NEW ISSUE BOOK-ENTRY ONLY

RATINGS: Moody's: Aaa
S&P: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP and Quateman & Zidell LLP, Los Angeles, California, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental payment designated as and representing interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Co-Special Counsel, such interest is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Co-Special Counsel express no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "TAX MATTERS" herein.

$41,965,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
Series 2003
(Juvenile Hall Replacement Project)

Evidencing Proportionate Interests of the Holders 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: March 1, as shown on the inside cover**

The $41,965,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project) (the "Certificates"), are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2003 (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) finance a portion of the costs of the acquisition, improvement, construction and/or reconstruction of a new juvenile detention facility and related improvements (the "Project") at the site of the existing San Francisco Juvenile Hall located at 375 Woodside Avenue in the City (the "Site," and together with the improvements thereon, the "Leased Property"); (ii) fund capitalized interest payable for the interest with respect to the Certificates through September 1, 2005; (iii) fund a Reserve Fund established under the Trust Agreement for the Certificates and (iv) pay costs of issuance of the Certificates. The Leased Property is to be conveyed to the Trustee pursuant to a Property Lease, dated as of May 1, 2003 (the "Property Lease"), by and between the City, as lessor, and the Trustee, as lessee, and leased back to the City pursuant to a Project Lease, dated as of May 1, 2003 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay Base Rental in amounts sufficient to pay, when due, the principal and interest evidenced and represented by 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 Leased Property in its annual budget, and to make necessary annual appropriations therefor. The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to the Project Lease.

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment."

Interest evidenced and represented by the Certificates is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2003. The Certificates will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Certificates will be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Beneficial owners of the Certificates will not receive certificates representing their interest in the Certificates, but will receive a credit balance on the books of the nominees of such purchasers. Principal and interest with respect to the 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 Certificates. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The scheduled payment of principal and interest evidenced by the Certificates when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by MBIA Insurance Corporation. See "CERTIFICATE INSURANCE" and "APPENDIX H – FORM OF FINANCIAL GUARANTY INSURANCE POLICY."

THE OBLIGATION OF THE CITY TO MAKE BASE 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 BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY SHALL BE OBLIGATED TO MAKE BASE 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. SEE "CERTAIN RISK FACTORS."

*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 Certificates. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

MATURITY SCHEDULE
(See inside cover)

The Certificates are offered when, as and if executed and received by the initial purchasers, subject to the approval of the validity of the Project Lease by Orrick, Herrington & Sutcliffe LLP and Quateman & Zidell LLP, Los Angeles, 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 Certificates in book-entry form will be available for delivery through DTC on or about May 13, 2003.

Dated: April 29, 2003

MATURITY SCHEDULE

Maturity (March 1)	Principal Amount	Interest Rate	Yield	CUSIP Number (79765)[1]
2006	$ 780,000	3.000%	1.530%	DRU6
2007	805,000	4.000%	2.000%	DRV4
2008	840,000	3.000%	2.350%	DRW2
2009	865,000	3.250%	2.720%	DRX0
2010	890,000	5.000%	3.120%	DRY8
2011	935,000	5.000%	3.420%	DRZ5
2012	980,000	3.625%	3.430%	DSA9
2013	1,020,000	3.500%	3.570%	DSB7
2014	1,055,000*	4.000%	3.750%	DSC5
2015	1,095,000*	4.000%	3.900%	DSD3
2016	1,140,000	4.000%	4.000%	DSE1
2017	1,185,000	4.000%	4.040%	DSF8
2018	1,230,000	4.125%	4.140%	DSG6
2019	1,285,000	4.250%	4.250%	DSH4
2020	1,340,000	4.300%	4.340%	DSJ0
2021	1,395,000	4.400%	4.400%	DSK7
2022	1,455,000	4.400%	4.470%	DSL5
2023	1,520,000	4.500%	4.540%	DSM3
2024	1,590,000	4.500%	4.590%	DSN1

TERM CERTIFICATES

Maturity (March 1)	Principal Amount	Interest Rate	Yield	CUSIP Number (79765)[1]
2028	$7,120,000	4.625%	4.730%	DSP6
2031	6,255,000	4.700%	4.760%	DSQ4
2034	7,185,000	4.750%	4.810%	DSR2

1 CUSIP numbers are provided only for the convenience of the reader. The City takes no responsibility for any changes to or errors in this list of CUSIP numbers.

* Priced to first optional prepayment date. See "THE CERTIFICATES – Prepayment."

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 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 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, other than information pertaining to the City, has been obtained from sources that 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, the Co-Financial Advisors or the initial purchasers of the 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 CERTIFICATES, THE PURCHASERS OF THE CERTIFICATES MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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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CITY AND COUNTY OF SAN FRANCISCO

Willie L. Brown, Jr., *Mayor*

BOARD OF SUPERVISORS

Matt Gonzalez, *President, District 5*

Jake McGoldrick, District 1
Gavin Newsom, District 2
Aaron Peskin, District 3
Fiona Ma, District 4
Chris Daly, District 6
Tony Hall, District 7
Bevan Dufty, District 8
Tom Ammiano, District 9
Sophie Maxwell, District 10
Gerardo Sandoval, District 11

CITY AND COUNTY OFFICIALS

Susan Leal, *Treasurer*
Edward M. Harrington, *Controller*
William L. Lee, *City Administrator*
Dennis J. Herrera, *City Attorney*

PROFESSIONAL SERVICES

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Quateman & Zidell LLP
Los Angeles, California
Co-Special Counsel

Arimax Financial Advisors Inc.
Woodland Hills, California

Municipal Capital Management, Inc.
Mill Valley, California
Co-Financial Advisors

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

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OFFICIAL STATEMENT

$41,965,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
Series 2003
(Juvenile Hall Replacement Project)

Evidencing Proportionate Interests of the Holders 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 $41,965,000 aggregate principal amount of the City and County of San Francisco Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project) (the "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 PROPERTY LEASE AND THE PROJECT LEASE – Definitions." The Certificates are being issued pursuant to a Trust Agreement dated as of May 1, 2003 (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) finance a portion of the costs of the acquisition, improvement, construction and/or reconstruction of a new juvenile detention facility and related improvements (the "Project") at the site of the existing San Francisco Juvenile Hall located at 375 Woodside Avenue in the City (the "Site," and together with the improvements thereon, the "Leased Property"), (ii) fund capitalized interest payable for the interest with respect to the Certificates through September 1, 2005, (iii) fund a Reserve Fund established under the Trust Agreement for the Certificates and (iv) pay costs of issuance of the Certificates. See "PLAN OF FINANCE" herein. The Leased Property is to be conveyed to the Trustee pursuant to a Property Lease, dated as of May 1, 2003 (the "Property Lease"), by and between the City, as lessor, and the Trustee, as lessee, and leased back to the City pursuant to a Project Lease, dated as of May 1, 2003 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. 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.

Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay to the Trustee specified Base Rental payments in amounts sufficient to pay, when due, the principal and interest evidenced and represented by the Certificates, and to pay certain Additional Rental payments (together, the "Rental Payments") for use and possession of the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein. 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.

Under the Project Lease, the Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. It is anticipated that the Project will be substantially completed on or about December 12, 2004. See "THE PROJECT – Description of the Project."

THE OBLIGATION OF THE CITY TO MAKE BASE 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 BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY SHALL BE OBLIGATED TO MAKE BASE 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. 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" herein 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" herein. 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 CERTIFICATES

General Terms

The Certificates are being executed and delivered in the aggregate principal amount of $41,965,000 and will be dated their date of delivery. Interest evidenced and represented by the Certificates is payable on March 1 and September 1 of each year, commencing on September 1, 2003 (each, an "Interest Payment Date") and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such dates in each year. Interest evidenced and represented by each 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 thereon 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 Certificate interest thereon is in default, interest thereon 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 date of delivery. Interest with respect to the Certificates will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The 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 ("DTC"). Individual purchases of the Certificates will be made in book-entry form only in the principal amount of $5,000 or any integral multiple thereof. Principal and interest evidenced and represented by the Certificates will be paid by the Trustee to DTC which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

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Prepayment

The Certificates with a Certificate Payment Date on or before March 1, 2010 are not subject to optional prepayment prior to their respective fixed Certificate Payment Dates. The Certificates with a Certificate Payment Date on or after March 1, 2011 are subject to optional prepayment prior to their respective fixed Certificate Payment Dates, at the option of the City, in the event the City exercises its 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 March 1, 2010, 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	Prepayment Price
March 1, 2010 through February 28, 2011	102%
March 1, 2011 through February 29, 2012	101%
March 1, 2012 and thereafter	100%

Special Mandatory Prepayment. The Certificates will be subject to mandatory prepayment prior to their respective Certificate Payment Dates, 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 Leased Property or any portion thereof or upon loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

Mandatory Sinking Account Installment Prepayment. The $7,120,000 Term Certificate maturing March 1, 2028, the $6,255,000 Term Certificate maturing March 1, 2031 and the $7,185,000 Term Certificate maturing March 1, 2034 (collectively, the "Term Certificates") are subject to prepayment prior to their stated final Certificate Payment Dates, commencing March 1, 2025, March 1, 2029 and March 1, 2032, respectively, in part, by lot, from mandatory sinking account payments, at the principal amount thereof, without premium, on March 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (March 1)	Sinking Account Payment Amount
2025	$1,660,000
2026	1,740,000
2027	1,820,000
2028†	1,900,000
2029	$1,990,000
2030	2,085,000
2031†	2,180,000
2032	$2,285,000
2033	2,395,000
2034†	2,505,000

† Final Certificate Payment Date.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates (other than from Sinking Account Installments) and less than all of the Certificates are to be prepaid, the City will direct the principal amount of each Certificate Payment Date to be prepaid. Within a Certificate

Payment Date, the Trustee, with the consent of the City, will select Certificates 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 Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

Notice of Prepayment. Notice of prepayment will be given by Electronic Notice or mailed by the Trustee, first class, postage prepaid, at least thirty (30) but not more than forty-five (45) days before any prepayment date, to the respective registered Owners of any 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 Certificates or designated portions thereof to be prepaid, the prepayment date, the place or places of prepayment, the prepayment price, the CUSIP numbers (if any) of the Certificates to be prepaid, the Certificate numbers of the Certificates to be prepaid in whole or in part, and, in the case of any Certificate being prepaid in part only, the amount of such Certificate to be prepaid, and the original issue date and the stated Certificate Payment Date of each 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 Certificate or portion thereof being prepaid, the prepayment price together with interest accrued but unpaid to the prepayment date, 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. Notice of prepayment having been duly given as aforesaid, and monies for payment of the prepayment price of, together with interest accrued to the date fixed for prepayment with respect to the Certificates (or portions thereof) so called for prepayment being held by the Trustee, on the prepayment date designated in such notice, the Certificates (or portions thereof) so called for prepayment will become due and payable, interest with respect to the Certificates so called for prepayment will cease to accrue, such Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price and interest accrued to the date fixed for prepayment.

Cancellation of Optional Prepayment. If the Certificates are subject to optional prepayment, and the Trustee does not have monies sufficient to prepay all of the 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.

The Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Certificates. The 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 Certificate Payment Date of the Certificates in the aggregate principal amount represented thereby, 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 represent Base Rental payments required of the City to be made to the Trustee under the Project Lease so long as the City has use and possession of the Leased Property. 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 from the City, including Base Rental derived from receipts of the Trustee from the lease of the Leased Property, but excluding certain indemnification rights and rights to payment of expenses retained by the City, (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), (iii) proceeds of rental interruption insurance policies with respect to the Leased Property, (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 and interest represented by the Certificates.

Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay all fees, costs and expenses of the Trustee in connection with the Trust Agreement, deposits required to be made to the Rebate Fund, if any, and all other fees, costs and expenses of the Trustee incurred from time to time in administering the Project Lease and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Project Lease.

Base Rental Payments; Abatement; Capitalized Interest

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's obligation to make Rental Payments in the amounts and on the terms and conditions specified in the Project Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Project Lease regarding abatement.

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 Leased Property or any portion thereof, or defects in title to the Leased Property or any portion thereof, there is substantial interference with the City's right to the use and occupancy of the Leased Property or any portion thereof. 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 Leased Property 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 Leased Property or portion thereof to tenantable condition or correction of the title defect. Any abatement of Base Rental payments could affect the payments 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" herein. See also "– Replacement, Maintenance and Repairs" below for additional provisions governing damage to the Leased Property.

The City is only obligated to pay Base Rental from its general funds when it has use and occupancy of the Leased Property. The portion of the Leased Property comprised of the Project will not be available for occupancy until Substantial Completion of the Project, which the City estimates will occur on or about December 12, 2004. See "THE PROJECT – Description of the Project." Interest will be capitalized and deposited into the Base Rental Fund in an amount sufficient to pay all interest evidenced by the Certificates through September 1, 2005.

Covenant to Budget

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 Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Base Rental Payments and Abatement" herein.

IF THE CITY DEFAULTS ON ITS COVENANT IN THE PROJECT LEASE TO INCLUDE ALL RENTAL PAYMENTS IN THE APPLICABLE ANNUAL BUDGET, THE TRUSTEE MAY EITHER RELET THE LEASED PROPERTY FOR THE ACCOUNT OF THE CITY OR MAY RETAIN THE PROJECT LEASE AND HOLD THE CITY LIABLE FOR ALL RENTAL PAYMENTS ON AN ANNUAL BASIS. SUCH OBLIGATIONS TO BUDGET AND MAKE SUCH RENTAL PAYMENTS DO NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OF CALIFORNIA 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.

The Reserve Fund

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount is 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 principal and interest payable with respect to the Certificates in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of the average annual principal and interest payable with respect to the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered."

The City has the right to substitute a qualifying credit facility (the "Credit Facility") for all or a portion of the amount of the Reserve Requirement; provided that such substitution of a Credit Facility for the funds held by the Trustee in the Reserve Fund: (i) must not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates (and the City must notify each Rating Agency prior to making any such substitution) and (ii) prior to any such substitution becoming effective, the Trustee must receive 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.

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 monies in the Reserve Fund in excess of the Reserve Requirement on each March 1 and September 1, commencing September 1, 2003, 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 payable 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.

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 Leased Property in good order, condition and repair during the term of the Project Lease. The Trust Agreement requires that if the Leased Property or any portion thereof is damaged or destroyed, the City must elect to either prepay the Certificates or replace or repair the affected portion of the Leased Property in accordance with the Project Lease. Under the Project Lease, the City must replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with its right to the use and occupancy of the Leased Property 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 Leased Property if insurance or condemnation proceeds or other legally available funds 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 evidenced and represented by 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 PROPERTY LEASE AND THE PROJECT LEASE – The Project Lease."

Insurance

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease (but during the period of construction of the Project only if such insurance is not provided by the contractor under the construction contract for the Project): (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of $5,000,000 combined single limit per occurrence, (ii) property insurance on all structures constituting any part of the Leased Property in an amount equal to the greater of 100% of the replacement costs of the Leased Property (less the applicable deductible amount) or, to the extent commercially available, an amount equal to the maximum aggregate principal amount of Certificates Outstanding during the applicable policy period, (iii) earthquake insurance (to the extent commercially available) in an amount equal to the lesser of the Outstanding principal amount of the Certificates or the replacement cost of the Leased Property; 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 at reasonable costs on the open market from reputable insurance companies (See "CERTAIN RISK FACTORS – Seismic Risks" herein), (iv) boiler and machinery insurance with a property damage limit of not less than $5,000,000 per accident, (v) commencing September 1, 2005, 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 twenty-four (24) months (to be adjusted annually on or prior to March 1, commencing March 1, 2006, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding twenty-four (24) months) to insure against loss of rental income from the Leased Property caused by the perils covered by the insurance described in (ii) and (iii) above, and such insurance shall not be subject to any deductible and (vi) builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates or the replacement cost of the Project, which insurance shall be outstanding until Substantial Completion of the project. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT 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). See also "CERTAIN RISK FACTORS – Seismic Risks."

Application of Insurance Proceeds

Under the Trust Agreement, upon the damage or destruction of the Leased Property or any portion thereof, the City is to make an election either to prepay the Certificates or to repair or replace the Leased Property 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 PROPERTY LEASE AND THE PROJECT LEASE – The Trust Agreement – Application of Insurance Proceeds."

Eminent Domain

If all of the Leased Property or so much of the Leased Property as to render the remainder thereof unusable for the City's purposes under the Project Lease is taken under the power of eminent domain: (i) the City may, at its option, replace the Leased Property or (ii) 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. If less than a substantial portion of the Leased Property is taken under the power of eminent domain, and the remainder is useable for the City's purposes, the Project Lease shall continue in full force and effect as to the remaining portions of the Leased Property, subject only to its rental abatement provisions. Any condemnation award will be paid to the Trustee for application to the replacement of the portion of the Leased Property taken or to the partial prepayment of Certificates. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – Trust Agreement – Eminent Domain" and "– Project Lease – Eminent Domain."

Addition, Release and Substitution

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 the Trustee to amend the Project Lease to release any portion of the Leased Property or to add other property and improvements to the Leased Property or to substitute other property for all or any portion of the Leased Property 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 Leased Property 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 Leased Property 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; provided that no such appraisal shall be necessary for the release from the Project Lease and the Property Lease, following Substantial Completion of the Project, of portions of the Site and the improvements thereon, other than the Project and the portion of the Site directly under the Project; it being the intent of the parties that following Substantial Completion, the Leased Property shall consist solely of the Project and the portion of the Site upon which the Project is located; (iii) a certificate of a City Representative stating that the useful life of the Leased Property constituting the Leased Property 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. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – 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, 2002."

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."

CERTIFICATE INSURANCE

The following information has been furnished by MBIA for use in this Official Statement. The City makes no representation as to the accuracy or completeness of such information or as to the absence of material adverse changes to such information. Reference is made to Appendix H for a specimen of MBIA's financial guaranty insurance policy.

The MBIA Insurance Corporation Insurance Policy

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to 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 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 MBIA'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 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").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificates. MBIA'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 Certificates upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 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 MBIA from the Trustee or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, MBIA 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 Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the 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 Certificates, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("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 "CERTIFICATE INSURANCE." Additionally, MBIA makes no representation regarding the Certificates or the advisability of investing in the Certificates.

MBIA Information

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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 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, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002), 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, 2001, MBIA had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) 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 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 Certificates. MBIA does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

In the event MBIA 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.

There can be no assurance that payments made by MBIA representing interest on the Certificates will be excluded from gross income for federal tax purposes in the event of nonappropriation by the City.

PLAN OF FINANCE

The Certificates are being executed and delivered to provide funds to: (i) finance the acquisition, improvement, construction and/or reconstruction of a new juvenile detention facility and related improvements (the "Project") at the site of the existing San Francisco Juvenile Hall located at 375 Woodside Avenue in the City (the "Site," and together with the improvements thereon, the "Leased Property"), (ii) fund capitalized interest payable for the interest with respect to the Certificates through September 1, 2005, (iii) fund a Reserve Fund established under the Trust Agreement for the Certificates and (iv) pay costs of issuance of the Certificates. The Leased Property is to be conveyed to the Trustee pursuant to the Property Lease and leased back to the City pursuant to the Project Lease. Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay Base Rental in amounts sufficient to pay, when due, the principal and interest evidenced and represented by the Certificates. The City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental payments thereunder for the Project in its annual budget, and to make necessary annual appropriations therefor. Principal and interest evidenced and represented by the Certificates are payable from the Base Rental payments and from certain funds held under the Trust Agreement.

Under the Project Lease, the Trustee agrees to acquire, construct and renovate, or cause the acquisition, construction and renovation of, the Project pursuant to plans and specifications submitted to and approved by the City from time to time. Also under the Project Lease, the Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. It is anticipated that the Project will be substantially completed on or about December 12, 2004.

THE PROJECT

General

The Certificates are being executed and delivered to provide funds to: (i) finance a portion of the acquisition, improvement, construction and/or reconstruction of a new juvenile detention facility and related improvements (the "Project") at the site of the existing San Francisco Juvenile Hall located at 375 Woodside Avenue in the City (the "Site," and together with the improvements thereon, the "Leased Property"), (ii) fund capitalized interest payable for the interest with respect to the Certificates through September 1, 2005, (iii) fund a Reserve Fund established under the Trust Agreement for the Certificates and (iv) pay costs of issuance of the Certificates. See "THE PROJECT – Description of the Project" below.

Description of the Project

The Project will replace the existing San Francisco Juvenile Hall, which occupies a portion of the City and County of San Francisco Youth Guidance Center. The Project includes the phased demolition and replacement of buildings and infrastructure on the site occupied by the San Francisco Juvenile Hall, providing a minor expansion in useable square feet and the number of beds. The San Francisco Juvenile Hall will remain in operation throughout the Project. The new facility will be configured to improve the conditions of confinement and to provide enhanced security and greater efficiency of operation.

The existing San Francisco Juvenile Hall occupies approximately half of the 14-acre San Francisco City and County Youth Guidance Center, which also includes a three-story courts and administration building, an attached three-story central utilities service building, three one-story structures used as office space by program providers, a one-story carport and several parking lots accommodating approximately 265 vehicles. Modifications to these structures are not included in the Project.

The Project will be constructed in two major phases under a single construction contract. Phase one of the Project includes the completion of a complete and operational facility to house all required components of the Juvenile Hall, with the exception of an outdoor recreation field ("Phase I"). Phase two of the Project will include the Juvenile Hall outdoor recreation field and parking lots to serve staff at the Youth Guidance center campus ("Phase II"). Upon completion of the Project, the new Juvenile Hall will provide approximately 82,550 gross square feet. The new facility will contain 110 sleeping rooms with a 150-bed capacity. All sleeping rooms will be equipped with a toilet and a sink. The sleeping rooms will be split into units as follows: four general population units; one intake/assessment unit; one high-security boys unit; one high security girls unit; and one mental health unit. There will be a visiting area/chapel that will be wheelchair accessible and will have a group visiting room, two private rooms, one search area, a separate office, storage room and dressing area. There will be a waiting room for visitors that will be equipped with a lavatory and public lockers. The new Juvenile Hall will have a gymnasium and an approximately one acre outdoor recreation area in addition to a high-security outdoor recreation area. There will be a separate learning center, serving youth from the general population, which will have seven classrooms, a counselor staff station, a storage/work room, toilets and a library, as well as one classroom in each of two high security units. There will be a medical clinic with a dental operatory, medical lab, four examination rooms, four infirmary sleeping rooms with toilets, two respiratory rooms with showers and toilets and one interview room. The admissions/release area will be expanded to include three holding rooms, one safety room, two shower rooms, three offices for police, probation and counselor work, an interview room, two changing rooms and a post-processing waiting room. There will be a twenty-four hour central control station, which will monitor all areas of the site, including the perimeter and control access via electronic locks, video and audio controls. There will be a secure vehicle entry-port for four vehicles. Additionally, each unit will be equipped with a staff station with electronic control over individual room doors for emergencies.

The Vicinity

The existing San Francisco Juvenile Hall and the City and County of San Francisco Youth Guidance Center are located at 375 Woodside Avenue in a residential neighborhood in the vicinity of Laguna Honda Hospital. Surrounding land uses include single-family residential and open space with areas of mixed residential/commercial uses. A gas station is adjacent to the entrance to the property. The neighboring land uses within approximately two miles are 62% residential and 12% open space, with the remaining 26% of land uses consisting of mixed-use residential/commercial districts and public uses. Housing types consist of one- and two-story, single-family, detached dwellings built mostly in the 1940s and 1950s. Some newer three- and four-story apartment structures are also located nearby. One of these structures is a senior housing project that is owned and operated by the San Francisco Housing Authority. Neighborhood commercial districts are also located within the project vicinity. Laguna Honda Hospital, a 1,200-bed long-term health facility for the elderly and disabled borders the City and County of San Francisco Youth Guidance facility directly to the west and to the north. The City and County of San Francisco Youth Guidance site is currently zoned as a P (Public) zoning district.

Project Funding

The total cost for the Project is currently estimated at $51.7 million. Of that amount, the total construction budget for the Project is approximately $40 million. The City has secured federal and state grants in the aggregate amount of $17.8 million. See "CERTAIN RISK FACTORS – State Board of Corrections Grant Program." A summary of the estimated sources of funds for the Project is set forth below. No assurances can be given that the Project will be completed within the estimated budget.

Amount of Project to be Financed by Certificates	$33,926,052
Grants from the Board of Corrections	15,070,000
Grants from State Controller	2,379,702
Grants from Office of Criminal Justice	323,341
Total estimated Project costs	$51,704,095

Construction Contract

The City issued a request for bids from contractors for the construction of the Project on October 26, 2002, and awarded a contract on March 26, 2003 to S.J. Amoroso Construction Co., Inc. (the “Contractor”) pursuant to a competitive bidding process (the “Construction Contract”). The Construction Contract provides that the City will pay the Contractor a lump sum price of $36,392,855 for the Project. A portion of the cost of the Construction Contract will be funded from proceeds of the Certificates. The Construction Contract requires a performance bond and a labor and material bond in the full contract amount of $36,392,855. The Construction Contract also requires that the Contractor maintain specified insurance, which includes the following: (i) general liability insurance with limits not less than $10,000,000; (ii) automobile liability insurance with limits not less than $1,000,000; (iii) workers’ compensation insurance with limits not less than $1,000,000; and (iv) all-risk builder’s risk insurance, excluding flood and earthquake, with limits not less than the contract amount of $36,392,855. The Construction Contract specifies that time is of the essence and calls for Substantial Completion (as defined below) of the Project on or about December 12, 2004 (573 calendar days following the issuance of the notice to proceed. See “Project Status and Substantial Completion” below) and Final Completion (as defined below) of the Project on or about September 18, 2005 (852 calendar days following the issuance of the notice to proceed. See “Project Status and Substantial Completion” below). The Construction Contract also provides for liquidated damages of $20,450 and $10,000 per day respectively if Substantial and Final Completion of the Project are not achieved by December 12, 2004 and September 18, 2005 respectively, subject to certain exceptions. There can be no assurance that liquidated damages would be received by the City if Substantial or Final Completion of the Project was delayed.

The Contractor

The contractor for the Project is S.J. Amoroso Construction Co., Inc., a California corporation started in 1939 in San Francisco. S.J. Amoroso Construction Co., Inc. has worked on several projects with the City including the Retrofit of Bill Graham Civic Auditorium, the Waste Water Treatment Plant at San Francisco International Airport, the Employee Parking Garage at San Francisco International Airport, and the Moscone Convention Center Addition. In addition, S.J. Amoroso Construction Co., Inc. has experience with projects that focused on public safety including the following: Ventura Juvenile Detention Center, Santa Clara Police Facility, Berkeley Public Safety Building, and San Francisco’s 911 Complex.

The Architect

The Project architect is The Design Partnership and Del Campo & Maru Joint Venture. The Design Partnership has been in practice for 24 years and in that time has received nine project citations from the AIA Committee on Architecture for Justice. Other juvenile justice projects by The Design Partnership include Sonoma County, Sacramento County, San Joaquin County, Pierce County, WA, and Snohomish County, WA, as well as numerous other juvenile and adult local and state correctional projects. Del Campo & Maru has been in business for 46 years. Del Campo & Maru’s experience includes San Francisco Sheriff’s New Jail Facility, Berkeley Public Safety Building, San Quentin State Prison, and the San Francisco International Airport new International Terminal.

Project Status and Substantial Completion Date

The term “Substantial Completion” means the completion of Phase I of the Project and readiness of the Project for use and occupancy by the City (subject to minor architectural finish items e.g., “punch list” items), as evidenced by the delivery of the Certificate of Substantial Completion by the City. The Certificate of Substantial Completion is the notice filed with the Trustee pursuant to the Project Lease, stating that the Project has been substantially completed in accordance with the plans and specifications for tenant and other improvements to be prepared by or under the direction of the City.

The term “Final Completion” means the construction of Phase II of the Project, the installation of improvements and the substantial readiness of Phase II of the Project for use and occupancy by the City (subject to minor architectural finish items e.g., “punch list” items).

Currently, the City intends to give the Contractor a notice to proceed with the construction on or about May 19, 2003. According to the Construction Contract, Substantial Completion of the Project should occur on or about December 12, 2004 (573 calendar days following the issuance of the notice to proceed). Final Completion of the Project should occur on or about September 17, 2005 (852 calendar days following the issuance of the notice to proceed). No assurances can be given that Substantial or Final Completion of the Project will be achieved by these dates. Interest with respect to the Certificates will, however be capitalized through September 1, 2005. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 CERTIFICATES – Base Rental Payments; Abatement; Capitalized Interest “ and “CERTAIN RISK FACTORS – Delayed Completion of the Project” herein.

Environmental Assessment

In accordance with the National Environmental Policy Act (“NEPA”) an Environmental Assessment was prepared for the proposed reconstruction of the San Francisco Juvenile Hall. The Project is subject to NEPA review because it is being funded, in part, with federal funding available under the Violent Offender Incarceration/Truth-In-Sentencing Initiative Grant program from the Office of Justice Programs, Corrections Program Office of the U.S. Department of Justice. The Office of Justice Programs, Corrections Program issued a Finding of “No Significant Impact” (within the meaning of NEPA) for the San Francisco Juvenile Hall Replacement Project on September 25, 2001.

California Environmental Quality Act

Pursuant to the California Environmental Quality Act (“CEQA”), a categorical exemption determination was issued for the Project on March 29, 1999. The Project was determined to be categorically exempt from CEQA based on the fact that it is a reconstruction of an existing structure and involves only a minor expansion of existing use.

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ESTIMATED SOURCES AND USES OF FUNDS

Following is a table of estimated sources and uses of funds with respect to the Certificates:

Sources of Funds:	
Par Amount of the Certificates	$41,965,000.00
Original Issue Premium	87,079.65
Total Sources	$42,052,079.65
Uses of Funds:	
Project Fund	$33,926,052.00
Reserve Fund	2,627,797.50
Base Rental Fund[(1)]	4,239,544.00
Purchaser's discount[(2)]	890,139.43
Costs of Issuance Fund[(3)]	368,546.72
Total Uses	$42,052,079.65

(1) Represents capitalized interest through September 1, 2005.
(2) Includes Certificate insurance premium.
(3) Includes amounts for legal fees, Trustee's fees and expenses, financial advisory fees, rating agency fees, rounding amounts, printing costs and any other issuance costs.

BASE RENTAL PAYMENT SCHEDULE

The Project Lease requires the City to make Base Rental payments in arrears on each February 25 and August 25, commencing August 25, 2003, in payment for the use and occupancy of the Leased Property during the term of the Project Lease.

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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 March 1 and September 1 of each year, commencing on September 1, 2003, 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.

