NEW ISSUE BOOK-ENTRY-ONLY

INSURED RATINGS:		UNDERLYING RATINGS:	
Moody's:	Aaa	Moody's:	A2
S&P:	AAA	S&P:	AA-
Fitch:	AAA	Fitch:	A

(See "RATINGS" herein)

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In the further opinion of Co-Special Counsel to the City, under existing statutes, the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

$39,350,000
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2004-R1
(SAN FRANCISCO COURTHOUSE PROJECT)

Evidencing Proportionate Interests of the Owners Thereof in a Project Lease, Including the Right to Receive Base Rental Payments to Be Made by the

CITY AND COUNTY OF SAN FRANCISCO

Dated: Date of Delivery **Due: April 1, as shown on the inside cover**

The City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) (the "2004 Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2001, as supplemented by a First Supplement to Trust Agreement, dated as of July 1, 2004 (collectively, the "Trust Agreement"), between the City and County of San Francisco (the "City"), and U.S. Bank National Association, as trustee (the "Trustee"). The Certificates are being executed and delivered to provide funds to: (i) refinance an existing City courthouse building (the "Courthouse" or the "Facilities") located at 400 McAllister Street in the City (the "Property" and, together with the Facilities, collectively the "Project") by refunding in whole a series of certificates of participation executed and delivered to finance the construction, furnishing and equipping of said building, $40,635,000 of which are currently outstanding, and (ii) pay costs of issuance of the 2004 Certificates (including premiums for a municipal bond insurance policy for the 2004 Certificates and for a surety bond to be credited to the Reserve Fund established under the Trust Agreement). The Project will be subleased by the Trustee from the City pursuant to a Property and Facility Lease, dated as of July 1, 2001, as supplemented by a First Supplement to Property and Facility Lease, dated as of July 1, 2004 (collectively, the "Property Lease"), and subleased back to the City pursuant to a Project Lease, dated as of July 1, 2001, as supplemented by a First Supplement to Project Lease, dated as of July 1, 2004 (collectively, the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. **The Property Lease and the Project Lease also secure the $15,460,000 City and County of San Francisco Refunding Certificates of Participation, Series 2001-1 (San Francisco Courthouse and 25 Van Ness Avenue Project), $13,870,000 of which are currently outstanding (the "2001 Certificates" and, together with the 2004 Certificates, the "Certificates"), executed and delivered to primarily refinance a City office building. The rights of the Owners of the 2004 Certificates under the Project Lease are on a parity with the rights of the owners of the 2001 Certificates under the Project Lease, including the right to receive certain insurance and eminent domain proceeds, if any.**

Pursuant to the Project Lease, the City is required to pay specified Base Rental in amounts designed to be sufficient to pay, when due, the principal and interest with respect to the Certificates. The City has covenanted in the Project Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments thereunder (together, the "Rental Payments") for the Project in its annual budget, and to make necessary annual appropriations therefor. Principal and interest with respect to the Certificates are payable from the Base Rental payments and from certain funds held under the Trust Agreement, as described herein.

The 2004 Certificates are subject to optional and special prepayment prior to their respective stated maturities, as described herein. See "THE 2004 CERTIFICATES – PREPAYMENT."

Interest with respect to the 2004 Certificates is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2005. The 2004 Certificates will be delivered only in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the 2004 Certificates will be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Beneficial owners of the 2004 Certificates will not receive certificates representing their interest in the 2004 Certificates, but will receive a credit balance on the books of the nominees of such purchasers. Principal and interest with respect to the 2004 Certificates will be paid by the Trustee to DTC (as described herein), which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the 2004 Certificates. See "APPENDIX F–DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Certificates are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the Reserve Fund and the Base Rental Fund 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 obligation of the City to make Rental Payments under the Project Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates 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 the Constitution of the State of California or any statutory debt limitation or restriction. See "Certain Risk Factors."

Payment of principal and interest represented by the 2004 Certificates when due will be insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation simultaneously with the delivery of the 2004 Certificates.

MBIA

*This cover page contains certain information for general reference only. It is **not** intended to be a summary of the security for or the terms of the 2004 Certificates. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The 2004 Certificates are offered when, as and if delivered and received by the initial purchasers, subject to the approval of legality by Hawkins Delafield & Wood LLP, San Francisco, California and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. It is expected that the 2004 Certificates in book-entry form will be available for delivery through the facilities of The Depository Trust Company on or about July 28, 2004.

Dated: July 13, 2004

MATURITY SCHEDULE

Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP* 79765D	Maturity (April 1)	Principal Amount	Interest Rate	Yield	CUSIP* 79765D
2007	$2,680,000	3.00%	2.10%	SS0	2015	$3,550,000	4.00%	3.95%	TA8
2008	2,760,000	3.00	2.50	ST8	2016	3,690,000	4.00	4.10	TB6
2009	2,845,000	3.00	2.85	SU5	2017	1,670,000	4.20	4.20	TC4
2010	2,930,000	3.50	3.10	SV3	2018	1,740,000	4.30	4.30	TD2
2011	3,030,000	4.00	3.30	SW1	2019	1,815,000	4.40	4.40	TE0
2012	3,155,000	4.00	3.50	SX9	2020	1,895,000	4.50	4.50	TF7
2013	3,280,000	4.00	3.65	SY7	2021	900,000	4.50	4.60	TG5
2014	3,410,000	4.00	3.80	SZ4					

** CUSIP numbers are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of such numbers.*

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Matt Gonzalez (District 5), *President*

Michela Alioto-Pier (District 2)
Tom Ammiano (District 9)
Chris Daly (District 6)
Bevan Dufty (District 8)
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Fiona Ma (District 4)
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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*

PROFESSIONAL SERVICES

Hawkins Delafield & Wood LLP
San Francisco, California

Leslie M. Lava, Esq.
Sausalito, California
Co-Special Counsel

Municipal Capital Management, Inc.
Mill Valley, California

Montague DeRose and Associates, LLC
Walnut Creek, California
Co-Financial Advisors

U.S. Bank National Association
Trustee

Causey Demgen & Moore Inc.
Denver, Colorado
Verification Agent

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2004 Certificates 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 purchasers of the 2004 Certificates. 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 fact.

The information set forth herein has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information in "APPENDIX F- DTC AND THE BOOK-ENTRY ONLY SYSTEM" hereto has been furnished by The Depository Trust Company and no representation has been made by the City or the purchasers of the 2004 Certificates as to the accuracy or completeness of such information. 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 THE OFFERING OF THE 2004 CERTIFICATES, THE PURCHASERS OF THE CERTIFICATES MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2004 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$39,350,000
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2004-R1
(SAN FRANCISCO COURTHOUSE PROJECT)

Evidencing Proportionate Interests of the Owners Thereof in a Project Lease, Including the Right to Receive Base Rental Payments to Be Made by the CITY AND COUNTY OF SAN FRANCISCO

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto (this "Official Statement"), provides certain information concerning the execution and delivery of $39,350,000 aggregate principal amount of City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) (the "2004 Certificates"). Any capitalized term not defined herein shall have the meaning given to such term in "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-DEFINITIONS." The 2004 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2001, as supplemented by a First Supplement to Trust Agreement, dated as of July 1, 2004 (collectively, the "Trust Agreement"), between the City and County of San Francisco (the "City"), and U.S. Bank National Association, as trustee (the "Trustee").

Payment of principal and interest represented by the 2004 Certificates when due is insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation (the "2004 Insurer") simultaneously with the delivery of the 2004 Certificates. See "2004 CERTIFICATE INSURANCE."

The 2004 Certificates are being sold to provide funds to: (i) refinance an existing City courthouse building (the "Courthouse" or the "Facilities") located at 400 McAllister Street in the City (the "Property" and, together with the Facilities, collectively, the "Project") by refunding in whole the City and County of San Francisco Certificates of Participation (San Francisco Courthouse Project), Series 1995 (the "Refunded Certificates"), executed and delivered to finance the construction, furnishing and equipping of the Facilities, $40,635,000 of which are currently outstanding, and (ii) pay costs of issuance of the 2004 Certificates (including premiums for a municipal bond insurance policy for the 2004 Certificates and for a surety bond to be credited to the Reserve Fund established under the Trust Agreement). See "PLAN OF FINANCE."

The Project is being subleased by the Trustee from the City pursuant to a Property and Facility Lease, dated as of July 1, 2001, as supplemented by a First Supplement to Property and Facility Lease, dated as of July 1, 2004 (collectively, the "Property Lease"), and subleased back to the City pursuant to a Project Lease, dated as of July 1, 2001, as supplemented by a First Supplement to Project Lease, dated as of July 1, 2004 (collectively, the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. See "THE PROJECT" herein.

The Property Lease and the Project Lease also secure the $15,460,000 City and County of San Francisco Refunding Certificates of Participation, Series 2001-1 (San Francisco Courthouse and 25 Van Ness Avenue Project), $13,870,000 of which are currently outstanding (the "2001 Certificates" and, together with the 2004 Certificates, the "Certificates"), executed and delivered pursuant to the Trust Agreement to primarily refinance a City office building located at 25 Van Ness Avenue in the City. Payment of principal of and interest represented by the 2001 Certificates when due is insured by a financial guaranty insurance policy issued by AMBAC Assurance Corporation (the "2001 Insurer" and, together with the 2004 Insurer, collectively, the "Certificate Insurer"). The 2004 Certificates constitute "Additional Certificates" under the Trust Agreement and are payable on a parity with the 2001 Certificates from Base Rental payments, as described below. The rights of the Owners of the 2004 Certificates under the Project Lease are also on a parity with the rights of the owners of the 2001 Certificates under the Project Lease, including the right to receive certain insurance and eminent domain proceeds, if any.

Pursuant to the Project Lease, the City is required to pay to the Trustee specified Base Rental payments in amounts sufficient to pay, when due, the principal and interest with respect to the Certificates, and to pay certain Additional Rental payments (together, the "Rental Payments") for use and possession of the Project. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES." Under the Project Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments in its annual budget and to make the necessary annual appropriations therefor. The Project Lease provides that said covenants of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law.

Pursuant to the Trust Agreement, the City has assigned unto the Trustee, for the benefit of the Owners, all amounts on hand from time to time in the Reserve Fund and the Base Rental Fund established pursuant to the Trust Agreement, including all Base Rental payments made by the City pursuant to the Project Lease.

The Certificates are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the Reserve Fund and the Base Rental Fund 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 obligation of the City to make Rental Payments under the Project Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Rental Payments under the Project Lease constitutes a debt of the City, the State of California (the "State") or any political subdivision thereof within the meaning of the Constitution of the State or any statutory debt limitation or restriction. See "Certain Risk Factors."

For certain financial information with respect to the City, see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES-CITY BUDGET AND FINANCES" and "APPENDIX A-CITY AND COUNTY OF SAN FRANCISCO-ORGANIZATION AND FINANCES."

For a discussion of certain amendments to the Constitution and statutes of the State of California and their impact on the City, see "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS." For a discussion of demographic and economic information with respect to the City, see "APPENDIX B-CITY AND COUNTY OF SAN FRANCISCO-ECONOMY AND GENERAL INFORMATION."

The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions. Copies of all legal documents are available at the principal office of the City or the Trustee.

THE 2004 CERTIFICATES

General

The 2004 Certificates are being executed and delivered in $39,350,000 aggregate principal amount and will be dated the date of their delivery to the initial purchasers thereof. Interest with respect to the Certificates, until the maturity or earlier prepayment thereof, is payable on April 1 and October 1 of each year, commencing on April 1, 2005 (each, an "Interest Payment Date"). Interest with respect to each 2004 Certificate shall accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) it is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date or (ii) it is executed prior to the close of business on the first Regular Record Date, in which event interest with respect thereto shall be payable from the date of delivery; *provided, however*, that if at the time of execution of any 2004 Certificate interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the Closing Date. Interest on the 2004 Certificates will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest with respect to the 2004 Certificates is payable by check mailed to the Owners at the addresses appearing on the 2004 Certificate registration books as of the close of business on the Regular Record Date. The principal payable upon maturity or prepayment with respect to the 2004 Certificates is payable upon surrender of such Certificates at the corporate trust office of the Trustee in San Francisco, California. The 2004 Certificates will be delivered in registered form, without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases of the 2004 Certificates will be made in book-entry form only in the principal amount of $5,000 or any integral multiple thereof. See "APPENDIX F-DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Prepayment

Optional Prepayment. The 2004 Certificates maturing on or before April 1, 2011 are not subject to prepayment prior to their respective dates of maturity. The 2004 Certificates maturing on or after April 1, 2012 shall be subject to optional prepayment prior to their respective dates of maturity from amounts deposited with the Trustee by the City upon the exercise of the City's option under the Project Lease to prepay the principal component of Base Rental payments, as a whole, or in part, on any date on or after April 1, 2011, at the following prepayment prices (expressed as a percentage of the principal component to be prepaid), plus accrued interest to the date fixed for prepayment:

Prepayment Dates (Dates Inclusive)	Prepayment Price
April 1, 2011 through March 31, 2012	102%
April 1, 2012 through March 31, 2013	101
April 1, 2013 and thereafter	100

Special Mandatory Prepayment. The 2004 Certificates will be subject to mandatory prepayment prior to maturity, as a whole, or in part, on any date, at a Prepayment Price equal to the principal amount thereof plus accrued but unpaid interest to the prepayment date, without premium, from amounts deposited in the Prepayment Account of the Base Rental Fund following an event of damage, destruction or condemnation of the Project or any portion thereof or upon loss of the use or possession of the Project or any portion thereof due to a title defect.

Selection of 2004 Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of less than all of the 2004 Certificates, the City will direct the principal amount of each maturity to be prepaid. Within a maturity, the Trustee will select 2004 Certificates of each maturity for prepayment by lot in any manner which the Trustee in its sole discretion deems fair and appropriate; *provided, however,* that the portion of any 2004 Certificate to be prepaid will be in authorized denominations and all 2004 Certificates to remain outstanding after any prepayment in part will be in authorized denominations.

Notice of Prepayment. Notice of prepayment will be mailed by the Trustee, first class, postage prepaid, at least 30 but not more than 45 days before any prepayment date, to the respective registered Owners of any 2004 Certificates designated for prepayment at their addresses appearing on the registration books maintained by the Trustee. Notice is also required to be given to certain depositories and information services as described in the Trust Agreement. Each notice of prepayment will state the 2004 Certificates or designated portions thereof to be prepaid, the prepayment date, the place or places of prepayment, the prepayment price, the CUSIP numbers of the 2004 Certificates to be prepaid, the Certificate numbers of the 2004 Certificates to be prepaid in whole or in part, and, in the case of any 2004 Certificate being prepaid in part only, the amount of such 2004 Certificates to be prepaid, and the original issue date and the stated maturity date of each 2004 Certificate to be prepaid. Each such notice will also state that on the specified date there will become due and payable with respect to each 2004 Certificate being prepaid, the prepayment price, and that from and after such prepayment date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such prepayment.

Effect of Prepayment. When any 2004 Certificate or portion thereof has been duly called for prepayment prior to maturity under the provisions of the Trust Agreement, or with respect to which irrevocable instructions to call for prepayment prior to maturity at the earliest prepayment date have been given to the Trustee, in form satisfactory to it, and sufficient money shall be held by the Trustee irrevocably in trust for the payment of the prepayment price of such Certificate, or portion thereof, and accrued interest thereon to the date fixed for prepayment, all as provided in the Trust Agreement, then such Certificate or portion thereof shall no longer be deemed Outstanding under the provisions of the Trust Agreement.

