unrestricted fund balances at a level consistent with the 'AA' rating.

Debt remains moderate with this issuance at approximately \$3,280 per capita and 2.5% of market value.

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## Outlook

The outlook revision to stable from negative reflects the recent signs of improvements in the overall local economy and financial results showing moderation of drawdowns in general fund balances over the next three fiscal years. Since budgeted forecasts indicate further drawdowns, the rating is dependent on management's commitment in making the necessary adjustments in either revenues or expenditures to achieve structural balance such that the severe drawdowns, as those experienced during fiscals 2002 and 2003, do not materialize. Additionally, Standard and Poor's expects that reserves will stay at levels consistent with a 'AA' rating.

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## Economy

For the past four years, San Francisco's local economy experienced softness in tourism, job losses from the high-tech sector, and the trickle-down effects from this sector on other related industries. However, the local economy has begun to show some signs of improvement, with the expansion or relocation of smaller firms and certain industries correlated with tourism showing changes for the better.

While overall vacancy rates on commercial spaces are still high at 18%, these rates are still an improvement from the peak of 24.1% (second quarter 2003). Newer firms have slowly begun to show interest in relocating to the Bay Area; firms that have opened Bay Area offices include Rutherford & Chekene, an engineering firm, Tek Systems, a provider of IT services, and Vitae Architecture.

The growth in tourism is apparent by higher hotel occupancy rates, which averaged 73% in calendar year 2004, a 7.5% increase from the prior year and an overall improvement when comparing low occupancy rates of 65% in 2002 and 68% in 2003. Overall average daily room rates have also improved and are averaging approximately \$145 for fiscal 2005, a 2.3% increase from the prior year. While the average room rates started to show some advancement during fiscals 2004 and 2005, these average rates are still about 18% below the peak average daily rate in 2001 of \$176. For the first time in three years, the number of passengers from enplanement and deplanement from SFO increased by a positive 5.5% for calendar 2004 compared to prior 2001-2003, years that had overall decreases of 3.8%, 20.1%, and 5.7%, respectively. Finally according to the San Francisco Convention and Visitors Bureau, the number of visitors in calendar 2004 increased 5.9% from the prior year.

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## Financials

Estimates to date indicate some recovery in revenue sources that had been declining for the last two fiscal years, which included small increases in transient occupancy taxes and sales and use taxes (4.38% increase over fiscals 2003-2004). Despite this recovery, the three-year projections indicate respective shortfalls of approximately \$102 million, \$120 million, and \$43 million during fiscals 2006, 2007, and 2008. The city and county must adopt balanced operations and has a number of reductions outlined. Standard & Poor's expects that the city and county will make these necessary adjustments.