BASE RENTAL PAYMENT SCHEDULE

Certificate Payment Date	Principal Amount	Interest Amount	Semi-Annual Debt Service	Fiscal Year Total
September 1, 2003		$ 552,984.00	$ 552,984.00	
March 1, 2004		921,640.00	921,640.00	
June 30, 2004				$ 1,474,624.00
September 1, 2004		921,640.00	921,640.00	
March 1, 2005		921,640.00	921,640.00	
June 30, 2005				1,843,280.00
September 1, 2005		921,640.00	921,640.00	
March 1, 2006	$ 780,000	921,640.00	1,701,640.00	
June 30, 2006				2,623,280.00
September 1, 2006		909,940.00	909,940.00	
March 1, 2007	805,000	909,940.00	1,714,940.00	
June 30, 2007				2,624,880.00
September 1, 2007		893,840.00	893,840.00	
March 1, 2008	840,000	893,840.00	1,733,840.00	
June 30, 2008				2,627,680.00
September 1, 2008		881,240.00	881,240.00	
March 1, 2009	865,000	881,240.00	1,746,240.00	
June 30, 2009				2,627,480.00
September 1, 2009		867,183.75	867,183.75	
March 1, 2010	890,000	867,183.75	1,757,183.75	
June 30, 2010				2,624,367.50
September 1, 2010		844,933.75	844,933.75	
March 1, 2011	935,000	844,933.75	1,779,933.75	
June 30, 2011				2,624,867.50
September 1, 2011		821,558.75	821,558.75	
March 1, 2012	980,000	821,558.75	1,801,558.75	
June 30, 2012				2,623,117.50
September 1, 2012		803,796.25	803,796.25	
March 1, 2013	1,020,000	803,796.25	1,823,796.25	
June 30, 2013				2,627,592.50
September 1, 2013		785,946.25	785,946.25	
March 1, 2014	1,055,000	785,946.25	1,840,946.25	
June 30, 2014				2,626,892.50
September 1, 2014		764,846.25	764,846.25	
March 1, 2015	1,095,000	764,846.25	1,859,846.25	
June 30, 2015				2,624,692.50
September 1, 2015		742,946.25	742,946.25	
March 1, 2016	1,140,000	742,946.25	1,882,946.25	
June 30, 2016				2,625,892.50
September 1, 2016		720,146.25	720,146.25	
March 1, 2017	1,185,000	720,146.25	1,905,146.25	
June 30, 2017				2,625,292.50
September 1, 2017		696,446.25	696,446.25	
March 1, 2018	1,230,000	696,446.25	1,926,446.25	

Certificate Payment Date	Principal Amount	Interest Amount	Semi-Annual Debt Service	Fiscal Year Total
June 30, 2018				$ 2,622,892.50
September 1, 2018		$ 671,077.50	$ 671,077.50	
March 1, 2019	$ 1,285,000	671,077.50	1,956,077.50	
June 30, 2019				2,627,155.00
September 1, 2019		643,771.25	643,771.25	
March 1, 2020	1,340,000	643,771.25	1,983,771.25	
June 30, 2020				2,627,542.50
September 1, 2020		614,961.25	614,961.25	
March 1, 2021	1,395,000	614,961.25	2,009,961.25	
June 30, 2021				2,624,922.50
September 1, 2021		584,271.25	584,271.25	
March 1, 2022	1,455,000	584,271.25	2,039,271.25	
June 30, 2022				2,623,542.50
September 1, 2022		552,261.25	552,261.25	
March 1, 2023	1,520,000	552,261.25	2,072,261.25	
June 30, 2023				2,624,522.50
September 1, 2023		518,061.25	518,061.25	
March 1, 2024	1,590,000	518,061.25	2,108,061.25	
June 30, 2024				2,626,122.50
September 1, 2024		482,286.25	482,286.25	
March 1, 2025	1,660,000	482,286.25	2,142,286.25	
June 30, 2025				2,624,572.50
September 1, 2025		443,898.75	443,898.75	
March 1, 2026	1,740,000	443,898.75	2,183,898.75	
June 30, 2026				2,627,797.50
September 1, 2026		403,661.25	403,661.25	
March 1, 2027	1,820,000	403,661.25	2,223,661.25	
June 30, 2027				2,627,322.50
September 1, 2027		361,573.75	361,573.75	
March 1, 2028	1,900,000	361,573.75	2,261,573.75	
June 30, 2028				2,623,147.50
September 1, 2028		317,636.25	317,636.25	
March 1, 2029	1,990,000	317,636.25	2,307,636.25	
June 30, 2029				2,625,272.50
September 1, 2029		270,871.25	270,871.25	
March 1, 2030	2,085,000	270,871.25	2,355,871.25	
June 30, 2030				2,626,742.50
September 1, 2030		221,873.75	221,873.75	
March 1, 2031	2,180,000	221,873.75	2,401,873.75	
June 30, 2031				2,623,747.50
September 1, 2031		170,643.75	170,643.75	
March 1, 2032	2,285,000	170,643.75	2,455,643.75	
June 30, 2032				2,626,287.50
September 1, 2032		116,375.00	116,375.00	
March 1, 2033	2,395,000	116,375.00	2,511,375.00	
June 30, 2033				2,627,750.00
September 1, 2033		59,493.75	59,493.75	
March 1, 2034	2,505,000	59,493.75	2,564,493.75	
June 30, 2034				2,623,987.50
TOTAL:	$41,965,000	$37,492,266.50	$79,457,266.50	$79,457,266.50

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 CERTIFICATES. NO ASSURANCES CAN BE GIVEN THAT OTHER RISK FACTORS WILL NOT BECOME EVIDENT AT ANY FUTURE TIME.

Lease Obligation

THE CERTIFICATES REPRESENT AND 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 ISSUANCE OF THE CERTIFICATES.

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 of California 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, 2002."

Delayed Completion of the Project

Base Rental payments under the Project Lease (which are contingent on use and occupancy of the Leased Property) are expected to be paid from capitalized interest until the Substantial Completion of the Project, which the City estimates will occur on or about December 12, 2004. As noted above, interest evidenced and represented by the Certificates will be capitalized in an amount sufficient to pay all interest evidenced by the Certificates through September 1, 2005. There can be no assurance, however, that construction delays caused by inclement weather, natural disaster, contractor claims, labor disputes, the discovery of additional hazardous materials or other factors, including cost overruns, as discussed below, will not delay Substantial and Final Completion of the Project. The risks are exacerbated by the significant period between the sale of the Certificates and the anticipated date of Substantial Completion.

Although the Contractor has agreed to complete the Project for an amount not greater than the Lump Sum Price and to achieve Substantial and Final Completion as discussed above, there are still significant risks associated with the cost of construction as well as the time for completion.

In the event that the cost to build the Project or the time to complete the Project is significantly more than the Lump Sum Price or the time allotted for reaching Substantial Completion, respectively, and is in excess of contingencies maintained for both increase in cost and delays in completion, it may result in the Trustee having insufficient funds to pay principal of, premium, if any, or interest evidenced by the Certificates. In the event of any abatement in rent under the Project Lease due to a delay in completion of the Project, the Trustee will apply any liquidated damages paid in respect of such delay which are available for the payment of debt service on the Certificates, to the payment of Base Rental, to the extent such Base Rental has not otherwise been paid.

Prior to Substantial Completion of the Project, the Leased Property consists of the Site and the existing Juvenile Hall facilities which will be available for use and occupancy by the City and will oblige the City to pay Base Rental to the extent of the fair rental value of such facilities.

Payment of the costs of constructing the Project is to be made by the Trustee from amounts held by it and other funds available for the payment of construction costs. Completion of the Project may be delayed due to construction cost overruns if monies on deposit in the Construction Fund are insufficient to complete the Project. In such event the City and the Trustee may, but are not obligated to, undertake to modify the Project to enable it to be completed with available funds.

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 Leased Property and may be abated in whole or in part if the City does not have full use and right of occupancy of the Leased Property, and if the Leased Property then available for beneficial use and occupancy by the City has an aggregate fair rental value below the amount of the applicable Base Rental payments.

If Base Rental payments are abated, no assurances can be given that monies on deposit in the Base Rental Fund and Reserve Fund or 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, monies 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 Leased Property 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 Leased Property or any portion thereof to useable condition or correction of the title defect. Reserve Fund monies 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 with respect to the Certificates as such amounts become due. **If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with monies in the Reserve Fund, are insufficient to make all payments with respect to the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Project Lease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest with respect to 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 Leased Property, 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 or that portion of the remaining principal and interest evidenced and represented by the Certificates.

Limited Recourse on Default; Reletting of the Leased Property

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 Leased Property for the account of the City, no assurance can be given that the amounts received from such reletting would be sufficient to pay the principal of and interest evidenced and 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 with respect to 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. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/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 after 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 Certificates then outstanding, shall proceed), without any further notice: (i) to reenter the Leased Property and without terminating the Leased Property Lease, relet the Leased Property 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.

The ability of the Trustee to exercise remedies in the event of a default under the Project Lease may be especially difficult because of the essential nature of the Project, its commercial value, as well as the problems associated with taking possession and evicting a prison population. Consequently, the Trustee may find it more difficult, time consuming or expensive to exercise its legal remedies than in a lease structure that did not involve essential governmental services. Consequently, it is likely that the Trustee's only practical remedy will be to sue the City as rent becomes due and it will be unable to exercise upon the collateral and take possession of, and relet, the Project and/or the Leased Property. If the Trustee is unable to take possession and relet the Project and/or the Leased Property, the holders of the Certificates may not receive payment of principal, premium, if any, or interest evidenced by the Certificates, or such payment may be delayed.

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.

State Board of Corrections Grant Program

Certain construction costs of the project are expected to be funded with the proceeds of a State grant, pursuant to a Construction Grants Program Grant Contract (the "Grant Contract") between the State Board of Corrections and the City. The Grant Contract provides for the City to receive Federal Violent Offender Incarceration and Truth-in-Sentencing Incentive Grant Program funds. In the event that for any reason some or all of such grant funds were not received by the City, the City anticipates that it would attempt to amend its budget to accommodate any shortfall.

Reserve Fund

At the time of delivery of the Certificates, the Reserve Fund will be funded in an amount equal to the Reserve Requirement, which as of the date of delivery of the Certificates is equal to $2,627,797.50. In the event of abatement or default, the amounts on deposit in the Reserve Fund may be significantly less than the amount of Base Rental due 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 charter 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 Leased Property

The Project Lease permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – The Project Lease – Release and Substitution." Although the Project Lease requires that the substitute property have an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property 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 Leased Property could have an adverse effect on the security for the Certificates.

Seismic Risks

The City is in a seismically active region of California. During the past 150 years, the San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2. Another was the 1868 Hayward earthquake along the Hayward Fault. The most recent significant earthquake was the 1989 Loma Prieta earthquake with a magnitude of 7.1 and an epicenter near Santa Cruz, approximately fifty-five (55) miles south of San Francisco. The San Andreas Fault lies 7.5 miles immediately west of the City, and the Hayward Fault is approximately 11.5 miles to the east. According to a recent study by the United States Geological Survey, there is a sixty-seven percent (67%) probability of another earthquake the size of the Loma Prieta earthquake within the next thirty (30) years. This study states that the next earthquake will most likely occur farther north than the Loma Prieta earthquake, somewhere between San Jose (approximately forty-five (45) miles south of San Francisco) and Santa Rosa (approximately fifty (50) miles north of San Francisco). Such an earthquake would cause more damage than the Loma Prieta earthquake because the epicenter would be closer to San Francisco. A significant earthquake along these or other faults is probable during the period the Certificates will be outstanding under the Trust Agreement.

The City's seismic code requirements increased in July 1999, causing the Facilities and all buildings built prior to July 1999 to no longer meet current seismic code requirements. However, under Section 104(f) of the City's Building Code, a property will not be required to meet the City's new 1999 seismic code requirements where there is no significant change of use, addition to the property or substantial rehabilitation. The new structures built by the Project will meet all City Building Code Requirements. The existing structures are not required to be retrofit to comply with the 1999 seismic code requirements.

In the Project Lease, the City covenants to obtain earthquake insurance, but only to the extent it is commercially available, and such earthquake insurance is not required if the City's Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at a reasonable cost. The City does not initially anticipate obtaining earthquake insurance for the Project because the City has determined that it is not available at commercially reasonable rates. In addition, if the Property were damaged or destroyed in an earthquake, the rental interruption insurance would not provide coverage for any abatement of Rental Payments and the City would have no obligation to repair such damage. However, any damage or destruction directly caused by fire or other events covered by the City's property insurance may be insured even if such fire or other events are indirectly caused by earthquake. See "THE PROJECT" herein. Accordingly, the risk that the Leased Property may be damaged or destroyed and the risk of a consequent abatement of Base Rental payments with respect thereto should be considered.

Risk Management and Insurance

The Project Lease obligates the City to maintain and keep in force various forms of insurance on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. 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 with respect to 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.

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" herein.

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 Constitution or the City's Charter, respectively, in a manner that could result in a reduction of the City's general fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS – Articles XIII C and XIII D of the California Constitution" herein. See also "APPENDIX A – RISK MANAGEMENT."

Bankruptcy

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

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

All legal opinions with respect to the Certificates, the enforceability of the Trust Agreement and the Project Lease will be expressly subject to a qualification that such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally and by applicable principles of equity if equitable remedies are sought.

CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS

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. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one percent 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 2 of Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 fiscal year tax bill or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any additional ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is $1.00 per $100 of taxable value.

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.

On December 27, 2001, the Orange County Superior Court, in the case of *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, held that the Orange County assessor violated the 2% annual inflation adjustment provision of Article XIIIA when the assessor tried to "recapture" the taxable value of a single family residential property by increasing its assessed value by approximately 4% in a single year. The assessor had not increased the assessed value of the property during a year when the market value of the property was determined by the assessor to have declined below its taxable value pursuant to Article XIIIA. In the following year, the assessor established the taxable value of the property by determining that its then current market value was greater than if the 2% annual inflation adjustment had been applied in the previous year. The assessor enrolled the property at a taxable value that recaptured the 2% inflation adjustment from the previous year, resulting in a one-year increase of approximately 4%. The assessors in most California counties, including the City, use a similar methodology in raising the taxable values of property beyond two percent in a single year, and the State Board of Equalization has approved this methodology for increasing assessed values in similar circumstances. In December 2002 the Orange County Superior Court granted a motion to restate the complaint as a class action, which could have the effect of extending this ruling to other similar cases. The County of Orange intends to appeal the Superior Court's decision. 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.

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

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIII B of the State Constitution, which limits the amount of revenues that government entities are permitted to spend. Article XIII B, approved by California voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in cases of emergency, however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each governmental entity's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to such entity's taxpayers through tax rate or fee reductions over the following two years.

The City Controller has estimated that for the 2002-03 Fiscal Year, permitted appropriations of "proceeds of taxes" are limited to $1,751,554,849, with budgeted appropriations from proceeds of taxes for the 2002-03 Fiscal Year at a level of $1,544,346,831.

Articles XIII C and XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218 – the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996, although application of some of its provisions was deferred until July 1, 1997.

Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. General taxes imposed for general governmental purposes of the City require a majority vote and special taxes imposed for specific purposes (even if deposited in the general fund) require a two-thirds vote. The voter approval requirements of Article XIII C reduce the Board of Supervisors' flexibility to deal with fiscal problems by raising revenue through new, extended or increased taxes and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if they were approved by voters by November 6, 1998. Each local tax subject to such approval has been either reauthorized in accordance with Proposition 218 or discontinued.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Consequently, the voters of the City could, by initiative, repeal or reduce any existing local tax, assessment, fee or charge, or limit the future imposition or increase of any local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations discussed below with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which could be reduced by initiative under Article XIII C. "Assessment," "fee" and "charge" are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related, as described below) would be applied to 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."

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

Legislation adopted by the State Legislature in 1997 provides that Article XIII C shall not be construed to mean that any owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the Contracts Clause of the United States Constitution.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" for local services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon real property, and expressly includes standby charges. Article XIII D also includes new provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a county upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to specific requirements and prohibitions set forth in Article XIII D. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge, or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

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. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires (i) that any tax for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters voting in an election on the issue, (ii) that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters voting in an election on the issue, and (iii) that the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority* v. *Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), which upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

The *Santa Clara* decision also did not decide the question of the applicability of Proposition 62 to charter cities. The City is a charter city. Two cases decided by the California Courts of Appeals in 1993, *Fielder* v. *City of Los Angeles*, (1993) 14 Cal. App. 4th 137 (rev. den. May 27, 1993), and *Fisher* v. *County of Alameda,* (1993) 20 Cal. App. 4th 120 (rev. den. Feb. 24, 1994), held that Proposition 62's restriction on property transfer taxes did not apply to charter cities because charter cities derive their power to enact such taxes under Article XI, Section 5 of the California Constitution relating to municipal affairs. This general conclusion has been affirmed in subsequent cases.

On June 4, 2001, the California Supreme Court rendered its opinion in *Howard Jarvis Taxpayers Association v. City of La Habra et al.* (2001) 25 Cal. 4^{th} 809 holding that an action brought in 1996 challenging the imposition of a 1992 utility users tax imposed for general purposes without voter approval, was not barred by a three (3) year statute of limitations period because the continued imposition and collection of the tax was an ongoing violation upon which the statute of limitations period begins anew with each collection.

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 the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g., voter approval of taxes) are governed by the State Constitution. For a discussion of taxes affected by Proposition 218 see "ARTICLES XIII C AND XIII D OF THE CALIFORNIA CONSTITUTION" above.

The City estimates that approximately $633.3 million has been collected as a result of tax increases imposed without voter approval between November 5, 1986 (the effective date of Proposition 62) and July 1, 2001. Increased or new taxes include taxes imposed on business, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rental taxes. The hotel tax and stadium admissions tax were ratified by the voters on November 3, 1998. The annual amount of taxes collected as a result of these post-Proposition 62 increases is approximately $44.2 million. With the exception of the vehicle rental tax, the City continues to collect these taxes. If a court determined that a jurisdiction imposed a tax in violation of Proposition 62, Proposition 62 would require that the portion of the one percent (1%) general *ad valorem* property tax levy allocated to that jurisdiction be reduced by $1 for every $1 in revenue attributable to the tax for each year that the tax was collected prior to the expiration of the applicable statute of limitations.

THE CITY

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, 2002."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California and Quateman & Zidell LLP, Los Angeles, California, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental payment designated as and representing interest and received by Owners of the Certificates is excluded from gross income for federal income tax purposes and is exempt from State personal income taxes. In the opinion of Co-Special Counsel, the portion of each Base Rental payment designated as and representing interest and received by the Owners of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Co-Special Counsel observe, however, that the portion of each Base Rental payment designated as and representing interest and received by the Owners of the Certificates is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of legal opinion of Co-Special Counsel is set forth in APPENDIX G hereto.

The amount (if any) by which the issue price of the Certificates of any given Certificate Payment Date is less than the amount to be paid on such date (excluding amounts stated to be interest and payable at least annually over the term of such Certificates) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes and which is exempt from State personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to Certificates of any Certificate Payment Date accrues daily over the term to such Certificate Payment Date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Certificate, and under Treasury Regulations, the amount of tax exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Internal Revenue Code of 1986 (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest with respect to obligations such as that represented by the Certificates. The City has covenanted to comply with certain restrictions designed to assure that the interest evidenced and represented by the Certificates will not be included in federal gross income. Failure to comply with these covenants may result in the portion of each Base Rental payment designated as and representing interest and received by the Owners of the Certificates being included in federal gross income, possibly from the date of execution and delivery of the Certificates. The opinion of Co-Special Counsel assumes compliance with these covenants. Co-Special Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may affect the tax status of the portion of each Base Rental payment designated as and representing interest and received by the Owners of the Certificates.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Project Lease, the Tax Certificate relating to the Certificates and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the Certificates) may be taken, or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Co-Special Counsel expresses no opinion as to any 2003 Certificate, or the interest payable with respect thereto if any such change occurs or action is taken or omitted upon the advice or approval of Co-Special Counsel other than Orrick, Herrington & Sutcliffe LLP and Quateman & Zidell LLP.

Although Co-Special Counsel will render an opinion that the portion of each Base Rental payment designated as and representing interest received by the Owners of the Certificates is excluded from gross income to the extent described above, the ownership or disposition of the Certificates or the accrual or receipt of the portion of each Base Rental payment designated as and representing interest and received by the Owners of the Certificates may otherwise affect a Certificate owner's particular federal or state tax liability. The nature and extent of these other tax consequences will depend upon each Certificate owner's particular tax status and the Certificate owner's other items of income or deduction. Co-Special Counsel express no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Certificates from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Certificates for audit examination, or the course or result of any IRS examination of the Certificates, or obligations which present similar tax issues, will not affect the market price for the Certificates.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, execution and delivery of the Certificates are subject to the approval of Orrick, Herrington & Sutcliffe LLP, San Francisco, California and Quateman & Zidell LLP, Los Angeles, California, Co-Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

The proposed form of the approving opinion of Co-Special Counsel is attached hereto as APPENDIX G. Co-Special Counsel will deliver to the City a supplemental opinion as to the accuracy in all material respects of the descriptions contained in the Official Statement of the Certificates, the Trust Agreement, the Property Lease, the Project Lease and Co-Special Counsel's federal and State tax opinions. Except as expressly described in said opinion (which may be relied upon only by the City), 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 Certificates.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the 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 2002 – 2003 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 purchasers 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 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 or the Property 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 delivery of the 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 monies for or to make Base Rental payments.

VALIDATION ACTION

The City filed a complaint on July 1, 2002, pursuant to State Code of Civil Procedure Sections 860 through 870.5 in the Superior Court for the State in and for the City to validate the Project Lease, the Property Lease, the Trust Agreement and certain other matters. On August 22, 2002, a judgment was rendered finding the Project Lease, the Property Lease and the Trust Agreement to be valid, legal and binding obligations of the City in accordance with their terms and in conformity with all applicable provisions of law, including Article XVI, Section 18 of the State Constitution.

State Code of Civil Procedure Section 870(a) provides that such a judgment, if no appeal is taken, or if taken and the judgment affirmed, shall thereupon become and thereafter be forever binding and conclusive, as to all matters therein adjudicated or which could have been adjudicated against the City and against all other persons. State Code of Civil Procedure Section 870(b) provides that no appeal shall be allowed from such a judgment unless a notice of appeal is filed within thirty (30) days after the entry of judgment. No notice of appeal was filed within thirty (30) days after the entry of judgment.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("S&P"), and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Certificates based upon the issuance by MBIA of its financial guaranty insurance policy concurrently with the delivery of the Certificates. Moody's, S&P and Fitch have assigned underlying ratings of "Con. (A2)," "AA-p" and "A+," respectively, to the Certificates. Certain information was supplied by the City to the rating agencies to be considered in evaluating the 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 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 Certificates.

CO-FINANCIAL ADVISORS

The City has retained Arimax Financial Advisors Inc. and Municipal Capital Management, Inc. as co-financial advisors (the "Co-Financial Advisors") in connection with the execution and delivery of the 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. The Co-Financial Advisors will receive compensation that is contingent upon the sale, execution and delivery of the Certificates.

SALE OF CERTIFICATES

The Certificates were sold at competitive bid on April 29, 2003, and awarded to UBS PaineWebber Inc., at a purchase price of $41,161,940.22. The Official Notice of Sale provides that all 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 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 Dr. Carlton B. Goodlett Place, San Francisco, California 94102, Attention: Director of Public Finance.

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

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward M. Harrington
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. In the event of conflict, its chartered city powers prevail. 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 somewhat 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.

On December 12, 1995, Willie L. Brown, Jr. was elected Mayor of San Francisco, the first African-American to hold that office in the City. On December 14, 1999, he was re-elected to a second term. Mayor Brown was born in the rural town of Mineola, Texas where he attended segregated schools before moving to San Francisco in 1951. Mayor Brown attended San Francisco State University and earned a law degree at Hastings College of the Law in San Francisco. In 1964, he successfully ran for the California State Assembly and was re-elected to fifteen consecutive terms. In 1980, he became the first African-American Speaker of the Assembly, a position he held for over fourteen years, longer than any other Speaker in State history.

Matt Gonzalez, a former trial attorney in the Public Defender's Office, was elected was to the Board in 2000 and was elected President of the Board by a majority of the Supervisors in January 2003. Tom Ammiano was elected to the Board in 1994 and re-elected in 1998 and 2000. Gavin Newsom, a local small business owner, was appointed to the Board by Mayor Brown in February 1997, elected later in that year, and was re-elected in 2000 and 2002. 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 the Board to four-year terms in a runoff election on December 10, 2002.

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 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 10-year term in 2000, by Mayor Willie L. Brown, Jr. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the $5 billion annual operating 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. Mr. Harrington was an auditor with KPMG Peat Marwick, from 1980 to 1984, specializing in government, non-profit and financial institution clients. He 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 term. Ms. Leal joined to a four-year term 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 has 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's degree in Economics and a Juris Doctorate from the University of California at Berkeley. Ms. Leal is a member of the California Debt and Investment Advisory Commission, a position she has held since September 1999 upon her appointment by State Treasurer Philip Angelides.

Mabel Teng was elected as San Francisco'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 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 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 officially begins in February of each year as departments prepare their budgets and seek approval thereof by the various City Commissions. Departmental budgets are then submitted to the Mayor. In December 2002, the Board of Supervisors adopted an ordinance amending the City's Administrative Code to streamline the existing budget process, which had required the Mayor to submit a balanced budget to the Board of Supervisors by June 1 of each year. 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. The Charter requirement for the Mayor to submit a balanced budget by June 1 of each year remains unchanged by this amendment to the Administrative Code. Also on June 1, the Controller provides an opinion to the Board regarding the reliability of the revenue estimates 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 by July 31st of each year. The Board adopted the fiscal year 2002-03 budget on July 29, 2002 and the Mayor approved it on August 8, 2002.

On March 21, 2003, the City Controller, Mayor's Budget Director and Budget Analyst to the Board of Supervisors issued the three-year Budget Projection as required by the Charter. As of March 21, 2003, they collectively projected a $347.2 million budget shortfall for FY 2003-04. The shortfall assumes no pay or benefit increases for employees, other than as already approved for Nurses. On June 1, 2003, the Mayor is required by the Charter to present a balanced budget for FY 2003-04. Per the Mayor's agreement with the Board of Supervisors, on May 1, 2003, the Mayor will present a balanced budget with respect to the Enterprise departments.

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.

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

General Fund Results

The City's fiscal year 2002-03 adopted budget is $5.0 billion, with $2.4 billion allocated to the General Fund. The remaining $2.6 billion is appropriated for expenses of special fund and enterprise fund departments including, but not limited to, the Airport, Municipal Railway, Hetch Hetchy Water and Power System, and the San Francisco Port, as well as for bond repayment. The fiscal year 2002-03 budget, which was adopted by the Board of Supervisors on July 29, 2002, and signed by the Mayor on August 8, 2002, maintains services at levels nearly equal to the prior fiscal year, despite the economic downturn that began in 2001 and the impact of the events of September 11, 2001. (See discussion below under "Impact of September 11, 2001".) Furthermore, the budget contained no new taxes and only some adjustments in assessments, user fees and service charges. As a result of the delayed economic recovery in Northern California and a review of the City's collections during the first three months of fiscal year 2002-03, revenues were projected to be $20 million lower by year-end than originally budgeted. In response to this projection, the Mayor's Office directed departments to prepare new spending plans for the second half of the fiscal year to accommodate the estimated reduction. The Controller's Nine-Month Budget Status Report, issued on May 1, 2003, projects a $45.94 million in General Fund balance at the end of the fiscal year 2002-03. This is $14.93 million better than the $31.01 million outlined in the Six-Month Report. The $45.94 million projected General Fund balance also reflects the estimated year-end savings related to the Mayor's implementation of additional spending reductions, departmental savings targets and delayed hiring for the remainder of fiscal year 2002-03.

Table A-1 shows revised budgets for fiscal years 1998-99, 1999-2000, 2000-01, 2001-02 and the original budget for fiscal year 2002-03 for the General Fund portion of the City's budget.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 1998-99 through 2002-03
(000s)

	FY 1998-99 Revised Budget	FY 1999-00 Revised Budget	FY 2000-01 Revised Budget	FY 2001-02 Revised Budget	FY 2002-03 Original Budget
Prior Year Surplus	$101,956	$106,820	$127,333	$193,720	$173,289
Budgeted Revenues					
Property Taxes	$346,027	$388,945	$426,305	$461,715	$513,235
Business Taxes	231,263	246,450	270,077	275,669	282,110
Other Local Taxes	341,965	349,129	394,715	459,814	387,955
Licenses, Permits and Franchises	14,909	15,396	16,357	18,775	16,982
Fines, Forfeitures and Penalties	4,922	14,541	6,816	6,180	4,497
Interest and Investment Earnings	21,687	25,154	25,103	25,063	17,132
Rents and Concessions	22,188	19,059	18,922	19,993	17,833
Grants and Subventions	614,081	654,745	639,907	656,744	684,516
Charges for Services	90,868	86,344	95,831	102,942	100,387
Other	456	598	978	1,312	37,578
Total Budgeted Revenues	$1,688,366	$1,800,361	$1,895,011	$2,028,207	$2,062,225
Proceeds from Issuance of Bonds and Loans				$63,662	
Expenditure Appropriations					
Public Protection	$542,924	$567,128	$617,714	$660,860	$676,746
Public Works, Transportation & Commerce	84,469	103,428	99,395	103,295	57,206
Human Welfare & Neighborhood Development	382,580	422,534	465,113	483,523	510,715
Community Health	385,813	395,365	416,705	426,683	456,539
Culture and Recreation	81,950	91,133	94,663	113,453	90,183
General Administration & Finance	116,333	133,242	155,511	140,879	153,971
General City Responsibilities	88,236	73,619	89,469	116,861	61,814
Total Expenditure Appropriations	$1,682,305	$1,786,449	$1,938,570	$2,045,554	$2,007,174
Reserves	-	-	-	$25,286	$30,017
Transfers In	-	-	$156,996	$136,028	$130,421
Transfers Out	-	-	(240,770)	(293,517)	(301,643)
Net Transfers In/Out	($108,017)	($120,732)	($83,774)	($157,489)	($171,222)
Excess (Deficiency) of Sources Over (Under) Uses	$ -	$ -	$ -	$57,260	$27,100

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, however, are funded only as payments are required to be made. As of June 30, 2002, the General Fund balance was $380.4 million prepared on a GAAP basis. Such General Fund balance was derived from audited revenues of $2.0 billion for the same period. General Fund balances as of June 30, 2002 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, 2002
(000s)

Reserved for cash requirements	$93,293
Reserved for emergencies	4,198
Reserved for encumbrances	52,735
Reserved for appropriation carryforward	61,716
Reserved for subsequent years' budgets	25,379
Total Reserved Fund Balance	$237,321
Unreserved - designated for litigation & contingency	$17,506
Unreserved - available for appropriation	130,200
Total Unreserved Fund Balance	$147,706
Total Fund Balance, June 30, 2002 - Budget Basis	$385,027
Total Fund Balance - Budget Basis	$385,027
Unrealized gain on investment	8,214
Reserved for assets not available for appropriation	6,406
Cumulative excess property tax revenues recognized on Budget basis	(19,256)
Total Fund Balance, June 30, 2002 - GAAP Basis	$380,391

Source: Comprehensive Annual Financial Report
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. 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 the water storage and electrical generation at the Hetch Hetchy Water and Power System, the Water Enterprise, the Municipal Railway, the Airport, the Port, the Clean Water Enterprise, General Hospital, Laguna Honda Hospital and various parking garages, each of which prepares separate audited financial statements. See Appendix C—“EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2002—Enterprise Funds.”

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				
	2002	2001	2000	1999	1998
Revenues:					
Property Taxes	$507,308	$462,171	$405,560	$388,222	$342,051
Business Taxes	274,125	277,094	267,197	229,171	222,904
Other Local Taxes	334,357	448,132	411,082	359,973	333,271
Licenses, Permits and Franchises	19,548	17,714	16,106	15,673	14,505
Fines, Forfeitures and Penalties	8,591	9,097	9,113	14,204	1,432
Interest and Investment Income	20,737	27,693	18,792	17,617	21,323
Rents and Concessions	17,636	19,298	20,395	19,373	21,242
Intergovernmental	661,396	636,430	615,318	520,580	529,999
Charges for Services	102,782	100,325	86,591	78,025	88,375
Other	10,338	17,395	9,706	11,034	9,219
Total Revenues	$1,956,818	$2,015,349	$1,859,860	$1,653,872	$1,584,321
Expenditures:					
Public Protection	$650,019	$626,136	$597,949	$557,632	$571,166
Public Works, Transportation & Commerce	103,579	95,486	85,655	60,720	49,295
Human Welfare and Neighborhood Development	467,688	431,266	383,305	338,372	308,936
Community Health	395,465	365,290	355,720	372,792	343,517
Culture and Recreation	108,810	106,728	87,373	81,536	98,727
General Administration & Finance	136,143	127,366	140,211	112,895	135,014
General City Responsibilities [1]	50,105	45,380	45,194	48,093	-
Total Expenditures	$1,911,809	$1,797,652	$1,695,407	$1,572,040	$1,506,655
Excess of Revenues over Expenditures	$45,009	$217,697	$164,453	$81,832	$77,666
Other Financing Sources (uses):					
Operating Transfers In	$109,941	$134,983	$156,984	$169,405	$179,254
Operating Transfers Out	(316,691)	(257,317)	(286,660)	(230,742)	(185,020)
Other Financing Sources	63,121	-	-	-	-
Other Financing Uses	(176)	-	-	-	-
Total Other Financing Sources (Uses)	($143,805)	($122,334)	($129,676)	($61,337)	($5,766)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	($98,796)	$95,363	$34,777	$20,495	$71,900
Fund Balance at Beginning of Year, as restated before valuation of investments	$479,187	$275,640	$240,863	$220,550	$148,650
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	$479,187	$383,824	$240,863	$220,550	$148,650
Fund Balance at End of Year -- GAAP Basis [2]	$380,391	$479,187	$275,640	$240,863	$220,550
Unreserved and Undesignated Balance at End of Year -- GAAP Basis	$136,664	$207,467	$45,090	$35,725	$44,261
Unreserved & Undesignated Balance, Year End -- Budget Basis	$130,200	$198,953	$148,581	$126,357	$145,332

[1] Prior to fiscal year 1998-99, General City Responsibilities were reported in General Administration and Finance

[2] 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, 2002, 2001, 2000, 1999, and 1998
Office of the Controller, City and County of San Francisco

Impact of September 11, 2001

Following the events of September 11, 2001, both business and tourist travel in San Francisco declined significantly, affecting passenger loads and revenues at San Francisco International Airport ("SFO") and hotel and sales tax revenues to the City. In FY 2001-02, the most significant loss occurred in hotel tax revenues, which fell 35.7% from 2000-01 levels, representing a loss of approximately $69.7 million. Sales tax revenues declined 22.6%, or over $32.5 million over the same period. These declines were mitigated somewhat by a 10% ($45.1 million) increase in property tax revenue occasioned by strong growth in assessed valuation. Total reduced revenue in the City's General Fund in fiscal year 2001-02 was $58.5 million.