Cancellation of Optional Prepayment. If the 2004 Certificates are subject to optional prepayment, and the Trustee does not have moneys sufficient to prepay all of the 2004 Certificates proposed to be prepaid on or prior to the date fixed for prepayment, the prepayment will be canceled, and in such case, the City, the Trustee and the Owners will be restored to their former positions and rights under the Trust Agreement. Such a cancellation of an optional prepayment at the election of the City will not constitute a default under the Trust Agreement, and the Trustee and the City will have no liability from such cancellation.

Additional Certificates

Unless the Certificate Insurer consents to additional certificates of participation ("Additional Certificates"), the City may only cause the execution and delivery of Additional Certificates payable on a parity with the Certificates for a refunding which results in savings in Base Rental payments.

The Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the 2004 Certificates. The 2004 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the 2004 Certificates in the aggregate principal amount of such maturity, and will be deposited with DTC. For further information concerning the book-entry only system, see "APPENDIX F-DTC AND THE BOOK-ENTRY ONLY SYSTEM."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

The Certificates are secured by and payable from Base Rental payments made to the Trustee under the Project Lease so long as the City has use and possession of the Project. The Certificates are executed and delivered under and pursuant to the Trust Agreement, payable solely from: (i) all Base Rental payments received by the Trustee and other receipts derived by the Trustee from the lease of the Project, excluding certain indemnification rights and rights to payment of expenses retained by the City, (ii) the proceeds of eminent domain, if any, and the proceeds of any liability or property insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Project), (iii) proceeds of rental interruption insurance with respect to the Project, (iv) all amounts on hand from time to time in the Reserve Fund and the Base Rental Fund established under the Trust Agreement and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf. The City will pay to the Trustee the Base Rental payments to the extent required under the Project Lease, which Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal of, and interest on, the Certificates.

The rights of the Owners of the 2004 Certificates under the Project Lease and the Trust Agreement are on a parity with the rights of the owners of the 2001 Certificates under the Property Lease and the Project Lease, including the right the right to receive certain insurance and eminent domain proceeds, if any.

Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay all administrative costs, including all reasonable expenses and compensation of the Trustee payable by the City under the Trust Agreements, fees of financial advisors or attorneys, litigation costs, insurance premiums, amounts due under the Trust Agreements (including amounts necessary to replenish the Reserve Fund (subject to certain limitations as provided in the Project Lease) and deposits required to be made to the Rebate Fund, if any) and all other reasonable and necessary administrative costs of the City or the Trustee incurred from time to time in administering the Project Lease and the Certificates. The City is also responsible for repair and maintenance of the Project during the Term of the Project Lease.

Base Rental Payments and Abatement

The Trustee will collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the City must immediately be paid by the City to the Trustee. All payments of Base Rental received by the Trustee under the Project Lease will be deposited into the Base Rental Fund.

The City has covenanted in the Project Lease to take such action as may be necessary to include all Rental Payments in its annual budget 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 ministerial duties imposed by law. Such covenants are subject to the provisions under the Project Lease regarding abatement of the City's obligation to pay Base Rental in the event of the City's loss of use and occupancy of all or a portion of the Project.

Except to the extent of: (i) available amounts in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received with respect to rental interruption insurance and (iii) amounts, if any, otherwise legally available to the City for payments under the Project Lease or to the Trustee for payments with respect to the Certificates, Rental Payments under the Project Lease are subject to abatement during any period in which, by reason of material damage, destruction or condemnation of the Project or any portion thereof, or defects in title to the Project or any portion thereof, there is substantial interference with the right to the use and occupancy of the Project or any portion thereof by the City. The amount of annual rental abatement would be such that the resulting Rental Payments in any Project Lease Year during which such interference continues, excluding any amounts described in the previous sentence, do not exceed the annual fair rental value of the portions of the Project with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement would continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Project or portion thereof to tenantable condition or correction of the title defect. Any abatement of Base Rental payments could affect the City's ability to pay debt service with respect to the Certificates, although the Project Lease requires the City to maintain rental interruption insurance and the Trust Agreement requires the establishment of a Reserve Fund. The rental interruption insurance will cover only rental interruptions due to the perils covered by the property insurance required to be maintained by the City under the Project Lease and therefore will not likely cover abatement due to, among other things, earthquake damage. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES-INSURANCE" and "CERTAIN RISK FACTORS-ABATEMENT." See also "-REPLACEMENT, MAINTENANCE AND REPAIRS" below for additional provisions governing damage to the Project.

Covenant to Budget

If the City defaults on its covenant in the Project Lease to include all Rental Payments in the applicable annual budget and such default continues for at least 60 days, the Trustee may either terminate the Project Lease and relet the Project or may retain the Project Lease and hold the City liable for all Rental Payments on an annual basis. See "RISK FACTORS -LIMITED RECOURSE ON DEFAULT; RELETTING OF THE PROJECT." Such obligations to budget and make such Rental Payments do not constitute a debt of the City, the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, nor do such obligations constitute obligations for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Reserve Fund and Credit Facility

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee, which secures the 2001 Certificates and will also secure the 2004 Certificates. Simultaneously with the delivery of the 2004 Certificates, the City will cause to be deposited a qualifying credit facility ("Credit Facility") provided by MBIA Insurance Corporation, into the Reserve Fund, which Credit Facility, together with certain securities currently held in the Reserve Fund, will be in an aggregate amount at least equal to the Reserve Requirement. "Reserve Requirement" is defined under the Trust Agreement to mean "as of any date of calculation, the least of: (i) the maximum annual debt service with respect to the Certificates in the then current Project Lease Year or any future Project Lease Year, (ii) 125% of the average annual debt service with respect to the Certificates payable in each Project Lease Year between the date of calculation and the last maturity of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered (to be separately calculated with respect to each series of the Certificates)." As of the Closing Date of the 2004 Certificates, the City has calculated the Reserve Requirement to be $5,396,555.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the interest and principal payments due with respect to the Certificates on such date, then the Trustee is required to transfer from the Reserve Fund to the Base Rental Fund, amounts sufficient to make up such deficiencies. Any moneys in the Reserve Fund in excess of the Reserve Requirement on each March 15 and September 15, and at such other time or times as directed by the City in writing, will be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date or transferred to such other funds as may be designated in such written order. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE TRUST AGREEMENT" and "-ESTABLISHMENT AND APPLICATION OF RESERVE FUND."

Insurance

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease: (i) general liability insurance against damages occasioned by reason of construction of improvements to or operation of the Project with minimum coverage limits of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, (ii) all-risk property insurance on all structures constituting any part of the Project in an amount equal to the outstanding principal amount of Certificates (to the extent commercially available), but in no event less than the replacement cost of the Project (less the applicable deductible amount), (iii) to the extent commercially available, earthquake insurance in an amount equal to the lesser of the outstanding principal amount of the Certificates or the replacement cost of the Project; provided that no such earthquake insurance is required if the Risk Manager of the City files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies, (iv) boiler and machinery insurance with a property damage limit of not less than $5,000,000 per accident and (v) 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 at least 24 months (to be adjusted annually on or prior to October 1 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 the perils covered by the insurance described in (ii) and (iii) above, and further requires that the Project Lease be covered by title insurance. Upon the occurrence of an event giving rise to a claim under the coverage described in (ii) or (iv) of such insurance policy, if the total amount of coverage was less than the total aggregate principal amount of the Certificates outstanding, no assurance can be given that the Trustee would have sufficient moneys available either to prepay all outstanding Certificates or to repair or replace the Project.

In the event the City were to obtain the earthquake insurance described in (iii) in the previous paragraph, upon the occurrence of an event giving rise to a claim under such earthquake coverage, if any, if the total amount of coverage was less than the total aggregate principal amount of the Certificates outstanding, no assurance can be given that the Trustee would have sufficient moneys available either to prepay all outstanding Certificates or to repair or replace the Project. The City has not obtained earthquake insurance for any of the facilities it owns or leases during the last ten years because in all instances in which the financing documents related to a facility would otherwise require the City to obtain earthquake insurance, the Risk Manager has made the certification described in (iii) in the previous paragraph or a similar certification in each of the past ten years. See "CERTAIN RISK FACTORS-SEISMIC RISKS."

The Project Lease also requires the City to deliver to the Trustee, on the date of execution and delivery of the 2004 Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance in an amount at least equal to the initial aggregate principal amount of the 2004 Certificates, showing a leasehold in interest in the Project in the name of the Trustee and the City, for the benefit of the Owners of the 2004 Certificates. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE PROJECT LEASE-INSURANCE."

The Project Lease permits the City to adopt alternative risk management programs meeting the terms and conditions of the Project Lease 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).

Application of Insurance Proceeds

Under the Trust Agreement, upon the damage or destruction of the Project or any portion thereof, the City is to make an election either to prepay the Certificates or to repair or replace the Project or affected portion thereof in accordance with the provisions of the Project Lease. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE TRUST AGREEMENT-APPLICATION OF INSURANCE PROCEEDS."

Eminent Domain

If all of the Project or so much of the Project as to render the remainder thereof unusable for the City's purposes under the Project Lease is taken under the power of eminent domain, the Project Lease will terminate and the proceeds of any condemnation award will be paid to the Trustee for application to the prepayment of Certificates; *provided, however,* that the City at its sole option may apply any proceeds of a condemnation award to the replacement of the condemned portion of the Project.

If less than a substantial portion of the Project is taken under the power of eminent domain, and the remainder is useable for the City's purposes, the Project Lease will continue in full force and effect as to the remaining portions of the Project, subject to its rental abatement provisions. The remaining proceeds of any condemnation award for less than a substantial portion of the Project will be paid to the Trustee for application to the replacement of the portion of the Project taken or to the partial prepayment of Certificates. No assurance can be given that such proceeds of a condemnation award will be sufficient either to replace the portion of the Project taken or to prepay Certificates representing principal in an amount at least equal to the amount required so that Base Rental payments will be sufficient to pay the principal and interest represented by the remaining Certificates when due. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE TRUST AGREEMENT-EMINENT DOMAIN" and "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE PROJECT LEASE-EMINENT DOMAIN".

Addition, Release and Substitution of the Project

If no event of default under the Project Lease has occurred and is then continuing, the Project Lease permits the City with the consent of Trustee and the Certificate Insurer to amend the Project Lease to release any portion of the Project or to add other property and improvements to the Project or to substitute other property for all or any portion of the Project provided the City complies with the provisions of the Project Lease requiring, among other items, that the City deliver to the Trustee and the Rating Agencies: (i) a certificate of a City Representative stating that the annual fair rental value of the property which will constitute the Project after such addition, release or substitution will be at least equal to 100% of the maximum amount of Base Rental payments becoming due in the then current Lease Year or in any subsequent Lease Year, (ii) a fair market appraisal from the Director of Property of the City setting forth the annual fair rental value and the fair replacement value of the property which will constitute the Project or any portion thereof after such addition, release or substitution and evidencing that such fair replacement value is equal to or greater than the principal amount of the Certificates then outstanding, (iii) a certificate of a City Representative stating that the useful life of the project constituting the Project after such addition, release or substitution meets or exceeds the remaining term of the Certificates and (iv) an opinion of Independent Counsel that such modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or subject to State personal income tax. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE PROJECT LEASE-ADDITION, RELEASE AND SUBSTITUTION."

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 FISCAL YEAR ENDED JUNE 30, 2003."

Investment Policy

For a discussion of the City's investment policy regarding pooled cash, see "APPENDIX A-CITY AND COUNTY OF SAN FRANCISCO-ORGANIZATION AND FINANCES-INVESTMENT POLICY."

Replacement, Maintenance and Repairs

The Project Lease requires the City, at its own expense and as determined and specified by the Director of Property of the City, to maintain or cause to be maintained the Project in good order, condition and repair during the term of the Project Lease. The Trust Agreement requires that if the Project or any portion thereof is damaged or destroyed, the City must elect either to prepay the Certificates or replace or repair the affected portion of the Project in accordance with the Project Lease. Under the Project Lease, the City must replace any portion of the Project that is destroyed or damaged to such an extent that there is substantial interference with its right to the use and occupancy of the Project or any portion thereof that would result in an abatement of Rental Payments or any portion thereof pursuant to the Project Lease; *provided, however,* that the City is not required to repair, substitute or replace any such portion of the Project if insurance proceeds or other legally available funds available to the Trustee are sufficient to prepay: (i) all of the Certificates outstanding and to pay all other amounts due under the Project Lease and under the Trust Agreement or (ii) any portion of the Certificates such that the resulting Rental Payments payable in any Project Lease Year following such partial prepayment are sufficient to pay in the then current and any future Project Lease Year the principal and interest with respect to all Certificates to remain outstanding and all other amounts due under the Project Lease and under the Trust Agreement to the extent they are due and payable in such Project Lease Year. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE PROJECT LEASE- REPLACEMENT, MAINTENANCE AND REPAIRS." No assurance can be given that in the event that any portion of the Project is destroyed or damaged to such an extent that there is substantial interference with the right of the City to the use or occupancy of the Project or any portion thereof that would result in an abatement of Rental Payments or any portion thereof, there will be sufficient insurance or condemnation proceeds or other legally available funds to repair, substitute or replace any such portion of the Project or to prepay any of the Certificates.

2004 CERTIFICATE INSURANCE

MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (the "2004 Insurer") for use in this Official Statement. Reference is made to Appendix H for a specimen of the 2004 Insurer's policy.

The 2004 Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City or the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2004 Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the 2004 Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2004 Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The 2004 Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2004 Certificates. The 2004 Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2004 Certificates upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The 2004 Insurer's policy also does not insure against nonpayment of principal of or interest on the 2004 Certificates resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 2004 Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the 2004 Insurer from the Trustee or any owner of a 2004 Certificate the payment of an insured amount for which is then due, that such required payment has not been made, the 2004 Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2004 Certificates or presentment of such other proof of ownership of the 2004 Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2004 Certificates as are paid by the 2004 Insurer, and appropriate instruments to effect the appointment of the 2004 Insurer as agent for such owners of the 2004 Certificates in any legal proceeding related to payment of insured amounts on the 2004 Certificates, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such 2004 Certificates, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

2004 Insurer

MBIA Insurance Corporation (the "2004 Insurer" or "MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "2004 CERTIFICATE INSURANCE." Additionally, MBIA makes no representation regarding the 2004 Certificates or the advisability of investing in the 2004 Certificates.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2004 Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004 MBIA had admitted assets of $10.3 billion (unaudited), total liabilities of $6.5 billion (unaudited), and total capital and surplus of $3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2004 Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2004 Certificates. MBIA does not guaranty the market price of the 2004 Certificates nor does it guaranty that the ratings on the 2004 Certificates will not be revised or withdrawn.

In the event the 2004 Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

PLAN OF FINANCE

The 2004 Certificates are being sold to provide funds to: (i) refinance an existing City courthouse building located at 400 McAllister in the City by refunding in whole the Refunded Certificates executed and delivered to finance the construction, furnishing and equipping of said building, $40,635,000 of which are currently outstanding, and (ii) pay costs of issuance of the 2004 Certificates (including premiums for the 2004 Insurer's policy and for the Credit Facility to be credited to the Reserve Fund established under the Trust Agreement). The Project will be subleased by the Trustee from the City pursuant to the Property Lease, and subleased back to the City pursuant to the Project Lease. See "THE PROJECT" herein.