Like many other airports, SFO has been impacted by the events of September 11, 2001, the economic downturn and the subsequent loss of business travel and decline in air traffic. Fiscal year 2001-02 total enplaned passenger traffic declined by 20% from the prior fiscal year. Federal Aviation Administration mandated safety and security requirements have restricted access to post-security shops and restaurants; however, SFO reinstated some concession rents which had been temporarily reduced. For fiscal year 2002-03, SFO transfer of concession revenues to the City's General Fund, is currently estimated at $17.9 million.

Impact of State Budget

On January 10, 2003, the Governor released a plan for addressing the State's projected $34.6 billion General Fund budget shortfall, an amount that would represent roughly one-third of the fiscal year 2002-03 budget, or approximately 45 percent of the fiscal year 2002-03 General Fund State Budget. The Governor's Proposed fiscal year 2003-04 Budget outlines a comprehensive plan to bridge the shortfall, including tax increases, program realignment, deep spending cuts and major reductions in government subventions.

While the Governor has presented his mid-year and fiscal year 2003-04 Proposed Budget plans to the legislature, it is unclear at this time how quickly the legislature will act on his proposals. It is uncertain what the final budget outcome will be and what impact it will have on the City. Additionally, both the Governor's Proposed fiscal year 2003-04 Budget and the Legislative Analyst Office's (LAO) projections include economic recovery assumptions, making it difficult to evaluate the full impact of the State's budgetary solutions on the City's financial situation. If these recovery assumptions are not realized, the State will continue to experience larger budget shortfalls in the future. State funding represents approximately one quarter of all City General Fund revenues.

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. The Welfare Reform Act provides 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. On August 11, 1997, then-Governor Pete Wilson signed the State's welfare reform legislation into law. As of January 1, 1998, AFDC became "CalWORKs," with a 60-month cumulative time limit on the receipt of aid for all adults. Adult recipients are required to enter into welfare-to-work plans and receive employment and training services for up to 18 months with a possible 6-month extension available on a case-by-case basis. After the employment and training services time limit has expired, adult recipients who are not working at least 32 hours per week must participate in community service activities to remain eligible for assistance. Beginning in January 2003, some of the City's CalWORKs recipients reached their 60-month limit on receipt of aid. The children of adults that exceed the time limits remain eligible for income assistance.

The City implemented its CalWORKs program on April 6, 1998. Some recipients began reaching their time limits for employment and training services in April 2000. However, up to 20% of the CalWORKs caseload may be continued beyond the time limits subject to the discretion of the local agency. Caseloads in the City decreased by 58% from fiscal year 1995-96 to fiscal year 2001-02 and the City received approximately $14.0 million in one-time incentive funds as a result of those reductions. These one-time funds are projected to be fully spent by the end of fiscal year 2002-03.

The Welfare Reform Act 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. Authorization for the TANF program ended September 30, 2002. Congress has continued the TANF program and has adopted temporary legislation to continue the program in its prior form and is considering new legislation that would continue it for one to three years. It is not possible, at this time, to predict the impact of any federal changes to this program on City finances.

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 tax rate is comprised of two components: (1) the 1.0% countywide portion permitted by Proposition 13, and (2) 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 9.6% each year since fiscal year 1998-99. Property tax delinquencies based on the weighted average of the secured and unsecured delinquency rates, have averaged 1.55% over the five years ending in fiscal year 2001-02.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property [1]
Fiscal Years 1998-99 through 2002-03
($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,
1998-99	24,291,885	39,173,881	3,716,239	67,182,005	9.1%	3,174,036	1.165	747,145	1.49%
1999-00	26,990,485	43,148,894	3,501,927	73,641,306	9.6%	3,159,743	1.129	798,142	1.49%
2000-01	30,294,991	46,572,658	4,198,154	81,065,803	10.1%	3,416,264	1.136	881,608	1.48%
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	981,775	1.79%
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,047,597	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.
[5] Fiscal year 2002-03 delinquencies not yet available.

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

The fiscal year 2002-03 total assessed valuation is $97,535,748,109. After non-reimbursable and homeowner exemptions, but including San Francisco Redevelopment Agency tax increment, net valuation is $93,738,325,815. Of this total, $86,020,166,356 (92%) represents secured valuations and $7,718,159,459 (8%) represents unsecured valuations. The net valuation will result in total property tax revenues of $1,047,597,370, before correcting for delinquencies. The City's General Fund will receive approximately $516.6 million of the property tax revenues, representing 51% of the total received, excluding Redevelopment Agency tax increment. 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 "ERAF" will receive approximately $305 million and the San Francisco Redevelopment Agency will receive approximately $40.7 million. The remaining portion will be allocated to various special funds.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. There are currently property tax appeals pending seeking reductions in assessed valuations, retroactive in some cases over several years. 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 City's Board passed a resolution which adopted the Alternative Method of Tax Apportionment (" the Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City's taxing agencies 100% 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 Tax Loss Reserve for the Teeter Plan was $8.1 million as of June 30, 2001, $9.1 million as of June 30, 2002, and will be approximately $9.6 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. The case is pending in the United States Bankruptcy Court for the Northern District of California, San Francisco Division. PG&E is one of the largest taxpayers in the City with 0.91% of the total fiscal year 2002-03 assessed property values.

PG&E took the position that it was not able to make full payment of its 2000-01 property taxes without Bankruptcy Court permission and therefore only paid a portion of its second installment, due on April 10, 2001. On May 16, 2001, the Bankruptcy Court ruled that PG&E could pay the remaining portion of its outstanding property taxes and PG&E has made full and timely payments of its property taxes and franchise fees since that time.

It should be noted that bankruptcies involving large and complex companies typically take several years to reach a conclusion. In the interim, it is possible that PG&E's payment of property taxes may not be made on a timely basis.

Assessed valuations of the ten largest taxpayers in the City for the fiscal year ending June 30, 2003 are shown in Table A-5.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Principal Property Taxpayers
Fiscal Year Ending June 30, 2003

Fiscal Year 2002-03 Net Assessed Valuation (net of non-reimbursables exemptions): $94,401,169,815

Taxpayer	Type of Business	AV ($000s)	% Total AV
Embarcadero Center Venture	Offices, Commercial	$1,356,255	1.44%
555 California Street Partners	Offices, Commercial	890,850	0.94%
Pacific Gas & Electric	Utilities	861,722	0.91%
Pacific Bell	Utilities, Communications	574,803	0.61%
YBG Associates LLC (Marriott Hotel)	Hotel	371,633	0.39%
Post-Montgomery Associates	Offices, Commercial	367,796	0.39%
Knickerbocker Properties	Offices	304,688	0.32%
SHC Embarcadero LLC	Hotel, Offices	299,387	0.32%
China Basin Ballpark Company LLC	Possessory Interest - Stadium	291,054	0.31%
101 California Venture	Offices	266,151	0.28%
Ten Largest Taxpayers		$5,584,339	5.92%
All Other Taxpayers		$88,816,831	94.08%
Total Taxable Assessed Valuation - All Taxpayers		$94,401,170	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 current 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 a significant number of these lawsuits and claims for considerably less than the total amount of outstanding claims. The City also repealed the alternative-measure tax in 2001 curing any alleged constitutional defects. No additional requests for refunds are expected to be received, since all claims had to be filed by November 2001. Any payments related to lawsuits or claims already filed that remain unsettled will be covered through the settlement reserve fund.

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 2001-02 declined 22.6% from fiscal year 2000-01, for a reduction of $32.5 million. 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 2002-03 is $130.6 million; however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting sales and use taxes to be approximately $12.73 million under budget.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Receipts (000's)
Fiscal Years 1997-98 through 2001-02

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	8.25%	1.00%	143,815	7.81%
2001-02	8.50%	1.00%	111,293	-22.61%

State Sales Tax Rate for last six months of FY 1999-00 and first six months of FY 2000-01 was 8.25%; the City Share remained unchanged at 1.00%

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

Transient Occupancy Tax

Pursuant to the City's Municipal Code, a 14% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators. Budgeted revenue from transient occupancy tax for fiscal year 2002-03 is $160.2 million, including $6.4 million allocated to the Redevelopment Agency. In fiscal year 2001-02, revenue from the transient occupancy tax declined 35.7% (or approximately $69.7 million) from receipts in fiscal year 2000-01. Table A-7 sets forth a history of transient occupancy tax receipts.
As of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting transient and occupancy taxes to be about $16.46 million under budget.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO Transient Occupancy Tax Receipts (000's) Fiscal Years 1997-98 through 2001-02			
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%	195,140	7.16%
2001-02	14.00%	125,463	-35.71%
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 less than $250,000, $6.80 per $1,000 for properties valued from $250,000 to $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 2002-03 is $45.2 million and as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting real property transfer taxes to be approximately $6.85 million over budget.

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 user taxes for fiscal year 2002-03 is $78.2 million; however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting utility user taxes to be approximately $13.36 million under budget.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the City's Municipal Code and paid by the occupants of the spaces and remitted by the operators of the parking facilities. Parking tax receipts in fiscal year 2001-02 totaled $30.5 million, a decline of $3.3 million from 2000-01 levels. Budgeted General Fund revenue from the parking tax for fiscal year 2002-03 is $34.4 million, however, as of the fiscal year 2002-03 Nine-month Budget Status Report, the City was projecting parking taxes to be about $3.25 million under budget.

Parking Fines

Budgeted revenue from parking fines is $65.2 million for fiscal year 2002-03. The City recently increased several of its parking fines and anticipates a positive impact to the general fund of approximately $10.3 million.

Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions for fiscal year 2002-03 are budgeted at $605.6 million from the Federal government and $867.6 million from the State government across all City funds.

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 projected to provide $188.8 million to the City's General Fund and its two county hospitals for fiscal year 2002-03.

Motor Vehicle License Fees

San Francisco’s total allocation of vehicle license fees as a city and county is budgeted to be $105.6 million for fiscal year 2002-03. The Governor’s Proposed fiscal year 2003-04 Budget includes a reduction of the county’s receipt of the vehicle license fees. The impact to the City could be approximately $75 million in fiscal year 2003-04.

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 $71.9 million for fiscal year 2002-03.

Other Intergovernmental, Grants and Subventions

The City receives approximately $433.1 million in social service subventions from the State and $605.6 from the Federal government 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. As of March 31, 2003 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 March 31, 2003

Type of Investment	Book Value	Par Value
Treasury Bills	$1,205,912,410	$1,212,000,000
Treasury Notes	684,779,001	693,005,000
FNMA Discount Notes	29,956,950	30,000,000
Federal Home Loan Disc Notes	41,843,282	42,000,000
FMC Discount Notes	90,264,904	91,000,000
Negotiable C. D.'s	425,000,000	425,000,000
Public Time Deposit	100,000	100,000
Total	$2,477,856,547	$2,493,105,000

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 March 31, 2003

Maturity	Cost	Percentage
1 to 2 Months	$960,059,023	38.75%
2 to 3 Months	104,387,184	4.21%
3 to 4 Months	511,956,982	20.66%
4 to 5 Months	281,241,678	11.35%
5 to 6 Months	-	0.00%
6 to 12 Months	454,542,930	18.34%
12 to 18 Months	117,801,562	4.75%
18 to 24 Months	-	0.00%
24 to 36 Months	-	0.00%
36 to 48 Months	47,867,188	1.93%
	$2,477,856,547	100.00%

Weighted Average Maturity: 190 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 Mayor's Office of Public Finance. 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 public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. For this purpose, lease obligations of the City, which support indebtedness incurred by others, are included.

TABLE A-10

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

2002-2003 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 93,738,325,815	
DIRECT GENERAL OBLIGATION BOND DEBT	**Outstanding 4/1/2003**	**Self-Supporting, Enterprise Rev.**
General City Purposes Carried on the Tax Roll	$919,900,000	
Harbor Bonds (paid from Port revenues)	2,000,000	$2,000,000
GROSS DIRECT DEBT	$921,900,000	$2,000,000
NET DIRECT DEBT	$919,900,000	
LEASE PAYMENT AND OTHER LONG-TERM OBLIGATIONS		
San Francisco Courthouse Corporation COPs, Series 1995	$42,520,000	
San Francisco COPs, Series 1997 (2789 25th Street Property)	8,740,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	7,850,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	8,185,000	
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)	14,675,000	
San Francisco Settlement Obligation Bonds, Series 2001 (Business Tax Judgment)	49,470,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	36,575,000	
San Francisco Finance Corporation	252,035,000	
San Francisco Permit Center, Series 1993	6,575,000	
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	4,415,000	
San Francisco Redevelopment Agency Moscone Convention Center	193,063,250	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	67,670,000	
LONG-TERM OBLIGATIONS	$829,008,250	
GROSS DIRECT DEBT & OBLIGATIONS	$1,750,908,250	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	$940,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	161,793,333	
San Francisco Community College District General Obligation Bonds - 2002	38,000,000	
San Francisco Parking Authority Meter Revenue Bonds -1994	2,045,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	21,860,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	17,465,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	55,050,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	294,100,281	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	11,197,467	
San Francisco Unified School District COPs - 1992 Refunding	1,545,000	
San Francisco Unified School District COPs - 1996 Refunding	2,910,000	
San Francisco Unified School District COPs - 1998	3,550,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$610,456,081	
GROSS COMBINED TOTAL OBLIGATIONS	$2,361,364,331	[1][2][3]

Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)	0.98%	< 3.00%
Net Direct Debt (less self-supporting bonds)	0.98%	n/a
Gross Direct Debt & Obligations	1.87%	n/a
Gross Combined Total Obligations	2.52%	n/a

STATE SCHOOL BUILDING AID REPAYMENT FOR FY 02-03 $254,817

[1] Reflects Cross-over Refunding and includes $45,303,368 in accreted value to be paid upon final maturity.

[2] Excludes revenue and mortgage revenue bonds notes, and non-bonded capital lease obligations.

[3] Includes debt service payments through 4/1/03.

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

Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. The full amount of general obligation bonds authorized by the electorate of the City and as yet unissued is $922,500,000. See Table A-12 below. As of April 1, 2003 the City had $921,900,000 in general obligation bonds outstanding including $2,000,000 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 April 1, 2003 [1]

Fiscal Year	Principal	Interest	Annual Debt Service
2003	$61,475,000	$22,998,805	$84,473,805 [2]
2004	64,555,000	43,388,755	107,943,755
2005	60,550,000	40,486,900	101,036,900
2006	63,005,000	37,635,240	100,640,240
2007	66,075,000	34,355,713	100,430,713
2008	67,030,000	30,920,774	97,950,774
2009	70,255,000	27,604,535	97,859,535
2010	70,570,000	24,114,215	94,684,215
2011	71,610,000	20,559,590	92,169,590
2012	59,475,000	16,959,382	76,434,382
2013	49,810,000	14,061,626	63,871,626
2014	43,640,000	11,601,000	55,241,000
2015	35,810,000	9,304,015	45,114,015
2016	36,205,000	7,417,252	43,622,252
2017	25,195,000	5,434,161	30,629,161
2018	27,525,000	3,976,209	31,501,209
2019	23,995,000	2,631,832	26,626,832
2020	14,225,000	1,321,270	15,546,270
2021	8,855,000	551,365	9,406,365
2022	2,040,000	86,701	2,126,701
TOTAL [3]	$921,900,000	$355,409,340	$1,277,309,340

[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] Includes debt service payments through 4/1/03.

[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, City and County of San Francisco.

The City issued $449,085,000 of General Obligation Refunding Bonds, Series 1997-1 (the “Series 1997 Refunding Bonds”) on October 29, 1997 to refund $421,540,000 of outstanding general obligation bonds. As a result of the issuance of the Series 1997 Refunding Bonds, the City reduced total general obligation bond debt service by $22 million on a present value basis.

On April 23, 2002, the City issued General Obligation Refunding Bonds, Series 2002-R1 (the “Series 2002 Refunding Bonds”) in the amount of $118,945,000 to refund $118,510,000 of outstanding general obligation bonds. As a result of the issuance of the Series 2002 Refunding Bonds, the City reduced total general obligation bond debt service by $6.2 million on a present value basis.

In November 1999, voters approved Proposition A, which authorizes up to $299 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City anticipates issuing a portion of the total authorized amount for the project in late 2003.

In March 2000, voters approved Propositions A and B. Proposition A authorizes up to $110 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City issued the first series of the Neighborhood Recreation and Park Bonds in June 2000 and the second series in February 2001. The City anticipates issuing approximately $20 million in Neighborhood Recreation and Park Bonds in summer 2003. Proposition B authorizes up to $87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. The City anticipates issuing the first series of the California Academy of Sciences Bonds in early 2004.

In November 2000, voters approved Proposition A which authorizes up to $105,565,000 in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The first series in the amount of $17,665,000 was issued in July 2001 and the second series in the amount of $23,135,000 was issued in October 2002.

Table A-12 on the following page 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 April 1, 2003, the City had authorized and unissued general obligation bond authority of $922,500,000.

Overlapping Debt

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

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of April 1, 2003)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Habor Improvement Bonds	A	$20,000,000	$800,000	-
	B	10,000,000	1,200,000	-
Public Safety Improvement Projects (11/7/89)	1994A	3,455,000	165,000	-
	1996B	7,645,000	1,310,000	-
Public Safety Improvement Projects (6/5/90)	1994B	18,100,000	855,000	-
	1995A	18,480,000	6,430,000	- [1]
Golden Gate Park Improvements (6/2/92)	1995B	26,000,000	9,405,000	-
	1997A	25,105,000	20,865,000	-
	2001A	17,060,000	16,480,000	-
Fire Department Facilities Project (11/3/92)	1994D	10,105,000	480,000	-
	1996C	14,285,000	2,450,000	-
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	-	$315,000,000
School District Facilities Improvements (6/7/94)	1994C	30,650,000	1,450,000	-
	1996D	42,300,000	7,245,000	-
	1997B	22,050,000	18,325,000	-
Asian Art Museum Relocation Project (11/8/94)	1996E	25,000,000	4,285,000	-
	1999D	16,730,000	15,200,000	-
City Hall Improvement (11/8/95)	1996A	63,590,000	14,105,000	-
Steinhart Aquarium Improvement (11/8/95)		-	-	29,245,000
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	17,765,000	-
	1999A	20,000,000	18,435,000	-
	2000D	20,000,000	18,795,000	-
	2001C	17,000,000	16,500,000	-
	2001D	23,000,000	22,410,000	-
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	18,435,000	-
	2000A	29,605,000	27,890,000	-
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	54,715,000	29,480,000
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	15,225,000	-
	2000B	17,440,000	16,430,000	
	2002A	6,210,000	6,210,000	7,505,000
Laguna Honda Hospital (11/2/99)		-	-	299,000,000
Recreation and Parks (3/7/00)	2000C	6,180,000	5,820,000	-
	2001B	14,060,000	13,580,000	89,760,000
California Academy of Sciences Improvement (3/7/00)		-	-	87,445,000
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	17,080,000	
	2002B	23,135,000	23,135,000	65,065,000
SUB TOTALS		**$717,610,000**	**$413,475,000**	**$922,500,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$389,480,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$118,945,000	
TOTALS		**$1,285,640,000**	**$921,900,000**	**$922,500,000**

[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, 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 April 1, 2003

Fiscal Year	Principal	Interest	Annual Payment Obligation
2003	$245,000	1,100,404	$1,345,404 [1]
2004	44,401,625	30,130,026	74,531,651
2005	48,296,625	29,093,870	77,390,495
2006	44,130,000	27,888,830	72,018,830
2007	41,720,000	26,702,951	68,422,951
2008	40,435,000	25,600,461	66,035,461
2009	40,570,000	24,482,267	65,052,267
2010	35,730,000	23,337,410	59,067,410
2011	36,665,000	22,352,097	59,017,097
2012	30,715,000	21,302,136	52,017,136
2013	31,795,000	20,470,076	52,265,076
2014	31,130,000	19,566,897	50,696,897
2015	31,805,000	18,554,185	50,359,185
2016	33,205,000	17,234,037	50,439,037
2017	32,775,000	15,634,122	48,409,122
2018	33,230,000	13,990,247	47,220,247
2019	33,650,000	12,316,408	45,966,408
2020	18,880,000	11,001,189	29,881,189
2021	19,825,000	10,054,537	29,879,537
2022	19,085,000	9,060,251	28,145,251
2023	19,420,000	8,116,354	27,536,354
2024	20,200,000	7,157,249	27,357,249
2025	15,785,000	6,156,334	21,941,334
2026	15,870,000	5,479,334	21,349,334
2027	16,870,000	4,785,675	21,655,675
2028	17,585,000	4,050,531	21,635,531
2029	18,615,000	3,280,056	21,895,056
2030	19,375,000	2,467,194	21,842,194
2031	9,675,000	1,680,150	11,355,150
2032	10,185,000	1,164,369	11,349,369
2033	8,345,000	680,794	9,025,794
2034	8,795,000	230,869	9,025,869
TOTAL [2][3][4][5]	$829,008,250	$425,121,310	$1,254,129,560

[1] Includes debt service payments through 4/1/03.

[2] Amount includes $45,303,368 in accreted value of capital appreciation bonds to be earned upon final maturity.

[3] Totals reflect rounding to nearest dollar.

[4] 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.

[5] Does not include the certificates offered hereunder.

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

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

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.

In 1990, voters approved Proposition C, which amended the City 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 established for that purpose. Lease revenue bonds issued pursuant to this authorization are repaid from lease payments made by the City from its General Fund. Proposition C provides that the outstanding principal amount of obligations with respect to lease financings may not exceed $20 million in aggregate principal amount at any time, such amount to increase by five percent each fiscal year. Based on that formula, as of April 1, 2003, the total authorized amount for such financings was $35,917,127. On April 1, 2003, the corporation issued its eleventh series in an aggregate principal amount of $10,975,000, leaving a capacity of $11,952,127. Total amount of bonds outstanding pursuant to this authorization is $23,965,000.

In 1993, voters approved Proposition H, which authorized the issuance of $50 million in lease revenue bonds for the acquisition and construction of a citywide emergency radio communication system. The Corporation issued the first series of bonds for the project on January 22, 1998 in an aggregate principal amount of $31,250,000. The Corporation issued the second and final series of bonds for the project on February 4, 1999 in an aggregate principal amount of $18,665,000.

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. On June 17, 1997, the Corporation issued $22,635,000 of lease revenue bonds to finance the construction of a building to house the City's combined emergency communications center and related facilities. On July 2, 1998, the Corporation issued $23,295,000 to finance emergency information and communications equipment for the center. The remaining authorization under the program is approximately $14 million, however; there is no plan to utilize such authorization.

In 1996, voters approved Proposition A, which authorized the issuance of up to $157.5 million in lease revenue bonds for the expansion of the Moscone Convention Center. The Corporation issued such bonds on November 2, 2000. Substantial Completion Certification was issued on April 9, 2003.

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. The existing stadium is considered to be outdated and in need of substantial repairs. If issued, the $100 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project. 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.

Labor Relations

As of July 1, 2002, the City employed about 31,025 full time personnel, including San Francisco Unified School District, San Francisco Community College District and San Francisco Superior Court employees. City workers are represented by 48 different unions and labor organizations. The largest unions in the City are the Service Employees International Union (Locals 250, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of all but a few hundred unrepresented City employees are determined by collective bargaining pursuant to State law and City Charter. Except for nurses and transit workers, the Charter requires that bargaining impasses be resolved through 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. In November 2002, San Francisco voters voted to increase the uniformed police and fire retirement plan to "3% at 55".

Almost all of the collective bargaining agreements between the City and various labor organizations will expire on June 30, 2003. The City began negotiations with these labor groups late in 2002 for successor agreements.

The current collective bargaining agreements provide for the following increases in fiscal year 2002-03: Service Employees International Union (representing over 10,000 City employees) received 3.5% in July 2002; nurse unions received a 2.5% increase in July 2002 and 2% in January 2003; over thirty craft and other labor organizations received 2.5% in July 2002 and 2.5% in January 2003; uniformed police and fire employees received 4% in July 2002 and 4% in January 2003; San Francisco Deputy Sheriffs received 5% in July 2002 and 2% in January 2003; and transit workers received 4.5% in July 2002.

In addition, the City adopts an annual "Unrepresented Ordinance" for employees who are not exclusively represented by a union. The present ordinance (FY 2002-03) provided for general wage increases of 2.5% in July 2002 and 2.5% in January 2003.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Employee Organizations as of July 1, 2002

Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	426	June 30, 2003
Bricklayers, Local 3/Hod Carriers, Local 36	16	June 30, 2003
Building Inspectors Association	79	June 30, 2003
CAIR/CIR (Intern & Residents)	204	June 30, 2003
Carpenters, Local 22	106	June 30, 2003
Cement Masons, Local 580	23	June 30, 2003
Deputy Sheriffs Association	808	June 30, 2003
District Attorney Investigators Association	78	June 30, 2003
Electrical Workers, Local 6	791	June 30, 2003
Glaziers, Local 718	8	June 30, 2003
International Alliance of Theatrical Stage Employees, Local 16	3	June 30, 2003
Ironworkers, Local 377	18	June 30, 2003
Laborers International Union, Local 261	1,051	June 30, 2003
Municipal Attorneys' Association	416	June 30, 2003
Municipal Executives Association	962	June 30, 2003
MEA - Police Management	4	June 30, 2003
MEA - Fire Management	9	June 30, 2003
Operating Engineers, Local 3	58	June 30, 2003
Painters, Local 4	116	June 30, 2003
Pile Drivers, Local 34	15	June 30, 2003
Plumbers, Local 38	339	June 30, 2003
Probation Officers Assoc., Teamsters Local 856	174	June 30, 2003
Professional & Technical Engineers, Local 21	4,245	June 30, 2003
Roofers, Local 40	11	June 30, 2003
S.F. Institutional Police Officers Association	19	June 30, 2003
S.F. Firefighters, Local 798	1,744	June 30, 2003
S.F. Police Officers Association	2,447	June 30, 2003
SEIU, Local 250	1,872	June 30, 2003
SEIU, Local 535	1,421	June 30, 2003
SEIU, Local 790	7,782	June 30, 2003
SEIU, Local 790 (Staff Nurse)	1,420	June 30, 2003
SEIU, Local 790 (H-1 Rescue Paramedics)	53	June 30, 2003
SEIU, Local 790 (Superior Court)	166	June 30, 2003
Sheet Metal Workers, Local 104	56	June 30, 2003
Stationary Engineers, Local 39	670	June 30, 2003
Supervising Probation Officers, Operating Engineers, Local 3	23	June 30, 2003
Teamsters, Local 350	2	June 30, 2003
Teamsters, Local 853	134	June 30, 2003
Teamsters, Local 856 (multi-unit)	134	June 30, 2003
Teamsters, Local 856 (Supervising Nurses)	153	June 30, 2003
TWU, Local 200 (SEAM multi-unit & claims)	309	June 30, 2003
TWU, Local 250-A (7410)	126	June 30, 2003
TWU, Local 250-A (9163)	2,092	June 30, 2004
TWU, Local 250-A (multi-unit)	123	June 30, 2003
Union of American Physicians & Dentists	167	June 30, 2003
Unrepresented Employees	152	June 30, 2003
	31,025 [1]	

[1] Budgeted positions include SFUSD 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 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, Hetch Hetchy Water, 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 and Accounting and Deferred Compensation.

The Retirement System estimates that the total active membership as of June 30, 2002 was 33,833, including 773 vested members and 515 reciprocal members, compared to the 30,524 members a year earlier. The total new enrollees for fiscal year 2001-02 were approximately 1,350. Checks are mailed to approximately 17,800 benefit recipients monthly.

The estimated market value of Retirement System investments as of June 30, 2002 was $10,415,950,000 compared to $11,246,080,000 as of June 30, 2001 and $12,931,306, 000 as of June 30, 2000.

Table A-15 shows Retirement System actual contributions for fiscal years 1997-98 through 2001-02.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System (000s)
Fiscal Years 1997-98 through 2001-02

Fiscal Years Ending June 30	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]
1998	$ 9,836,757	$ 7,945,707	$ 6,351,397	125.1%	$ 112,057
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

[1] For fiscal years 1998-99 through 2001-02, the City paid no employer contribution.

Source: Employees' Retirement System, City and County of San Francisco

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 being in December 2002. 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, 2002, the plan was over funded by $1.687 billion based on actuarial value of assets.

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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, and the balance consists 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 at the center of economic activity within 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, bioscience, food processing and production and fabrication of electronics and aerospace equipment. Non-manufacturing industries, including 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 793,633 as of the end of 2002, 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 1998 and 2002.

TABLE B-1

POPULATION AND INCOME
1998 - 2002

Year	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
1998	768,700	33,387,000	44,518	28,280
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	N/A *	32,702
2002	793,633	35,301,000	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

The City's tourism industry generated approximately $6.5 billion in calendar year 2001 (an average of $17.8 million per day). Approximately 15.7 million people visited the City, representing an average daily tourist population of 130,000. On average, these visitors spent about $127 per day and stayed three to four nights.

Hotel occupancy rates averaged 78.2% over the seven years ending in calendar year 2001; however, hotel occupancy rates decreased to 67.7% in 2001 from 81.9% in calendar year 2000. The economic downturn and the terrorist events of September 11, 2001 resulted in a sharp decrease in air travel and related tourism prompting steep discounting in average daily room rates. Average daily room rates for fiscal year 2001-02 were approximately $155 per night with average occupancy of 66%. Hotel room tax revenue decreased by 35.7% in fiscal year 2001-02 from fiscal year 2000-01.

Although visitors who stay in San Francisco hotels account for only 69% of total visitors, they generated 66% of total spending by visitors from outside the Bay Area. It is estimated that 44% of visitors come to the City for 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 UK, 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 table describes visitor growth trends from calendar years 1997 through 2001.

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
1997	79.8%	3,610	N/A [1]
1998	80.7%	4,140	$3,410,000
1999	80.7%	4,180	3,590,000
2000	81.9%	4,300	4,288,000
2001	67.7%	3,550	N/A [1]

[1] Total spending figure not available

Based upon information provided by the San Francisco Convention and Visitor Bureau, convention business is almost at full capacity for the Moscone Convention Centers and is at strong levels at individual hotels, which provide self-contained convention services. The Moscone convention facilities offer 442,000 square feet of exhibit space and 161,000 square feet of meeting rooms. The City issued bonds in November 2000 to finance a portion of the construction of an expansion to the Moscone Convention Center. Moscone West opened in mid April 2003, providing approximately 300,000 square feet of additional convention space.

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 in 2002 was 5.2%. This compares with an unadjusted unemployment rate of 6.6% for California as of March 2003.

The table below illustrates average annual employment totals in the City by land use activities from 1997 to 2001. From 1997 to 2001, retail employment grew by 14.0%, industrial employment decreased by 11.4% and hotel jobs have remained relatively stable during the entire five-year period.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO
Employment by Land Use Activities 1997-2001 [1]

	1997	1998	1999	2000	2001
Office	194,017	203,512	211,499	224,167	236,959 [2]
Retail	89,043	94,220	97,159	103,508	101,505
Industrial	121,706	124,071	120,922	119,922	107,837
Hotel	18,918	19,498	19,522	18,862	17,962
Cultural/Institutional	133,490	134,816	142,064	140,573	122,222
Other	900	39	30	1,307	6
Total	558,074	576,156	591,196	608,339	586,491

[1] Most recent data available.
[2] 2001 Office Land use activity group includes Government employment

Source: San Francisco Planning Department- California Employment Development Department

Taxable Sales

The following table reflects a breakdown of taxable sales for the City from 1997 to 2001. Taxable sales information for 2002 taxable sales is not yet available. Total retail sales decreased in 2001 by 8.7% compared to 2000. When business and personal services and other outlet sales are included, taxable sales decreased by 11.6% in 2001.

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO Taxable Sales 1997 - 2001 ($000s)					
	1997	1998	1999	2000	2001[1]
Retail Stores [2]					
Apparel	$718,649	$688,770	$722,597	$792,508	$749,391
General Merchandise	823,068	832,104	908,704	1,166,524	1,078,664
Drug Stores	164,572	172,188	187,630	2,277,432	1,998,450
Food	369,620	376,229	392,569	416,735	413,650
Packaged Liquor	69,417	70,885	77,452	81,800	81,705
Eating/Drinking	1,505,241	1,594,872	1,723,368	1,896,054	1,802,057
Furniture & Appliances	416,033	475,003	572,425	637,662	513,618
Building Materials					
and Farm Implements	239,959	260,749	292,107	321,632	313,277
Automotive	351,466	357,924	387,300	456,851	435,787
Service Stations	562,848	272,036	388,696	549,967	454,149
Other Retail Stores	1,738,808	1,785,928	2,023,242	153,291	149,638
Retail Stores Total	$6,959,681	$6,886,688	$7,676,090	$8,750,456	$7,990,386
Business and					
Personal Services [3]	$821,089	$921,855	$1,063,729	$1,226,650	$1,107,028
All Other Outlets [3]	3,185,453	3,460,146	3,596,942	4,112,820	3,357,822
Total All Outlets [2][3]	$10,966,223	$11,268,689	$12,336,761	$14,089,926	$12,455,236

[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 1997-98 through 2001-02, during which time approximately 14,639 total housing units were authorized in the City (both market rate and "affordable"). The total value of building permits was $663 million in fiscal year 2001-02.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO
Building Activity 1998-2002

Fiscal Year Ended June 30	Authorized New Dwelling Units	Value of Building Permits: Residential	Non-Residential	Total
1998	2,441	$ 478,929,229	$ 531,171,692	$ 1,010,100,921
1999	3,297	712,160,699	1,693,705,414	2,405,866,113
2000	3,058	305,828,000	623,257,000	929,085,000
2001	2,570	381,623,000	725,313,000	1,106,936,000
2002	3,273	299,028,000	364,801,000	663,829,000

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, Citibank, First Republic Bank, 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. Other investment banks 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 2001.

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO
Largest Employers in San Francisco
As of December 2001

Employer	Number of Employees	Nature of Business
City and County of San Francisco	27,439	Local government
University of California, San Francisco	13,835	Health services
San Francisco Unified School District	11,296	Education
Charles Schwab & Co. Inc.	9,873	Financial services
Wells Fargo & Co. Inc.	6,366	Banks
United States Postal Service, San Francisco District	5,579	Mail delivery
AT&T	5,200	Telecommunications
PG&E Corp.	5,000	Energy
Pacific Bell/SBC Communications	4,600	Telecommunications
California Pacific Medical Center	4,500	Health care

Source: San Francisco Business Times, Book of Lists 2002.

Commercial Real Estate

According to the 3rd Quarter 2002 Report from CB Richard Ellis, the San Francisco office market continued to have significant vacancies. Class A lease rates decreased to $29.95 per square foot per year, down 5.7% from its second quarter rate of $31.76. Class B had the largest decline of approximately 7.2% from $21.84 per square foot to $20.26. Class C rates declined by 4.4% to $17.05 from $17.84.

In the second quarter of 2002, citywide vacancy rates increased to 17.2% from 16.5%. Total availability, which includes newly delivered space, reached a factor of 19.9% during the second quarter.

The Union Square area continues to be 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, William Sonoma and Virgin Records. Union Square Park opened in Summer 2002 after undergoing a $25 million renovation to provide improved public use with a performance area and small café. Currently underway in the Union Square area is a plan to bring Bloomingdale's to the former Emporium-Capwell building on Market Street, providing approximately 1.4 million square feet of retail and entertainment complex. It is currently anticipated that construction on this project will begin in 2003. Another commercial development project planned in the City is the Fillmore Entertainment Center, a mixed-use commercial and residential development at Geary and Fillmore Streets in the lower Pacific Heights area. Construction is anticipated to begin in late 2003.

At the center of commercial development in the downtown area is Yerba Buena Gardens which opened in October 1998. The project includes the 350,000 square foot Loews Metreon entertainment/retail center and a children's center.

There are several new commercial opportunities on Port property including the recently completed renovation of Pier 1 and the Ferry Building opening March 2003, a new restaurant at the Waterfront Park, and the development of other Port facilities. Developments on various piers include an international cruise terminal at Pier 30-32 and the Mills/YMCA mixed-use recreational/commercial project at Piers 27-31.

Development has begun at the Mission Bay site, portions of which are owned by the City and the Port of San Francisco. The project will consist of affordable and market rate housing for over 10,000 residents, retail, a new public school, 49 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.

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 75 years. Traffic reports submitted by the airlines for fiscal year 2001-02 show that SFO served approximately 31 million passengers (enplanements and deplanements), and handled a total of 357,379 flight operations, 338,772 of which were scheduled air carrier operations.

During fiscal year 2001-02, 61 airlines (including 46 passenger airlines and 15 cargo only airlines) served SFO. The domestic service covered non-stop and one-stop service to 90 cities in the United States. Seventeen domestic passenger airlines and 22 foreign flag carriers provided service to over 50 international destinations; however, some international cities are only reachable from SFO via multiple carriers.

Based on Airports Council International final ranking for calendar year 2001, SFO was ranked the ninth most active airport in the United States in terms of total passengers. SFO was also ranked the eleventh most active airport in the United States in terms of domestic origin and destination passengers, according to the U.S. Department of Transportation statistics for calendar year 2001.

SFO has been particularly affected both by losses in business travel and by the decline in air traffic of all kinds since the events of September 11, 2001. During fiscal year 2001-02, scheduled passenger aircraft arrivals and departures decreased by 13.9% and total enplanements decreased by 20.1% over the previous year.

By the end of September 2001, management at SFO had developed a detailed financial plan to address the anticipated decline in revenues. Management at SFO and staff identified numerous expenditure reductions as well as additional funding sources, including the use of passenger facility charge revenues and the reimbursement from commercial paper proceeds of amounts paid in prior fiscal years as interest on outstanding revenue bonds.

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 32% 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. It is unclear at this time what, if any, impact the UAL bankruptcy will have on SFO's operations.

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, 1998 through 2002

	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)
1998	39,799,780	1.8%	621,538	165,336
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	30,950,129	-20.1%	466,809	94,297

Source: San Francisco Airport Commission.

Port of San Francisco

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

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

The Port posted an increase in net assets of $4.9 million for fiscal year ending June 30, 2002. Port properties generated $50.5 million in operating revenue in fiscal year 2001-02 as shown in the table below.

TABLE B-8

PORT OF SAN FRANCISCO
FISCAL YEARS 2001 AND 2002 REVENUES
($000s)

Business Line	FY 00-01 Audited Revenue	Percentage of 2001 Revenue	FY 01-02 Audited Revenue	Percentage of 2002 Revenue
Commercial & Industrial Rent	$31,990	63.5%	$32,482	64.3%
Parking	8,189	16.3	7,380	14.6
Cargo	3,035	6.0	3,797	7.5
Fishing	1,350	2.7	1,488	3.0
Ship Repair	960	1.9	1,000	2.0
Harbor Services	848	1.7	915	1.8
Cruise	600	1.2	459	0.9
Other Maritime	1,469	2.9	1,445	2.9
Other	1,904	3.8	1,528	3.0
TOTAL	$50,345	100%	$50,494	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 the $70 million renovation of the Ferry Building, a hotel development at the corner of Broadway and the Embarcadero, a mixed use historic preservation and reuse of Piers 1½-5, a mixed use office/retail complex at Pier 30/32 that will include construction of a new cruise terminal and a mixed use recreation and historic preservation project at Piers 27-31. In addition, Rincon Park, a two acre park and public open space located on Port property, was recently completed. The park was a collaborative effort of the Port, the San Francisco Redevelopment Agency, and Gap Inc.

An $18 million project to relocate and expand the Downtown Ferry Terminal, and a $7 million project to provide new berthing and auxiliary facilities for commercial fisherman at Hyde Street Harbor, were both completed during fiscal year 2001-02. A maritime office development on Pier 1 was completed during fiscal year 2000-01, and Pacific Bell Park, the home of the San Francisco Giants baseball team, opened on Port property in April 2000.

Other Transportation Facilities

The nine-county Bay Area region surrounds the predominant topographic feature of the area, the San Francisco Bay. Although the Bay creates a natural barrier to transportation throughout the region, several bridges, highways and public transportation facilities connect the nine-county area through its San Francisco hub, providing access 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, 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 facilities 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 region'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 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-six child development centers; seventy-seven elementary schools, including sixty-nine K-5 elementary schools, seven K-8 elementary schools, and one charter elementary school; seventeen middle schools (grades 6-8); twenty-one senior high schools, including fourteen schools serving grades 9-12, two continuation schools, five charter high 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.

APPENDIX C

EXCERPTS* FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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* Includes all material listed on the Comprehensive Annual financial Report's Table of Contents through Note 17 of the Notes to Basic Financial Statements. The Comprehensive Annual Financial Report may be viewed on-line or downloaded from the Controller's website at: http://www.ci.sf.ca.us/controller/.

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CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2002

Prepared by:
Office of the Controller

Edward Harrington
Controller

CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2002

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- Certificate of Achievement - Government
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- Organization Chart
- List of Principal Officials

December 3, 2002

The Honorable Mayor Willie L. Brown, Jr.
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, 2002 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 second 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.

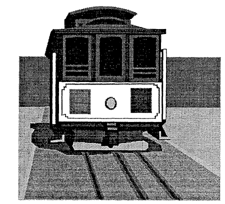
The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that are of interest to potential investors in our bonds and to other readers. The data includes ten–year revenue and expenditure information on an inflation-adjusted 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, a metropolitan region with more than 6.78 million residents in nine counties. The population of the City has grown by approximately 7.3 percent in the past ten years, to 776,733.[i] The year 2000 federal census once again highlights San Francisco's racial and ethnic diversity. All minority groups combined represent just over 56 percent of the population. No single racial or ethnic group by itself represents a majority of the population.[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 on the Board of Supervisors an election for seats of the City's even-numbered supervisorial districts was conducted in November 2002, and subsequent run-off elections are being held in two districts in December 2002.

Overall, nearly 50,000 jobs were created in San Francisco during the 1990s expansion, for an aggregate increase of 13%.[iii] Unemployment dropped from 7 percent in 1993 to a low of 2.8 percent in 2000, among the lowest in the state. However, the overall economic slowdown, compounded by the impact of the events of September 11th 2001, has affected the City's economy since early 2001 and is expected to continue to do so during the next fiscal year. The technology sector, including in particular "dot-com" companies, has experienced significant job losses. In addition, losses in financial services, travel, and tourism have impacted many professional and service workers. Job losses in 2001 pushed the unemployment rate to a peak of 7.3 percent in January 2002. By June of 2002, the close of the fiscal year, San Francisco's unemployment rate stood at 7.1 percent, slightly worse than that of California as a whole with 6.6 percent. San Francisco's economic base continues to be dominated by the services sector, which provides approximately 41 percent of all jobs. Retail employs the next largest portion, with 16 percent, followed by finance, insurance and real estate businesses, with 12 percent of those working in the City.[iv]

Downtown office vacancy rates, which decreased steadily for over eight years, dropping below one percent at certain points, have reversed and risen in each of the last two fiscal years. Surveys show the vacancy rate rising steadily to 15 percent halfway through the fiscal year and to 20 percent by June 2002. Asking prices for office space rents have also declined by as much as 60 percent, from an average of $80 per square foot in July of 2000, to around $30 per square foot by June 2002. Analysts now report that during

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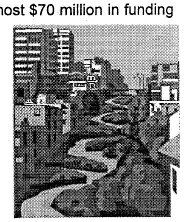
[i] Source: California Department of Finance
[ii] Source: United States Census
[iii] Source: California Department of Finance
[iv] Source: California Employment Development Department

the July to September period of 2002, rents have leveled off, vacancy rates have begun to drop, and leasing activity has increased, indicating that an expected recovery in the market may have begun. [v]

Despite these weaknesses in areas of the economy, property values in San Francisco remain among the highest in the nation. Regional housing prices, after dipping for periods in 2001, have climbed again, and San Francisco and the greater Bay Area's ongoing housing shortage keeps upward pressure on the City's residential real estate market. Despite steady construction, including 3,273 new units of housing permitted during fiscal year 2002, San Francisco's shortage persists. The gap between housing demand and supply has also contributed to a worsening affordability gap in the City, with homeownership remaining out of reach for most residents and workers in the City. As of June 2002, the median price for an average single family home in San Francisco had climbed slightly from the prior year and stood at $567,000, a level that was affordable by less than 14 percent of the population.[vi] 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 for affordable housing. Housing is and will remain a critical challenge for the City's policymakers, planners, employers, and residents.

Reflecting the continued demand and activity in real estate, the City's property tax revenue, the single largest 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 extraordinary growth in property values and prices during the time period. Helped by falling interest rates, property tax revenues overall grew by approximately $68.9 million during the fiscal year, an increase of nine percent from the prior fiscal year. Trends in other sources of local tax revenue were more typical of the current downturn in the business cycle, with sales, parking, and other local taxes decreasing by between eight and 24 percent. Hotel taxes showed among the most severe decline, dropping 36 percent during the fiscal year—a loss of almost $70 million in funding for local cultural institutions and general City services.



The decrease in hotel tax collections experienced by the City is further indicative of an overall decline in travel and tourism to San Francisco. The Convention and Visitors Bureau estimates that 15.7 million people visited San Francisco in calendar year 2001, down over nine percent from the year before. Total visitor spending in the City dropped to approximately $6.5 billion or nearly 15 percent, down from $7.6 billion during 2000.[vii] Hotel occupancy rates during the 2001-2002 fiscal year averaged 63.5 percent, down from a range of 77 to 80 percent occupancy rates in the last three fiscal years. Occupancy rates for fiscal year 2002-2003 are currently projected to improve somewhat, returning to the area of 70 percent—levels commensurate with a gradual recovery and a strengthening 2003 convention season. [viii]

At San Francisco International Airport (SFO), losses in business travel which were already apparent in the spring of 2001, and the drops in air traffic of all kinds following September 11, have reduced passenger traffic by 13 percent and cargo tonnage by 8.6 percent from the prior year. SFO's transfer of concession revenues to the City general fund, budgeted at $25 million for the fiscal year, was reduced during the year by $7.3 million, and is projected to be reduced for the next fiscal year and perhaps beyond.

While the economic contraction in the nation and the Bay Area has affected the City's economy, San Francisco's overall economic environment is built upon a solid foundation of business and industry diversification. San Francisco's economic base includes national and global companies and locally owned small businesses. The City is a financial and banking center of the West, with the Pacific Stock Exchange, Wells Fargo Bank, and Charles Schwab among others headquartered here. The City has large employers ranging from Providian Financial to The Gap, yet over 85 percent of businesses employ fewer than twenty

[v] Source: Grubb & Ellis, Cushman & Wakefield
[vi] Source: California Association of Realtors
[vii] Source: San Francisco Convention and Visitor's Bureau
[viii] Source: PKF Consulting

people. [ix] The City's economy overall has demonstrated sustained growth since the severe recession of the early 1990s.

MAJOR INITIATIVES AND ACHEIVEMENTS

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

Health and Safety Projects, Programs, and Systems

The City is in the process of designing and constructing a new campus on the site of the current Laguna Honda Hospital, including new facilities as well as a rebuild of the existing hospital. The project is financed by general obligation bonds, with tobacco settlement funds and supplemental Medicaid payments also available to reduce the property tax burden of the bond issue. The new Laguna Honda will provide housing and a complete continuum of long-term healthcare services, with all facilities built to modern design, environmental, seismic, and technological standards. The project's Environmental Impact Reports and community consultation processes were substantially completed in 2002. Relocation of infrastructure and other preparatory work has begun. Site preparation work will begin in 2003 and construction on the new facilities will begin in early 2004. Community outreach processes will continue throughout construction of the project.

San Francisco's Public Health and Human Services departments are statewide leaders in providing prevention, emergency intervention, and supportive services to homeless, very low income, and other at-risk populations. Working with community-based organizations, these departments also provide substance abuse, mental health, and housing services designed to improve the economic and health status of vulnerable populations. For example, since 1999, the City has developed over 1,200 units of supportive housing targeted to chronically homeless persons and those with disabilities. Combinations of these and other programs have increased the City's success rates in helping clients access State and Federal health and nutrition programs for which they are eligible, obtain employment, increase income, and stabilize their housing.

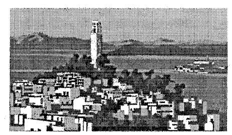
An innovative design-build deal has been completed, and ground broken, for the construction of a new jail at the City's existing jail site in San Bruno. The new facility is being built by a private developer, and operated by the City under a financing and lease-back plan which will eventually transfer ownership to the public. San Francisco has been working to reduce overcrowding and improve conditions at the jails—the new facility means the achievement of many of the City's goals in this area. In other recent public safety improvements, the Police company which serves one of the City's most densely populated areas, the Tenderloin, was relocated in October 2000 from an inadequate basement site to a newly renovated station house. The new site includes security improvements as well as facilities to allow the San Francisco Police Department to better serve the population of primarily immigrant and low-income families in the area. Finally, in February 2002, San Francisco's Emergency Communications system tested and then began receiving 911 calls from most wireless phones directly, rather than through the California Highway Patrol, becoming the first city or county in California to do so under a new State law authorizing this service.

Convention, Cultural and Recreational Facilities

The City's Moscone Convention Center has nearly completed the 300,000 square foot expansion of its exhibit and meeting space at Moscone West. The new, free-standing facility, located at Fourth and Howard Streets one half block west of the existing Convention Center, is scheduled to open in 2003 and events are currently being booked. Meeting Professionals International will be the first group to hold a convention at the facility, with 3,000 members scheduled to attend their World Education Congress in August of 2003.

[ix] Source: California Department of Finance

In the same neighborhood as the Moscone Center and as Yerba Buena Gardens with its arts spaces and commercial facilities, the City's cultural institutions are being developed, with the Mexican, African-American, and Jewish Museums each in the midst of major re-design or renovation projects. In the Civic Center, construction of the new Asian Art Museum in the City's former Main Library building is nearing completion and the collection is being prepared for a March 2003 re-opening. The new Asian Art Museum has been financed with a combination of $51 million of voter-approved bonds and $69 million in private donations and greatly increases the collections, special shows and programming which will be available to the public. The City's DeYoung museum, under a campaign funded entirely by private donations, razed the seismically unsafe portions of its buildings in 2002 and is preparing the site for the construction of the new museum, scheduled for completion in 2005. A $105.9 million bond program approved by the voters to improve San Francisco's branch libraries continued its work in 2002, with site acquisition and planning now underway at the Glen Park, Mission Bay, Ingleside, Visitacion Valley and Portola sites. The Program has also purchased a site for a Library support service center, and is engaged in preliminary design at the Excelsior, Richmond, Noe Valley, Marina, and Parkside sites.



Recreational facilities and public park projects which were completed over the last year include improvements to Coit Tower and Pioneer Park in the North Beach area, renovation of the historic carousel at Golden Gate Park, improvements at the San Francisco Zoo including a new Education Center, Animal Resource Center and public entrance and parking lot, and completion of the new Martin Luther King Pool in the Hunter's Point neighborhood. In addition, the City began the reconstruction of the unique glass Conservatory of Flowers in Golden Gate Park. With these and other projects, the City is engaged in a major capital overhaul of its parks system which was fully underway for the first time during the 2002 fiscal year. General obligation bonds, the City's property-tax supported Open Space fund, grants and private donations will be combined to carry out improvements at over 200 sites citywide over the next ten years. Finally, in July of 2002, the redesigned Union Square held its grand opening after an 18-month renovation. The new Union Square includes a café, the half-price theater ticket booth, an open stage platform for performances, grassy terraces, palm trees, and granite paving structures throughout, making new public open space and seating available in the heart of the downtown shopping district.

Housing, Economic Development, and Transportation Projects

Over a projected 20 year period in total, the former warehouses and rail yards in San Francisco's Mission Bay area in the southeast part of the City are being transformed into a new neighborhood of housing, mixed-use buildings, retail, and medical and technology development. Work on the residential, retail, and industrial projects in Mission Bay area is proceeding on schedule. While office construction in the region is largely on hold due to softness in that market, developers are currently building over 1,000 apartment units along the King Street corridor near Pacific Bell Park and in other areas. The new medical research facility being built by the University of California at San Francisco is nearly complete.

The final $40 million in bonds available under the City's $100 million voter-approved Affordable Housing and Home Ownership Bond Program was issued in July 2001, Notices of Funding Availability were issued in the fall of 2001, and the process for committing these monies was underway during the 2002 fiscal year. The Program provides for the development of rental housing and for downpayment assistance to first-time homebuyers. As of August 2002, the City had funded $73 million in loans or grants for the development of rental housing, with the program on track to develop approximately 2,200 units of housing and beds in group housing. The Downpayment Assistance Loan Program funded by the bonds has assisted approximately 250 low and moderate-income households to become first time homebuyers. With a current median household income of about $55,000, participants in the program have few other opportunities to become homeowners in San Francisco, and the program has been an essential tool to allow these families to remain in the City.

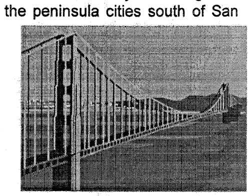
During fiscal year 2001-2002, affordable housing development continued city-wide. Significant projects completing construction during the year include Church Street Apartments (93 units of family rental

on the former military base, with renovation of 84 units of housing for homeless families getting underway in April 2002.

In recent years the City has also replaced outdated public housing projects including unsafe high-rises with new buildings better designed for families. Bernal Dwellings, a severely distressed public housing high-rise building located in the Mission District, was replaced with 160 townhouses and flats, completed in September 2001. In December 2001, an additional 193 townhouses and flats were completed at Yerba Buena Plaza East, a former high-rise apartment building in the Western Addition. In October of 2002, ground breaking was held for the new North Beach Place housing developments, which will be the largest mixed-use, mixed-income development of its kind in California, combining affordable apartments with retail space. In addition to the 229 public housing units being replaced, 112 units of housing for low-income families and seniors will be added to the site.

Improving the City and the Bay Area's capacity to move people and goods has long been recognized as a key challenge for the region and transit projects are underway throughout the nine-county area to meet the need. The Bay Area Rapid Transit (BART) system is adding service both in the east bay and the peninsula, with four new BART stations to the south of the City recently completed or under construction, including one at the San Francisco International Airport scheduled to open in 2003.

San Francisco International Airport (SFO), including the new International Complex with a new terminal, parking garages, and an improved airport roadway system opened just under two years ago, serves as the key connection between the Bay Area, national, and international economies, receiving 54 percent of the region's air traffic and 94 percent of international traffic. The recent decreases in passenger and freight traffic using SFO affected the current fiscal year and beyond, however projections of long-term demand for the airport's new facilities are robust. The new BART connection will provide a direct rail line from San Francisco and the East Bay to the Airport for the first time, and a light rail "people mover" system is being built within the airport.



Groundbreaking for Phase 1 of the San Francisco Municipal Railway's (Muni) new Third Street light rail line was held in May of 2002 and construction is now underway. The project will eventually connect the communities along Third Street and in the Bayshore area with Mission Bay, South of Market, Downtown, and Chinatown. Phase 1 extends Muni service from 4th and King Streets to the Bayshore Caltrain station, with over five miles of track and 19 stations. Phase 2, which includes a new central subway extending from the San Francisco Caltrain Station (Caltrain provides rail service from the peninsula cities south of San Francisco) to Chinatown, is currently in the design consultant selection stage. When completed this major increase in service will improve air quality, reduce downtown traffic congestion, increase connections with BART and Caltrain, and support economic revitalization in the southeast part of the city. Over 95 percent of the Phase 1 funding for the Third Street Light rail project comes from local sales tax funds. In the last year, Muni has also completed the replacement of all aging cars on the Metro lines with new Breda vehicles and rolled out 196 new buses including 80 zero emission electric vehicles and two alternative fuel vehicles.

Projects to improve parking options in San Francisco are also in progress. A new North Beach Parking garage was completed in February 2002, providing much needed parking in an area that is both densely populated and home to many of the City's restaurants, clubs and tourist sites. Parking meters throughout the City are being updated with a plan for new digital technology that accommodates coins and debit cards. Installation of the new meters began in 2002 and is expected to improve parking management in commercial areas, reduce theft, and lower the maintenance costs to the City.

Status of City Services

In the spring of 2002, the City, through the Controller's Office, conducted its seventh annual Citizen Survey. A total of 1,565 San Franciscans were surveyed, providing their opinions of recreation programs and parks, libraries, services for children and youth, public transportation (MUNI), streets, public safety and general City performance.

The 2002 survey results indicated that:

- San Franciscans generally felt safer walking alone in their neighborhoods and in the downtown than in previous years. A higher percentage of respondents also reported feeling safe crossing the street.
- 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.
- MUNI's ratings were better than or equal to any year since survey data has been collected. As in other years, routes and fares received the most favorable ratings, while the MUNI transit system's cleanliness and timeliness/reliability were rated least favorably.
- Survey respondents reported visiting the City's libraries more frequently than in the previous year, and continued to rate library services favorably.
- Two-thirds of respondents felt that the children they knew in San Francisco received good health care, but fewer than half said that children were getting a good education.
- White respondents were more likely than those in other ethnic/racial groups to have children attending private schools and using private health care providers.
- 45 percent of respondents rated the cleanliness of the streets in their neighborhood as good or very good, whereas only 25 percent rated the cleanliness of City streets in general as good or very good.
- Almost half of survey respondents chose "fair" in assessing how well local government provides services. Opinions of services provided for children and youth were less favorable than those for services in general.

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 in which a substantial majority of full–time employees participate. The plan's most recent actuarial calculations, as of July 1, 2001, estimate the plan is 129% 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 2001-02 was 4.139%. 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 balance sheet 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, 2001. This was the twentieth consecutive year (fiscal years ended June 30, 1982 – 2001) 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

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, 2001

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.

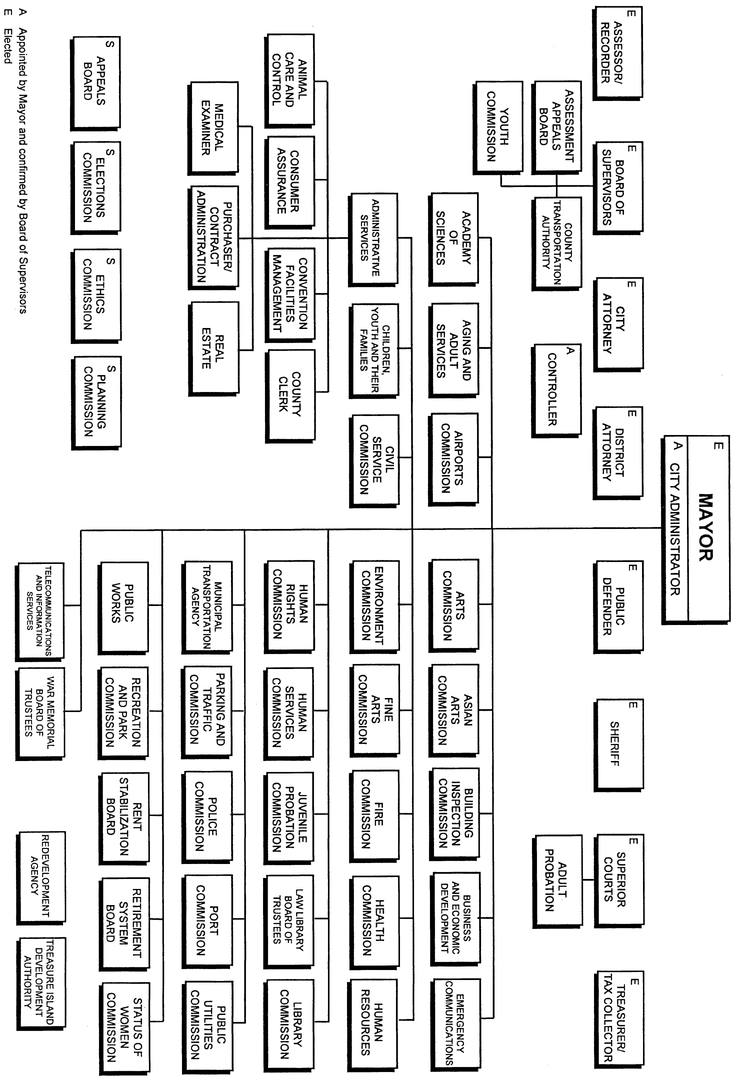
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

San Francisco City and County Government

(As of June 30, 2002)



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

CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials
As of June 30, 2002

ELECTED OFFICIALS

Mayor	Willie L. Brown, Jr.
Board of Supervisors:	
President	Tom Ammiano
Supervisor	Chris Daly
Supervisor	Matt Gonzalez
Supervisor	Tony Hall
Supervisor	Mark Leno
Supervisor	Sophie Maxwell
Supervisor	Jake McGoldrick
Supervisor	Gavin Newsom
Supervisor	Aaron Peskin
Supervisor	Gerardo Sandoval
Supervisor	Leland Y. Yee
Assessor-Recorder	Doris M. Ward
City Attorney	Dennis J. Herrera
District Attorney	Terence Hallinan
Public Defender	Kimiko Burton
Sheriff	Michael Hennessey
Superior Court	
Presiding Judge	Ronald E. Quidachay
Treasurer	Susan Leal

APPOINTED OFFICIALS

City Administrator	William L. Lee
Controller	Edward Harrington

DEPARTMENT DIRECTORS/ADMINISTRATORS

Administrative services	Ryan Brooks
Animal Care and Control	Carl Friedman
Consumer Assurance	David Frieders
Convention Facilities Management	Jack Moerschbaecher
County Clerk	Nancy Alfaro
Elections	John Arntz (Acting)
Medical Examiner	Boyd G. Stephens, M.D.
Purchaser – Office of Contract Administration	Judith Blackwell
Real Estate	Anthony DeLucchi
Academy of Sciences	J. Patrick Kociolek, Ph. D.
Adult Probation	Armando Cervantes
Aging and Adult Services	Sandra Nathan
Airports Commission	John Martin

CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT DIRECTORS/ADMINSTRATORS-*(Continued)*

Appeals Board	Robert Feldman
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 Louis Moscovich
Youth Commission	Colleen Montoya
Business and Economic Development	Leamon Abrams
Children, Youth and Their Families	Brenda Lopez
Civil Service Commission	Kate Favetti
Emergency Communications	Thera Bradshaw
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	Jesse E. Williams, Jr.
Law Library Board of Trustees	Marcia Bell
Library Commission	Susan Hildreth
Municipal Transportation Agency	Michael Burns
Parking and Traffic Commission	Fred Hamdun
Planning Commission	Gerald Green
Police Commission	Fred H. Lau
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
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency	Marcia Rosen
Treasure Island Development Authority	Annemarie Conroy

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FINANCIAL SECTION

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

KPMG

Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

The Honorable Mayor Willie L. Brown, Jr.
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, 2002, 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 2001 financial statements and, in our report dated January 22, 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, 2002, 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 2 through 19 and 118, 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

November 27, 2002

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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, 2002. 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 $5.7 billion (net assets). Of this amount, $438 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by $120 million, or just over two percent, during the fiscal year. The increase is largely attributable to acquisition of capital assets in certain of the government's business enterprises and to scheduled retirement of debt faster than depreciation.
- As of June 30, 2002, the City's governmental funds reported combined ending fund balances of $1.25 billion. Approximately 23 percent of this total amount, $283 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds.
- At the close of the fiscal year, unreserved fund balance for the general fund was $136.7 million or seven percent of total general fund expenditures of $1.9 billion.
- The City's total long-term debt increased by $335 million, approximately 4.5 percent, during the fiscal year. Key factors in this increase were issuances of $140 million in revenue bonds by the Water Department, $61 million in settlement obligation bonds issued to provide for refunds under a portion of the City's business tax which was repealed in fiscal year 2001, and $37 million in certificates of participation for the purchase of a building at 30 Van Ness Avenue for City offices. The City also issued $988 million in refunding bonds and certificates during the year to take advantage of favorable interest rates in the current market and to retire outstanding commercial paper primarily held by San Francisco International Airport and other enterprises.
- The City's revenues from local sources including hotel, sales, and business tax showed significant drops from budget estimates during fiscal year 2002. In addition, concession and fee revenues collected by San Francisco International Airport dropped, and slowing business and construction activity decreased other fees and charges collected by the City. These factors were evaluated early in fiscal year 2002, and the City took measures to cut spending as a result. The lowered revenues have also affected both the estimated unreserved fund balance and the operating revenues available to the City in the fiscal year ending June 30, 2003. City management will monitor revenue streams and control expenditures and has already restricted expenditures to budget for a general fund revenue decrease currently estimated at $20 million during fiscal year 2003.