Upon the execution and delivery of the 2004 Certificates to the original purchasers thereof, proceeds of the sale of the 2004 Certificates, together with certain other moneys, will be deposited with BNY Western Trust Company, as escrow agent (the "Escrow Agent"), pursuant to an Escrow Agreement, dated as of July 1, 2004 (the "Escrow Agreement"), between the City and the Escrow Agent, to be invested in Eligible Securities and held pending application thereof to the payment at maturity or prepayment of the Refunded Certificates, as described in the following table:

Refunded Certificates

Maturity (April 1)	Maturity or Prepayment Date (April 1)	Maturity or Prepayment Price	Principal Amount to Be Paid or Prepaid	CUSIP No.* 79765D
2005	2005	100%	$1,975,000	LC2
2006	2005	102	2,080,000	LD0
2007	2005	102	2,185,000	LE8
2008	2005	102	2,300,000	LF5
2009	2005	102	2,425,000	LG3
2010	2005	102	2,555,000	LH1
2011	2005	102	2,695,000	LJ7
2016	2005	102	15,905,000	LN8
2021	2005	102	8,515,000	LP3

* CUSIP numbers are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of such numbers.

For information on mathematical verification of the sufficiency of scheduled payments with respect to such obligations and other moneys held pursuant to the Escrow Agreement to make such payments, see "VERIFICATION OF MATHEMATICAL COMPUTATIONS".

SOURCES AND USES OF FUNDS

The proceeds of the sale of the 2004 Certificates and certain other moneys will be applied as follows:

Sources of Funds:	
2004 Certificates Principal Amount	$39,350,000.00
Original Issue Premium	523,147.00
Amounts Related to Refunded Certificates	4,245,659.57
Total Sources	$44,118,806.57
Uses of Funds:	
Deposit to Escrow Fund	$43,146,182.06
Underwriter's Discount	268,273.35
Costs of Issuance*	704,351.16
Total Uses	$44,118,806.57

* Includes fees and costs of the City, Co-Special Counsel, Co-Financial Advisors, Trustee, printing costs, 2004 Certificate insurance premium, Reserve Fund surety bond premium and other miscellaneous costs of issuance.

BASE RENTAL PAYMENT SCHEDULE

The Project Lease requires the City to make Base Rental payments in arrears on each March 15 and September 15, in payment for the use and occupancy of the Project during the term of the Project Lease.

The Trust Agreement requires that Base Rental payments be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Certificates as the same shall become due and payable, as shown in the following table.

Debt Service Schedule

Interest Payment Date	2004 Certificates Principal	2004 Certificates Interest	2004 Certificates Debt Service	2004 Certificates Fiscal Year Debt Service	2001 Certificates Debt Service	Total Fiscal Year Debt Service
October 1, 2004	--	--	--	--	$304,877.50	--
April 1, 2005	--	$1,016,749.13	$1,016,749.13	$1,016,749.13	1,149,877.50	$2,471,504.13
October 1, 2005	--	753,147.50	753,147.50	--	287,977.50	--
April 1, 2006	--	753,147.50	753,147.50	1,506,295.00	1,162,977.50	2,957,250.00
October 1, 2006	--	753,147.50	753,147.50	--	270,477.50	--
April 1, 2007	$2,680,000	753,147.50	3,433,147.50	4,186,295.00	1,175,477.50	5,632,250.00
October 1, 2007	--	712,947.50	712,947.50	--	252,377.50	--
April 1, 2008	2,760,000	712,947.50	3,472,947.50	4,185,895.00	1,207,377.50	5,645,650.00
October 1, 2008	--	671,547.50	671,547.50	--	233,277.50	--
April 1, 2009	2,845,000	671,547.50	3,516,547.50	4,188,095.00	1,228,277.50	5,649,650.00
October 1, 2009	--	628,872.50	628,872.50	--	213,377.50	--
April 1, 2010	2,930,000	628,872.50	3,558,872.50	4,187,745.00	1,208,377.50	5,609,500.00
October 1, 2010	--	577,597.50	577,597.50	--	192,233.75	--
April 1, 2011	3,030,000	577,597.50	3,607,597.50	4,185,195.00	1,227,233.75	5,604,662.50
October 1, 2011	--	516,997.50	516,997.50	--	170,240.00	--
April 1, 2012	3,155,000	516,997.50	3,671,997.50	4,188,995.00	1,250,240.00	5,609,475.00
October 1, 2012	--	453,897.50	453,897.50	--	146,615.00	--
April 1, 2013	3,280,000	453,897.50	3,733,897.50	4,187,795.00	1,281,615.00	5,616,025.00
October 1, 2013	--	388,297.50	388,297.50	--	121,077.50	--
April 1, 2014	3,410,000	388,297.50	3,798,297.50	4,186,595.00	1,301,077.50	5,608,750.00
October 1, 2014	--	320,097.50	320,097.50	--	93,937.50	--
April 1, 2015	3,550,000	320,097.50	3,870,097.50	4,190,195.00	1,323,937.50	5,608,070.00
October 1, 2015	--	249,097.50	249,097.50	--	65,032.50	--
April 1, 2016	3,690,000	249,097.50	3,939,097.50	4,188,195.00	1,355,032.50	5,608,260.00
October 1, 2016	--	175,297.50	175,297.50	--	33,750.00	--
April 1, 2017	1,670,000	175,297.50	1,845,297.50	2,020,595.00	1,383,750.00	3,438,095.00
October 1, 2017	--	140,227.50	140,227.50	--	--	--
April 1, 2018	1,740,000	140,227.50	1,880,227.50	2,020,455.00	--	2,020,455.00
October 1, 2018	--	102,817.50	102,817.50	--	--	--
April 1, 2019	1,815,000	102,817.50	1,917,817.50	2,020,635.00	--	2,020,635.00
October 1, 2019	--	62,887.50	62,887.50	--	--	--
April 1, 2020	1,895,000	62,887.50	1,957,887.50	2,020,775.00	--	2,020,775.00
October 1, 2020	--	20,250.00	20,250.00	--	--	--
April 1, 2021	900,000	20,250.00	920,250.00	940,500.00	--	940,500.00

THE PROJECT

The Project consists of a courthouse building located in the City's Civic Center at the corners of Polk and McAllister Streets, which was completed in December 1997. The Project is a six-story building with approximately 230,000 square feet of space, including 38 courtrooms and hearing rooms. The Project is the forum for the hearing of all civil, small claims, family law, probate and juvenile dependency matters by the City's courts.

CERTAIN RISK FACTORS

The following risk factors should be considered, along with all other information in this Official Statement, by potential investors in evaluating the risks inherent in the purchase of the 2004 Certificates. No assurance can be given that other risk factors will not become evident at any future time.

Project Lease Payments Not Debt of the City

The obligation of the City to make the Rental Payments does not constitute an obligation of the City for which the City is obligated 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 make Rental Payments does not constitute a debt or indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Subject to certain Charter restrictions, the City may incur other obligations which may constitute additional charges against its revenues. To the extent that the City incurs additional obligations, the funds available to make Rental Payments may decrease. 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," and "-OTHER AUTHORIZED AND UNISSUED LONG-TERM OBLIGATIONS." See also "APPENDIX C-EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL 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 occupancy 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 right of occupancy of the Project, and if the Project then available for beneficial use and occupancy by the City has an aggregate fair rental value less than the amount of the applicable Base Rental payments.

If Base Rental payments are abated, no assurance can be given that moneys on deposit in the Base Rental Fund and the Reserve Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service with respect to the Certificates. In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Requirement.

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 or any portion thereof. Such abatement will continue for the period commencing with the date of such damage, destruction, condemnation or title defect and will 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 Certificates if Base Rental payments received by the Trustee are insufficient to pay principal or interest on the Certificates 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 the proceeds of any rental interruption insurance, are insufficient to make all payments with respect to the Certificates 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 under the Project Lease or the Trust Agreement for nonpayment under such circumstances. Failure to pay principal, premium, if any, or**

interest represented by, the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Project Lease is not an event of default under the Trust Agreement or the Project Lease.

Notwithstanding the provisions of the Project Lease and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Project, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of the remaining principal and interest represented by the Certificates.

Limited Recourse on Default; Reletting of the Project

The enforcement of any remedies provided for in the Project Lease and in the Trust Agreement could prove to be both expensive and time consuming. Although the Project Lease and the Trust Agreement provide that if there is a default by the City, the Trustee may take possession of and relet the Project, no assurance can be given that the amounts received from such reletting would be sufficient to pay the principal and interest represented by the Certificates when due. In addition, the Trust Agreement provides that no remedies such as reletting may be exercised so as to cause the interest component of the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income taxes.

The Project Lease provides that any remedies on default shall be exercised by the Trustee, as agent and for the account of the City. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental or Additional Rental payments when due, or if the City breaches any other terms, covenants, conditions or agreements contained in the Project Lease (and does not remedy such breach within 60 days notice thereof or, if such breach cannot be remedied within such 60-day period, the City fails to take corrective action within such 60-day period and diligently pursue the same to completion), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of each series of the Certificates then outstanding, shall proceed), without any further notice: (i) to reenter the Project and without terminating the Project Lease, relet the Project as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable or (ii) to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due, by pursuing any remedy available in law or in equity.

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.

Reserve Fund

At the time of execution and delivery of the 2004 Certificates, the Reserve Fund will be funded with certain securities and with the Credit Facility in an amount equal to the Reserve Requirement, which as of the date of delivery is equal to $5,396,555. In the event of abatement or default, the amounts on deposit in such Reserve Fund may be significantly less than the amount of Base Rental due with respect to the Certificates at the time of abatement or default.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Project Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Release and Substitution of the Project

The Project Lease permits the release of portions of the Project or the substitution of other real property for all or a portion of the Project. See "APPENDIX D-SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE-THE PROJECT LEASE-RELEASE AND SUBSTITUTION." Although the Project Lease requires that the substitute project have an annual fair rental value upon becoming part of the Project equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Project being replaced, it does not require that such substitute project have an annual fair rental value equal to the annual fair rental value at the time of replacement of the Project or portion thereof being replaced. In addition, such replacement property could be located anywhere within the City's boundaries. Therefore, release or substitution of all or a portion of the Project could have an adverse effect on the security for the Certificates.

Seismic Risks

The City is located in a seismically active region of California, which has experienced numerous earthquakes with a magnitude of at least 6.0 and with epicenters within or near the San Francisco Bay Area. The San Andreas Fault lies 7.5 miles west of the City, and the Hayward fault is approximately 11.5 miles to the east of the City. The largest earthquake was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2 on the Richter scale. The most recent significant earthquake was the October 1989 Loma Prieta earthquake with a magnitude of 7.1 on the Richter scale and with an epicenter near Santa Cruz, approximately 55 miles south of San Francisco. Numerous geological surveys indicate that because of the proximity to the above active faults, there is a significant probability of another major earthquake in the Bay Area of at least the magnitude of the Loma Prieta earthquake within the next 30 years. Therefore, a significant earthquake in the vicinity of the Project is probable during the period the Certificates will be outstanding.

The Lease requires earthquake insurance only to the extent it is obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES-Insurance"). The City does not currently 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 by an earthquake and that Base Rental payments would consequently be abated in whole or in part should be considered. Further, an earthquake could have a material adverse impact on the finances of the City, which in turn could impair the ability of the City to make Base Rental payments under the Lease.

Risk Management and Insurance

The Project Lease obligates the City to maintain and keep in force various forms of insurance on the Project for repair or replacement in the event of damage or destruction to the Project. The City is also required to maintain rental interruption insurance. The Project Lease allows the City to insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as self-insurance. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Project Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Certificates when due.

The City employs a full-time Risk Manager, as well as safety and loss control professionals, for the prevention and mitigation of property, liability and employee claims for injury or damage. The City has maintained a program of self-insurance for many years for the above types of claims, including annual appropriations for self-insured losses and professional staff for investigation and legal defense of claims and litigation.

Senate Bill 1732

Senate Bill 1732 ("SB 1732"), which was adopted by the State Legislature in 2002, requires the State of California (the "State") to assume full responsibility for all the State's court facilities, including superior courts of each county, such as the Courthouse, and caps each county's contribution for court facility maintenance at a certain level payable by such county to the State (the "County Contribution"). The State will enter into agreements to take title and/or responsibility for each county's court facilities on a building by building basis between July 1, 2004 and June 30, 2007 (the "MOUs"), subject to certain exceptions for deficient facilities, shared-use facilities, historical facilities, encumbered facilities or facilities subject to bonded indebtedness. Subject to certain provisions of SB 1732 (including two provisions summarized below), once responsibility for court facilities are transferred to the State, the county will no longer be obligated to fund or maintain court facilities (except for the County Contribution), will transfer certain county funds dedicated to courthouse facilities to the State and will no longer be authorized to charge certain fines and fees to generate revenues for the construction of courthouse facilities.

Pursuant to SB 1732, title to facilities that are subject to bonded indebtedness, which would include the Certificates, will remain with the county until the bonded indebtedness is paid in full. In such a case, the county will be responsible to continue to make debt service payments on the bonded indebtedness and the county will retain the revenue sources used to pay such bonded indebtedness.

SB 1732 also provides that, if the county and the State agree, the county may transfer the title of court facilities subject to bonded indebtedness and the revenue source supporting such indebtedness to the State and the State will make the debt service payments (up to the amount of revenue received). If the debt service exceeds the amount the State receives from the revenue source, the county is required to pay the remainder of the debt service.

The City has not yet entered into any MOUs with the State for the transfer of title and/or responsibility for any of the County's court facilities to the State, including the Courthouse although negotiations with the State are ongoing. The City cannot predict the terms of the MOUs or on what date they will be finalized. If the City transfers title and/or responsibility for any court facilities to the State, the County's authority to collect fees and penalties may be reduced to the extent not needed to pay debt service on the 2004 Certificates or other bonded indebtedness.

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of counties in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS-ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION."

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 that will amend the laws of the State or the City, 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- B ARTICLES XIII C AND XIII D OF THE CALIFORNIA CONSTITUTION."

State Budget

Revenues from the State represent approximately 25% of the City's General Fund budget. Therefore, the State's balancing of its own budget could have an adverse impact on the City, which could materially adversely affect the City's revenues. See "APPENDIX A-CITY AND COUNTY OF SAN FRANCISCO-ORGANIZATION AND FINANCES –IMPACT OF STATE BUDGET."

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 of the State Constitution, known as Proposition 13, was approved by California voters in June 1978. It limits the amount of ad valorem tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period. Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) 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 the taxpayers 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, 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.

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. 4^{th} 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. 4^{th} 137 and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4^{th} 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.

THE CITY

The Certificates are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the Reserve Fund and the Base Rental Fund 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 City shall be obligated to make Rental Payments subject to the terms of the Project Lease, and neither the City nor any of its officers shall incur any liability or any other obligation with respect to the execution and delivery of the Certificates.

For further information about the City, 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 FISCAL YEAR ENDED JUNE 30, 2003."

TAX MATTERS

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; however, such interest is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Co-Special Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the 2004 Certificates, and Co-Special Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure exclusion of the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Special Counsel, under existing statutes, the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates is exempt from personal income taxes imposed by the State of California.

Co-Special Counsel express no opinion regarding any other Federal or state tax consequences with respect to the 2004 Certificates. Co-Special Counsel render their opinion under existing statutes and court decisions as of the execution and delivery date, and assume no obligation to update their opinion after the execution and delivery date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Co-Special Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the execution and delivery of the 2004 Certificates in order that the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds with respect to the 2004 Certificates, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates to become included in gross income for Federal income tax purposes retroactive to their execution and delivery date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2004 Certificates. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2004 Certificate. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2004 Certificates.

Prospective owners of the 2004 Certificates should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. The portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a 2004 Certificate (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the 2004 Certificates of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the 2004 Certificates is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Co-Special Counsel further is of the opinion that, for any 2004 Certificate having OID (a "Discount 2004 Certificate"), OID that has accrued and is properly allocable to the owners of the Discount 2004 Certificates under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as the portion of Base Rental payments designated as and representing interest and received by the owners of the 2004 Certificates.