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 on the following page:

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

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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

<u>Government-wide Financial Statements</u>

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 transit system, water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and various parking facilities.

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 operations of the San Francisco County Transportation Authority, San Francisco Finance Corporation, and 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, Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Railway (Muni), Laguna Honda Hospital, General Hospital Medical Center, Clean Water Program (Clean Water), and various nonprofit parking facilities, 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, beginning in fiscal year 2002, 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 second 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. Because this reporting model changed significantly both the recording and presentation of financial data, the City's CAFR for fiscal year 2001 did not provide comparative information in its MD&A. This year marks the first time that two years of financial information in the GASB 34 format are available. In addition, adjustments have been made to some prior year balances to conform to current year presentation formats.

Net Assets
June 30, 2002 (in thousands)

	Governmental activities 2002	Governmental activities 2001	Business-type activities 2002	Business-type activities 2001	Total 2002	Total 2001
Assets:						
Current and other assets	$ 1,806,132	$ 2,099,581	$ 2,158,248	$ 2,040,145	$ 3,964,380	$ 4,139,726
Capital assets	2,041,451	1,821,115	8,185,824	7,782,633	10,227,275	9,603,748
Total assets	3,847,583	3,920,696	10,344,072	9,822,778	14,191,655	13,743,474
Liabilities:						
Long-term liabilities outstanding	1,877,327	1,844,956	5,392,934	4,725,413	7,270,261	6,570,369
Other liabilities	495,235	617,410	721,128	970,662	1,216,363	1,588,072
Total liabilities	2,372,562	2,462,366	6,114,062	5,696,075	8,486,624	8,158,441
Net assets:						
Invested in capital assets, net of related debt	887,667	779,698	3,115,392	2,970,198	4,003,059	3,749,896
Restricted	717,879	724,034	546,019	577,830	1,263,898	1,301,864
Unrestricted	(130,525)	(45,402)	568,599	578,675	438,074	533,273
Total net assets	$ 1,475,021	$ 1,458,330	$ 4,230,010	$ 4,126,703	$ 5,705,031	$ 5,585,033

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 $5.7 billion at the close of the current fiscal year.

The largest portion of the City's net assets (70 percent) reflects its investment of $4 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, $1.3 billion (22 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $438 million (eight percent) may be used to meet the government's ongoing obligations to citizens and creditors.

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 $130.5 million related in part to $128 million in debt from

general obligation bonds for the San Francisco Unified School District which is recorded with no corresponding assets. This deficit has also increased from the comparable figure of $45.4 million in 2001 due to use of reserves to balance the budget.

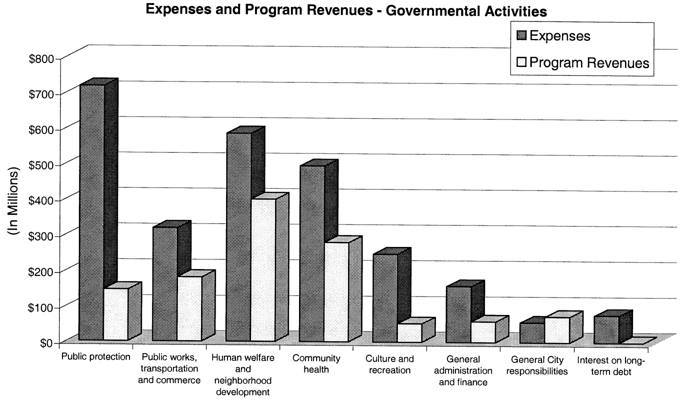
Changes in Net Assets
June 30, 2002 (in thousands)

	Governmental activities 2002	Governmental activities 2001	Business-type activities 2002	Business-type activities 2001	Total 2002	Total 2001
Revenues						
Program revenues:						
Charges for services	$ 348,898	$ 344,721	$ 1,479,232	$ 1,408,121	$ 1,828,130	$ 1,752,842
Operating grants and contributions	781,767	763,863	282,059	260,520	1,063,826	1,024,383
Capital grants and contributions	58,394	22,619	251,747	335,520	310,141	358,139
General revenues:						
Property taxes	697,703	628,846	-	-	697,703	628,846
Business taxes	274,848	277,822	-	-	274,848	277,822
Other local taxes	444,590	581,480	-	-	444,590	581,480
Interest and investment income	70,597	81,084	63,530	96,493	134,127	177,577
Other	115,943	115,695	85,425	28,779	201,368	144,474
Total revenues	2,792,740	2,816,130	2,161,993	2,129,433	4,954,733	4,945,563
Expenses						
Public protection	$ 717,552	$ 688,994	-	-	717,552	688,994
Public works, transportation and commerce	317,778	300,355	-	-	317,778	300,355
Human welfare and neighborhood development	586,188	499,096	-	-	586,188	499,096
Community health	493,856	455,101	-	-	493,856	455,101
Culture and recreation	246,620	229,721	-	-	246,620	229,721
General administration and finance	156,770	153,742	-	-	156,770	153,742
General City responsibilities	55,551	109,804	-	-	55,551	109,804
Unallocated Interest on long-term debt	77,335	73,588	-	-	77,335	73,588
Airport	-	-	599,335	529,002	599,335	529,002
Transit	-	-	528,725	468,753	528,725	468,753
Port	-	-	58,694	47,587	58,694	47,587
Water	-	-	165,362	145,858	165,362	145,858
Power	-	-	113,754	107,000	113,754	107,000
Hospitals	-	-	525,045	513,486	525,045	513,486
Sewer	-	-	159,896	149,687	159,896	149,687
Garages	-	-	32,274	34,155	32,274	34,155
Total expenses	2,651,650	2,510,401	2,183,085	1,995,528	4,834,735	4,505,929
Increase/(decrease) in net assets before special items and transfers	141,090	305,729	(21,092)	133,905	119,998	439,634
Special items	-	-	-	126,014	-	126,014
Transfers	(124,399)	(102,154)	124,399	102,154	-	-
Increase in net assets	16,691	203,575	103,307	362,073	119,998	565,648
Net assets at beginning of year	1,458,330	1,254,755	4,126,703	3,764,630	5,585,033	5,019,385
Net assets at end of year	$ 1,475,021	$ 1,458,330	$ 4,230,010	$ 4,126,703	$ 5,705,031	$ 5,585,033

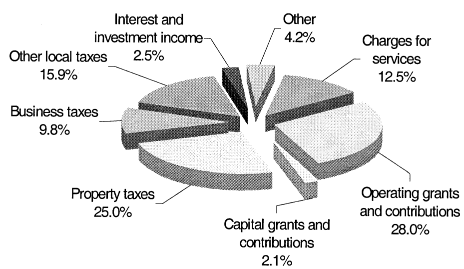
Analysis of Changes in Net Assets

The City's net assets overall increased by $120 million during the current fiscal year. These increases are explained in the government and business-type activities discussion below, and are primarily a result of acquisition and completion of capital assets, and in some measure to expenditures growing more slowly than revenues, particularly in the business-type funds.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities increased the City's net assets by $16.7 million, accounting for 14 percent of the overall change. Key factors of this increase are as follows:

- Property tax revenues increased by approximately $68.9 million or eleven percent during the year. Most of this increase is attributable to a continued strong real estate market and consequent growth in the assessed value of property and a reduction in the City's estimated assessment appeals reserve. In addition, the City is processing deeds more efficiently and is able to issue supplemental tax bills within a shorter time period following the sale of a property.

- Operating and capital grants and contributions together increased by $53.7 million, or approximately seven percent in the aggregate, largely related to increases in State reimbursement rates to San Francisco General Hospital and to receipt of State traffic congestion relief funds and other State funds by the Department of Public Works and the Department of Parking and Traffic.

- Governmental activities showed an increase in capital assets through progress on the construction of the Moscone West Convention Center, the Asian Art Museum, and various other parks and public works improvements.

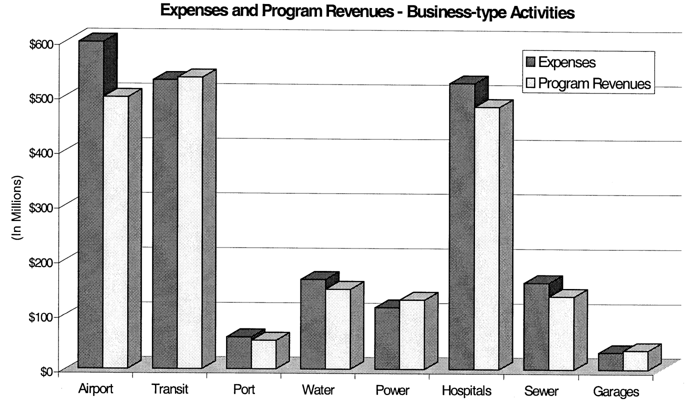
- The growth in property taxes and other net increases were somewhat offset by losses in the City's other local taxes, which include sales, hotel, parking and utility users taxes. Revenue from these sources dropped by approximately $137 million or 24 percent overall during the year. Hotel occupancy and room rates were weak at the beginning of the year and were severely impacted during the second six months of the fiscal year. Sales tax similarly decreased during the year. Utility users tax decreased, coming off a sharp increase in 2001 related in part to high prices during the run-up in California energy markets.

- Interest and investment income also dropped by approximately $10.5 million or 13 percent during the year due to a decrease in the average yield of City pooled investments from 6.06 percent to 4.14 percent. Because the City's investments are concentrated in Treasury Bills and Notes and other short-term instruments the Federal Reserve's interest rate cuts during the year have significantly affected the City's investment returns.

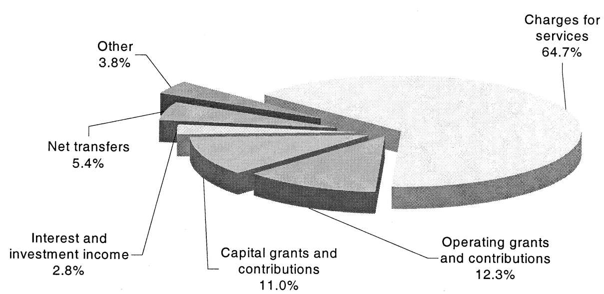
For the most part, increases in expenses paralleled increases in the cost of living in the San Francisco Bay Area and growth in the demand for government services. The transfers that the City General Fund makes each year to help finance the operations of two enterprises, San Francisco General Hospital and Laguna Honda Hospital, decreased by five percent in the aggregate from $106 million in 2001 to $100 million in 2002. Both hospitals experienced increases in the proportion of patients covered by Medicare, Medi-Cal or other insurers, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Also of note is a decrease of approximately $54 million from 2001 to 2002 in expenditures in General City Responsibilities largely due to the City's completion of most refund payments due under the repeal of a portion of the business tax.

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 (27 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 percent), followed by property taxes (25 percent) and other local taxes (15.9 percent). These ratios are substantially similar to 2001, with the notable exception of other local taxes, which in 2001 provided approximately 20 percent of total governmental activities revenues, dropping in 2002 related to the City's decreased collections in hotel, sales, and other taxes.

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 $103.3 million, accounting for 84 percent of the overall growth in the City's net assets. Key factors of this increase are as follows:

- The Municipal Railway's net assets overall increased by $126.2 million primarily due to increases in the total value of equipment with the acquisition of new rolling stock, and to capitalization of infrastructure investments. Muni's non-operating revenues, which include state and federal grants as well as parking fees and fines, increased by $22.6 million. The increase is largely due to improved collection, and in some cases to increased rates, of parking meters, parking taxes, and parking fines which accrue to MUNI under the terms of the City's charter.

- Laguna Honda Hospital's net assets overall increased by $21 million, largely related to the receipt of approximately that same amount in cash under the tobacco settlement monies paid to the City and County of San Francisco. These revenues are restricted for the Laguna Honda Replacement Project and will be used to pay contract costs and debt service for construction of the new hospital complex. Laguna Honda also experienced a five percent increase in net patient revenue under increased Medi-Cal reimbursements 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 $15.5 million primarily as a result of a lowered revenue transfer to the City's General Fund. In the prior fiscal year, Hetch Hetchy transferred $29.9 million, decreasing in fiscal year 2002 to less than half a million. This action was taken by the City management and the Public Utilities Commission in order to allow Hetch Hetchy to better manage cash flows and cope with the highly volatile electricity market which affected California during the year.

- San Francisco International Airport's net asset decrease of $46.9 million is due primarily to 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 2002, depreciation expense exceeded the principal retirement of outstanding debt by more than $100 million. The City projects that this situation will continue through approximately 2010, then reverse for the remaining life of the bonds. The Airport also experienced losses in operating revenue from multiple sources including rents, parking, and other charges, for a reduction from these sources of approximately $50 million during the year. In fiscal year 2002, the cash transfer from the Airport to the City's General Fund was reduced from $25.1 million to $17.8 million, reflecting the decrease in Airport concession revenues.

- The Clean Water Department's net assets decreased by $14.3 million. The enterprise reduced restricted assets by $34 million primarily through the use of funds from the State Water Resources Control Board Revolving Loan Fund Program to defease outstanding bonds, and increased capital assets by $15 million through debt reductions which are scheduled to occur faster than depreciation.

As shown in the charts above, the largest of San Francisco's business-type activities—the San Francisco International Airport, the City's two hospitals combined, and the Municipal Railway, each had total expenses over $500 million in fiscal year 2002, with these three enterprises together making up more than 75 percent of the total business activities. For all of the business-type activities, charges for services provide the largest share of revenues (65 percent) followed by operating grants and contributions (12.2 percent), and capital grants (10.9 percent), which are primarily received by the Municipal Railway. The proportion of business activity revenue overall which is attributable to charges for services has increased from 60 percent in 2001, in part as a result of passenger facility service charges which the Airport began collecting as of October 2001.

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 $1.25 billion, a decrease of $243.8 million in comparison with the prior year. The drop represents the City's relatively higher budgetary use of reserves, liquidation of encumbrances, and reductions in carry-forward funds in fiscal year 2002. In addition, the San Francisco Finance Corporation, which is an entity used to lease-finance equipment on behalf of City departments, was consolidated beginning in fiscal year 2002 as an internal service fund where in prior years it had been accounted for in various other governmental funds (capital and debt service funds). As a result, $144.7 million in cash and other balances was transferred from governmental to proprietary funds.

Approximately $283 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 ($393.3 million), (2) to fund continued programs or projects in future fiscal periods ($391.2 million), (3) to pay debt service ($36.5 million), and (4) for a variety of other restricted purposes ($145.1 million).

Revenues for governmental functions overall totaled approximately $2.78 billion in the fiscal year ended June 30, 2002, which represents a decrease of 1.37 percent from the fiscal year ended June 30, 2001. Expenditures for governmental functions, totaling $2.96 billion, increased by approximately 5.9 percent from the fiscal year ended June 30, 2001. In fiscal year 2002, expenses for governmental functions overall exceeded revenues by approximately $183 million, or slightly less than seven 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 $136.7 million, while total fund balance was $380.4 million. Total fund balance decreased in the City's general fund by $98.8 million during the fiscal year mainly due to continued decreases in revenues, especially local taxes, and to consequent use of cash and other reserves. As noted above, these factors were partly offset by increases in the City's general fund property tax collections and by management controls on general fund expenditures put in place beginning in the second quarter of the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2002 of $45 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 2002, unreserved fund balance represents seven percent of total general fund expenditures of $1.912 billion, while total fund balance represents 20 percent of that same amount. For 2001, the general fund's unreserved fund balance was approximately 12 percent of total expenditures of $1.798 billion, and the total fund balance represented approximately 27 percent of expenditures. These positions also reflect the City's relatively higher budgetary use of reserved funds in 2002.

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 $267.9 million, the Water Department $177 million, the Hetch Hetchy Project $52.7 million, the Clean Water Program $67 million, the Port of San Francisco $54.9 million, and the Parking Garages were $46.2 million. Three proprietary funds had deficits in unrestricted net assets—the Municipal Railway fund had a deficit of $68.2 million, and the San Francisco General Hospital and the Laguna Honda Hospital had deficits in unrestricted net assets of $13.7 million and $15.2 million respectively. The internal service funds which are used to account for certain governmental activities also had a deficit in unrestricted net assets of $8.6 million.

The total growth in net assets for the proprietary funds was $103.3 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 San Francisco International Airport's net assets decreased by $46.9 million due to drops in operating revenue and to an increase in net bonded debt related to the defeasance of commercial paper.

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	Net Operating Income (Loss)	Non-Operating Revenues (Expenese)	Capital Contributions	Interfund Transfers	Change In Net Assets
Airport	$ 465,176	$ 409,659	$ 55,517	$ (117,595)	$ 32,937	$ (17,784)	$ (46,925)
Water	147,216	148,430	(1,214)	(499)	-	-	(1,713)
Hetch Hetchy	125,777	113,754	12,023	3,885	-	(382)	15,526
Municipal Railway	107,455	528,725	(421,270)	220,453	216,063	110,945	126,191
General Hospital	301,482	382,253	(80,771)	73,397	-	2,961	(4,413)
Clean Water	134,595	128,948	5,647	(19,988)	-	-	(14,341)
Port	50,494	55,878	(5,384)	7,545	2,747	-	4,908
Laguna Honda Hospital	111,392	141,030	(29,638)	22,004	-	28,659	21,025
Parking Garages/Other	35,645	30,928	4,717	(1,668)	-	-	3,049
Total	$ 1,479,232	$ 1,939,605	$ (460,373)	$ 187,534	$ 251,747	$ 124,399	$ 103,307

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 2001-2002, the net assets of the Retirement System and Health Service System totaled $10.5 billion, representing a decrease of $826.5 million in total net assets since June 30, 2001. The change is primarily related to decreases in the market value of the Retirement System's investments. The Investment Trust Fund's net assets totaled $300.6 million, with an increase in net assets over the fiscal year of $25.4 million, primarily resulting from increased contributions from 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 2002, significant supplemental appropriations were approved for the Department of Elections for temporary salaries, materials, and services ($5.15 million), the Sheriff for overtime and other personnel costs ($4.99 million), Emergency Communications Department for civilianization efforts and for additional personnel costs ($1.62 million), the City Attorney for affirmative litigation ($951 thousand), and the District Attorney's Office due to the high cost of prosecuting a lengthy out-of-venue case ($260 thousand).

During the year, actual revenues and other resources lagged budgetary estimates by $3.59 million. The majority of this amount is attributable to local taxes—specifically the sales, hotel, and utility taxes where actual performance was less than estimates. In addition, transfers in to the General Fund were $31 million less than estimates, primarily due to a reduction in the transfer of concession revenues earned by the Airport. The funds which are transferred from the General Hospital Fund to the General Fund for the City's participation in the State cost-sharing program among county hospitals was also reduced, however there is no net loss to the General Fund as a result of this transaction. Budgetary shortfalls were offset in part by receipts greater than estimates in property taxes and in federal health and social services funds.

Differences between the final budget and the actual (budgetary basis) resulted in a $133.8 million decrease in total charges to appropriations. This is primarily due to the following factors:

- Expenditures less than budgeted by the Fire Department of approximately $7.3 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.

- A decrease in expenditures by the Human Services Department of approximately $14.9 million related to reduced costs under local, State and federal welfare programs. In particular, the City spent less than was budgeted in wage augmentation programs, childcare subsidies, and personnel costs. However, these expense reductions are almost entirely offset by decreases in the subvention funds which San Francisco is able to claim under these programs.

- A decrease in expenditures by the Department of Public Health of approximately $31.2 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 of approximately $2.4 million in the General City Responsibilities area resulting primarily from debt service payments which were less than the budgeted level due to debt being issued later in the year than projected.

- The General Fund was able to reduce its transfers to other funds by $43 million, stemming primarily from unanticipated State revenues which were received by San Francisco General Hospital and Laguna Honda Hospital, thus allowing for reduced subsidy transfers.

- Budgetary reserves of $22.1 million for various programs and payments which had been anticipated and included in the budget were not used due to management restrictions on spending, and were able to be liquidated at the close of the fiscal year.

The net effect of the under-utilization of appropriations and the receipt of some actual revenues greater than estimates resulted in a positive budgetary fund balance of $130 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2003, the City used an estimated budgetary fund balance of $124 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, 2002, amount to $10.2 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 six percent (a 12 percent increase for governmental activities and a five percent increase for business-type activities) as shown in the table on the following page.

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

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	$ 139,534	$ 131,539	$ 185,594	$ 184,299	$ 325,128	$ 315,838
Facilities and Improvement	1,223,619	1,214,496	5,456,106	5,316,447	6,679,725	6,530,943
Machinery and equipment	77,609	88,372	694,659	493,757	772,268	582,129
Infrastructure	23,663	-	481,128	454,899	504,791	454,899
Property held under lease	536	536	309	515	845	1,051
Easements	-	-	99,631	98,482	99,631	98,482
Construction in progress	576,490	386,172	1,268,397	1,234,234	1,844,887	1,620,406
Total	$ 2,041,451	$ 1,821,115	$ 8,185,824	$ 7,782,633	$ 10,227,275	$ 9,603,748

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

- The Airport showed an increase of $126 million or three percent in capital assets related to additional completions of the Near Term Master Plan Program. This program, which includes new parking facilities, roadways, runway improvements, and the new International Terminal, was substantially completed in 2001, with the Airport reporting a 13 percent increase in capital assets that year. During fiscal year 2002, major project completions include the BART station at SFO and the Air Train (people mover) Domestic Stations. These facilities are scheduled to begin operations in calendar year 2003.

- Muni capital assets increased by $158.8 million due to improvements at the Woods Division bus facility, progress on the Third Street Light Rail Project, acquisition of 145 motor coaches and 24 light rail vehicles, and capitalization of the completed Automated Train Control System for the Metro subway. In April 2002, Muni entered into 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. As a result of the transaction, Muni recorded a deferred gain in 2002 of $35.5 million which will be amortized over the life of the sublease. During fiscal year 2003 Muni will request authorization to use the funds for one-time capital needs.

- The Water Department's total capital asset additions of $16.2 during the fiscal year include an upgrade to the Sunol Valley Water Treatment Plant of $5.6 million, and improvements at the Harry Tracy Water Treatment Plant of $9.6 million, and many smaller projects at less than $1 million each.

- The Clean Water Program completed sewer replacement projects at four sites within the City for a capital asset increase of $2.5 million.

- During fiscal year 2002 the primary capital asset event at Hetch Hetchy was the completion of the O'Shaughnessy Dam electrical project at a value of $927 thousand, as well as many other smaller projects such as completed maintenance and construction of pipelines, and purchase of vehicles and equipment.

- Governmental activities construction in progress increased by $190 million due to additional work on the Moscone Center West facility, the Asian Art Museum, and other public works 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 major net infrastructure assets are reported at the beginning of the year because the historical costs did not meet the threshold established in GASB 34. In fiscal year 2002, newly completed projects are capitalized and ongoing infrastructure projects are 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, the City had total long-term obligations outstanding of $7.8 billion. Of this amount, $919.2 million is general obligation bonds (including $2 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 $5.7 billion is revenue bonds, commercial paper, loans, and other obligations of the City's business enterprises. The remainder includes accrued leave and workers compensation obligations, as well as revenue bonds, certificates of participation, and other debts of City parking garages, the Moscone Convention Center, and other governmental activities.

During fiscal year 2002, the City's total bonded debt increased by approximately $713 million. Key factors were the issuances of $140 million in revenue bonds for Water Department projects, $60.8 million in settlement obligation bonds to provide for refunds under a portion of the City's business tax which was repealed, $37.2 million in certificates of participation to finance the acquisition of an office building at 30 Van Ness Avenue, and $17.7 million in general obligation bonds to fund continued work on the Branch Library Improvement Program.

In addition, the City issued $988 million in refunding bonds and refunding certificates to take advantage of favorable interest rates and reduce total debt payments both in the general obligation bond and revenue bond programs. Of this amount, $853.5 million was for the purpose of largely refunding the commercial paper program at the San Francisco International Airport.

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 $90.4 billion in value as of the close of the fiscal year. As of June 30, 2002, the City had $919.2 million in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately one percent of the taxable assessed value of property. As of June 30, 2002, there were an additional $951.8 million in bonds that were authorized but unissued. If all of these bonds were issued and outstanding, 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, 2002 were:

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

The City's enterprise activities have experienced some changes in debt ratings since June 30, 2001. In July 2001, Standard & Poor's downgraded the Water Department's underlying rating on outstanding debt from AA- negative outlook to A+ stable outlook primarily related to political uncertainty regarding a long-term capital plan and the Department's inability to raise service rates without voter approval. Subsequently, in November 2002, voters approved $1.6 billion in Water Revenue Bonds for capital projects.

Following the events of September 11, 2001, Standard & Poor's placed all of its North American airport and airport-related facilities, including the San Francisco International Airport, on CreditWatch with negative implications, and has since lowered its long-term ratings for San Francisco Airport debt from A+ to A. Moody's Investors Service has affirmed its A1 rating for the Airport, but revised the outlook from developing to negative. Fitch ICBA, Inc. lowered its rating for the Airport from AA- to A+.

Since the close of the 2002 fiscal year, the City has issued additional debt of $250 million in Water Department revenue bonds, primarily for refunding purposes, and $29.3 million in general obligation bonds for acquisition and construction projects under the Zoo Facilities Program and the Branch Library Improvement Program. In 1994, the City issued $35 million in taxable general obligation bonds for a program to provide loans for seismic strengthening of privately-owned unreinforced masonry buildings. On October 16, 2002, from proceeds of the bonds and other sources, the City paid, in full, the outstanding $26,665,000 principal amount, accrued interest from June 15, 2002, and the redemption premium.

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

- The City appropriated $124 million in estimated available fund balance in the General Fund for spending in fiscal year 2003. It is intended that this use of fund balance will avoid the need to cut public safety, health and human services programs in the budget year.

- The City evaluated the basis on which it has calculated the cash reserves held in relation to property tax collections. Where previously San Francisco had maintained a ten percent cash reserve for all property-tax based funds, including the General Fund, the voter-approved set-aside funds (Children's, Library, and Open Space Funds), the Redevelopment Agency, and the School District, and others, the City has determined that the reserve requirement as stated in Charter Section 9.113 is intended to guarantee against losses only in funds under the City's budgetary control. As a result of this determination, $45.8 million was made available and appropriated to fund the 2003 budget on a one-time basis.

- The City currently faces a less favorable economic environment resulting from the decline in technology industries, continued weakness in the travel and tourism markets, and the overall downturn in the business cycle. As noted in our transmittal letter, San Francisco's unemployment rate has more than doubled from its low point of 2.8 percent in 2000 to approximately 6.7 percent by November 2002.

- Hotel and sales, with losses already experienced related to the economic downturn and the aftermath of September 11, 2001 have further fallen off during the first quarter of 2003, down approximately eight to ten percent from budgeted projections. Other major local tax revenues have showed lesser shortfalls in the first quarter, but are nonetheless not at projected budget levels. The City has restricted departmental spending in the current year, and is preparing to further reduce spending in 2004 to budget for these conditions.

All of the above factors were considered in preparing the City's budget for fiscal year 2003.

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
City Hall, Room 316
1 Dr. Carlton B. Goodlett Place
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

San Francisco Municipal Railway
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, 3rd 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, 2002

(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	$ 1,050,766	$ 754,778	$ 1,805,544	$ -	$ 3,442
Deposits and investments outside City Treasury	184,591	3,508	188,099	104,394	-
Receivables (net of allowance for uncollectible amounts of $23,252 for the primary government):					
Property taxes and penalties	33,395	-	33,395	-	-
Other local taxes	173,873	-	173,873	-	-
Federal and state grants and subventions	139,975	39,306	179,281	-	12
Charges for services	21,755	156,220	177,975	-	678
Interest and other	11,862	68,364	80,226	19,077	12
Loans and capital lease receivables	-	-	-	21,927	-
Due from component unit	22,587	-	22,587	-	-
Inventories	-	37,801	37,801	-	-
Deferred charges and other assets	1,658	6,266	7,924	-	-
Total current assets	1,640,462	1,066,243	2,706,705	145,398	4,144
Restricted assets:					
Deposits and investments with City Treasury	-	601,351	601,351	-	-
Deposits and investments outside City Treasury	-	390,938	390,938	219,060	-
Grants and other receivables	-	33,960	33,960	1,202	-
Total restricted assets	-	1,026,249	1,026,249	220,262	-
Noncurrent assets:					
Receivables (net of allowance for uncollectible amounts of $165,637 and $110,771 for the primary government and component units, respectively):					
Loans and capital lease receivables	149,125	-	149,125	207,491	-
Deferred charges and other assets	16,545	65,756	82,301	712	-
Property held for resale	-	-	-	4,297	-
Capital assets:					
Land and other assets not being depreciated	716,024	1,453,991	2,170,015	64,798	-
Facilities, infrastructure, and equipment, net of depreciation	1,325,427	6,731,833	8,057,260	126,568	-
Total capital assets	2,041,451	8,185,824	10,227,275	191,366	-
Total noncurrent assets	2,207,121	8,251,580	10,458,701	403,866	-
Total assets	3,847,583	10,344,072	14,191,655	769,526	4,144

(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, 2002

(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	157,542	119,989	277,531	5,590	211
Accrued payroll	82,553	61,174	143,727	-	57
Accrued vacation and sick leave pay	59,132	38,811	97,943	859	-
Accrued workers' compensation	38,926	30,476	69,402	-	-
Estimated claims payable	9,224	16,668	25,892	-	-
Bonds, loans, capital leases, and other payables	114,626	185,185	299,811	20,081	-
Accrued interest payable	11,511	12,381	23,892	27,353	-
Unearned grant and subvention revenues	2,995	-	2,995	-	-
Due to primary government	-	-	-	22,587	-
Internal balances	(30,785)	30,785	-	-	-
Deferred credits and other liabilities	49,511	107,474	156,985	9,360	-
Total current liabilities	495,235	602,943	1,098,178	85,830	268
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	12,115	12,115	-	-
Accrued interest payable	-	42,666	42,666	-	-
Other	-	63,404	63,404	-	-
Total liabilities payable from restricted assets	-	118,185	118,185	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay	62,828	30,617	93,445	1,011	-
Accrued workers' compensation	137,851	96,928	234,779	-	-
Estimated claims payable	32,221	28,618	60,839	-	-
Bonds, loans, capital leases, and other payables	1,644,427	5,183,842	6,828,269	569,896	-
Accrued interest payable	-	-	-	144,009	-
Deferred credits and other liabilities	-	52,929	52,929	-	-
Total noncurrent liabilities	1,877,327	5,392,934	7,270,261	714,916	-
Total liabilities	2,372,562	6,114,062	8,486,624	800,746	268
NET ASSETS					
Invested in capital assets, net of related debt	887,667	3,115,392	4,003,059	76,223	-
Restricted for:					
Cash and emergencies requirements by Charter	93,293	-	93,293	-	-
Debt service	12,135	334,747	346,882	67,232	-
Capital projects	115,052	141,154	256,206	-	-
Community development	135,308	-	135,308	-	-
Transportation Authority activities	142,740	-	142,740	-	-
Other purposes	219,351	70,118	289,469	1,200	3,876
Unrestricted (deficit)	(130,525)	568,599	438,074	(175,875)	-
Total net assets (deficit)	$ 1,475,021	$ 4,230,010	$ 5,705,031	$ (31,220)	$ 3,876