In general, under Section 1288 of the Code, OID on a Discount 2004 Certificate accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount 2004 Certificate. An owner's adjusted basis in a Discount 2004 Certificate is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount 2004 Certificate. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount 2004 Certificate even though there will not be a corresponding cash payment.

Owners of Discount 2004 Certificates should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount 2004 Certificates.

Bond Premium

In general, if an owner acquires a 2004 Certificate for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable with respect to the 2004 Certificate after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that 2004 Certificate (a "Premium 2004 Certificate"). In general, under Section 171 of the Code, an owner of a Premium 2004 Certificate must amortize the bond premium over the remaining term of the Premium 2004 Certificate, based on the owner's yield over the remaining term of the Premium 2004 Certificate determined based on constant yield principles (in certain cases involving a Premium 2004 Certificate callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such 2004 Certificate). An owner of a Premium 2004 Certificate must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium 2004 Certificate, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium 2004 Certificate may realize a taxable gain upon disposition of the Premium 2004 Certificate even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium 2004 Certificates should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium 2004 Certificates.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of execution and delivery of the 2004 Certificates will not have an adverse effect on the tax-exempt status or market price of the 2004 Certificates.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, delivery and sale of the 2004 Certificates are subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

Copies of the approving opinion of Co-Special Counsel will be available at the time of execution and delivery of the 2004 Certificates. Co-Special Counsel are not passing upon and undertake no responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. Co-Special Counsel will receive compensation that is contingent upon the sale, execution and delivery of the 2004 Certificates.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon execution and delivery of the 2004 Certificates, the arithmetical accuracy of certain computations included in the schedules provided by Municipal Capital Management, Inc. on behalf of the City relating to the: (i) adequacy of forecasted receipts of principal and interest on the governmental obligations and cash to be held pursuant to the Escrow Agreement; (ii) payments of principal and interest with respect to the Refunded Certificates on and prior to their maturity or prepayment dates; and (iii) yields with respect to the 2004 Certificates and on the obligations and other securities to be deposited pursuant to the Escrow Agreement upon delivery of the 2004 Certificates, will be verified by Causey Demgen & Moore Inc., independent certified public accountants (the "Verification Agent"). Such verification will be based solely upon information and assumptions supplied to the Verification Agent by Municipal Capital Management, Inc. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the 2004 Certificates to provide certain financial information and operating data relating to the City 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 the 2003-2004 Fiscal Year (the "Annual Report"), 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 State Repository, if any. The specific nature of information to be contained in the Annual Report or the notices of material events is shown in "APPENDIX E-FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchaser of the 2004 Certificates in complying with SEC Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings pursuant to said Rule.

NO LITIGATION

No litigation is pending or, to the knowledge of the City Attorney, as counsel to the City, threatened, concerning the validity of the 2004 Certificates or the Trust Agreement, and the City Attorney, as counsel to the City, 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 validity of the Project Lease, and the City Attorney will issue an opinion to that effect. The opinions of the City Attorney will be furnished to the initial purchaser at the time of the original execution and delivery of the 2004 Certificates. 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.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's, A Division of The McGraw-Hill Companies ("S&P"), and Fitch ("Fitch") have assigned municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the 2004 Certificates conditioned upon the delivery of the 2004 Insurer's policy. Moody's, S&P and Fitch have assigned underlying ratings of "A2," "AA-" and "A," respectively, to the 2004 Certificates. Certain information was supplied by the City to the rating agencies to be considered in evaluating the 2004 Certificates. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from Moody's, S&P 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 or withdrawn entirely by such rating agencies, if in their judgment circumstances so warrant. The City and the Trustee undertake no responsibility to bring to the attention of the Owners of the 2004 Certificates any revision or withdrawal of the ratings. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the 2004 Certificates.

CO-FINANCIAL ADVISORS

The City has retained Municipal Capital Management, Inc. and Montague DeRose and Associates, LLC, as co-financial advisors (the "Co-Financial Advisors") in connection with the preparation of this Official Statement and with respect to the execution and delivery of the 2004 Certificates. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Each of the Co-Financial Advisors is an independent financial advisory firm and not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Co-Financial Advisors will receive compensation which is contingent upon the sale, execution and delivery of the 2004 Certificates.

SALE OF 2004 CERTIFICATES

The 2004 Certificates were sold at competitive bid on July 13, 2004, and awarded to Morgan Stanley & Co. Incorporated at a purchase price of $39,604,873.65 and a true interest cost of 3.90196%, as defined in the Official Notice of Sale relating to the 2004 Certificates. The Official Notice of Sale provides that all 2004 Certificates 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 Co-Special Counsel and certain other conditions.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the 2004 Certificates. The preparation and distribution of this Official Statement has been authorized by the City. For copies, written request may be made to the Mayor's Office of Public Finance, City Hall, Room 336, 1 Carlton B. Goodlett Place, San Francisco, California 94102.

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

CITY AND COUNTY OF SAN FRANCISCO

/s/ EDWARD M. HARRINGTON
By: Edward M. Harrington, Controller

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

Government and Organization

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

In November 1995, 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. In May 2004, Mayor Newsom appointed Ms. Leal to serve as General Manager of the City's Public Utilities Commission pending confirmation by the Commission. If her appointment is confirmed and she accepts the post, Ms. Leal would be required to resign as City Treasurer and a new City Treasurer would be appointed by the Mayor. It is not certain at this time when Ms. Leal will leave her position as City Treasurer.

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 were presented to the Board by the Mayor on June 1. Following submission of the Mayor's proposed budget, the Controller provided 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 then-Mayor Brown 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 forecasts a $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. On June 1, 2004, the Mayor proposed to the Board a balanced fiscal year 2004-05 budget which closed the estimated $299.3 million budget gap using 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.

The Mayor's fiscal year 2004-05 proposed budget assumes 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.

On March 31, 2004, the Office of the Inspector General (OIG) of the U.S. Department of Transportation released the results of its audit of certain payments made by the San Francisco International Airport ("SFO") to the City during fiscal years 1998-02. The OIG's audit found that there had been payments from SFO to the City which exceeded, by approximately $12.5 million, the amounts prescribed in the annual service agreement for indirect costs incurred by the City on SFO's behalf. In response to this finding, the audit recommends further review of SFO's payments to the City over the past six fiscal years. It is unclear at this time what the eventual outcome of the review and audit will be and what effect, if any, such and review would have on the City's past and future annual payments from SFO. The proposed fiscal year 2004-05 budget includes an annual payment from SFO to the City of $19.2 million.

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 May13, 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 1,937 applications for assessment appeal against the fiscal year 2003-04 levy between July 1, 2003 and May 31, 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 claims against PG&E with an aggregate value of $17.1 million. PG&E has also filed suit against the City for $31.1 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.

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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 May 31, 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 May 31, 2004

Type of Investment	Book Value	Par Value
Treasury Bills	$947,104,328	$950,424,000
Treasury Notes	117,686,723	120,000,000
FNMA Discount Notes	109,816,535	110,000,000
Federal Home Loan Disc Notes	170,169,401	170,500,000
FMC Discount Notes	99,871,750	100,000,000
Negotiable C. D.'s	315,000,000	315,000,000
Commercial Paper Disc	665,093,049	667,000,000
Public Time Deposit	100,000	100,000
Total	$2,424,841,786	$2,433,024,000

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 May 31, 2004					
Maturity				Cost	Percentage
1	to	2	Months	$1,312,499,217	54.13%
2	to	3	Months	631,247,438	26.03
3	to	4	Months	363,408,408	14.99
4	to	5	Months	-	0.00
5	to	6	Months	-	0.00
6	to	12	Months	-	0.00
12	to	18	Months	50,075,786	2.07
18	to	24	Months	-	0.00
24	to	36	Months	47,867,187	1.97
36	to	48	Months	0	0.00
48	to	60	Months	19,743,750	0.81
				$2,424,841,786	100.00%
Weighted Average Maturity: 97 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.

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TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations

	Outstanding 6/30/2004	Self-Supporting, Enterprise Rev.
2003-2004 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 98,145,268,023	
DIRECT GENERAL OBLIGATION BOND DEBT		
General City Purposes Carried on the Tax Roll	$844,350,000	
Harbor Bonds (paid from Port revenues)	400,000	$400,000
GROSS DIRECT DEBT	$844,750,000	$400,000
NET DIRECT DEBT	$844,350,000	
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	245,680,000	
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	138,376,625	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	67,670,000	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004	33,565,000	
LONG-TERM OBLIGATIONS	$831,626,625	
GROSS DIRECT DEBT & OBLIGATIONS	$1,676,376,625	
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	36,600,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	725,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,410,000	
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	$481,361,143	
GROSS COMBINED TOTAL OBLIGATIONS	$2,157,737,768	[1][2]

Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)	0.86%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.86%	n/a
Gross Direct Debt & Obligations	1.71%	n/a
Gross Combined Total Obligations	2.20%	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.

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 June 30, 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 June 30, 2004 the City had $844,750.000 in general obligation bonds outstanding, including $400,000 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 June 30, 2004 [1]

Fiscal Year	Principal	Interest	Annual Debt Service
2005	$62,700,000	$42,418,254	$105,118,254 [2]
2006	65,155,000	39,042,840	104,197,840
2007	68,070,000	35,873,688	103,943,688
2008	69,065,000	32,481,250	101,546,250
2009	72,355,000	29,083,612	101,438,612
2010	72,735,000	25,542,891	98,277,891
2011	73,835,000	21,880,017	95,715,017
2012	61,770,000	18,213,059	79,983,059
2013	52,170,000	15,244,157	67,414,157
2014	45,990,000	12,706,831	58,696,831
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	148,960	3,653,960
TOTAL [3]	$844,750,000	$309,048,159	$1,153,798,159

[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 6/30/04.

[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. The City may 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. It is anticipated that approximately $210 million of the total authorized amount for the project will be issued in August 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 September 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 September 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.

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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 June 30, 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 June 30, 2004)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Harbor Improvement Bonds	B	$10,000,000	$400,000	-
Public Safety Improvement Projects (11/7/89)	1996B	7,645,000	335,000	-
Public Safety Improvement Projects (6/5/90)	1995A	18,480,000	0	- [1]
Golden Gate Park Improvements (6/2/92)	1995B	26,000,000	0	-
	1997A	25,105,000	18,885,000	-
	2001A	17,060,000	15,270,000	-
Fire Department Facilities Project (11/3/92)	1996C	14,285,000	630,000	-
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	1,860,000	-
	1997B	22,050,000	16,580,000	-
Asian Art Museum Relocation Project (11/8/94)	1996E	25,000,000	1,100,000	-
	1999D	16,730,000	14,000,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	2,810,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	16,365,000	-
	1999A	20,000,000	17,190,000	-
	2000D	20,000,000	17,495,000	-
	2001C	17,000,000	15,380,000	-
	2001D	23,000,000	21,110,000	-
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	16,935,000	-
	2000A	29,605,000	25,950,000	-
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	50,270,000	-
	2003B	29,480,000	28,330,000	-
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	13,990,000	-
	2000B	17,440,000	15,285,000	
	2002A	6,210,000	5,790,000	7,505,000
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,415,000	-
	2001B	14,060,000	12,580,000	
	2003A	20,960,000	20,145,000	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	15,920,000	
	2002B	23,135,000	21,575,000	65,065,000
SUB TOTALS		**$685,740,000**	**$391,595,000**	**$872,060,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$322,950,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$108,275,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		$21,930,000	$21,930,000	
TOTALS		**$1,275,700,000**	**$844,750,000**	**$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 June 30, 2004

Fiscal Year	Principal	Interest	Annual Payment Obligation
2005	$49,041,625	$28,919,801	$77,961,426
2006	46,890,000	28,642,116	$75,532,116
2007	45,325,000	27,453,948	$72,778,948
2008	43,485,000	26,332,406	$69,817,406
2009	42,510,000	25,239,459	$67,749,459
2010	37,225,000	24,141,205	$61,366,205
2011	37,725,000	23,213,554	$60,938,554
2012	31,720,000	22,221,732	$53,941,732
2013	32,805,000	21,279,887	$54,084,887
2014	32,135,000	20,380,321	$52,515,321
2015	32,805,000	19,369,471	$52,174,471
2016	34,195,000	18,053,708	$52,248,708
2017	33,755,000	16,463,153	$50,218,153
2018	34,190,000	14,832,737	$49,022,737
2019	34,600,000	13,175,472	$47,775,472
2020	19,825,000	11,866,163	$31,691,163
2021	20,755,000	10,928,528	$31,683,528
2022	20,000,000	9,943,163	$29,943,163
2023	20,315,000	9,012,601	$29,327,601
2024	20,665,000	8,074,231	$28,739,231
2025	17,445,000	7,120,906	$24,565,906
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	349,856	$11,649,856
TOTAL [1][2][3]	$831,626,625	$415,215,590	$1,246,842,215

[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. As of June 30, 2004, the total authorized amount for such financings was $39,598,632. The total principal amount outstanding as of June 30, 2004 was $26,650,000. It is anticipated that the Corporation will issue approximately $10.3 million in equipment lease revenue bonds under this authorization in April 2005.

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 (the "SFCCD") and to improve to make improvements to existing facilities. The SFCCD issued $38 million of such authorization in March 2002. It is anticipated that SFCCD will issue approximately $65 million by the end of calendar year 2004.

On November 4, 2003, voters approved Proposition A. Proposition A authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295 million of general obligation bonds to repair and rehabilitate its facilities. It is anticipated that the SFUSD will issue its first series of bonds under this authorization by the end of calendar year 2004.

Labor Relations

The Mayor's fiscal year 2004-05 budget includes approximately 30,000 full time personnel, excluding employees in the San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court. City workers are represented by 48 different labor unions. The largest unions in the City are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

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

Of the unions covered under Charter Section A8.590-1, the City continues negotiations with the Firefighters Union, the Paramedics, and Fire Management. Both the Police and Police Management contracts do not have reopener provisions and will expire on June 30, 2007.

Pursuant to the Charter, the 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 contract covering transit operators expired on June 30, 2004; however, the unions recently ratified a contract which extends through June 30, 2008. The contract, which is expected to be taken up for approval by the Municipal Transportation Agency Board ("MTA") in the next few weeks, includes a new wage schedule with wage increases beginning in April 2005, as well as an incentive-based bonus program.

In addition, the City 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 2004-05 also provides for unrepresented employees to continue payment of the employee contribution to their retirement plans and receive additional floating holidays.

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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, 2006
Building Inspectors Association	77	June 30, 2006
Carpenters, Local 22	107	June 30, 2006
Cement Masons, Local 580	23	June 30, 2006
Deputy Sheriffs Association	837	June 30, 2005
District Attorney Investigators Association	58	June 30, 2006
Electrical Workers, Local 6	788	June 30, 2006
Glaziers, Local 718	12	June 30, 2006
International Alliance of Theatrical Stage Employees, Local 16	3	June 30, 2006
Ironworkers, Local 377	18	June 30, 2006
Hod Carriers, Local 36	8	June 30, 2006
Laborers International Union, Local 261	1,068	June 30, 2006
Law Librarian	3	June 30, 2005
Municipal Attorneys' Association	417	June 30, 2006
Municipal Executives Association	924	June 30, 2006
MEA - Police Management	3	June 30, 2007
MEA - Fire Management	8	June 30, 2005
Operating Engineers, Local 3	57	June 30, 2006
Painters, Local 4	106	June 30, 2006
Pile Drivers, Local 34	15	June 30, 2006
Plumbers, Local 38	337	June 30, 2006
Probation Officers Assoc., Teamsters Local 856	164	June 30, 2005
Professional & Technical Engineers, Local 21	4,203	June 30, 2006
Roofers, Local 40	11	June 30, 2006
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, 2006
SEIU, Local 535	1,410	June 30, 2006
SEIU, Local 790	7,728	June 30, 2006
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, 2006
Stationary Engineers, Local 39	634	June 30, 2006
Supervising Probation Officers, Operating Engineers, Local 3	22	June 30, 2006
Teamsters, Local 350	2	June 30, 2006
Teamsters, Local 853	166	June 30, 2006
Teamsters, Local 856 (multi-unit)	128	June 30, 2006
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, 2006
TWU, Local 250-A TWU - Miscellaneous	100	June 30, 2006
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2008 [1]
Union of American Physicians & Dentists	176	June 30, 2006
Unrepresented Employees	151	June 30, 2005
	30,552 [2]	

[1] Pending approval by the Metropolitan Transportation Agency Board.
[2] 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.