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, 2002
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units: San Francisco Redevelopment Agency	Component Units: Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$ 717,552	$ 42,254	$ 103,941	$ -	$ (571,357)	$ -	$ (571,357)	$ -	$ -
Public works, transportation and commerce	317,778	102,576	22,307	56,168	(136,727)	-	(136,727)	-	-
Human welfare and neighborhood development	586,188	20,292	379,062	-	(186,834)	-	(186,834)	-	-
Community health	493,856	36,176	243,105	-	(214,575)	-	(214,575)	-	-
Culture and recreation	246,620	47,116	3,458	1,213	(194,833)	-	(194,833)	-	-
General administration and finance	156,770	53,434	3,510	1,013	(98,813)	-	(98,813)	-	-
General City responsibilities	55,551	47,050	26,384	-	17,883	-	17,883	-	-
Unallocated Interest on long-term debt	77,335	-	-	-	(77,335)	-	(77,335)	-	-
Total governmental activities	2,651,650	348,898	781,767	58,394	(1,462,591)	-	(1,462,591)	-	-
Business-type activities:									
Airport	599,335	465,176	-	32,937	-	(101,222)	(101,222)	-	-
Transit	528,725	107,455	210,746	216,063	-	5,539	5,539	-	-
Port	58,694	50,494	-	2,747	-	(5,453)	(5,453)	-	-
Water	165,362	147,216	-	-	-	(18,146)	(18,146)	-	-
Power	113,754	125,777	1,788	-	-	13,811	13,811	-	-
Hospitals	525,045	412,874	69,525	-	-	(42,646)	(42,646)	-	-
Sewer	159,896	134,595	-	-	-	(25,301)	(25,301)	-	-
Garages	32,274	35,645	-	-	-	3,371	3,371	-	-
Total business-type activities	2,183,085	1,479,232	282,059	251,747	-	(170,047)	(170,047)	-	-
Total primary government	$ 4,834,735	$ 1,828,130	$ 1,063,826	$ 310,141	$(1,462,591)	$ (170,047)	$(1,632,638)	$ -	$ -
Component units:									
San Francisco Redevelopment Agency	$ 116,252	$ 25,747	$ 16,620	$ -	$ -	$ -	$ -	$ (73,885)	$ -
Treasure Island Development Authority	6,123	8,651	226	-	-	-	-	-	2,754
Total component units	$ 122,375	$ 34,398	$ 16,846	$ -	$ -	$ -	$ -	$ (73,885)	$ 2,754
General Revenues:									
Taxes:									
Property taxes					$ 697,703	$ -	$ 697,703	$ 59,434	$ -
Business taxes					274,848	-	274,848	-	-
Other local taxes					444,590	-	444,590	5,806	-
Interest and investment income					70,597	63,530	134,127	16,652	-
Other					115,943	85,425	201,368	3,179	-
Transfers - internal activities of primary government					(124,399)	124,399	-	-	-
Total general revenues and transfers					1,479,282	273,354	1,752,636	85,071	-
Change in net assets					16,691	103,307	119,998	11,186	2,754
Net assets (deficit) - beginning					1,458,330	4,126,703	5,585,033	(42,406)	1,122
Net assets (deficit) - ending					$ 1,475,021	$ 4,230,010	$ 5,705,031	$ (31,220)	$ 3,876

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

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet
Governmental Funds
June 30, 2002
(with comparative financial information as of June 30, 2001)
(in thousands)

	General Fund 2002	General Fund 2001	Other Governmental Funds 2002	Other Governmental Funds 2001	Total Governmental Funds 2002	Total Governmental Funds 2001
ASSETS						
Deposits and investments with City Treasury	$ 311,466	$ 400,595	$ 724,801	$ 838,427	$ 1,036,267	$ 1,239,022
Deposits and investments outside City Treasury	361	356	132,498	297,592	132,859	297,948
Receivables:						
Property taxes and penalties	26,948	21,687	6,447	7,542	33,395	29,229
Other local taxes	147,368	165,567	26,505	17,159	173,873	182,726
Federal and state grants and subventions	56,890	62,247	83,085	78,881	139,975	141,128
Charges for services	16,125	17,775	5,630	4,960	21,755	22,735
Interest and other	7,506	10,935	3,105	15,897	10,611	26,832
Due from other funds	66,651	48,937	54	-	66,705	48,937
Due from component unit	400	400	22,187	19,187	22,587	19,587
Loans receivable (net of allowance for uncollectable amount of $165,637 in 2002; $155,235 in 2001)	183	183	148,942	117,934	149,125	118,117
Deferred charges and other assets	5,862	5,529	1,338	1,443	7,200	6,972
Total assets	$ 639,760	$ 734,211	$1,154,592	$1,399,022	$ 1,794,352	$ 2,133,233
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 92,514	$ 66,338	$ 58,214	$ 36,912	$ 150,728	$ 103,250
Accrued payroll	66,071	59,439	14,167	13,077	80,238	72,516
Estimated claims payable	-	2,104	-	63,000	-	65,104
Accrued interest payable	-	-	398	398	398	398
Deferred tax, grant and subvention revenues	27,604	27,822	11,680	24,640	39,284	52,462
Due to other funds	-	-	33,893	89,046	33,893	89,046
Deferred credits and other liabilities	73,180	99,321	167,669	158,419	240,849	257,740
Total liabilities	259,369	255,024	286,021	385,492	545,390	640,516
Fund balances:						
Reserved for cash requirements	93,293	93,293	-	-	93,293	93,293
Reserved for emergencies	4,198	4,198	-	-	4,198	4,198
Reserved for assets not available for appropriation	6,406	6,089	41,233	51,548	47,639	57,637
Reserved for debt service	-	-	36,548	63,308	36,548	63,308
Reserved for encumbrances	52,735	37,743	340,591	373,088	393,326	410,831
Reserved for appropriation carryforward	61,716	77,060	285,508	446,211	347,224	523,271
Reserved for subsequent years' budgets	25,379	53,337	18,604	9,664	43,983	63,001
Unreserved, reported in:						
General fund	136,664	207,467	-	-	136,664	207,467
Special revenue funds	-	-	97,167	54,018	97,167	54,018
Capital project funds	-	-	44,487	11,629	44,487	11,629
Permanent fund	-	-	4,433	4,064	4,433	4,064
Total fund balances	380,391	479,187	868,571	1,013,530	1,248,962	1,492,717
Total liabilities and fund balances	$ 639,760	$ 734,211	$1,154,592	$1,399,022	$ 1,794,352	$ 2,133,233

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, 2002

(In Thousands)

Fund balances - total governmental funds	$ 1,248,962
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.	2,037,854
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	7,545
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,835,214)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(8,116)
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.	229,549
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.	(205,559)
Net assets of governmental activities	$ 1,475,021

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, 2002
(with comparative financial information for the year ended June 30, 2001)
(in thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2002	2001	2002	2001	2002	2001
Revenues:						
Property taxes	$ 507,308	$ 462,171	$ 179,842	$ 165,483	$ 687,150	$ 627,654
Business taxes	274,125	277,094	723	728	274,848	277,822
Other local taxes	334,357	448,132	110,233	133,348	444,590	581,480
Licenses, permits and franchises	19,548	17,714	6,214	5,789	25,762	23,503
Fines, forfeitures and penalties	8,591	9,097	3,454	3,676	12,045	12,773
Interest and investment income	20,737	27,693	44,860	63,736	65,597	91,429
Rents and concessions	17,636	19,298	45,987	56,084	63,623	75,382
Intergovernmental:						
Federal	150,444	135,410	157,499	161,348	307,943	296,758
State	510,952	501,020	97,852	74,341	608,804	575,361
Other	-	-	33,924	6,245	33,924	6,245
Charges for services	102,782	100,325	122,765	115,087	225,547	215,412
Other revenues	10,338	17,395	16,067	13,724	26,405	31,119
Total revenues	1,956,818	2,015,349	819,420	799,589	2,776,238	2,814,938
Expenditures:						
Current:						
Public protection	650,019	626,136	40,031	45,983	690,050	672,119
Public works, transportation and commerce	103,579	95,486	192,832	204,463	296,411	299,949
Human welfare and neighborhood development	467,688	431,266	145,445	125,976	613,133	557,242
Community health	395,465	365,290	89,361	89,685	484,826	454,975
Culture and recreation	108,810	106,728	129,516	127,135	238,326	233,863
General administration and finance	136,143	127,366	28,602	23,116	164,745	150,482
General City responsibilities	49,571	45,380	5,057	64,373	54,628	109,753
Debt service:						
Principal retirement	-	-	69,536	69,870	69,536	69,870
Interest and fiscal charges	-	-	68,111	68,367	68,111	68,367
Bond issuance costs	534	-	2,453	7,368	2,987	7,368
Capital outlay	-	-	276,662	170,472	276,662	170,472
Total expenditures	1,911,809	1,797,652	1,047,606	996,808	2,959,415	2,794,460
Excess (deficiency) of revenues over expenditures	45,009	217,697	(228,186)	(197,219)	(183,177)	20,478
Other financing sources (uses):						
Transfers in	109,941	134,983	157,166	126,974	267,107	261,957
Transfers out	(316,691)	(257,317)	(219,989)	(107,861)	(536,680)	(365,178)
Issuance of bonds and loans						
Face value of bonds issued	60,755	-	189,240	394,040	249,995	394,040
Premium on issuance of bonds	-	-	3,095	803	3,095	803
Discount on issuance of bonds	(176)	-	(62)	(2,773)	(238)	(2,773)
Payment to refunded bond escrow agent	-	-	(136,230)	-	(136,230)	-
Other financing sources-capital leases	1,417	-	90,007	-	91,424	-
Other	949	-	-	-	949	-
Total other financing sources (uses)	(143,805)	(122,334)	83,227	411,183	(60,578)	288,849
Net change in fund balances	(98,796)	95,363	(144,959)	213,964	(243,755)	309,327
Fund balance at beginning of year, as previously reported	479,187	275,640	1,013,530	792,104	1,492,717	1,067,744
Cumulative effect of a change in accounting principles	-	108,184	-	7,462	-	115,646
Fund balances at beginning of year, as restated	479,187	383,824	1,013,530	799,566	1,492,717	1,183,390
Fund balances at end of year	$ 380,391	$ 479,187	$ 868,571	$ 1,013,530	$ 1,248,962	$ 1,492,717

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, 2002
(In Thousands)

Net change in fund balances - total governmental funds	$ (243,755)
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.	219,333
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 decrease 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 financing resources.	10,280
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,553
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.	(1,838)
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 while the accrual of accreted interest serves to increase the liability in the statement of net assets and result in additional expenses in the statement of activities. This is the amount by which principal payments exceeded newly accreted interest.	6,933
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 issuance costs exceed amortization expense in the current period.	2,642
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt 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 exceeded principal retirement and payment to escrow for refunded debt in the current period.	(135,653)
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 and discounts capitalized during the current period.	(2,857)
Losses incurred on the advance refunding of debt are expended in the governmental funds when the refunding occurs and are deferred and amortized for purposes of the statement of activities. This is the portion of the refunding loss related to the payment to escrow funded from non bond proceeds. The remaining portion of the refunding loss is reported within the other financing use entitled "payment to refunded bond escrow agent".	3,666
Amortization of bond premiums, discounts and refunding losses	(158)
Additional accrued interest calculated on bonds and notes payable.	(2,494)
Additional interest calculated pertaining to the City's arbitrage rebate liability.	(2,049)
The net revenues of certain activities of internal service funds is reported with governmental activities.	152,088
Changes in net assets of governmental activities	$ 16,691

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, 2002
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 188,710	$ 489,347	$ 489,347	$ -
Resources (inflows):				
Property taxes	461,550	461,715	510,001	48,286
Business taxes	275,669	275,669	274,125	(1,544)
Other local taxes:				
Sales tax	155,190	155,190	111,293	(43,897)
Hotel room tax	141,635	141,634	72,285	(69,349)
Utility users tax	77,346	77,346	70,779	(6,567)
Parking tax	35,022	35,022	30,484	(4,538)
Other local taxes	50,622	50,622	49,516	(1,106)
Licenses, permits, and franchises:				
Licenses and permits	7,634	7,634	7,575	(59)
Franchise Tax	11,141	11,141	11,973	832
Fines, forfeitures, and penalties	5,793	6,180	8,591	2,411
Interest and investment income	24,733	25,063	29,992	4,929
Rents and concessions:				
Garages - Recreation and Park	8,487	8,487	7,105	(1,382)
Rents and concessions - Recreation and Park	10,155	10,155	9,183	(972)
Other rents and concessions	1,351	1,351	1,347	(4)
Intergovernmental:				
Federal subventions:				
Health and social service subventions	121,626	129,560	147,773	18,213
Other grants and subventions	6,826	3,626	2,670	(956)
State subventions:				
Social service subventions	115,916	116,800	101,417	(15,383)
Health and welfare realignment	85,890	85,841	87,475	1,634
Health/mental health subventions	120,958	120,958	127,497	6,539
Public safety sales tax	75,066	75,066	70,959	(4,107)
Motor vehicle in-lieu - county	102,171	102,171	102,751	580
Other grants & subventions	26,254	22,722	20,853	(1,869)
Charges for services:				
General government service charges	29,087	29,108	29,506	398
Public safety service charges	12,620	15,434	15,435	1
Recreation charges - Recreation and Park	9,754	9,754	9,445	(309)
MediCal, MediCare and health service charges	43,347	48,646	48,397	(249)
Other financing sources:				
Transfers from other funds	61,364	136,028	105,070	(30,958)
Proceeds from issuance of bonds and loans	62,800	63,662	61,233	(2,429)
Other resources (inflows)	900	1,312	1,518	206
Total amounts available for appropriation	$ 2,329,617	$ 2,717,244	$ 2,615,595	$ (101,649)

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2002

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to appropriations (outflows):				
Public Protection				
Administrative Services - Animal Care and Control	$ 3,224	$ 3,252	$ 3,033	$ 219
Administrative Services - Consumer Assurance	1,773	1,676	1,566	110
Administrative Services - Medical Examiner	4,365	4,595	4,315	280
Adult Probation	9,025	9,076	8,837	239
District Attorney	21,259	21,759	21,702	57
Fire Department	195,173	202,583	195,286	7,297
Juvenile Probation	37,094	30,398	29,942	456
Mayor - Office of the Emergency Services	1,313	1,247	1,207	40
Police Department	235,982	247,432	247,256	176
Public Defender	13,075	13,146	12,806	340
Sheriff	83,969	92,009	91,477	532
Trial Courts	33,552	33,687	32,742	945
Public Works Transportation and Commerce				
Board of Appeals	425	426	403	23
Business and Economic Development	2,734	2,544	2,316	228
Clean Water	306	246	246	-
Department of Public Works	38,200	32,261	32,208	53
Emergency Communications	19,008	19,395	19,323	72
Light, Heat and Power	2,687	2,492	2,466	26
Parking and Traffic Commission	42,716	43,624	43,046	578
Telecommunications and Information Services	2,773	2,307	2,306	1
Human Welfare and Neighborhood Development				
Adult and Aging Services	19,064	21,434	20,826	608
Children, Youth and Their Families	10,917	9,427	9,353	74
Commission on the Status of Women	2,585	2,403	2,237	166
Environment	738	3,601	3,594	7
Human Rights Commission	1,876	1,886	1,884	2
Human Services	437,298	443,992	429,072	14,920
Mayor - Housing and Neighborhood	150	667	606	61
Rent Arbitration Board	-	113	113	-
Public Health	447,126	426,683	395,471	31,212
Culture and Recreation				
Academy of Sciences	2,169	2,270	2,236	34
Administrative Services - Convention Facilities	5,982	5,705	5,420	285
Art Commission	7,270	8,128	8,099	29
Asian Art Museum	3,469	3,599	3,253	346
County Education Office	66	66	64	2
Fine Arts Museum	5,597	5,604	4,786	818
Law Library	520	522	471	51
Mayor - Grants for the Arts	16,995	18,784	15,743	3,041
Recreation and Park Commission	72,237	68,775	68,446	329
General Administration and Finance				
Administrative Services	7,353	6,089	6,089	-
Administrative Services - Purchasing	-	87	87	-
Administrative Services - Office of Contract Administration	3,196	2,936	2,619	317
Assessor/Recorder	10,803	11,174	10,954	220
Board of Supervisors	8,967	9,964	9,721	243

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2002

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	7,522	13,282	13,282	-
City Planning	13,404	13,385	13,081	304
Civil Service	665	620	615	5
Controller	20,929	20,051	19,821	230
Elections	8,330	14,299	14,293	6
Ethics Commission	878	853	811	42
Human Resources	19,082	21,584	20,883	701
Mayor	7,772	8,159	8,033	126
Retirement Services	420	155	155	-
Treasurer/Tax Collector	17,018	18,241	17,808	433
General City Responsibilities				
General City Responsibilities	118,012	116,601	114,195	2,406
General Fund Unallocated	-	20	20	-
Other financing uses:				
Debt Service	9,550	240	240	-
Transfers to other funds	219,125	293,517	250,550	42,967
Budgetary reserves and designations	73,879	123,346	3,154	120,192
Total charges to appropriations	2,329,617	2,462,417	2,230,568	231,849
Budgetary fund balance, June 30	$ -	$ 254,827	$ 385,027	$ 130,200

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 2,615,595
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	(489,347)
Property tax revenue - Teeter Plan	(2,693)
Unrealized loss on investment	(9,254)
Interest reclassified as transfers from other funds	8,820
Proceeds from issuance of bonds and loans	(61,233)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(105,070)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,956,818
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 2,230,568
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation	(1,417)
Pension reimbursement and other budget to GAAP differences	(638)
Change recognized in budget basis reserves	(3,154)
GAAP to budget basis change of business tax settlement recorded in prior year	(63,000)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(250,550)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,911,809

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, 2002
(with summarized financial information as of June 30, 2001)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Departmen	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total 2002	Total 2001	2002	2001
LIABILITIES													
Current liabilities:													
Accounts payable	20,260	5,779	8,063	39,913	19,327	1,563	1,981	1,068	22,035	119,989	127,540	6,814	5,241
Accrued payroll	8,414	5,654	1,080	21,170	12,724	2,243	1,397	8,195	297	61,174	57,351	2,315	2,069
Accrued vacation and sick leave pay	5,709	3,475	917	12,025	9,317	1,885	951	4,532	-	38,811	36,262	1,434	1,244
Accrued workers' compensation	1,275	1,731	385	19,852	3,385	641	613	2,594	-	30,476	25,582	250	155
Estimated claims payable	209	1,574	197	13,197	-	291	1,200	-	-	16,668	15,470	-	-
Due to other funds	206	-	1,200	-	31,694	800	-	10,414	-	44,314	2,436	2,027	-
Deferred credits and other liabilities	30,134	48,974	354	5,382	11,683	-	8,143	2,026	778	107,474	61,429	58,752	-
Accrued interest payable	-	3,325	-	-	-	8,798	157	-	101	12,381	12,470	2,997	-
Bonds, loans, capital leases, and other payables.	43,550	99,715	-	-	78	39,391	1,315	210	926	185,185	148,939	16,094	1,619
Total current liabilities	109,757	170,227	12,196	111,539	88,208	55,612	15,757	29,039	24,137	616,472	487,479	90,683	10,328
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables.	8,710	-	-	-	-	-	3,405	-	-	12,115	405,882	-	-
Accrued interest payable	37,940	-		-	-	-	1,036	3,690	-	42,666	35,704	-	-
Other	44,074	11,598	-	923	27	2,643	4,139	-	-	63,404	84,142	-	-
Total liabilities payable from restricted asset	90,724	11,598	-	923	27	2,643	8,580	3,690	-	118,185	525,728	-	-
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,236	3,609	827	8,958	6,610	1,570	844	2,963	-	30,617	29,084	1,382	1,306
Accrued workers' compensation	4,128	5,576	1,240	62,490	11,290	2,054	1,857	8,293	-	96,928	80,011	762	423
Estimated claims payable	250	3,394	3,423	16,714	-	4,437	400	-	-	28,618	26,025	-	-
Deferred credits and other liabilities	-	9,535	-	38,191	-	1,395	3,808	-	-	52,929	33,205	-	-
Bonds, loans, capital leases, and other payables.	4,218,798	347,026	-	-	724	545,739	34,267	222	37,066	5,183,842	4,557,088	244,099	1,932
Total noncurrent liabilities	4,228,412	369,140	5,490	126,353	18,624	555,195	41,176	11,478	37,066	5,392,934	4,725,413	246,243	3,661
Total liabilities	4,428,893	550,965	17,686	238,815	106,859	613,450	65,513	44,207	61,203	6,127,591	5,738,620	336,926	13,989
NET ASSETS													
Invested in capital assets, net of related debt	4,346	244,416	208,658	1,559,864	60,920	774,794	213,399	29,262	19,733	3,115,392	2,970,198	4,164	674
Restricted:													
Debt service	277,521	13,955	-	-	-	43,271	-	-	-	334,747	276,392	-	-
Capital projects	11,729	16,684	-	-	1,203	65,301	-	46,237	-	141,154	129,299	-	-
Other purposes	-	-	-	61,453	291	-	6,201	2,173	-	70,118	112,335	-	-
Unrestricted (deficit)	267,876	177,049	52,668	(68,177)	(13,735)	67,014	54,892	(15,192)	46,204	568,599	638,479	(8,570)	(3,968)
Total net assets (deficit)	$ 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)

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, 2002
(with summarized financial information as of June 30, 2001)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Departmen	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total 2002	Total 2001	2002	2001
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 278,894	$ 227,351	$ 60,250	$ 74,329	$ -	$ 54,370	$ 59,584	$ -	$ -	$ 754,778	$ 701,962	$ 14,499	$ 7,796
Deposits and investments outside City Treasury	10	40	10	588	10	-	5	1	2,844	3,508	2,467	51,732	-
Receivables (net of allowance for uncollectible amounts of $13,462 and $10,089 in 2002 and 2001, respectively):													
Federal and state grants and subventions	-	-	179	36,452	1,805	-	870	-	-	39,306	56,222	-	-
Property taxes and penalties	-	-	-	-	-	-	-	-	-	-	-	-	-
Charges for services	33,419	25,642	9,017	4,718	34,685	22,170	2,546	23,879	144	156,220	149,626	-	-
Interest and other	4,099	3,652	425	6,661	51,322	426	1,589	-	190	68,364	20,208	1,251	301
Capital lease receivables	-	-	-	-	-	-	-	-	-	-	-	16,922	-
Due from other funds	-	-	206	12,445	802	-	-	76	-	13,529	42,545	-	-
Inventories	117	1,978	267	29,798	3,670	-	1,153	818	-	37,801	41,369	-	-
Deferred charges and other assets	2,237	-	-	724	-	-	1,148	-	2,157	6,266	5,944	390	-
Total current assets	318,776	258,663	70,354	165,715	92,294	76,966	66,895	24,774	5,335	1,079,772	1,020,343	84,794	8,097
Restricted assets:													
Deposits and investments with City Treasury	299,826	103,140	-	51,160	1,494	90,726	4,005	51,000	-	601,351	648,968	-	-
Deposits and investments outside City Treasury	286,231	13,300	-	4,787	27	42,631	16,801	361	26,800	390,938	331,524	-	-
Grants and other receivables	25,447	560	-	6,429	-	666	-	858	-	33,960	22,279	-	-
Total restricted assets	611,504	117,000	-	62,376	1,521	134,023	20,806	52,219	26,800	1,026,249	1,002,771	-	-
Noncurrent assets:													
Deferred charges and other assets	47,604	2,911	-	4,000	-	2,456	8,672	-	113	65,756	59,576	2,266	3
Capital lease receivables	-	-	-	-	-	-	-	-	-	-	-	241,863	
Capital assets:													
Land and other assets not being depreciated	780,055	121,468	22,676	310,126	3,460	33,058	138,296	22,693	22,159	1,453,991	1,418,533	-	-
Facilities, Infrastructrure, and equipment, net of depreciation	3,232,426	503,027	185,982	1,249,738	58,263	1,317,327	105,336	7,001	72,733	6,731,833	6,364,100	3,597	2,595
Total capital assets	4,012,481	624,495	208,658	1,559,864	61,723	1,350,385	243,632	29,694	94,892	8,185,824	7,782,633	3,597	2,595
Total noncurrent assets	4,060,085	627,406	208,658	1,563,864	61,723	1,352,841	252,304	29,694	95,005	8,251,580	7,842,209	247,726	2,598
Total assets	4,990,365	1,003,069	279,012	1,791,955	155,538	1,563,830	340,005	106,687	127,140	10,357,601	9,865,323	332,520	10,695

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CITY AND COUNTY OF SAN FRANCISCO

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

Year ended June 30, 2002
(with summarized financial information for the year ended June 30, 2001)

(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total 2002	Total 2001	2002	2001
Operating revenues:													
Aviation	$ 318,772	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ 318,772	$ 218,362	$ -	$ -
Water and power service	-	135,139	125,573	-	-	-	-	-	-	260,712	237,605	-	-
Passenger fees	-	-	-	97,162	-	-	-	-	-	97,162	103,289	-	-
Net patient service revenue	-	-	-	-	287,703	-	-	111,079	-	398,782	358,164	-	-
Sewer service	-	-	-	-	-	129,925	-	-	-	129,925	136,821	-	-
Rents and concessions	62,678	8,303	204	-	2,961	-	41,586	-	2,181	117,913	139,719	31	-
Parking and transportation	55,883	-	-	-	-	-	7,380	-	32,848	96,111	124,635	-	-
Charges for services	-	-	-	-	-	-	-	-	-	-	-	102,331	96,025
Other revenues	27,843	3,774	-	10,293	10,818	4,670	1,528	313	616	59,855	66,041	-	-
Total operating revenues	465,176	147,216	125,777	107,455	301,482	134,595	50,494	111,392	35,645	1,479,232	1,384,636	102,362	96,025
Operating expenses:													
Personal services	139,819	49,676	16,647	368,604	217,365	35,588	47,759	123,565	6,755	1,005,778	896,304	39,819	34,470
Contractual services	76,330	3,958	5,426	21,268	101,408	6,801	-	2,675	3,252	221,118	201,288	37,216	34,316
Light, heat and power	21,773	-	65,337	-	-	-	-	-	702	87,812	54,903	-	-
Materials and supplies	8,766	5,955	1,586	36,182	40,800	7,853	-	10,546	1,135	112,823	115,713	16,331	18,289
Depreciation and amortization	140,983	25,909	9,614	55,336	6,284	38,306	8,119	1,215	1,068	286,834	256,119	2,709	2,915
General and administrative	1,318	21,003	8,677	20,979	702	18,585	-	-	18,016	89,280	76,076	1,737	58
Services provided by other departments	10,763	29,307	2,772	21,329	15,474	17,867	-	2,937	-	100,449	107,828	2,985	3,054
Other	9,907	12,622	3,695	5,027	220	3,948	-	92	-	35,511	61,709	2,778	3,790
Total operating expenses	409,659	148,430	113,754	528,725	382,253	128,948	55,878	141,030	30,928	1,939,605	1,769,940	103,575	96,892
Operating income (loss)	55,517	(1,214)	12,023	(421,270)	(80,771)	5,647	(5,384)	(29,638)	4,717	(460,373)	(385,304)	(1,213)	(867)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	-	1,788	3,363	-	-	-	-	-	5,151	13,056	-	-
State / other	-	-	-	207,383	69,525	-	-	-	-	276,908	247,464	-	-
Interest and investment income	31,512	12,691	1,739	3,901	112	8,116	3,246	1,738	475	63,530	96,493	7,003	50
Interest expense	(189,676)	(16,932)	-	-	(1,221)	(30,948)	(2,816)	(541)	(1,346)	(243,480)	(202,103)	(7,432)	(1,117)
Other, net	40,569	3,742	358	5,806	4,981	2,844	7,115	20,807	(797)	85,425	28,779	18	986
Total nonoperating revenues (expenses)	(117,595)	(499)	3,885	220,453	73,397	(19,988)	7,545	22,004	(1,668)	187,534	183,689	(411)	(81)
Income (loss) before capital contributions, transfers and special items.	(62,078)	(1,713)	15,908	(200,817)	(7,374)	(14,341)	2,161	(7,634)	3,049	(272,839)	(201,615)	(1,624)	(948)
Capital Contributions	32,937	-	-	216,063	-	-	2,747	-	-	251,747	335,520	-	-
Transfers in	-	-	-	111,138	74,584	-	-	28,659	-	214,381	225,798	512	1,117
Transfers out	(17,784)	-	(382)	(193)	(71,623)	-	-	-	-	(89,982)	(123,644)	-	(50)
Net income (loss) before special items	(46,925)	(1,713)	15,526	126,191	(4,413)	(14,341)	4,908	21,025	3,049	103,307	236,059	(1,112)	119
Special items	-	-	-	-	-	-	-	-	-	-	126,014	-	-
Change in net assets	(46,925)	(1,713)	15,526	126,191	(4,413)	(14,341)	4,908	21,025	3,049	103,307	362,073	(1,112)	119
Net assets (deficit) at beginning of year	608,397	453,817	245,800	1,426,949	53,092	964,721	269,584	41,455	62,888	4,126,703	3,764,630	(3,294)	(3,413)
Net assets (deficit) at end 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)

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, 2002
(with summarized financial information for the year ended June 30, 2001)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total 2002	Total 2001	2002	2001
Reconciliation of operating income (loss) to net cash used for operating activities:													
Operating income (loss)	$ 55,517	$ (1,214)	$ 12,023	$ (421,270)	$ (80,771)	$ 5,647	$ (5,384)	$ (29,638)	$ 4,717	$ (460,373)	$ (385,304)	$ (1,213)	$ (867)
Adjustments for non-cash activities:													
Depreciation and amortization	143,360	25,909	9,614	55,336	6,284	38,306	8,119	1,215	1,068	289,211	256,119	2,709	2,915
Provision for uncollectibles	(206)	-	-	14	26,740	-	1,118	1,122	-	28,788	24,551	-	-
Write off of capital assets	-	5,822	-	-	-	-	-	-	-	5,822	-	-	
Other	-	(2,048)	-	-	-	-	573	-	-	(1,475)	21,859	-	-
Changes in assets/liabilities:													
Receivables, net	(5,957)	1,163	(244)	(396)	(59,882)	5,493	395	(11,133)	8	(70,553)	(21,264)	13,327	(301)
Due from other funds	-	-	-	-	(802)	-	-	-	-	(802)	2,519	-	-
Inventories	2,112	(659)	49	3,993	16	-	(2)	(70)	-	5,439	(654)	-	-
Deferred charges and other assets	-	-	-	(133)	(5,927)	-	2,050	(77)	(1,462)	(5,549)	5,388	(387)	12
Accounts payable	(811)	(1,723)	232	(1,337)	3,829	(924)	116	(97)	5,443	4,728	19,351	1,573	2,808
Accrued payroll	(1,120)	116	154	2,173	1,299	371	149	(1,138)	53	2,057	7,912	246	155
Accrued vacation and sick leave pay	-	804	(61)	868	1,394	(20)	75	333	16	3,409	2,455	266	112
Accrued workers' compensation	-	3,332	569	14,952	2,154	772	1,325	1,105	-	24,209	6,448	434	94
Estimated claims payable	-	(2,055)	(2,982)	2,697	(11,651)	3,642	1,289	-	-	(9,060)	(4,926)	-	-
Due to other funds	(1,054)	-	1,200	-	31,694	800	-	9,238	-	41,878	(16,479)	-	-
Deferred credits and other liabilities	20,088	23,275	-	(1,986)	-	-	(167)	1,841	(569)	42,482	5,804	(96,321)	-
Total adjustments	156,412	53,936	8,531	76,181	(4,852)	48,440	15,040	2,339	4,557	360,584	309,083	(78,153)	5,795
Net cash provided by (used in) operating activities	$ 211,929	$ 52,722	$ 20,554	$ (345,089)	$ (85,623)	$ 54,087	$ 9,656	$ (27,299)	$ 9,274	$ (99,789)	$ (76,221)	$ (79,366)	$ 4,928
Reconciliation of cash and cash equivalents to the balance sheet:													
Deposits and investments with City Treasury:													
Unrestricted	$ 278,894	$ 227,351	$ 60,250	$ 74,329	$ -	$ 54,370	$ 59,584	$ -	$ -	$ 754,778	$ 701,962	$ 14,499	$ 7,796
Restricted	299,826	103,140	-	51,160	1,494	90,726	4,005	51,000	-	601,351	648,968	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	588	10	-	5	1	2,844	3,508	2,467	51,732	-
Total deposits and investments	578,730	330,531	60,260	126,077	1,504	145,096	63,594	51,001	2,844	1,359,637	1,353,397	66,231	7,796
Add: Restricted deposits outside City Treasury meeting the definition of cash equivalents	-	-	-	4,787	-	-	10,435	100	-	15,322	10,767	-	-
Less: Deposits and investments not meeting the definition of cash equivalents	(231,128)	(3,903)	(598)	-	(1)	(50)	(759)	(817)	-	(237,256)	(641,553)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 347,602	$ 326,628	$ 59,662	$ 130,864	$ 1,503	$ 145,046	$ 73,270	$ 50,284	$ 2,844	$ 1,137,703	$ 722,611	$ 66,231	$ 7,796
Non-cash investing, capital and financing activities:													
Tenant improvements financed by rent credits	$ -	$ -	$ -	$ -	$ -	$ -	$ 375	$ -	$ -	$ 375	$ 494		
Loss on abandonment of property and equipment	-	-	-	-	-	-	259	-	-	259	1,281		
Contributed improvements by tenants	7,726	-	-	-	-	-	-	-	-	7,726	18,124		
Acquisition of capital assets on accounts payable and capital leases	-	-	-	-	802	-	1,485	864	-	3,151	5,962		
	$ 7,726	$ -	$ -	$ -	$ 802	$ -	$ 2,119	$ 864	$ -	$ 11,511	$ 25,861		