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APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO ECONOMY AND GENERAL INFORMATION

Area and Economy

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

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

Population and Income

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit, at 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 was 4.4 percent in May 2004, down from a revised 4.8 percent in April 2004. This rate is in comparison with an adjusted unemployment rate of 5.8 percent for California and 5.3 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, and the City electorate accepted, responsibility for the Port to the City in 1969. 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.

In fiscal year 2002-03, the Port posted a decrease in net assets of $6.4 million. In the same period, as shown in the table below, the Port properties generated $54.5 million.

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 $100 million renovation of the Ferry Building was completed in 2003. Also completed in 2003 was the two-acre Rincon Park, a collaborative effort among 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.sfgov.org/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

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- 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.

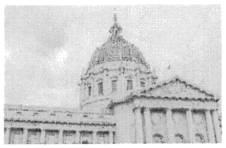
The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten–year revenue and expenditure information on an inflation-adjusted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

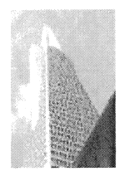
This CAFR includes the financial activities of the primary government, which encompasses several enterprise activities, as well as all of its component units. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the 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.

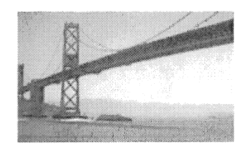
Downtown office vacancy rates, which decreased steadily for over eight years in the 1990s, dropping below one percent at certain points, have reversed and increased in each of the last two fiscal years. However by the middle of fiscal year 2002-2003 that trend had begun to stabilize and occupancy stood 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]

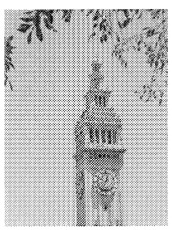
While the economic contraction in the nation and the Bay Area have affected the City's economy, San Francisco overall retains a solid foundation of business and industry diversification. The City's economic base includes national and global companies and locally owned small businesses. San Francisco 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.

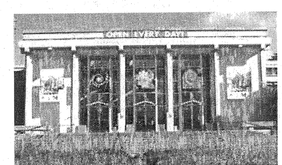
Groundbreaking was formally held in November 2003 for the new Laguna Honda complex, the City's project to rebuild existing hospital facilities, build supportive care housing and provide a complete continuum of long-term healthcare services. Financed by general obligation bonds, tobacco settlement funds 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.

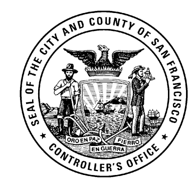
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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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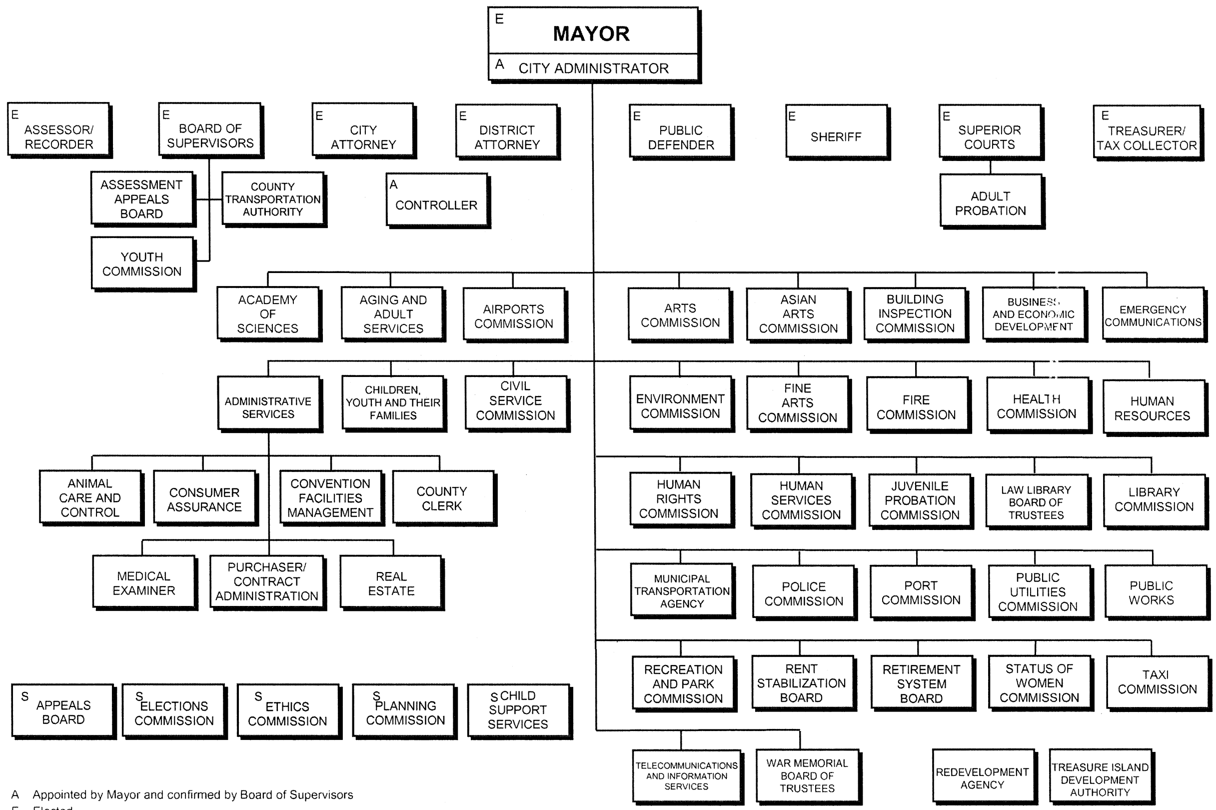
San Francisco City and County Government

(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

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

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Statement of activities</td><td>Balance Sheet
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Statement of changes in fiduciary net assets</td></tr>
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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.

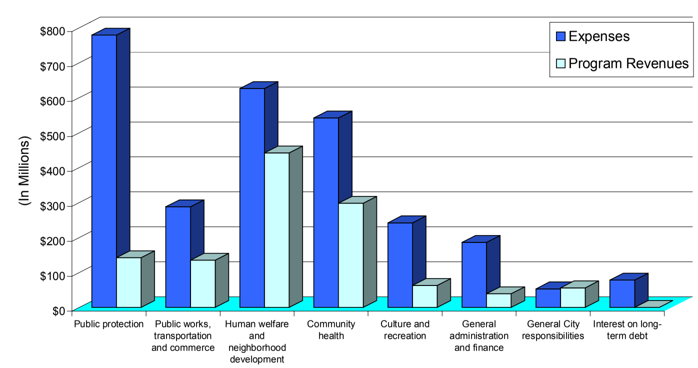
Changes in Net Assets
June 30, 2003 (in thousands)

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	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

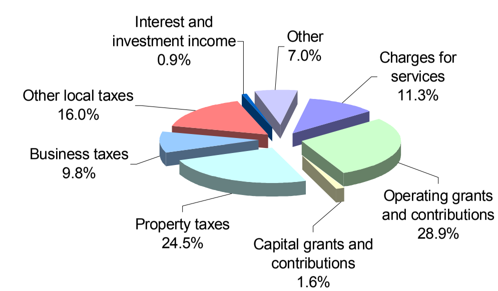
Analysis of Changes in Net Assets

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.

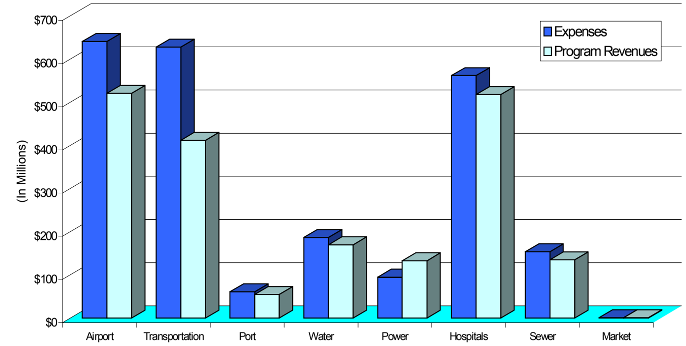
For the most part, increases in expenses paralleled increases in the cost of living in the San Francisco Bay Area and growth in the demand for government services. However, the City's spending in some program areas increased at greater rates notably in Public Protection where the City had both scheduled 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.

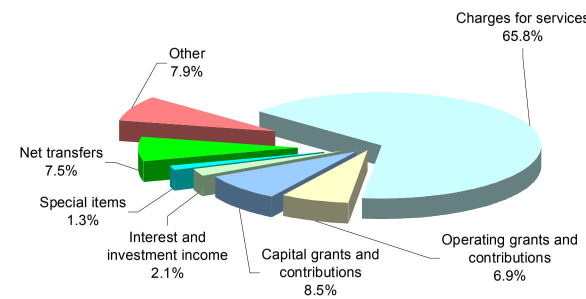
The charts on the previous page illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (28 percent), followed by human welfare and neighborhood development (22 percent) and community health (19 percent). 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.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by $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 2003	General Fund 2002	Other Governmental Funds 2003	Other Governmental Funds 2002	Total Governmental Funds 2003	Total Governmental Funds 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

	Major Funds								Other Fund	Total		Governmental Activities-Internal Service Funds	
	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	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 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
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											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	Parking Garages and Market Corporation	2003	2002	2003	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.

(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.

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NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*
June 30, 2003

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.

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

	Category			Carrying
Type of Investment	1	2	3	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

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.

(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

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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

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

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

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

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					
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

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

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.

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.

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

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	Lease Revenue Bonds		Tax Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	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.

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

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.

(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.

(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:	Transfers In: Funds						Government-wide	
Funds	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital	Laguna Honda Hospital	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

CITY AND COUNTY OF SAN FRANCISCO
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June 30, 2003

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.

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 CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROJECT LEASE AND THE PROPERTY LEASE

The following is a summary of certain provisions contained in the Trust Agreement, the Project Lease and the Property Lease (the "Principal Legal Documents"). This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to each of the Principal Legal Documents.

DEFINITIONS

The following are definitions of certain terms used in this Summary of Certain Provisions of the Principal Legal Documents to which reference is hereby made. The following definitions are equally applicable to both the singular and plural forms of any of the terms defined in the Trust Agreement.

"Additional Rental" means the amounts specified as such in the Project Lease.

"Base Rental" means the amounts specified as such in the Project Lease, as such amounts may be adjusted from time to time in accordance with the terms of the Project Lease, but does not include Additional Rental.

"Base Rental Fund" means the fund of that name established pursuant to the Original Trust Agreement.

"Business Day" means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law 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.

"Certificates" means, collectively, the 2001 Certificates and the 2004 Certificates.

"City Representative" means the Mayor, the City Attorney, the Controller, the City Administrator, the Director of Public Finance, the Clerk of the Board or another official designated by the Controller of the City and authorized by the Controller of the City to act on behalf of the City under or with respect to the Principal Legal Documents and all other agreements related thereto.

"Closing Date" means, as appropriate, the date of original delivery of the 2001 Certificates or the 2004 Certificates.

"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" means any one or more of the events described in the Original Trust Agreement.

"Facilities" means the six-story courthouse building with a 36 space on-site parking facility, together with all other works, property or structures located on the Property.

"Insurance Policy" means, collectively, the insurance policy related to the 2001 Certificates and the 2004 Insurance Policy.

"Insurer" means, collectively, the 2004 Insurer and the 2001 Insurer.

"Interest Payment Date" means April 1 and October 1 in each year (commencing April 1, 2005 for the 2004 Certificates) and continuing until the maturity or earlier prepayment date of the Certificates.

"Original Trust Agreement" means the Trust Agreement, dated as of July 1, 2001, by and between the City and the Trustee.

"Outstanding" when used as of any particular time with respect to any Certificate, means any Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(1) any Certificate paid in accordance with its terms;

(2) any Certificate theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(3) any Certificate for the payment or prepayment of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether prior to the maturity or prepayment date of such Certificate), provided that, if such Certificate is to be prepaid prior to maturity, notice of such prepayment shall have been given as provided the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(4) any Certificate purchased by the City; and

(5) any Certificate in lieu of or in exchange for which another Certificate or other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Certificates, the principal and/or interest with respect to which have been paid by the Insurer pursuant to the Insurance Policy, shall remain Outstanding for all purposes (as provided in the Trust Agreement).

"Permitted Encumbrances" means (i) those liens, charges, security interests and encumbrances existing on or prior to the Closing Date or on or prior to the date any project is substituted for the Project or any portion thereof pursuant to the Project Lease which are covered by the exceptions and exclusions set forth in the title policies delivered pursuant to the Project Lease and expressly approved by the City and the Trustee and (ii) any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed or materials furnished in connection with the Project that are not due and payable or the amount, validity or application of which is being contested in accordance with the Project Lease.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(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) Farmers Home Administration (FmHA) - 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 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) herein, 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;

(l) Defeasance Securities described in clause (ii) of the definition thereof; and

(m) 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 prerefunded municipal obligations.

"Prepayment Account" means the account of that name established within the Base Rental Fund pursuant to the Original Trust Agreement.

"Project" means the Property and the Facilities.

"Project Lease" means the Original Project Lease as supplemented by the Supplemental Project Lease, including any amendments or supplements thereto made or entered into in accordance with its terms.

"Property" means the real property, as described in the Project Lease, including any real property substituted therefor or added thereto pursuant to the Project Lease but excluding real property which has been released or for which new real property has been substituted in accordance with the Project Lease.

"Property Lease" means that certain Property and Facility Lease, dated as July 1, 2001 and supplemented as of July 1, 2004, by and between the City, as lessor, and the Trustee, as lessee, with respect to the Property and the Facilities, including any amendments or supplements thereto.

"Rebate Fund" means the fund of that name established pursuant to the Trust Agreement.

"Reserve Fund" means the fund of that name established pursuant to the Original Trust Agreement.

"Reserve Requirement" means, as of any date of calculation, the least of (i) the maximum annual debt service with respect to the Certificates in the then current Project Lease Year or any future Project Lease Year, (ii) 125% of average annual debt service with respect to the Certificates payable in each Project Lease Year between the date of calculation and the last maturity of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered (to be separately calculated with respect to each series of the Certificates). For purposes of this definition, debt service with respect to the Certificates in each Project Lease Year shall mean the Base Rental due September 15 and March 15 in each Project Lease Year. As of the Closing Date of the 2004 Certificates, the City has calculated the Reserve Requirement to be $5,396,555.

"Series 1995 Certificates" means the City and County of San Francisco Certificates of Participation (San Francisco Courthouse Project) Series 1995.

"Supplemental Project Lease" means the First Supplement to Project Lease, dated as of July 1, 2004, by and between the City and the Trustee.

"Supplemental Trust Agreement" means the First Supplement to Trust Agreement, dated as of July 1, 2004, by and between the City and the Trustee.