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, 2002
(with summarized financial information for the year ended June 30, 2001)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Railway	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Parking Garages	Total 2002	Total 2001	2002	2001
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 493,400	$ 163,568	$ 123,743	$ 120,817	$ 278,693	$ 140,088	$ 5,589	$ -	$ 33,529	$ 1,359,427	$ 995,283	$ 115,302	$ 95,736
Cash received from patients and third party payors	-	-	-	-	-	-	-	103,145	-	103,145	369,492	-	-
Cash received from tenants for rent	-	8,303	204	-	2,961	-	44,153	-	2,181	57,802	51,225	-	-
Cash paid to employees for services	(140,938)	(45,424)	(15,985)	(350,612)	(214,671)	(34,465)	(19,912)	(114,025)	(6,686)	(942,718)	(881,371)	(38,873)	(34,109)
Cash paid to suppliers for goods and services	(140,533)	(69,698)	(87,369)	(107,353)	(152,606)	(51,129)	(20,174)	(16,419)	(19,750)	(665,031)	(599,615)	(155,795)	(56,699)
Cash paid for judgements and claims	-	(4,027)	(39)	(7,941)	-	(407)	-	-	-	(12,414)	(11,235)	-	-
Net cash provided by (used in) operating activities	211,929	52,722	20,554	(345,089)	(85,623)	54,087	9,656	(27,299)	9,274	(99,789)	(76,221)	(79,366)	4,928
Cash flows from noncapital financing activities:													
Operating grants	(5)	-	1,609	215,057	70,497	-	-	-	-	287,158	270,833	-	-
Transfers in	-	-	-	111,138	74,584	-	-	28,659	-	214,381	226,471	512	1,117
Transfers out	(17,784)	-	(382)	(193)	(71,623)	-	-	-	-	(89,982)	(123,644)	-	(50)
Cost allocation charges received	-	-	-	-	-	-	-	-	-	-	5,897	-	-
Transit Impact Development fees received	-	-	-	7,062	-	-	-	-	-	7,062	2,123	-	-
Claims settlement proceeds	-	-	-	-	-	-	-	-	-	-	3,982	-	-
Other noncapital increases	-	-	-	-	4,980	-	-	244	-	5,224	3,583	-	-
Other noncapital decreases	-	-	-	(232)	-	-	-	(304)	-	(536)	(30,234)	-	-
Net cash provided by (used in) noncapital financing activities	(17,789)	-	1,227	332,832	78,438	-	-	28,599	-	423,307	359,011	512	1,067
Cash flows from capital financing activities:													
Capital grants	15,989	-	-	253,311	-	-	3,123	-	-	272,423	267,785	-	-
Bond sale proceeds and loans received	40,425	140,772	-	-	-	-	1,098	-	18,328	200,623	264,994	7,928	-
Proceeds from sale of fixed assets	-	1,868	-	-	-	-	-	-	-	1,868	126,454	-	-
Proceeds from commercial paper borrowings	160,847	100,000	-	-	-	-	-	-	-	260,847	298,231	-	-
Loans received	-	-	-	-	-	-	-	-	-	-	-	3,541	972
Proceeds from passenger facility charges	30,606	-	-	-	-	-	-	-	-	30,606	-	-	-
Acquisition of capital assets	(244,242)	(121,308)	(13,201)	(223,594)	(5,864)	(19,902)	(14,074)	(14,045)	(19,955)	(676,185)	(967,001)	(3,627)	(1,178)
Retirement of capital leases, bonds and loans	(27,290)	(7,350)	-	-	-	-	(13,344)	(200)	-	(48,184)	(69,710)	(16,902)	(1,136)
Retirement of commercial paper borrowings	-	(85,000)	-	-	-	-	-	-	-	(85,000)	(97,340)	-	-
Bond issue costs paid	(2,406)	(1,358)	-	-	-	-	-	-	-	(3,764)	(3,988)	(67)	-
Interest paid on long term debt	(222,028)	(18,686)	-	-	(1,221)	(96,610)	(2,367)	(541)	(1,283)	(342,736)	(265,342)	(7,468)	(940)
Other capital financing increases	-	-	-	35,521	-	-	9,278	20,970	-	65,769	47,902	-	-
Other capital financing decreases	(8,912)	-	-	(15)	-	-	(2,804)	-	(797)	(12,528)	(3,225)	-	-
Net cash provided by (used in) capital financing activities	(257,011)	8,938	(13,201)	65,223	(7,085)	(116,512)	(19,090)	6,184	(3,707)	(336,261)	(401,240)	(16,595)	(2,282)
Cash flows from investing activities:													
Purchases of investments with trustees	(1,976,296)	(2,677)	-	(25,339)	-	(47,418)	-	-	(5,489)	(2,057,219)	(1,791,080)	-	-
Proceeds from sale of investments with trustees	1,930,615	-	-	25,339	-	3,975	-	-	-	1,959,929	1,776,151	-	-
Purchases of restricted deposits and investments	(586,295)	(17,815)	-	-	-	(3,975)	-	-	-	(608,085)	(1,154,624)	-	-
Proceeds from sale of restricted deposits and investments	979,303	35,437	-	-	-	48,515	-	-	-	1,063,255	773,414	-	-
Interest income received	38,224	8,811	893	4,199	112	6,280	3,172	1,738	475	63,904	92,397	8,178	50
Claims settlement proceeds	-	-	-	-	-	-	-	-	-	-	275	-	-
Other investing activities	-	2,374	358	353	-	2,995	-	(29)	-	6,051	4,835	(85)	809
Net cash provided by (used in) investing activities	385,551	26,130	1,251	4,552	112	10,372	3,172	1,709	(5,014)	427,835	(298,632)	8,093	859
Net increase (decrease) in cash and cash equivalents	322,680	87,790	9,831	57,518	(14,158)	(52,053)	(6,262)	9,193	553	415,092	(417,082)	(87,356)	4,572
Cash and cash equivalents-beginning of year	24,922	238,838	49,831	73,346	15,661	197,099	79,532	41,091	2,291	722,611	1,139,693	153,587	3,224
Cash and cash equivalents-end of year	$ 347,602	$ 326,628	$ 59,662	$ 130,864	$ 1,503	$ 145,046	$ 73,270	$ 50,284	$ 2,844	$ 1,137,703	$ 722,611	$ 66,231	$ 7,796

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2002

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 70,570	$ 300,937	$ 103,993
Deposits and investments outside City Treasury	11,026,161	-	2,930
Receivables:			
Payroll contribution	12,358	-	48,329
Interest and other	256,100	1,903	85,441
Invested securities lending collateral	1,461,506	-	-
Deferred charges and other assets	3	-	5,741
Total assets	12,826,698	302,840	$ 246,434
Liabilities			
Accounts payable	15,458	2,267	73,049
Estimated claims payable	14,911	-	-
Agency obligations	-	-	173,385
Obligations under fixed coupon dollar repurchase agreements	252,500	-	-
Payable to brokers	593,214	-	-
Securities lending collateral	1,461,506	-	-
Deferred credits and other liabilities	34,782	-	-
Total liabilities	2,372,371	2,267	$ 246,434
Net Assets			
Held in trust for pension and other employee benefits and pool participants	$ 10,454,327	$ 300,573	

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, 2002

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 228,169	$ -
Employer contributions	218,854	-
Contributions on pooled investments	-	2,119,085
Total contributions	447,023	2,119,085
Investment income (loss):		
Interest	215,271	10,773
Dividends	63,875	-
Net decrease in fair value of investments	(820,239)	-
Securities lending income	35,676	-
Fixed coupon dollar repurchase agreement income	7,791	-
Total investment income (loss)	(497,626)	10,773
Less investment expenses:		
Securities lending borrower rebates and expenses	(24,505)	-
Fixed coupon dollar repurchase finance charges and expenses	(7,061)	-
Other expenses	(18,517)	-
Total investment expenses	(50,083)	-
Total additions (loss), net	(100,686)	2,129,858
Deductions:		
Benefit payments	704,194	-
Refunds of contributions	9,814	-
Distribution from pooled investments	-	2,104,493
Administrative expenses	11,827	-
Total deductions	725,835	2,104,493
Change in net assets	(826,521)	25,365
Net assets at beginning of year	11,280,848	275,208
Net assets at end of year	$ 10,454,327	$ 300,573

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. Beginning on July 1, 2001, the operations of the Finance Corporation began to be reported within the internal service funds. Prior to July 1, 2001, the operations of the Finance Corporation were reported within governmental funds.

Effective July 1, 2001, Finance Corporation net assets of approximately $145 million were transferred, by means of interfund transfers, from other governmental funds to the internal service funds to establish the Finance Corporation as an internal service fund. Internal service funds report certain long-term assets and liabilities that are not reported in governmental funds since the assets do not represent current financial resources and the liabilities do not require current financial resources. Accordingly, the transfers out from the governmental funds are not offset by a corresponding transfer in to the newly created Finance Corporation internal service fund. Financial statements for the Finance Corporation can be obtained from the Finance Corporation's administrative offices at City Hall, Room 336, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

San Francisco Parking Authority (Parking Authority) – The Parking Authority was created in October 1949. 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 and DPT is reported within other governmental funds. 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. Financial statements for the Parking Authority can be obtained from their offices at 25 Van Ness Avenue, San Francisco, CA 94102.

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. The department is engaged in the distribution of water to the City and certain suburban areas.

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

The ***Municipal Railway Fund*** accounts for the activities of the San Francisco Municipal Railway (Muni) and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). 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.

The ***General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital. This Fund was established in 1980.

The ***Clean Water Program Fund*** accounts for the activities of the Clean Water Program. 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. This Fund was established in 1983.

The ***Parking Garages Fund*** accounts for the activities of various non-profit corporations formed to provide financial and other assistance the City to acquire land, construct facilities, and manage various parking facilities.

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.

Amounts reported as 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.

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, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and

depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

(c) Budgetary Data

The City adopts annual budgets for all governmental funds on a Modified Accrual basis of accounting except for capital project 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 following procedures establish the budgetary data reflected in the financial statements:

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 a budget to the Board of Supervisors.

(3) By the first working day of June, the Mayor submits the proposed budget to the Board of Supervisors along with a draft of the annual appropriation ordinance prepared by the Controller's Office.

(4) 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.

(5) 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.

(6) Prior to August 1, the Board of Supervisors finalizes 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. 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, 2002, $300.6 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 10.4%. 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, 2002 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, 2002, the fair value of open purchase contracts was $966.8 million, offset by the fair value of open sales contracts of ($980.4) million for a net fair value of ($13.6) million. The Retirement System utilized contracts netting to $17.9 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to $4.3 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, 2002, 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 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, 2002 was approximately $313 thousand.

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, 2002, 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, 2002, the market value of open contracts was ($195) 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, 2002 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, Municipal Railway, Laguna Honda Hospital, San Francisco 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 offsetting allowance for forgivable loans.

For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. An exception is the Clean Water Program 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 improvement, 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 two years. 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, and machinery and equipment 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 50
Infrastructure	15 to 70
Machinery and Equipment	3 to 40
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. Sick leave earned subsequent to that date is non-vesting and, hence, is not a liability.

The City accrues for all salary-related items 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.

(j) Bond Issuance Costs 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 equity 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, 2002.

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 Fund Balances/Net Assets

The Telecommunications and Information Internal Service Fund had a $4.5 million deficit total net assets as of June 30, 2002. Approximately $ 2.2 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 $781 thousand deficit total net assets as of June 30, 2002. 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 2001 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2002 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, $1,248,962, differs from net assets of governmental activities, $1,475,021, 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	$ 1,036,267	$ -	$ 14,499	$ -	$ 1,050,766
Deposits and investments outside City Treasury	132,859	-	51,732	-	184,591
Receivables, net:					
Property taxes and penalties	33,395	-	-	-	33,395
Other local taxes	173,873	-	-	-	173,873
Federal and state grants and subventions	139,975	-	-	-	139,975
Charges for services	21,755	-	-	-	21,755
Interest and other	10,611	-	1,251	-	11,862
Due from other funds	66,705	-	-	(66,705)	-
Due from component unit	22,587	-	-	-	22,587
Loans receivable, net	149,125	-	-	-	149,125
Capital assets, net	-	2,037,854	3,597	-	2,041,451
Deferred charges and other assets	7,200	7,545	3,458	-	18,203
Total assets	1,794,352	2,045,399	74,537	(66,705)	3,847,583
Liabilities					
Accounts payable	150,728	-	6,814	-	157,542
Accrued payroll	80,238	-	2,315	-	82,553
Accrued vacation and sick leave pay	-	119,144	2,816	-	121,960
Accrued workers' compensation	-	175,765	1,012	-	176,777
Estimated claims payable	-	41,445	-	-	41,445
Accrued interest payable	398	8,116	2,997	-	11,511
Deferred tax, grant and subvention revenues	39,284	(36,289)	-	-	2,995
Due to other funds/internal balances	33,893	-	2,027	(66,705)	(30,785)
Deferred credits and other liabilities	240,849	(193,260)	1,922	-	49,511
Bonds, loans, capital leases, and other payables	-	1,498,860	260,193	-	1,759,053
Total liabilities	545,390	1,613,781	280,096	(66,705)	2,372,562
Fund balances/net assets					
Total fund balances/net assets	1,248,962	431,618	(205,559)	-	1,475,021
Total liabilities and fund balances/net assets	$ 1,794,352	$ 2,045,399	$ 74,537	$ (66,705)	$ 3,847,583

(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	$ 2,514,025
Accumulated depreciation	(476,171)
	$ 2,037,854

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. $ 7,545

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	$ (119,144)
Accrued workers' compensation	(175,765)
Estimated claims payable	(41,445)
Bonds, loans, capital leases, and other payables	(1,498,860)
	$ (1,835,214)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (8,116)

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	$ 36,289
Deferred credits and other liabilities	193,260
	$ 229,549

(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. $ (205,559)

(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, ($243,755) differs from the change in net assets for governmental activities, $16,691, 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	$ 687,150	$ 10,553	$ -	$ -	$ -	$ 697,703
Business taxes	274,848	-	-	-	-	274,848
Other local taxes	444,590	-	-	-	-	444,590
Licenses, permits and franchises	25,762	-	-	-	-	25,762
Fines, forfeitures and penalties	12,045	-	-	-	-	12,045
Interest and investment income	65,597	-	-	5,000	-	70,597
Rents and concessions	63,623	-	-	-	-	63,623
Intergovernmental:						
Federal	307,943	-	-	-	-	307,943
State	608,804	-	-	-	-	608,804
Other	33,924	-	-	-	-	33,924
Charges for services	225,547	-	-	-	-	225,547
Other revenues	26,405	-	-	-	-	26,405
Total revenues	2,776,238	10,553	-	5,000	-	2,791,791
Expenditures/Expenses						
Current:						
Public protection	690,050	20,127	11,282	(3,907)	-	717,552
Public works, transportation and commerce	296,411	14,196	17,177	(10,006)	-	317,778
Human welfare and neighborhood development	613,133	(27,282)	337	-	-	586,188
Community health	484,826	8,420	248	362	-	493,856
Culture and recreation	238,326	(1,669)	14,330	2,566	(6,933)	246,620
General administration and finance	164,745	(22,046)	13,955	(229)	345	156,770
General City responsibilities	54,628	(188)	-	1,111	-	55,551
Debt service:						
Principal retirement	69,536	-	-	-	(69,536)	-
Interest and fiscal charges	68,111	-	-	8,189	1,035	77,335
Bond issuance costs	2,987	-	-	-	(2,987)	-
Capital outlay	276,662	-	(276,662)	-	-	-
Total expenditures/expenses	2,959,415	(8,442)	(219,333)	(1,914)	(78,076)	2,651,650
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(269,573)	-	-	145,174	-	(124,399)
Issuance of bonds and loans						
Face value of bonds issued	249,995	-	-	-	(249,995)	-
Premium on issuance of bonds	3,095	-	-	-	(3,095)	-
Discount on issuance of bonds	(238)	-	-	-	238	-
Payment to refunded bond escrow agent	(136,230)	-	-	-	136,230	-
Other Financing sources - capital leases	91,424	-	-	-	(91,424)	-
Other	949	-	-	-	-	949
Total other financing sources (uses)/changes in net assets	(60,578)	-	-	145,174	(208,046)	(123,450)
Net change for the year	$ (243,755)	$ 18,995	$ 219,333	$ 152,088	$ (129,970)	$ 16,691

(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. $ 10,553

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 decrease in long term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources. $ 10,280

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. $ (1,838)

(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	$ 272,560
Depreciation expenses	(51,952)
Loss on disposal of capital assets	(1,275)
Difference	$ 219,333

(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. $ 152,088

(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. Additions to the lease obligation related to interest accretion are reported as culture and recreation expenditures in the governmental funds when paid. The City's capital lease obligation was increased due to the accrual of accreted interest resulting in additional culture and recreation expenses being reported in the statement of activities.

Principal payments made	$ 16,729
Increase in capital lease obligation	(9,796)
	$ 6,933

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	$ 2,987
Amortization of bond issuance costs	(345)
Difference	$ 2,642

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. The following premiums and discounts were capitalized during the current period:

Premiums	$ (3,095)
Discounts	238
Net amount capitalized	$ (2,857)

Repayment of bond principal and the payment to escrow in conjunction with the advance refunding of debt are 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 and payment to escrow for refunded debt 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 and payments were made to escrow for refunded debt.

Principal payments made	$ 69,536
Payments to escrow for refunded debt	136,230
	$ 205,766

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued interest was calculated for bonds and notes payable, (2) deferral of the loss on advance debt refunding which is expended in the governmental funds and capitalized and amortized in the statement of activities, (3) amortization of bond discounts, premiums and refunding losses which are expended within the fund statements, and (4) 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.

Accrued interest	$ (2,494)
Refunding loss	3,666
Amortization of bond premiums, discounts and refunding losses	(158)
Arbitrage rebate liability	(2,049)
	$ (1,035)

Bond proceeds and capital leases are reported as 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 does not affect the statement of activities. Proceeds were received from:

General obligation bonds	$ 17,665
General obligation refunding bonds	118,945
Certificate of participation	37,170
Certificate of participation refunding	15,460
Settlement obligation bonds	60,755
	$ 249,995
Capital leases	$ 91,424

(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, 2002 on a Budget basis are reconciled to the fund balances on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis	$385,027
Unrealized gain on investments	8,214
Deferred charges and assets not available for appropriation	6,406
Cumulative excess property tax revenues recognized on a Budget basis	(19,256)
Fund balance - GAAP basis	$380,391

General Fund Budget basis fund balance at June 30, 2002 is composed of the following (in thousands):

Reserved for cash requirements	$93,293	
Reserved for emergencies	4,198	
Reserved for encumbrances	52,735	
Reserved for appropriation carryforward	61,716	
Reserved for subsequent years' budgets:		
Reserved for budget incentive program	2,300	
Reserved for investments	5,090	
Reserved for on-line City access program	350	
Reserved for salaries and benefits (MOU)	11,400	
Reserved for nurses' childcare (MOU)	1,100	
Reserved for litigation	956	
Reserved for Recreation & Park savings	3,500	
Reserved for one time expenditures	683	
Total reserve		$237,321
Designated for litigation and contingencies	17,506	
Unreserved – available for appropriation	130,200	
Total unreserved amounts		147,706
Fund Balance, June 30, 2002 - Budget basis		$385,027

Of the $130.2 million unreserved-available for appropriation, $124.1 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2003.

(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, 2002, the Retirement System had no investments in any one organization that represented 5% or more of plan net assets. Investments held by the Retirement System during the year did not include reverse repurchase agreements.

Other Funds

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

Component Units

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

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

Deposits and investments

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,050,766 [1]	$ 754,778	$ 475,500 [2]	$ 2,281,044	$ 3,442
Deposits and investments outside City Treasury	184,591 [3]	3,508	11,029,091	11,217,190	104,394
Restricted assets:					
Deposits and investments with City Treasury	-	601,351	-	601,351	-
Deposits and investments outside City Treasury	-	390,938	-	390,938	-
Invested securities lending collateral	-	-	1,461,506	1,461,506	219,060
Total deposits and investments	$ 1,235,357	$ 1,750,575	$ 12,966,097	$ 15,952,029	$ 326,896
Deposits	$ 39,084	$ 10,055	$ 4,228	$ 53,367	$ 5,221
Investments	1,196,273	1,740,520	12,961,869	15,898,662	321,675
Total deposits and investments	$ 1,235,357	$ 1,750,575	$ 12,966,097	$ 15,952,029	$ 326,896

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,036,267) and internal service funds ($14,499).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($70,570), investment trust fund ($300,937) and agency funds ($103,993).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($132,859) and internal service funds ($51,732).

Cash and Deposits

The City had cash and deposits at June 30, 2002 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	$ 174	$ -	$ 720	$ -	$ 2,930	$ -	$ 1	$ -
Federally insured deposits	500	500	1,283	1,283	-	-	158	163
Collateralized deposits *	38,410	160,890	170	50	-	-	5,062	6,170
Uninsured and uncollateralized	-	-	7,882	7,734	1,298	1,298	-	-
	$ 39,084	$ 161,390	$ 10,055	$ 9,067	$ 4,228	$ 1,298	$ 5,221	$ 6,333

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2002, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $122.6 million. Of the $122.6 million of outstanding checks, $34.8 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 $9.2 million of uncollateralized cash outlined above consists of $1.3 million of cash held on behalf of the Employees' Retirement System by a third party trustee, $4.8 million, $0.2 million, $0.3 million, and $2.6 million of cash held on behalf of Municipal Railway, Port Commission, Laguna Honda Hospital, and the Parking Garages 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, 2002, investments included the following (in thousands):

Type of Investment	Category 1	Category 2	Category 3	Carrying value
Primary Government Including Pension and Investment Trust Funds				
Investments in City Treasury:				
U.S. government securities	$ 2,393,877	$ -	$ -	$ 2,393,877
Federal agencies	442,736	-	-	442,736
Negotiable certificates of deposit	10,000	-	-	10,000
Public time deposit	100	-	-	100
Total Investments in City Treasury	2,846,713	-	-	2,846,713
Employees' Retirement System (ERS):				
U.S. government securities	343,510	-	-	343,510
Short term bills and notes	48,826	-	21,211	70,037
Debt securities	1,030,839	-	84,053	1,114,892
Equity securities	3,607,684	-	485	3,608,169
Total categorized investments	5,030,859	-	105,749	5,136,608
Non-categorized investments:				
Mortgage backed securities				485,029
Fixed interest mutual funds				452,387
Equity investments, inlcuding mutual funds				748,480
Real estate				820,844
Venture capital				1,218,142
Money market mutual funds				745,130
Investment in lending agents' short-term Investment pool				1,461,506
Investments lent to broker-dealers				1,418,243
Total non-categorized investments				7,349,761
Total Employees' Retirement System				12,486,369
Other Funds:				
U.S. government securities	64,048	-	427,733	491,781
Total categorized investments	64,048	-	427,733	491,781
Non-categorized investments:				
Commercial paper				24,533
Money market mutual funds				49,266
Total non-categorized investments				73,799
Total Other Funds				565,580
Total Primary Government Including Pension and Investment Trust Funds	$ 7,941,620	$ -	$ 533,482	$ 15,898,662
Component Units - Redevelopment Agency				
U.S. government securities and Federal agencies	$ 1,786	$ 3,954	$ 132,102	$ 137,842
Bankers' acceptances	-	3,608	-	3,608
Commercial paper	7,528	13,593	11,059	32,180
Corporate medium term notes	2,015	-	-	2,015
Repurchase agreements	-	-	1,634	1,634
Total categorized investments	11,329	21,155	144,795	177,279
Non-categorized investments:				
Guaranteed investment contracts				39,912
Local agency investment fund				63,019
Money market mutual funds				38,023
Total non-categorized investments				140,954
Total Redevelopment Agency				318,233
Treasure Island Development Authority				
Investments in City Treasury:				
U.S. government securities	3,442	-	-	3,442
Total Treasure Island Development Authority	3,442	-	-	3,442
Total Component Units	$ 14,771	$ 21,155	$ 144,795	$ 321,675

The types of investments made during the year were substantially the same as those held as of June 30, 2002. 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 loss is comprised of the following at June 30, 2002 (in thousands):

Interest and dividends, net of amounts capitalized	$ 400,273
Net decrease in the fair value of investments	(802,213)
Total investment loss	$(401,940)

The net decrease 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 decrease 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, 2002 was 4.139%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2002 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants	$ 2,885,772
Equity of internal pool participants	$ 2,585,199
Equity of external pool participants	300,573
Total equity	$ 2,885,772
Statement of Changes in Net Assets	
Net assets at July 1, 2001	$ 3,023,036
Net change in investments by pool participants	(137,264)
Net assets at June 30, 2002	$ 2,885,772

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2002 (in thousands):

Type of Investment	Rates	Maturities	Par Value	Carrying Value
US government securities	1.66% - 7.52%	7/05/02 - 11/15/06	$ 2,386,005	$ 2,397,319
Federal agencies	1.72% - 2.35%	7/03/02 - 11/29/02	448,670	442,736
Commercial paper	3.8%	7/01/02	10,000	10,001
Public time deposits	3.39%	8/21/02	100	100
			$ 2,844,775	2,850,156
Carrying amount of deposits in Treasurer's Pool				35,616
Total cash and investments in Treasurer's Pool				$ 2,885,772

(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 $109.9 million for the year ended June 30, 2002.

Taxable valuation for the year ended June 30, 2002 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $84.5 billion, an increase of 12.8% from the previous year. The secured tax rate was $1.124 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, $0.124 for bond debt service, and $0.350 for the San Francisco Unified School District, the San Francisco Community College District, 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 2.20% and 5.15%, respectively, of the current year tax levy, for an average delinquency rate of 2.48% 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, 2002 was $9.1 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, 2002 was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 131,539	$ 7,995	$ -	$ 139,534
Construction in progress	386,172	218,919	(28,601)	576,490
Total capital assets, not being depreciated	517,711	226,914	(28,601)	716,024
Capital assets, being depreciated:				
Facilities and improvements	1,533,928	37,393	-	1,571,321
Machinery and equipment	217,117	16,819	(2,714)	231,222
Infrastructure	-	23,663	-	23,663
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	1,755,861	77,875	(2,714)	1,831,022
Less accumulated depreciation for:				
Facilities and improvements	319,432	28,270	-	347,702
Machinery and equipment	128,745	26,307	(1,439)	153,613
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	452,457	54,577	(1,439)	505,595
Total capital assets, being depreciated, net	1,303,404	23,298	(1,275)	1,325,427
Governmental activities capital assets, net	$ 1,821,115	$ 250,212	$ (29,876)	$ 2,041,451

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	679,644	268,646	(170,551)	777,739
Total capital assets, not being depreciated	681,960	268,646	(170,551)	780,055
Capital assets, being depreciated:				
Facilities and improvements	3,677,933	157,820	(8,553)	3,827,200
Machinery and equipment	67,379	4,050	(949)	70,480
Easements	125,523	7,416	-	132,939
Total capital assets, being depreciated	3,870,835	169,286	(9,502)	4,030,619
Less accumulated depreciation for:				
Facilities and improvements	595,985	127,616	(8,380)	715,221
Machinery and equipment	43,464	7,100	(900)	49,664
Easements	27,041	6,267	-	33,308
Total accumulated depreciation	666,490	140,983	(9,280)	798,193
Total capital assets, being depreciated, net	3,204,345	28,303	(222)	3,232,426
Capital assets, net	$ 3,886,305	$ 296,949	$ (170,773)	$ 4,012,481

Water Department

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 17,436	$ 650	$ (3)	$ 18,083
Construction in progress	122,194	129,834	(148,643)	103,385
Total capital assets, not being depreciated	139,630	130,484	(148,646)	121,468
Capital assets, being depreciated:				
Facilities and improvements	657,269	133,548	-	790,817
Machinery and equipment	62,020	5,143	(213)	66,950
Total capital assets, being depreciated	719,289	138,691	(213)	857,767
Less accumulated depreciation for:				
Facilities and improvements	285,635	21,351	-	306,986
Machinery and equipment	43,397	4,558	(201)	47,754
Total accumulated depreciation	329,032	25,909	(201)	354,740
Total capital assets, being depreciated, net	390,257	112,782	(12)	503,027
Capital assets, net	$ 529,887	$ 243,266	$ (148,658)	$ 624,495

Hetch Hetchy Water and Power

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	9,157	14,517	(5,213)	18,461
Total capital assets, not being depreciated	13,372	14,517	(5,213)	22,676
Capital assets, being depreciated:				
Facilities and improvements	388,323	2,700	-	391,023
Machinery and equipment	34,465	1,480	(327)	35,618
Total capital assets, being depreciated	422,788	4,180	(327)	426,641
Less accumulated depreciation for:				
Facilities and improvements	209,715	8,018	-	217,733
Machinery and equipment	21,374	1,596	(44)	22,926
Total accumulated depreciation	231,089	9,614	(44)	240,659
Total capital assets, being depreciated, net	191,699	(5,434)	(283)	185,982
Capital assets, net	$ 205,071	$ 9,083	$ (5,496)	$ 208,658

Municipal Railway

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 18,537	$ -	$ (56)	$ 18,481
Construction in progress	354,426	214,864	(277,645)	291,645
Total capital assets, not being depreciated	372,963	214,864	(277,701)	310,126
Capital assets, being depreciated:				
Facilities and improvements	234,944	22,631	(25,608)	231,967
Machinery and equipment	665,898	234,338	(86,236)	814,000
Infrastructure	593,562	52,714	-	646,276
Total capital assets, being depreciated	1,494,404	309,683	(111,844)	1,692,243
Less accumulated depreciation for:				
Facilities and improvements	78,272	3,141	-	81,413
Machinery and equipment	249,363	25,710	(79,129)	195,944
Infrastructure	138,663	26,485	-	165,148
Total accumulated depreciation	466,298	55,336	(79,129)	442,505
Total capital assets, being depreciated, net	1,028,106	254,347	(32,715)	1,249,738
Capital assets, net	$ 1,401,069	$ 469,211	$ (310,416)	$ 1,559,864

General Hospital Medical Center

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	639	2,471	(192)	2,918
Total capital assets, not being depreciated	1,181	2,471	(192)	3,460
Capital assets, being depreciated:				
Facilities and improvements	122,414	1,020	-	123,434
Machinery and equipment	38,389	3,368	-	41,757
Total capital assets, being depreciated	160,803	4,388	-	165,191
Less accumulated depreciation for:				
Facilities and improvements	70,467	4,430	1	74,898
Machinery and equipment	30,176	1,854	-	32,030
Total accumulated depreciation	100,643	6,284	1	106,928
Total capital assets, being depreciated, net	60,160	(1,896)	(1)	58,263
Capital assets, net	$ 61,341	$ 575	$ (193)	$ 61,723

Clean Water Program

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 22,445	$ -	$ -	$ 22,445
Construction in progress	14,855	21,997	(26,239)	10,613
Total capital assets, not being depreciated	37,300	21,997	(26,239)	33,058
Capital assets, being depreciated:				
Facilities and improvements	1,877,707	24,158	-	1,901,865
Machinery and equipment	20,410	1,731	-	22,141
Total capital assets, being depreciated	1,898,117	25,889	-	1,924,006
Less accumulated depreciation for:				
Facilities and improvements	551,394	37,034	-	588,428
Machinery and equipment	16,979	1,272	-	18,251
Total accumulated depreciation	568,373	38,306	-	606,679
Total capital assets, being depreciated, net	1,329,744	(12,417)	-	1,317,327
Capital assets, net	$ 1,367,044	$ 9,580	$ (26,239)	$ 1,350,385

Port of San Francisco

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 118,809	$ 703	$ -	$ 119,512
Construction in progress	42,964	13,397	(37,577)	18,784
Total capital assets, not being depreciated	161,773	14,100	(37,577)	138,296
Capital assets, being depreciated:				
Facilities and improvements	216,149	34,523	(844)	249,828
Machinery and equipment	9,965	1,802	(287)	11,480
Total capital assets, being depreciated	226,114	36,325	(1,131)	261,308
Less accumulated depreciation for:				
Facilities and improvements	143,808	6,888	(826)	149,870
Machinery and equipment	5,143	1,231	(272)	6,102
Total accumulated depreciation	148,951	8,119	(1,098)	155,972
Total capital assets, being depreciated, net	77,163	28,206	(33)	105,336
Capital assets, net	$ 238,936	$ 42,306	$ (37,610)	$ 243,632

Laguna Honda Hospital

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Construction in progress	$ 8,719	$ 13,974	$ -	$ 22,693
Total capital assets, not being depreciated	8,719	13,974	-	22,693
Capital assets, being depreciated:				
Facilities and improvements	25,165	-	-	25,165
Machinery and equipment	12,401	71	-	12,472
Property held under lease	824	-	-	824
Total capital assets, being depreciated	38,390	71	-	38,461
Less accumulated depreciation for:				
Facilities and improvements	18,807	725	-	19,532
Machinery and equipment	11,129	284	-	11,413
Property held under lease	309	206	-	515
Total accumulated depreciation	30,245	1,215	-	31,460
Total capital assets, being depreciated, net	8,145	(1,144)	-	7,001
Capital assets, net	$ 16,864	$ 12,830	$ -	$ 29,694

Parking Garages

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Construction in progress	$ 1,635	$ 20,524	$ -	$ 22,159
Total capital assets, not being depreciated	1,635	20,524	-	22,159
Capital assets, being depreciated:				
Facilities and improvements	84,711	996	(1,705)	84,002
Machinery and equipment	4,625	200	(876)	3,949
Total capital assets, being depreciated	89,336	1,196	(2,581)	87,951
Less accumulated depreciation for:				
Facilities and improvements	14,086	1,028	-	15,114
Machinery and equipment	769	40	(705)	104
Total accumulated depreciation	14,855	1,068	(705)	15,218
Total capital assets, being depreciated, net	74,481	128	(1,876)	72,733
Capital assets, net	$ 76,116	$ 20,652	$ (1,876)	$ 94,892

Total Business-type Activities

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	$ 184,300	$ 1,353	$ (59)	$ 185,594
Construction in progress	1,234,233	700,224	(666,060)	1,268,397
Total capital assets, not being depreciated	1,418,533	701,577	(666,119)	1,453,991
Capital assets, being depreciated:				
Facilities and improvements	7,284,615	377,396	(36,710)	7,625,301
Machinery and equipment	915,552	252,183	(88,888)	1,078,847
Infrastructure	593,562	52,714	-	646,276
Property held under lease	824	-	-	824
Easements	125,523	7,416	-	132,939
Total capital assets, being depreciated	8,920,076	689,709	(125,598)	9,484,187
Less accumulated depreciation for:				
Facilities and improvements	1,968,169	210,231	(9,205)	2,169,195
Machinery and equipment	421,794	43,645	(81,251)	384,188
Infrastructure	138,663	26,485	-	165,148
Property held under lease	309	206	-	515
Easements	27,041	6,267	-	33,308
Total accumulated depreciation	2,555,976	286,834	(90,456)	2,752,354
Total capital assets, being depreciated, net	6,364,100	402,875	(35,142)	6,731,833
Business-type activities capital assets, net	$ 7,782,633	$ 1,104,452	$ (701,261)	$ 8,185,824

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*

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

Governmental Activities:	
Public protection	$ 11,191
Public works transportation and commerce	14,190
Human welfare and neighborhood development	573
Community Health	769
Culture and recreation	11,869
General administration and finance	13,360
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	2,625
Total depreciation expense - governmental activities	$ 54,577
Business-type activities:	
Airport	140,983
Water	25,909
Power	9,614
Transit	55,336
Hospitals	7,499
Sewer	38,306
Port	8,119
Garages	1,068
Total depreciation expense - business-type activities	$ 286,834

Equipment is generally estimated to have useful lives of 3 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 5 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the Clean Water Program, the San Francisco Municipal Railway (Muni), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 100 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of Muni, building and structures of LHH, and pier substructures of the Port and totaled $1.45 billion as of June 30, 2002. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled $4.5 million at June 30, 2002.