"Trust Agreement" means the Original Trust Agreement as supplemented by the Supplemental Trust Agreement, including any amendments or supplements thereto made or entered into in accordance with its terms.

"2004 Certificates" means the City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) authorized under the Supplemental Trust Agreement and at any time Outstanding under the Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"2004 Credit Facility" means the surety bond issued by the 2004 Insurer to be held by the Trustee for the benefit of the Reserve Fund.

"2004 Insurance Policy" means the financial guaranty insurance policy issued by the 2004 Insurer insuring the payment of the principal and interest with respect to the Certificates as provided therein .

"2004 Insurer" means MBIA Insurance Corporation and its successors and assigns, as issuer of the 2004 Insurance Policy and the 2004 Credit Facility.

"2004 Rebate Account" means the account of that name within the Rebate Fund established pursuant to the Supplemental Trust Agreement.

"2004 Reserve Account" means the account of that name established pursuant to the Supplemental Trust Agreement.

"2004 Tax Certificate" means the Tax Certificate, dated the Closing Date of the 2004 Certificates and executed by the City.

"2001 Certificates" means the City and County of San Francisco Refunding Certificates of Participation, Series 2001-1 (San Francisco Courthouse and 25 Van Ness Avenue Project).

"2001 Insurer" means AMBAC Assurance Corporation and its successors and assigns, as issuer of the insurance policy related to the 2001 Certificates.

THE TRUST AGREEMENT

Establishment and Application of Base Rental Fund

The Original Trust Agreement establishes in trust a special fund designated as the "Base Rental Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement. The Base Rental Fund and the accounts therein shall be maintained by the Trustee until all required Base Rental is paid in full pursuant to the terms of the Project Lease, or until such earlier date as there are no Certificates Outstanding. Within the Base Rental Fund, the Trustee shall establish the Prepayment Account.

Payments of Base Rental received by the Trustee under the Project Lease shall be net of amounts in the Reserve Fund in excess of the Reserve Requirement on each succeeding Interest Payment Date and net of amounts on deposit in the Base Rental Fund which are available for the payment of interest and principal with respect to the Certificates. These amounts shall be deposited into the Base Rental Fund and accounts of the Base Rental Fund, if any and as appropriate, based upon the Project Lease, as adjusted pursuant to the terms thereof.

Moneys held in the Base Rental Fund, other than the Prepayment Account, shall be applied by the Trustee to the payment of (i) interest due and payable with respect to the Certificates on each Interest Payment Date and (ii) principal, if, due and payable with respect to the Certificates on each Interest Payment Date. In the event insufficient amounts are available in the Base Rental Fund or otherwise to pay interest and principal with respect to the Certificates when due, such shortfall shall be allocated proportionately among maturities based on the amount of interest and principal due with respect to each such maturity.

Any proceeds of insurance or awards in respect of a taking under the power of eminent domain not required to be used for repair or replacement of the Project and, under the Trust Agreement, required to be deposited into the Prepayment Account, any amounts required to be transferred to the Prepayment Account pursuant to the Trust Agreement and any other amounts provided for the prepayment of Certificates in accordance with the Trust Agreement, shall be deposited by the Trustee in the Prepayment Account. The Trustee shall, on the scheduled prepayment date withdraw from the Prepayment Account and pay to the Owners entitled thereto an amount equal to the prepayment price of the Certificates to be prepaid on such date.

All delinquent Base Rental payments received pursuant to the Project Lease and any proceeds of rental interruption insurance received by the Trustee shall be deposited into the Base Rental Fund. All proceeds of rental interruption insurance and delinquent Base Rental payments so received shall be applied first to the payment of overdue installments of interest, then to the payment of overdue installments of principal and then to make up any deficiency in the Reserve Fund. Any amounts remaining in the Base Rental Fund on each Interest Payment Date which are not required for the payment of principal of or interest with respect to the

Certificates on such Interest Payment Date shall be, first, transferred as directed in writing by a City Representative to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, retained in such Fund unless the City otherwise directs, in writing, that such amount be remitted to the City (except that any remaining money representing delinquent Base Rental payments and any proceeds of rental interruption insurance shall remain on deposit in the Base Rental Fund).

Establishment and Application of Reserve Fund

The Original Trust Agreement establishes in trust a special fund designated as the "Reserve Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement. There shall be initially deposited into the Reserve Fund the amount required to be deposited therein pursuant to the Trust Agreement.

The Reserve Fund shall be maintained by the Trustee until the Base Rental is paid in full pursuant to the Project Lease or until there are no longer any Certificates Outstanding, provided, however, that the final Base Rental payment may, at the City's option, be paid from the Reserve Fund.

A Credit Facility in the amount of the Reserve Requirement may be substituted for all or a portion of the funds held by the Trustee in the Reserve Fund by the City at any time, 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 Certificates (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 Independent Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted shall be transferred as directed in writing by a City Representative.

If the Reserve Requirement is satisfied by a Credit Facility, the Trustee shall draw on such Credit Facility in accordance with its terms, in a timely manner, to the extent necessary to fund any such deficiency in the Base Rental Fund; provided that the Trustee shall apply cash and investments in the Reserve Fund prior to a drawing on any Credit Facility.

Upon delivery of the 2004 Certificates, the increase in the Reserve Requirement shall be satisfied by the 2004 Credit Facility to be delivered to the Trustee on the Closing Date for the 2004 Certificates. The 2004 Insurer shall be reimbursed for draws on the 2004 Certificate Facility as provided in the Supplemental Trust Agreement.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest payments due with respect to the Certificates on such date, the Trustee shall transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency. In the event of any such transfer, the Trustee shall immediately provide written notice to the City of the amount and the date of such transfer.

For purposes of determining the amount on deposit at any time in the Reserve Fund, the Trustee shall value all Permitted Investments on or before each March 1 and September 1 at the greater of cost or market value. Any moneys in the Reserve Fund in excess of the Reserve Requirement on each March 1 and September 1 and at such other time or times as directed by the City in a written order signed by a City Representative and delivered to the Trustee, shall be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date therefor, or transferred to such other fund as may be designated in such written order.

Establishment and Application of Rebate Fund and 2004 Rebate Account

The Original Trust Agreement establishes in trust a special fund designated the "Rebate Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. Amounts received by the Trustee as Additional Rental with respect to any rebate requirement as set forth in written instructions of a City Representative in accordance with the provisions of the Tax Certificate shall be deposited in the Rebate Fund. Amounts on deposit in the Rebate Fund shall only be applied to payments made to the United States of America in accordance with written instructions of a City Representative or returned to the City as directed in writing by a City Representative.

The Supplemental Trust Agreement establishes within the Rebate Fund a special account designated the "2004 Rebate Account," which shall be held by the Trustee and which shall be kept separate and apart from all other accounts and money held by the Trustee. Amounts received by the Trustee as Additional Rental with respect to any rebate requirement for the 2004 Certificates as set forth in written instructions of a City Representative in accordance with the provisions of the 2004 Tax Certificate shall be deposited in the 2004 Rebate Account. Amounts on deposit in the 2004 Rebate Account shall only be applied to payments made to the United States of America in accordance with written instructions of a City Representative or returned to the City as directed in writing by a City Representative.

Additional Certificates

Unless the Insurer consents to Additional Certificates (as defined below), the City may only cause the execution and delivery of additional certificates of participation payable on a parity with the Certificates ("Additional Certificates") for a refunding which results in savings in Base Rental payments.

Additional Rental

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 Maintenance and Operation Costs 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 Maintenance and Operation Costs 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.

Application of Insurance Proceeds

If the Project or any portion thereof shall be damaged or destroyed, the City shall make an election either to prepay Certificates 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, a City Representative shall, within 180 days of the occurrence of the event of damage or destruction (unless such time period is extended at the option of the City), notify the Trustee in writing of its election. The 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 a special fund (the "Special Fund") and made available for and, to the extent necessary, shall be applied to the prepayment of Certificates in accordance with the Trust Agreement or applied to the cost of repair or replacement of the Project or the affected portion thereof, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds, if any, held by the Trustee, may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any insurance, including the proceeds of any self-insurance, available to the Trustee remaining after the Project or any portion thereof 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 prepayment, or provision for the prepayment, of Certificates as required in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve 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 written certificate of the Director of Property 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 becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project 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 available to the Trustee shall be transferred to the Rebate Fund or to the Prepayment Account of the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement.

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, with the prior written consent of a City Representative, within 90 days of the conclusion of the eminent domain proceeding, notify the Trustee in writing of whether the Project will be replaced or the Certificates prepaid. The proceeds of any condemnation award shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund and made available for and, to the extent necessary, shall be applied to prepay Certificates in accordance with the Trust Agreement or applied to the cost of replacement of the Project, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds, if any, held by the Trustee, may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any condemnation award available to the Trustee remaining after the Project has been replaced by a project 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 prepayment, or provision for the prepayment, of Certificates as required in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve 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 written certificate of the Director of Property to the effect that the annual fair rental value of the Project (including the replacement Project) is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project 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 available to the Trustee shall be transferred to the Rebate Fund or to the Prepayment Account of the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement.

Investments Authorized

Money held by the Trustee in any fund or account under the Trust Agreement shall be invested by the Trustee in Permitted Investments pending application as provided in the Trust Agreement solely at the written direction of a City Representative, shall be registered in the name of the Trustee, if registrable, for the benefit of the Owners, and shall be held by the Trustee. A City Representative shall, where applicable, direct the Trustee prior to 12:00 p.m. Pacific time on the Business Day prior to the date any Permitted Investment matures or is redeemed as to the reinvestment of the proceeds thereof. Money held in any fund, account, or subaccount under the Trust Agreement (other than the Rebate Fund) may be commingled for purposes of investment only; provided, however, that each fund, account, or subaccount held by the Trustee under the Trust Agreement shall be accounted for separately. If a City Representative shall fail to provide the Trustee with written direction with respect to any moneys subject to investment, the Trustee shall, nevertheless, invest such moneys in the Permitted Investments listed in clause (a) which would mature on the day prior to the next Interest Payment Date or in clause (d) of the definition of Permitted Investments, whichever yield is greater on the date of such investment; provided, however, that with respect to funds on deposit in the Reserve Fund, absent written direction to the Trustee, the Trustee shall, nevertheless, invest such moneys in Permitted Investments listed in clauses (a), (d) or (h) which (i) will mature on the day prior to the next Interest Payment Date; and (ii) is invested in one of the foregoing investments which bears the highest net yield.

The Trustee understands and acknowledges that any investments and reinvestments shall be made after giving full consideration to the time at which funds are required to be available under the Trust Agreement and to the highest yield practicably obtainable giving due regard to the safety of such funds and the date upon which such funds will be required for the uses and purposes required by the Trust Agreement; provided, however, that investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity not greater than five years. The Trustee may act as agent in the making or disposing of any investment. The Trustee shall not invest any moneys held under the Trust Agreement in Permitted Investments offered by or through the Trustee or its affiliates unless (1) the Trustee determines such investment is consistent with the investment restrictions contained in the Trust Agreement, (2) all fees charged are reasonable, and (3) a City Representative expressly consents in writing to the investment of the funds in the specific Permitted Investment. The foregoing consent must be received for each specific investment; blanket consents shall have no effect. All consents must be express and in writing and signed by a City Representative.

Amendments to Trust Agreement

The Trust Agreement may be amended in writing by agreement between the parties, but no such amendment shall become effective as to the Owners unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding and the Insurer (which consent of the Insurer shall not be unreasonably withheld). Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided hereby may also be modified or amended at any time without the consent of any Owners or the Insurer (subject to the Trust Agreement) upon the written agreement of a City Representative and the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement, (b) in regard to questions arising under the Trust Agreement which the City and the Trustee 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 Certificates then Outstanding, (c) to preserve and maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates, (d) to qualify the Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect, (e) to make revisions to the Trust Agreement in connection with the execution and delivery of Additional Certificates in accordance with the Trust Agreement, or (f) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the

Certificates then Outstanding; provided that the City and the Trustee may rely, in entering into any such amendment or modification hereof, upon the opinion of Independent Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment shall impair the right of any Owner to receive principal and interest with respect to his or her Certificate without the consent of the affected Owner. No such amendment or supplement shall (1) extend the maturity of any Certificate or reduce the rate of interest with respect to or extend the time of payment of such interest or reduce the amount of principal thereof without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment hereof or any supplement thereto, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the section of the Trust Agreement related to its amendment, without the prior written consent of the Owners of all Certificates then Outstanding and the Insurer (which consent of the Insurer shall not be unreasonably withheld.

Notwithstanding any other provision of the Trust Agreement, any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer (which consent shall not be unreasonably withheld).

Amendments to Project Lease

The Project Lease may be amended in writing by agreement between the parties thereto with the consent of the Trustee, but no such amendment shall become effective as to the Owners of the Certificates Outstanding unless and until approved in writing by the Owners of not less than a majority of the aggregate principal amount of Certificates then Outstanding and the Insurer (which consent of the Insurer shall not be unreasonably withheld). Notwithstanding the foregoing, the Project Lease and the rights and obligations provided thereby may also be modified or amended at any time with the consent of the Trustee but without the consent of any Owners or the Insurer (subject to the Trust Agreement), upon the written agreement between the respective parties thereto, with the consent of the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Project Lease, (b) in regard to questions arising under the Project Lease which the City and the Trustee deem necessary or desirable and not inconsistent with the terms thereof and which shall not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to modify or amend the description of the Property and/or the Facilities to release from the Project Lease any portion or to add or substitute other property and/or improvements for the Project or any portion thereof, (d) to make revisions to the Project Lease in connection with the execution and delivery of Additional Certificates in accordance with the Trust Agreement, or (e) for any other reason, provided such modification or amendment does not materially adversely affect the interests of the affected Owners; provided that the City and the Trustee may request and rely, in entering into any such amendment or modification thereof or giving its consent thereto, upon the opinion of Independent Counsel (which opinion may rely upon the certificates or opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

Notwithstanding anything in the Trust Agreement to the contrary, no amendment to the Project Lease for the purpose of adding, substituting or releasing property and/or improvements as set forth in clause (c) above shall be effective unless and until the City shall have obtained, with respect to any such substitution or release, the written consent of the Insurer (which consent shall not be unreasonably withheld), and shall have filed, with respect to any such addition, substitution or release, with the Trustee and the Insurer all of the following:

(i) Executed copy of the Project Lease or amendments thereto containing the amended legal description of the Property;

(ii) Evidence that a copy of the Project Lease or amendments thereto containing the amended legal description of the Property have been duly recorded in the official records of the County Recorder of the City and County of San Francisco;

(iii) A certificate of a City Representative stating that the annual fair rental value of the property and/or improvements which will constitute the Project after such addition, substitution or release will be at least equal to 100% of the maximum amount of Base Rental becoming due in the then current Project Lease Year or in any subsequent Project Lease Year;

(iv) A fair market appraisal from the Director of Property setting forth the annual fair rental value and the fair market replacement value of the property and/or improvements which will constitute the Project or any portion thereof after such addition, substitution or release and evidencing that such fair replacement value is equal to or greater than the principal amount of the Certificates then Outstanding;

(v) In the case of the addition or substitution of property for the then existing Project, a CLTA Owner's policy or policies meeting the requirements of the Project Lease, or a commitment or commitments for such policies or amendments or endorsements to existing policies resulting in title insurance with respect to the Project after such addition or substitution in an amount at least equal to the amount of such insurance provided with respect to the Project prior to such substitution. Each such insurance instrument, when issued, shall insure such added or substituted project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted project and as will not result in an abatement of Base Rental payments payable by the City under the Project Lease;

(vi) A certificate of a City Representative stating that such addition, substitution or release does not materially adversely affect the ability of the City to perform its obligations under the Project Lease;

(vii) (a) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Constitution and laws of the State and by the Project Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Project Lease and the Trust Agreement; and (3) will, upon the execution and delivery thereof, be valid and binding upon the City in accordance with its terms; and (b) an opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or cause the interest component of the Base Rental payments relating to the Certificates to be subject to State personal income tax;

(viii) A certificate of a City Representative stating that the useful life of all of the project which will constitute the Project after such addition, substitution or release meets or exceeds the remaining term of the Certificates;

(ix) A certificate of the Director of Property stating the useful life of the project which will constitute the Project after such addition, substitution or release and that such project is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such project in the manner intended by the City); and

(x) Evidence that appropriate amendments to the Property Lease have been made pursuant to and in accordance with the Trust Agreement.

Notwithstanding any other provision of the Trust Agreement, any provision of the Project Lease expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Project Lease without the prior written consent of the Insurer (which consent shall not be unreasonably withheld).

Amendments to Property Lease

The Property Lease may be amended in writing by agreement between the parties thereto, but no such amendment shall become effective as to the Owners of the Certificates Outstanding unless and until approved in writing by the Owners of not less than a majority of the aggregate principal amount of Certificates then Outstanding and the Insurer (which consent of the Insurer shall not be unreasonably withheld). Notwithstanding the foregoing, the Property Lease and the rights and obligations provided thereby may also be modified or amended at any time without the consent of the Owners or the Insurer (subject to the last paragraph of the Trust Agreement), upon the written agreement between the respective parties thereto, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision in the Property Lease, (b) in regard to questions arising under the Property Lease which the City and the Trustee deem necessary or desirable and not inconsistent with the terms thereof and which shall materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to modify or amend the description of the Property and/or the Facilities to release from the Property Lease any portion or to add or substitute other property and/or improvements for the Project or any portion thereof, (d) to make revisions to the Property Lease in connection with the execution and delivery of Additional Certificates in accordance with the Trust Agreement or (e) for any other reason, provided such modification or amendment does not materially adversely affect the interest of the affected Owners; provided that the City and the Trustee may request and rely, in entering into any such amendment or modification thereof or giving its consent thereto, upon the opinion of Independent Counsel (which opinion may rely upon the certificates or opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

Notwithstanding anything in the Trust Agreement to the contrary, no amendment to the Property Lease for the purpose of adding, substituting or releasing property and/or improvements as set forth in clause (c) above shall be effective unless and until the City shall have obtained, with respect to any such substitution or release, the written consent of the Insurer (which consent shall not be unreasonably withheld), and shall have filed, with respect to any such addition, substitution or release, with the Trustee all of the following:

(i) An executed copy of the Property Lease or amendments thereto containing the amended legal description of the Property;

(ii) Evidence that a copy of the Property Lease or amendments thereto containing the amended legal description of the Property have been duly recorded in the official records of the County Recorder of the City and County of San Francisco;

(iii) (a) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Property Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Property Lease and the Trust Agreement; and (3) will upon execution and delivery thereof, be valid and binding upon the City in accordance with its terms; and (b) an Opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or subject to State personal income tax; and

(iv) Evidence that appropriate amendments to the Project Lease have been made pursuant to and in accordance with the Trust Agreement.

Notwithstanding any other provision of the Trust Agreement, any provision of the Property Lease expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Property Lease without the prior written consent of the Insurer (which consent shall not be unreasonably withheld).

Events of Default

Any one or more of the following events are an "Event of Default" under the Trust Agreement:

(a) the City shall fail to deposit with the Trustee any Base Rental payment required to be so deposited pursuant to the Project Lease by the related Interest Payment Date; (ii) the City shall fail to pay any item of Additional Rental as and when the same shall become due and payable pursuant to the Project Lease; or (iii) the City shall breach any other terms, covenants or conditions contained in the Project Lease or in the Trust Agreement; or

(b) the City fails 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 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee or to the City and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding, provided, that failure to comply with the continuing disclosure requirements related to the Certificates 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 60-day period, then such period will be extended so long as corrective action is instituted by the City 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.

Remedies on Default

Upon the occurrence and continuance of any Event of Default specified in the Trust Agreement, the Trustee shall proceed, or upon the occurrence and continuance of any other Event of Default under the Trust Agreement, the Trustee may proceed, with the consent of the Insurer (and upon written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding with the consent of the Insurer, or upon the written request of the Insurer, 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.

Notwithstanding anything to the contrary in the Trust Agreement, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Defeasance

If all Certificates shall be paid and discharged as provided in the Trust Agreement, then all obligations of the Trustee and the City under the Trust Agreement with respect to all Certificates shall cease and terminate, except only (i) the obligation of the Trustee to pay or cause to be paid to the Owners thereof all sums due with respect to the Certificates and to register, transfer and exchange Certificates pursuant to the Trust Agreement, (ii) the obligation of the City to pay the amounts owing to the Trustee under the Trust Agreement, and (iii) the obligation of the City to comply with the provisions of the Trust Agreement related to tax covenants. Any funds held by the Trustee at the time of such termination which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative and any excess shall be paid to the City.

(a) Any Certificate or portion thereof in an Authorized Denomination shall be deemed no longer Outstanding under the Trust Agreement if paid or discharged in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal and interest with respect to such Certificates which have become due and payable;

(ii) by depositing with the Trustee, in trust, cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Obligations) which, together with the amounts then on deposit in the Base Rental Fund and the Reserve Fund and dedicated to this purpose is fully sufficient to pay when due all principal of, premium, if any, and interest due with respect thereto; or

(iii) by depositing with the Trustee, in trust, Defeasance Securities in such amount as in the written opinion of a certified public accountant will, together with the interest to accrue on such Defeasance Securities without the need for reinvestment, be fully sufficient to pay when due all principal, premium, if any, and interest with respect to such Certificate to the maturity or earlier prepayment date thereof, notwithstanding that such Certificates shall not have been surrendered for payment.

(b) Notwithstanding the foregoing, no deposit under clauses (a)(ii) or (a)(iii) above shall be deemed a payment of such Certificates until the earlier to occur of:

(i) proper notice of prepayment of such Certificate shall have been previously given in accordance with the Trust Agreement to the Owners thereof or, in the event such Certificate is not by its terms subject to prepayment within the next 45 days of making the deposit under clauses (ii) and (iii) of subsection (a) above, a City Representative shall have given the Trustee irrevocable written instructions to mail by first-class mail, postage prepaid, notice to the Owners of such Certificate as soon as practicable stating that the deposit required by clauses (ii) and (iii) of subsection (a) above, as applicable, has been made with the Trustee and that such Certificate is deemed to have been paid and further stating such prepayment date or dates upon which money will be available for the payment of the principal and accrued interest thereon; or

(ii) the maturity of such Certificates.

(c) Any funds held by the Trustee at the time of the first to occur of the events described above with respect to all Certificates, which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative.

(d) Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid, and the assignment and pledge under the Trust Agreement and all covenants, agreements and other obligations of the City under the Trust Agreement to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Payments and Other Required Provisions under the 2004 Insurance Policy

In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the 2004 Certificates, the Trustee has not received sufficient moneys to pay all principal and interest with respect to the 2004 Certificates due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the 2004 Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2004 Insurer or its designee.

In addition, if the Trustee has notice that any 2004 Certificateholder has been required to disgorge payments of principal or interest with respect to the 2004 Certificates to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such 2004 Certificateholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the 2004 Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the 2004 Certificates as follows:

(a) If and to the extent there is a deficiency in amounts required to pay interest with respect to the 2004 Certificates, the Trustee shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the 2004 Insurance Policy (the "Insurance Trustee"), in form satisfactory to the Insurance Trustee, an instrument appointing the 2004 Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the 2004 Insurer of the claims for interest to which such deficiency relates and which are paid by the 2004 Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the 2004 Insurance Policy payment from the Insurance Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

(b) If and to the extent of a deficiency in amounts required to pay principal with respect to the 2004 Certificates, the Trustee shall (a) execute and deliver to the Insurance Trustee in form satisfactory to the Insurance Trustee an instrument appointing the 2004 Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the 2004 Insurer of any of the 2004 Certificate surrendered to the Insurance Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Trustee is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the 2004 Insurance Policy payment therefor from the Insurance Trustee, and (c) disburse the same to such Holders.

Payments with respect to claims for interest and principal with respect to the 2004 Certificates disbursed by the Trustee from proceeds of the 2004 Insurance Policy shall not be considered to discharge the obligation of the City with respect to such 2004 Certificates, and the 2004 Insurer shall become the owner of such unpaid 2004 Certificate and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

Irrespective of whether any such assignment is executed and delivered, the City and the Trustee hereby agree for the benefit of the 2004 Insurer that:

(a) They recognize that to the extent the 2004 Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal or interest with respect to the 2004 Certificates, the 2004 Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the City, with interest thereon as provided and solely from the sources stated in the Trust Agreement and the 2004 Certificates; and

(b) They will accordingly pay to the 2004 Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the 2004 Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Trust Agreement and the 2004 Certificate, but only from the sources and in the manner provided in the Project Lease for the payment of principal and interest with respect to the 2004 Certificates to Holders, and will otherwise treat the 2004 Insurer as the owner of such rights to the amount of such principal and interest.

The 2004 Insurer shall control and direct all remedies in an Event of Default.

THE PROJECT LEASE

Project Lease Term; Transfer of Title to City

Under the Project Lease, the Trustee leases the Project to the City, and the City leases the Project from the Trustee and agrees to pay the Base Rental and the Additional Rental as provided therein for the right to use and occupy the Property, all on the terms and conditions set forth therein.

The term of the Project Lease shall begin on the Closing Date of the 2001 Certificates and end on the earliest of (a) April 1, 2021, or (b) at such earlier date as the Certificates and all other amounts due under the Project Lease and under the Trust Agreement shall have been paid or provision for their payment shall have been made in accordance with the Original Trust Agreement, or (c) the date of termination of the Project Lease due to casualty or condemnation in accordance with the terms of the Original Project Lease; provided, however, that, to the extent permitted by law, if Base Rental has been abated in any year in accordance with the Original Project Lease or has otherwise gone unpaid in whole or in part, the term of the Project Lease shall end on the earlier of April 1, 2031 or the date on which no Certificates remain Outstanding and all Additional Rental has been paid.

Upon the termination of the Project Lease (other than as provided in the Project Lease), all of the Trustee's right, title and interest with respect to the Project, and any improvements thereon or additions thereto, shall be transferred directly to the City or, at the option of the City, to any assignee or nominee of the City, in accordance with the provisions of the Project Lease, free and clear of any interest of the Trustee. Upon such termination, the Trustee shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Rent

Rental Payments. Under the Project Lease, the City agrees, subject to the terms therein, to pay to the Trustee the Base Rental and to pay to the parties entitled thereto Additional Rental in an aggregate amount not greater than the fair rental value of the Project in each Project Lease Year. In satisfaction of its obligations under the Project Lease, the City shall pay the Base Rental and Additional Rental in the amounts, at the times and in the manner set forth in the Project Lease, such amounts constituting the aggregate rent payable under the Project Lease.

Base Rental. The City shall deposit the Base Rental with the Trustee for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the next succeeding Business Day. In no event shall the amount of Base Rental payable exceed the aggregate amount of principal and interest required to be paid or prepaid on the corresponding Interest Payment Date with respect to the Outstanding Certificates, according to their tenor.

Notwithstanding any other provision of the Project Lease, the City shall receive a credit for any Base Rental payment if and to the extent (i) moneys are on deposit in the Base Rental Fund held under the Trust Agreement (or will be transferred from the Reserve Fund to the Base Rental Fund pursuant to the Trust Agreement) and are available for the payment of Base Rental evidenced by the Certificates or (ii) investment earnings on Permitted Investments (as defined in the Trust Agreement) will be deposited in or credited to the Base Rental Fund on or after a Base Rental payment date but on or prior to the applicable Interest Payment Date.

Additional Rental. In addition to the Base Rental set forth herein, the City agrees to pay as Additional Rental all of the following:

(i) All taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Project or upon any interest of the Trustee or the Owners therein or in the Project Lease;

(ii) Insurance premiums, if any, on all insurance required under the provisions of the Project Lease;

(iii) All fees, costs and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee and any paying agent in connection with the Trust Agreement;

(iv) Amounts required to replenish the amounts on deposit in the Reserve Fund to the Reserve Requirement, but only to the extent that the payment of such amount shall not cause the amount of Base Rental and Additional Rental paid in any Project Lease Year to exceed the fair rental value of the Project;

(v) Amounts required to be deposited in the Rebate Fund and 2004 Rebate Account in accordance with the Tax Certificate and the 2004 Tax Certificate;

(vi) Any other fees, costs or expenses incurred by the Trustee in connection with the execution, performance or enforcement of this Project Lease or any assignment hereof or of the Trust Agreement or any of the transactions contemplated hereby or thereby or related to the Project; and

(vii) Amounts required to replace, maintain and repair the Project pursuant to the Project Lease.

Amounts constituting Additional Rental payable pursuant to the Project Lease shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 30 days after notice in writing from the Trustee to the City stating the amount of Additional Rental then due and payable and the purpose thereof.

Rental Abatement

Except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for payments in respect of the Project Lease or to the Trustee for payments in respect of the Certificates, Rental Payments due under the Project Lease shall be subject to abatement in accordance with the Project Lease during any period in which, by reason of material damage, destruction or condemnation of the Project or any portion thereof, or due to defects in title to the Project, or any portion thereof, there is substantial interference with the right to the use and occupancy of the Project or any portion thereof by the City. The amount of annual rental abatement shall be such that the resulting Rental Payments in any Project Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value of the portions of the Project with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Project or portion thereof to tenantable condition or correction of the title defect. In the event of any such damage, destruction, condemnation or title defect, the Project Lease shall continue in full force and effect, except as set forth in the Project Lease. Notwithstanding the foregoing, the City in its sole discretion may in lieu of abatement elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Project pursuant to the Project Lease.

Triple Net Lease

The Project Lease is intended to be a triple net lease. The City has agreed that the Rental Payments provided for therein shall be an absolute net return to the Trustee free and clear of any expenses, charges or set-offs whatsoever.

Replacement, Maintenance and Repairs

The City shall, at its own expense and as determined and specified by the Director of Property, during the Project Lease Term maintain the Project, or cause the same to be maintained, in good order, condition and repair. The City shall replace any portion of the Project that is destroyed or damaged to such an extent that there is substantial interference with the right to the use and occupancy of the Project or any portion thereof by the City that would result in an abatement of Rental Payments or any portion thereof pursuant to the Project Lease; provided, however, that the City shall not be required to repair or replace any such portion of the Project pursuant to the Project Lease if there shall be applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds available to the Trustee sufficient to prepay (i) all of the Certificates Outstanding and to pay all other amounts due under the Project Lease and under the Trust Agreement, or (ii) any portion thereof such that the resulting Rental Payments payable pursuant to the Project Lease in any Project Lease Year following such partial prepayment are sufficient to pay in the then current and any future Project Lease Year the principal and interest with respect to all Certificates to remain Outstanding and all other amounts due under the Project Lease and under the Trust Agreement, to the extent it is due and payable in such Project Lease Year.

The City shall provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Project. It is understood and agreed that in consideration of the payment by the City of the Rental Payments provided for in the Project Lease, the City is entitled to use and occupy the Project and the Trustee shall have no obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Project during the Project Lease Term. The Trustee shall not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Project. The City hereby expressly waives the right to make repairs or to perform maintenance of the Project at the expense of the Trustee and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the California Civil Code relating thereto.

The City shall keep the Project free and clear of all liens, charges, security interests and encumbrances other than (i) those existing on or prior to the Closing Date or on or prior to the date any project is substituted for the Project or any portion thereof pursuant to the Project Lease which are covered by the exceptions and exclusions set forth in the title policies delivered pursuant to the Project Lease, as applicable, and expressly approved by the City and the Trustee and (ii) any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed or materials furnished in connection with the Project that are not due and payable or the amount, validity or application of which is being contested in accordance with the Project Lease.

Insurance

The City shall maintain or cause to be maintained, throughout the Project Lease Term:

(1) 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 carried by the City.

(2) All risk property insurance on all structures constituting any part of the Project in an amount equal to the Outstanding principal amount of Certificates, but in no event less than 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.

(3) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates 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 in reasonable amounts at reasonable costs on the open market from reputable insurance companies.

(4) Rental interruption insurance with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months to insure against loss of rental income from the Project caused by perils covered by the insurance required by clauses (2) and (3) above. Such insurance shall not be subject to any deductible.

(5) 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 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 the form approved by the Risk Manager, 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 (as determined by the Risk Manager). All such insurance may be maintained in conjunction with, or as part of, the insurance maintained with respect to the 1995 Lease Agreement, provided that, in such case, the requirements of the first sentence of this paragraph shall be met if the City and the Trustee are all listed as insured parties, as their interests may appear.

All policies of insurance required by the Project Lease shall be in a form or forms certified by the Risk Manager (as provided below) to be in compliance with the requirements of the Project Lease. 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 City, 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 (10 days if for nonpayment of premium) or intended non-renewal. 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 City, but if maintained as part of other insurance carried by 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 "A-, VIII" or higher by A.M. Best Company.

The City shall certify in writing to the Trustee by no later than May 15 of each year that there is 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 the Project Lease 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 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 May 15, as to their adequacy by the Risk Manager in a certificate delivered to the Trustee. In addition, any of the Mayor, Controller, Director of 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 Certificates. 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.

The City shall deliver to the Trustee, on the date of execution and delivery of the Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance, in an amount at least equal to the initial aggregate principal amount of the Certificates, showing a leasehold interest in the Project in the name of the Trustee and a leasehold interest in the Project in the name of the City, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificate.

The City shall deliver to the Trustee, on the date of execution and delivery of the 2004 Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance, in an amount at least equal to the initial aggregate principal amount of the 2004 Certificates, showing a leasehold interest in the Project in the name of the Trustee and a leasehold interest in the Project in the name of the City, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the 2004 Certificates.

Eminent Domain

Total Condemnation. If the Project, or so much thereof as to render the remainder of the Project unusable for the City's purposes under the Project Lease, shall be taken under the power of eminent domain, then the Project Lease shall terminate as of the later of the day possession shall be so taken and the date of entry of the interlocutory judgment and in either case, after payment of any Additional Rental owed under the Project Lease. Notwithstanding the foregoing, the City may, at its option, but is not obligated, to apply the proceeds relating to the condemnation to the repair or replacement of the condemned Project, and in the event there has been an abatement of Rental Payments pursuant to the Project Lease, then Rental Payments shall again begin to accrue with respect thereto upon replacement of the Project.

Partial Condemnation. If less than a substantial portion of the Project shall be taken under the power of eminent domain, and the remainder is useable for the City's purposes, then the Project Lease shall continue in full force and effect as to the remaining portions of the Project, subject only to such rental abatement as is required by the Project Lease. The City and the Trustee hereby waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If the City elects, pursuant to the Trust Agreement, to apply such proceeds to the repair or replacement of the condemned portion of the Project, and in the event there has been an abatement of Rental Payments pursuant to the Project Lease then Rental Payments shall again begin to accrue with respect thereto upon replacement of such portion of the Project.

Events of Default

The following are events of default under the Project Lease: (i) the City shall fail to deposit with the Trustee any Base Rental payment required to be so deposited by the related Interest Payment Date; (ii) the City shall fail to pay any item of Additional Rental as and when the same shall become due and payable; or (iii) the City shall breach any other terms, covenants or conditions contained in the Project Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee, or its assignee to the City, or, if such breach cannot be remedied within such 60-day period, shall fail to institute corrective action within such 60-day period and diligently pursue the same to completion; provided, however, that failure to comply with the continuing disclosure requirements related to the Certificates shall not constitute an event of default under the Project Lease.

Remedies on Default

The Trustee shall have the right, at its option, without any further demand or notice (i) to reenter the Project and eject all parties in possession therefrom and, without terminating the Project Lease, relet the Project as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, in which event the rents received on such reletting shall be applied as set forth in the Trust Agreement; provided, that if a sufficient sum shall not be realized to pay such sums and other charges then the City shall pay to the Trustee any net deficiency existing on the date when the Base Rental or Additional Rental is due under the Project Lease; provided, however, that such reentry and reletting shall be done only with the consent of the City, which consent is hereby irrevocably given; or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Project, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due under the Project Lease pursuant to section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity, except as expressly provided in the Project Lease. Any reentry pursuant to the Project Lease shall be allowed by the City without hindrance, and the Trustee shall not be liable in damages for any reentry or be guilty of trespass. The Trustee or any assignee of the rights of the Trustee under the Project Lease shall not exercise its remedies under the Project Lease so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income tax. Notwithstanding any other provision of the Project Lease or the Trust Agreement, in no event shall the Trustee have the right to accelerate the payment of any Base Rental under the Project Lease.

Each and every remedy of the Trustee or any assignee of the rights of the Trustee under the Project Lease is cumulative and the exercise of one remedy shall not impair the right of the Trustee or its assignee to any or all other remedies. If any statute or rule validly shall limit the remedies given to the Trustee or any assignee of the rights of the Trustee, the Trustee or its assignee nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

All damages and other payments received by the Trustee pursuant to the Project Lease shall be applied in the manner set forth in the Trust Agreement.

Addition, Release and Substitution

If no Project Lease Event of Default has occurred and is continuing under the Project Lease, the Project Lease may be modified or amended at any time, with the consent of the Insurer (which consent shall not be unreasonably withheld), and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Project or to release from the Project Lease and the Property Lease any portion of the Project, or to add other property and improvements to the Project or substitute other property and improvements for the Project, provided that the City shall have delivered to the Insurer, the Trustee and to the Rating Agencies all of the following:

(i) Executed copy of the Project Lease and the Property Lease or amendments thereto containing the amended legal description of the Property;

(ii) Evidence that a copy of the Project Lease and the Property Lease or amendments thereto containing the amended legal description of the Property have been duly recorded in the official records of the County Recorder of the County of San Francisco;

(iii) A certificate of a City Representative stating that the annual fair rental value of the property and/or improvements which will constitute the Project after such addition, release or substitution will be at least equal to 100% of the maximum amount of Base Rental payments becoming due in the then current Project Lease Year or in any subsequent Project Lease Year;

(iv) A fair market appraisal from the Director of Property setting forth the annual fair rental value and the fair replacement value of the property and/or improvements which will constitute the Project or any portion thereof after such addition, release or substitution and evidencing that such fair replacement value is equal to or greater than the principal amount of the Certificates then Outstanding;

(v) In the case of the addition or substitution of property for the then existing Project, a CLTA Owner's policy or policies meeting the requirements of the Project Lease, or a commitment or commitments for such policies or amendments or endorsements to existing policies resulting in the issuance of a title insurance policy with respect to the Project after such addition or substitution in an amount at least equal to the amount of such insurance provided with respect to the Project prior to such addition or substitution. Each such insurance instrument, when issued, shall insure such added or substituted project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted project and as will not result in an abatement of Base Rental payments payable by the City under the Project Lease;

(vi) A certificate of a City Representative stating that such addition, release or substitution does not materially adversely affect the ability of the City to perform its obligations under the Project Lease;

(vii) (i) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Constitution and laws of the State and by the Project Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Project Lease and the Trust Agreement; and (3) will, upon the execution and delivery thereof, be valid and binding upon the Trustee and the City in accordance with its terms; and (ii) an opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or subject to State personal income tax;

(viii) A certificate of a City Representative stating that the useful life of the project which will constitute the Project after such addition, release or substitution meets or exceeds the remaining term of the Certificates; and

(ix) A certificate of the Director of Property stating the useful life of the project which will constitute the Project after such addition, release or substitution and that such project is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such project in the manner intended by the City).

THE PROPERTY LEASE

Lease of Project

Under the Property Lease, the City leases to the Trustee the Project, subject to terms of the Property Lease and subject to (i) any and all covenants, reservations, exceptions and other matters which are of record and (ii) Permitted Encumbrances.

Term

The Property Lease shall commence on the date of its recordation in the official records of the City and County of San Francisco and end on the earlier to occur of (i) April 1, 2031, or (ii) the termination of the Project Lease. Upon termination of the Property Lease, all of the Trustee's interest in the Project shall vest with the City.

Default

In the event that the Trustee or its assignee shall be in default in the performance of any obligation on its part to be performed under the terms of the Property Lease, the City may exercise any and all remedies granted by law, except that no merger of the Property Lease and of the Project Lease shall be deemed to occur as a result thereof; provided, however, that the City shall have no power to terminate the Property Lease by reason of any default on the part of the Trustee or its assignee so long as any Certificate is Outstanding. So long as any such assignee of the Trustee or any successor in interest to the Trustee shall duly perform the terms and conditions of the Property Lease, such assignee shall be deemed to be and shall become the tenant of the City under the Property Lease and shall be entitled to all of the rights and privileges granted under any such assignment.

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 execution and delivery of the $39,350,000 aggregate principal amount of City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) (the "Certificates"). The Certificates are executed and delivered pursuant to Resolution No. 366-04, adopted by the Board of Supervisors of the City (the "Board") on June 15, 2004, and approved by the Mayor of the City (the "Mayor") on June 21, 2004 (the "Resolution"), and pursuant to a Trust Agreement, dated as of July 1, 2001, as supplemented by a First Supplement to Trust Agreement, dated as of July 1, 2004 (as in effect and as supplemented from time to time, the "Trust Agreement"), between the City and U.S. Bank National Association, as trustee. The Certificates are executed and delivered pursuant to the Government Code of the State of California and the Charter of the City. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Certificates or to dispose of ownership of any Certificates; or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Certificates, or, if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of the current National Repositories approved by the S.E.C. may be found at the S.E.C. website: http://www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original purchasers of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the S.E.C. As of the date of this Disclosure Certificate, there is no State Repository. The current status should be checked on the S.E.C. website, http://www.sec.gov/info/municipal.shtml.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 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 City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following information, as required by the S.E.C.:

(a) The audited general purpose 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;

(b) The amount of Certificates Outstanding under the Trust Agreement, and the balance of the Reserve Fund established under the Trust Agreement;

(c) Summaries of the following:

1. budgeted general fund revenues and appropriations;
2. assessed valuation of taxable property in the City; and
3. *ad valorem* property tax levy and delinquency rate.

(d) A schedule of the aggregate annual debt service with respect to tax-supported indebtedness of the City and a summary of outstanding and authorized, but unissued, tax-supported indebtedness of the City; and

(e) A schedule of lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the S.E.C. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Bondholders.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax status of the Certificates.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Sections 3(a)(4) and 3(a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Certificates 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 Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as that for giving notice of the occurrence of a Listed Event under Section 5(c).

SECTION 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 Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates 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 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 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 under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 12. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Date: July 28, 2004

CITY AND COUNTY OF SAN FRANCISCO

By________________________________

Edward M. Harrington
Controller of the City and
County of San Francisco

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By:________________________

Deputy City Attorney

EXHIBIT A

CONTINUING DISCLOSURE CERTIFICATE

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of City:	CITY AND COUNTY OF SAN FRANCISCO
Name of Bond Issue:	CITY AND COUNTY OF SAN FRANCISCO REFUNDING CERTIFICATES OF PARTICIPATON, SERIES 2004-R1 (SAN FRANCISCO COURTHOUSE PROJECT)
Date of Issuance:	July 28, 2004

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated July 28, 2004. The City anticipates that the Annual Report will be filed by _____________.

Dated:_______________

CITY AND COUNTY OF SAN FRANCISCO

By:_____________________________________

Title ___________________________________

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

General

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2004 Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2004 Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2004 Certificates, 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 Official Statement. 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 City does not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2004 Certificates 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. The City is not 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 2004 Certificates or an error or delay relating thereto.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

DTC

DTC will act as securities depository for the 2004 Certificates. The 2004 Certificates 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 2004 Certificates, 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.

Book-Entry Only System

Purchases of the 2004 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("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 2004 Certificates 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 2004 Certificates, except in the event that use of the book-entry system for the 2004 Certificates is discontinued.

To facilitate subsequent transfers, all 2004 Certificates 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 2004 Certificates 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 2004 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Certificates 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 2004 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2004 Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the 2004 Certificates may wish to ascertain that the nominee holding the 2004 Certificates 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.

Prepayment notices will be sent to DTC. If less than all of the 2004 Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2004 Certificates 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 2004 Certificates 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 2004 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the 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 City, subject to any statutory or regulat ory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the 2004 Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City 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.

Discontinuance of Book-Entry Only System

DTC may discontinue providing its services as depository with respect to the 2004 Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the City nor the Trustee take any responsibility for the accuracy thereof.

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APPENDIX G

PROPOSED FORM OF OPINION OF CO-SPECIAL COUNSEL

[Closing Date]

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place
San Francisco, California 94102-4682

Re: City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project)

Ladies and Gentlemen:

We have acted as Co-Special Counsel to the City in connection with the delivery by the City and County of San Francisco, California (the "City"), of a Project Lease, dated as of July 1, 2001 and supplemented as of July 1, 2004 (the "Project Lease") between U.S. Bank National Association, as trustee under the hereinafter mentioned Trust Agreement (the "Trustee"), as lessor, and the City, as lessee. Pursuant to the Trust Agreement, dated as of July 1, 2001 and supplemented as of July 1, 2004 (the "Trust Agreement") between the City and the Trustee, the Trustee has executed and delivered $39,350,000 City and County of San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) (the "Certificates") evidencing proportionate interests of the owners thereof in Base Rental payments made by the City under the Project Lease. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the Trust Agreement. We have reviewed the Trust Agreement, the Project Lease and the Property Lease and have examined the law, opinions and such certified proceedings and other papers as we deem necessary to render this opinion.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Project Lease, the Property Lease, the Trust Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of the Base Rental payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Project Lease, the Property Lease and the Tax Certificate, and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Project Lease, the Property Lease or the Trust Agreement or the accuracy or sufficiency of the description of any such property contained therein, or scope of remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Project Lease, the Property Lease and the Trust Agreement have been duly executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the City.

2. The obligation of the City to pay the Base Rental payments during the term of the Property Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. Under existing statutes and court decisions, the portion of Base Rental payments due under the Property Lease designated as and comprising interest with respect to the Certificates is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, the portion of Base Rental payments due under the Property Lease designated as and comprising interest with respect to the Certificates is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the City with respect to the use of proceeds of the Certificates and the investment of certain funds, and other matters affecting the non-inclusion of the portion of Base Rental payments due under the Property Lease designated as and comprising interest with respect to the Certificates in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the City with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Trust Agreement as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the portion of Base Rental payments due under the Property Lease designated as and comprising interest with respect to the Certificates to be included in gross income for Federal income tax purposes, retroactive to the date of delivery of the Certificates, irrespective of the date on which such noncompliance occurs or is ascertained.

5. Under existing statutes, the portion of Base Rental payments due under the Property Lease designated as and comprising interest with respect to the Certificates is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Certificates or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Certificates, or under State and local tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted, Respectfully submitted,

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

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President

Attest: ______________________________
Assistant Secretary

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4/95

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