During the fiscal year ended June 30, 2002 the City's Enterprise Funds incurred total interest expense and interest income of approximately $288.4 million and $65.9 million, respectively. Of these amounts, interest expense and interest income of approximately $44.9 million and $2.4 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately $42.5 million was capitalized into capital assets.

During fiscal year 2002, Water, Hetch Hetchy, and Clean Water Program expensed $12.9 million, $2 million, $1.3 million respectively, related to capitalized design and planning costs on certain projects which were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2002 was as follows (in thousands):

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Property held under lease	49,416	14,734	-	$ 64,150
Construction in progress	315	333	-	648
Total capital assets not being depreciated	49,731	15,067	-	64,798
Capital assets, being depreciated:				
Facilities and improvements	135,311	297	-	135,608
Leasehold improvements	21,602	-	-	21,602
Machinery and equipment	7,096	510	-	7,606
Total capital assets being depreciated	164,009	807	-	164,816
Less accumulated depreciation and amortization for:				
Facilities and improvements	(22,106)	(3,386)	-	(25,492)
Leasehold improvements	(6,058)	(432)	-	(6,490)
Machinery and equipment	(5,554)	(712)	-	(6,266)
Total accumulated depreciation and amortization	(33,718)	(4,530)	-	(38,248)
Total capital assets being depreciated, net	130,291	(3,723)	-	126,568
Redevelopment Agency capital assets, net	$ 180,022	$ 11,344	$ -	$ 191,366

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

The following is a summary of long-term obligations of the City as of June 30, 2002 (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 7.625%	$ 93,905
City hall improvement project	2007	4.7 to 5.125%	14,105
Fire protection	2006	5.1 to 7.0%	2,930
Library	2021	4.0 to 7.0%	17,080
Museums	2019	4.5 to 7.0%	19,485
Parks and playgrounds	2021	3.5 to 6.5%	66,150
Public safety improvements	2014	5.0 to 7.0%	8,760
Schools	2020	4.125 to 7.0%	128,060
Seismic safety loan program	2014	6.95 to 7.65%	26,665
Zoo facilities	2020	4.125 to 6.5%	31,655
Refunding	2016	3.0 to 5.75%	508,425
General obligation bonds - governmental activities			917,220
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b) & (e)*	2024	3.0 to 5.5%	255,760
San Francisco Parking Authority (c)	2022	4.0 to 6.0%	32,090
San Francisco Social Services Corporation (d)	2003	6.25 to 7.75%	900
Moscone Convention Center Garage (d)	2009	3.35 to 4.0%	5,060
Lease revenue bonds - governmental activities			293,810
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c)	2033	.25 to 5.875	259,360
Loans (c) & (f)	2008	4.5 to 6.7%	13,007
Capital leases payable (d) & (f)	2018	3.5 to 8.5%	226,541
Settlement Obligation Bonds (d)	2011	3.0 to 3.875%	54,820
Accrued vacation and sick leave (d) & (f)			121,960
Accrued workers' compensation (d) & (f)			176,777
Estimated claims payable (d) & (f)			41,445
Other long-term obligations - governmental activities			893,910
DEFERRED AMOUNTS:			
Bond issuance premiums			3,805
Bond issuance discounts			(2,840)
Bond refunding			(6,670)
Deferred amounts			(5,705)
Governmental activities total long-term obligations			$ 2,099,235

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 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, 2002 was 2.07%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	2.0 to 8.0%	$ 4,323,005
Water Department:			
Revenue bonds	2031	4.0 to 7.4%	364,841
Commercial paper	2003	1.15 to 1.65%	90,000
General Hospital Medical Center			
Capital lease	2007	3.0 to 3.8%	802
Clean Water Program:			
Revenue bonds	2026	4.7 to 6.1%	418,809
State of California - Revolving fund loans	2021	2.8 to 3.5%	179,591
Port of San Francisco:			
General Obligation Bonds -			
City and County of San Francisco	2005	4.5 to 6.3%	2,000
Revenue bonds	2010	5.0 to 9.0%	34,095
Notes, loans and other payables	2029	Variable	3,584
Capital lease	2005	6.31%	108
Laguna Honda Hospital:			
Capital lease	2003	5.40%	432
Nonprofit Parking Corporations (Garages):			
Downtown Parking - revenue bonds	2018	5.85 to 6.65%	12,785
Ellis-O'Farrell - revenue bonds	2017	6.9% to 7.125%	5,225
Portsmouth Plaza - notes, loans and other payables	2003	9.00%	104
San Francisco Market Corporation - notes, loans and other payables	2007	Prime plus 0.25%	388
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	19,000
Accrued vacation and sick leave			69,428
Accrued workers' compensation			127,404
Estimated claims payable			45,286
Business-type activities total long-term obligations			$ 5,696,887

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	5.5 to 8.5%	$ 188,350
Hotel Tax Revenue Bonds (b)	2025	4.0 to 6.75%	74,765
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2025	3.5 to 9.0%	306,362
Sub-total			569,477
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.25 % at 6/30/02)	12,500
California Department of Boating and Waterways Loan (e)	2037	4.50%	8,000
Accreted interest payable			154,859
Accrued vacation and sick leave pay			1,870
Component unit total long-term obligations			$ 746,706

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, 2002, the City's debt limit (3% of valuation subject to taxation) was $2.7 billion. The total amount of debt applicable to the debt limit was $0.9 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was $1.8 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 $2.0 million as of June 30, 2002. 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 $1.9 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2002. 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 has issued mortgage revenue bonds with an outstanding aggregate balance of $99.7 million as of June 30, 2002. These obligations are secured by the related mortgage indebtedness and are not obligations of the City.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2002 are as follows (in thousands):

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 953,535	$ 136,610	$ (172,925)	$ 917,220	$ 60,895
Lease revenue bonds	302,405	7,900	(16,495)	293,810	16,575
Certificates of participation	225,707	52,630	(18,977)	259,360	5,190
Settlement obligation bond	-	60,755	(5,935)	54,820	5,350
Less deferred amounts:					
For issuance premiums	784	3,123	(102)	3,805	-
For issuance discounts	(2,703)	(237)	100	(2,840)	-
On refunding	-	(6,829)	159	(6,670)	-
Total bonds payable	1,479,728	253,952	(214,175)	1,519,505	88,010
Loans	15,816	-	(2,809)	13,007	2,728
Capital leases	232,485	13,337	(19,281)	226,541	23,888
Accrued vacation and sick leave pay	113,513	8,447	-	121,960	59,132
Accrued workers' compensation	151,199	57,634	(32,056)	176,777	38,926
Estimated claims payable	149,967	-	(108,522)	41,445	9,224
Governmental activity long-term obligations	$ 2,142,708	$ 333,370	$ (376,843)	$ 2,099,235	$ 221,908

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, 2002, $255.8 million of lease revenue bonds, $3.6 million of capital leases, $0.8 million of loans, $2.8 million of accrued vacation and sick leave pay and $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 funds.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2002 are as follows (in thousands):

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 3,743,605	$ 853,525	$ (274,125)	$ 4,323,005	$ 52,260
Less deferred amounts:					
For issuance premiums	-	7,836	-	7,836	-
For issuance discounts	(22,284)	-	1,747	(20,537)	
On refunding	(24,683)	(17,379)	2,816	(39,246)	-
Total bonds payable	3,696,638	843,982	(269,562)	4,271,058	52,260
Commercial paper	397,541	160,847	(558,388)	-	-
Accrued vacation and sick leave pay	10,255	690	-	10,945	5,709
Accrued workers' compensation	7,800	-	(2,397)	5,403	1,275
Estimated claims payable	459	500	(500)	459	209
Long-term liabilities	$ 4,112,693	$ 1,006,019	$ (830,847)	$ 4,287,865	$ 59,453
Water Department					
Bonds payable:					
Revenue bonds	$ 232,042	$ 140,149	$ (7,350)	$ 364,841	$ 9,715
Less deferred amounts:					
For issuance premiums	-	772	(17)	755	-
For issuance discounts	(4,755)	-	62	(4,693)	-
On refunding	(4,490)	-	328	(4,162)	-
Total bonds payable	222,797	140,921	(6,977)	356,741	9,715
Commercial paper	75,000	100,000	(85,000)	90,000	90,000
Accrued vacation and sick leave pay	6,280	804	-	7,084	3,475
Accrued workers' compensation	3,975	5,311	(1,979)	7,307	1,731
Estimated claims payable	7,023	366	(2,421)	4,968	1,574
Long-term liabilities	$ 315,075	$ 247,402	$ (96,377)	$ 466,100	$ 106,495
Hetch Hetchy Water and Power					
Accrued vacation and sick leave pay	$ 1,805	$ -	$ (61)	$ 1,744	$ 917
Accrued workers' compensation	1,056	854	(285)	1,625	385
Estimated claims payable	6,602	3,000	(5,982)	3,620	197
Long-term liabilities	$ 9,463	$ 3,854	$ (6,328)	$ 6,989	$ 1,499
Municipal Railway					
Accrued vacation and sick leave pay	$ 20,115	$ 868	$ -	$ 20,983	$ 12,025
Accrued workers' compensation	67,390	33,956	(19,004)	82,342	19,852
Estimated claims payable	26,014	11,838	(7,941)	29,911	13,197
Long-term liabilities	$ 113,519	$ 46,662	$ (26,945)	$ 133,236	$ 45,074

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2002 are as follows (in thousands) – continued:

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
General Hospital Medical Center					
Capital leases	$ -	$ 802	$ -	$ 802	$ 78
Accrued vacation and sick leave pay	14,533	1,394	-	15,927	9,317
Accrued workers' compensation	12,521	6,074	(3,920)	14,675	3,385
Long-term liabilities	$ 27,054	$ 8,270	$ (3,920)	$ 31,404	$ 12,780
Clean Water Program					
Bonds payable:					
Revenue bonds	$ 469,883	$ 926	$ (52,000)	$ 418,809	$ 24,930
Less deferred amounts:					
For issuance discounts	(5,037)	-	692	(4,345)	-
On refunding	(9,689)	-	764	(8,925)	-
Total bonds payable	455,157	926	(50,544)	405,539	24,930
State of California - Revolving fund loans	193,597	-	(14,006)	179,591	14,461
Accrued vacation and sick leave pay	3,475	-	(20)	3,455	1,885
Accrued workers' compensation	1,923	1,420	(648)	2,695	641
Estimated claims payable	1,086	4,049	(407)	4,728	291
Long-term liabilities	$ 655,238	$ 6,395	$ (65,625)	$ 596,008	$ 42,208
Port of San Francisco					
Bonds payable:					
General obligation bonds	$ 3,200	$ -	$ (1,200)	$ 2,000	$ 1,200
Revenue bonds	37,330	-	(3,235)	34,095	3,405
Less deferred amounts:					
For issuance premiums	347	-	(44)	303	-
On refunding	(1,261)	-	158	(1,103)	-
Total bonds payable	39,616	-	(4,321)	35,295	4,605
Notes, loans, and other payables	11,186	1,098	(8,700)	3,584	74
Capital leases	147	-	(39)	108	41
Accrued vacation and sick leave pay	1,720	75	-	1,795	951
Accrued workers' compensation	1,145	1,965	(640)	2,470	613
Estimated claims payable	311	1,390	(101)	1,600	1,200
Long-term liabilities	$ 54,125	$ 4,528	$ (13,801)	$ 44,852	$ 7,484

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2002 are as follows (in thousands) – continued:

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
Laguna Honda Hospital					
Capital leases	$ 632	$ -	$ (200)	$ 432	$ 210
Accrued vacation and sick leave pay	7,163	332	-	7,495	4,532
Accrued workers' compensation	9,783	3,988	(2,884)	10,887	2,594
Long-term liabilities	$ 17,578	$ 4,320	$ (3,084)	$ 18,814	$ 7,336
Parking Garages					
Bonds payable:					
Revenue bonds	$ 18,655	$ 19,000	$ (645)	$ 37,010	$ 685
Less deferred amounts:					
For issuance premiums	-	640	(20)	620	-
For issuance discounts	(138)	-	8	(130)	-
Total bonds payable	18,517	19,640	(657)	37,500	685
Notes, loans, and other payables	1,081	-	(589)	492	241
Long-term liabilities	$ 19,598	$ 19,640	$ (1,246)	$ 37,992	$ 926

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 3,200	$ -	$ (1,200)	$ 2,000	$ 1,200
Revenue bonds	4,501,515	1,013,600	(337,355)	5,177,760	90,995
Less deferred amounts:					
For issuance premiums	347	9,248	(81)	9,514	-
For issuance discounts	(32,214)	-	2,509	(29,705)	-
On refunding	(40,123)	(17,379)	4,066	(53,436)	-
Total bonds payable	4,432,725	1,005,469	(332,061)	5,106,133	92,195
Commercial paper	472,541	260,847	(643,388)	90,000	90,000
State of California - Revolving fund loans	193,597	-	(14,006)	179,591	14,461
Notes, loans, and other payables	12,267	1,098	(9,289)	4,076	315
Capital leases	779	802	(239)	1,342	329
Accrued vacation and sick leave pay	65,346	4,163	(81)	69,428	38,811
Accrued workers' compensation	105,593	53,568	(31,757)	127,404	30,476
Estimated claims payable	41,495	21,143	(17,352)	45,286	16,668
Business-type activity long term obligations	$ 5,324,343	$ 1,347,090	$ (1,048,173)	$ 5,623,260	$ 283,255

The changes in long term obligations for the component unit for the year ended June 30, 2002 are as follows (in thousands):

	July 1, 2001	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2002	Amounts Due Within One Year
Component unit:					
Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 589,163	$ -	$ (19,686)	$ 569,477	$ 20,081
Refunding bonds	14,000	-	(1,500)	12,500	-
Total bonds payable	603,163	-	(21,186)	581,977	20,081
Accreted interest payable	145,191	20,517	(10,849)	154,859	10,850 (1)
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	1,674	196	-	1,870	859
Component unit - long term obligations	$ 758,028	$ 20,713	$ (32,035)	$ 746,706	$ 31,790

(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, 2002 for governmental activities are as follows (in thousands):

Fiscal Year Ending June 30	Governmental Activities (1): General Obligation Bonds Principal	General Obligation Bonds Interest	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2003	$ 60,895	$ 48,160	$ 16,575	$ 13,960	$ 13,269	$ 16,538	$ 90,739	$ 78,658
2004	64,610	44,200	16,520	13,269	12,834	15,111	93,964	72,580
2005	60,665	41,246	16,060	12,584	15,554	14,520	92,279	68,350
2006	63,610	38,330	14,120	11,903	15,060	13,887	92,790	64,120
2007	66,785	34,952	12,930	11,319	14,657	13,244	94,372	59,515
2008-2012	344,360	121,328	52,580	48,499	70,538	56,687	467,478	226,514
2013-2017	192,160	45,665	44,785	37,270	47,365	42,616	284,310	125,551
2018-2022	64,135	7,345	47,485	25,468	37,485	31,106	149,105	63,919
2023-2027	-	-	43,355	13,922	37,250	21,373	80,605	35,295
2028-2032	-	-	29,400	2,997	46,035	10,724	75,435	13,721
2033-2037	-	-	-	-	17,139	912	17,139	912
Total	$ 917,220	$ 381,226	$ 293,810	$ 191,191	$ 327,187	$ 236,718	$ 1,538,217	$ 809,135

(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.

CITY AND COUNTY OF SAN FRANCISCO

NOTES TO BASIC FINANCIAL STATEMENTS *(Continued)*

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are 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
2003...............	$ -	$ -	$ 52,260	$ 227,639	$ -	$ -	$ 52,260	$ 227,639
2004...............	-	-	78,245	225,089	-	-	78,245	225,089
2005...............	-	-	97,685	221,346	-	-	97,685	221,346
2006...............	-	-	101,015	216,509	-	-	101,015	216,509
2007...............	-	-	105,960	211,358	-	-	105,960	211,358
2008-2012......	-	-	627,410	968,131	-	-	627,410	968,131
2013-2017......	-	-	779,250	788,385	-	-	779,250	788,385
2018-2022......	-	-	988,915	553,601	-	-	988,915	553,601
2023-2027......	-	-	1,061,640	267,500	-	-	1,061,640	267,500
2028-2032...	-	-	430,625	46,888	-	-	430,625	46,888
Total...........	$ -	$ -	$ 4,323,005	$ 3,726,446	$ -	$ -	$ 4,323,005	$ 3,726,446

Water Department [1] [2]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003...............	$ -	$ -	$ 9,715	$ 19,183	$ -	$ -	$ 9,715	$ 19,183
2004...............	-	-	10,350	18,596	-	-	10,350	18,596
2005...............	-	-	11,030	17,957	-	-	11,030	17,957
2006...............	-	-	11,735	17,298	-	-	11,735	17,298
2007...............	-	-	12,420	16,590	-	-	12,420	16,590
2008-2012......	-	-	73,945	70,791	-	-	73,945	70,791
2013-2017......	-	-	86,440	47,781	-	-	86,440	47,781
2018-2022......	-	-	60,435	30,071	-	-	60,435	30,071
2023-2027......	-	-	53,095	17,043	-	-	53,095	17,043
2028-2032...	-	-	35,676	5,282	-	-	35,676	5,282
Total...........	$ -	$ -	$ 364,841	$ 260,592	$ -	$ -	$ 364,841	$ 260,592

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are 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
2003...............	$ -	$ -	$ 24,930	$ 22,575	$ 14,461	$ 5,672	$ 39,391	$ 28,247
2004...............	-	-	20,415	21,392	14,930	5,203	35,345	26,595
2005...............	-	-	16,010	20,473	15,414	4,718	31,424	25,191
2006...............	-	-	-	20,106	15,915	4,218	15,915	24,324
2007...............	-	-	28,990	19,295	16,431	3,702	45,421	22,997
2008-2012......	-	-	131,488	74,674	65,541	11,464	197,029	86,138
2013-2017......	-	-	100,090	44,654	30,373	3,264	130,463	47,918
2018-2022......	-	-	10,380	25,789	6,526	484	16,906	26,273
2023-2027......	-	-	86,506	4,821	-	-	86,506	4,821
Total...........	$ -	$ -	$ 418,809	$ 253,779	$ 179,591	$ 38,725	$ 598,400	$ 292,504

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
2003...............	$ 1,200	$ 112	$ 3,405	$ 1,976	$ 74	$ 158	$ 4,679	$ 2,246
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
2008-2012......	-	-	14,670	1,329	481	677	15,151	2,006
2013-2017......	-	-	-	-	600	559	600	559
2018-2022......	-	-	-	-	748	410	748	410
2023-2027......	-	-	-	-	932	227	932	227
2028-2032...	-	-	-	-	433	30	433	30
Total...........	$ 2,000	$ 187	$ 34,095	$ 8,684	$ 3,584	$ 2,673	$ 39,679	$ 11,544

(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.

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 for each enterprise fund are as follows (in thousands) – continued:

Parking Garages [1]								
Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003..............	$ -	$ -	$ 685	$ 3,554	$ 241	$ 29	$ 926	$ 3,583
2004..............	-	-	790	2,256	137	16	927	2,272
2005..............	-	-	295	2,210	114	4	409	2,214
2006..............	-	-	310	2,194	-	-	310	2,194
2007..............	-	-	325	2,180	-	-	325	2,180
2008-2012......	-	-	6,520	10,619	-	-	6,520	10,619
2013-2017......	-	-	7,740	8,230	-	-	7,740	8,230
2018-2022......	-	-	9,425	3,893	-	-	9,425	3,893
2023-2027......	-	-	-	2,402	-	-	-	2,402
2028-2032...	-	-	10,920	740	-	-	10,920	740
Total..........	$ -	$ -	$ 37,010	$ 38,278	$ 492	$ 49	$ 37,502	$ 38,327

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2002 for business type activities follows (in thousands):

Total Business-type Activities [1][2]								
Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003.............	$ 1,200	$ 112	$ 90,995	$ 274,927	$ 14,776	$ 5,859	$ 106,971	$ 280,898
2004.............	400	50	113,395	269,052	15,141	5,377	128,936	274,479
2005.............	400	25	128,940	263,435	15,605	4,877	144,945	268,337
2006.............	-	-	117,195	257,333	15,996	4,369	133,191	261,702
2007.............	-	-	152,065	250,408	16,515	3,850	168,580	254,258
2008-2012.....	-	-	854,033	1,125,544	66,022	12,141	920,055	1,137,685
2013-2017.....	-	-	973,520	889,050	30,973	3,823	1,004,493	892,873
2018-2022.....	-	-	1,069,155	613,354	7,274	894	1,076,429	614,248
2023-2027.....	-	-	1,201,241	291,766	932	227	1,202,173	291,993
2028-2032...	-	-	477,221	52,910	433	30	477,654	52,940
Total.........	$ 2,000	$ 187	$ 5,177,760	$ 4,287,779	$ 183,667	$ 41,447	$ 5,363,427	$ 4,329,413

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2002 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
2003............	$ 5,570	$ 21,167	$ 14,511	$ 18,662	$ -	$ 691	$ 20,081	$ 40,520
2004............	10,734	39,777	15,449	19,496	-	691	26,183	59,964
2005............	33,661	84,458	16,101	20,016	-	691	49,762	105,165
2006............	5,550	13,670	15,032	19,273	-	691	20,582	33,634
2007............	5,271	14,018	15,545	18,512	675	691	21,491	33,221
2008-2012.....	23,635	73,927	76,984	79,216	5,247	2,977	105,866	156,120
2013-2017.....	48,698	49,950	102,285	49,836	7,948	1,908	158,931	101,694
2018-2022.....	43,955	8,008	93,587	23,950	1,300	1,380	138,842	33,338
2023-2027.....	11,276	1,175	31,633	32,702	1,620	1,060	44,529	34,937
2028-2032...	-	-	-	-	2,019	661	2,019	661
2033-2037...	-	-	-	-	1,691	183	1,691	183
Total.........	$ 188,350	$ 306,150	$ 381,127	$ 281,663	$ 20,500	$ 11,624	$ 589,977	$ 599,437

(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.

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, 2002 follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2001	$ 969,510
Bonds issued:	
Series 2001E, Branch Library Bonds..	(17,665)
Net authorized and unissued as of June 30, 2002	$ 951,845

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2002.

In the November 2000 election, $105.9 million was authorized for the improvement of various library branches. Of this, $17.7 million Branch Library Facilities Improvement Bonds, Series 2001E was issued in July 2001. Interest rates range from 4% to 7%. The bonds mature from June 2002 through June 2021. 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 $2 million as of June 30, 2002. 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.

Advance Refundings

In April 2002, the City issued $118.9 million of general obligation refunding bonds, Series 2002-R1 with interest rates ranging from 3.0% to 5.0% (maturing from June 2003 through June 2013) to advance refund a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds
(in thousands)

Description of Refunded Bonds	Amount Refunded	Average Interest Rate
Series 1993 A – Public Safety Improvement Projects, 1989	$ 10,505	5.323%
Series 1993 B - Public Safety Improvement Projects, 1990	44,055	5.323%
Series 1993 C - Golden Gate Park Improvements, 1992	5,400	5.323%
Series 1993 D - Fire Department Facilities Project, 1992	10,890	5.323%
Series 1995 A - Public Safety Improvement Projects, 1990	8,355	5.457%
Series 1995 B - Golden Gate Park Improvements, 1992	11,395	5.457%
Series 1996 A - City Hall Improvement Project	14,130	5.400%
Series 1996 B - Public Safety Improvement Projects, 1989	1,185	5.500%
Series 1996 C - Fire Department Facilities Project, 1992	2,205	5.500%
Series 1996 D - School District Facilities Improvements, 1994	6,530	5.500%
Series 1996 E - Asian Art Museum Relocation Project	3,860	5.500%
Total	$ 118,510	

The net proceeds of $121.2 million (including original issue premium of $2.8 million, and after payment of $0.58 million in underwriting fees, insurance, and other issuance costs) plus an additional $3.2 million of unspent prior bond 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 $118.5 million of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities of the statement of net assets.

Although the refunding resulted in the recognition of an accounting loss of $5.9 million for the year ended June 30, 2002, the City in effect reduced its aggregate debt service payments by $7.7 million over the next 11 years, and obtained an economic gain (difference between present value of the old and new debt service payments) of $6.2 million.

In July 2001, the City issued $15.5 million of refunding certificates of participation, Series 2001-1 with interest rates ranging from 4.0% to 5.0% (maturing from April 2003 through April 2017) to advance refund $16.7 million of outstanding Series 1991A and B certificates of participation with an average interest rate of 6.25%. The net proceeds of $15.1 million (including original issue premium of $0.07 million, and after

payment of $0.48 million in underwriting fees, insurance, and other issuance costs) plus an additional $1.8 million of unspent funds from the refunded certificates and an additional $0.95 million of other City 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 Series 1991A and B certificates of participation. As a result, the refunded certificates of participation are considered to be defeased and the liability for those certificates of participation has been removed from the governmental activities of the statement of net assets.

Although the refunding resulted in the recognition of an accounting loss of $1 million for the year ended June 30, 2002, the City in effect reduced its aggregate debt service payments by $1.4 million over the next 15 years, and obtained an economic gain (difference between present value of the old and new debt service payments) of $1 million.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2002 are as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2001	$ 133,738
Increase in authorization in this fiscal year:	
Annual increase in Finance Corporation's equipment program	1,629
Current year maturities in Finance Corporation's equipment program	6,485
Bonds issued:	
Series 2002A, San Francisco Finance Corporation	(7,900)
Net authorized and unissued as of June 30, 2002	$ 133,952

Finance Corporation

The San Francisco Finance Corporation ("Finance Corporation") was formed in 1991. 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 Indenture and Equipment Lease Agreements. 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 purpose.

(a) Equipment Lease Program

Prior to June 1990, the City Charter prohibited the City from lease-purchasing equipment or real property through public entities or non-profit corporations using tax-exempt obligations without a vote of the electorate. 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, 2002, the total authorized amount is $34.2 million. The total accumulated annual authorization since 1990 is $14.2 million of which $1.6 million is new annual authorization for the fiscal year ending June 30, 2002.

In May 2002, the Finance Corporation issued its tenth Series of equipment lease revenue bonds in the amount of $7.9 million with interest rates ranging from 3.0 to 3.6%. The bonds mature from April 2003 through October 2007.

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 $83.5 million in equipment lease revenue bonds since 1990. As of June 30, 2002, $64.7 million has been repaid leaving $18.9 million in equipment lease revenue bonds outstanding and $15.3 million available for new issuance.

(b) City-wide Communication System

In 1993, the Finance Corporation was authorized to issue lease revenue bonds of up to $50 million for the acquisition and construction of a citywide emergency radio communication system (800mhz). There were two issues made in January 1998 for $31.3 million and in January 1999 for $18.7 million. Further, the Finance Corporation was authorized in 1994 to issue lease revenue bonds of up to $60 million for the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. There were two issues made in June 1998 for $23.3 million and in June 1997 for $22.6 million. As of June 30, 2002, 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 George R. 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 cash with fiscal agent accounts 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, 2002, was 2.07%. The final maturity date is April 2030.

Parking Authority

As approved by the voters in November 1989, Proposition F authorized the City and the Parking Authority to finance the construction of parking lots or garages in eight of the City's neighborhoods, using lease financing. There is no limitation on the amount of bonds that can be issued. On July 12, 2000, $8.2 million lease revenue bonds, Series 2000A, were sold to finance the design and construction of an approximately 200-space, four level parking facility described as North Beach Parking Garage Project. Interest rates range from 4.3% to 6.0%. The final maturity date is June 15, 2022. The Parking Authority leases the garage to the City and the City makes lease payments from the City's general fund. The garage opened in February 2002.

Certificates of Participation

In September 2001, the City issued $37.2 million in Certificates of Participation to finance the acquisition of an office building at 30 Van Ness. These certificates consist of Series 2001A for $35.3 million and Taxable Series 2001B for $1.9 million. The Series 2001A Certificates have interest rates ranging from 3.6% to 5.0% and mature in 2031. The Taxable Series 2001B Certificates have interest rates ranging from 3.25% to 4.625% and mature in 2006.

Settlement Obligation Bonds

In August 2001, the City issued $60.8 million in Settlement Obligation Bonds, Series 2001. The bonds have interest rates ranging from 3% to 4% and mature from March 2002 through March 2011. The bonds were issued to refund certain obligations resulting from the settlement of business tax litigation against the City.

Solar Power and Energy Conservation Revenue Bond

In November 2001, the voters approved Proposition H which is a Charter amendment that added another exception to the voter-approval requirement for issuing revenue bonds. Under the proposed exception, the Board of Supervisors can authorize the issuance of revenue bonds to buy, build, or improve renewable energy facilities or energy conservation facilities without voter approval.

On the same election date, the voters also approved Proposition B, Solar Energy Revenue Bond. Proposition B authorizes the City to issue revenue bonds and other forms of revenue financing in a principal amount not to exceed $100 million to build solar and other renewable energy facilities to supply electricity to City agencies. The money also would fund energy conservation facilities and equipment. The City would repay the principal and interest on the bonds from energy cost reductions as a result of the proposed facilities.

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.

Airport

On July 11, 2001, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 27 (Issue 27) in the amount of $488.5 million with interest rates ranging for 4% to 5.5%. A portion of the proceeds from Issue 27 were deposited into an irrevocable trust with an escrow agent for the repayment of SFO's then outstanding commercial paper, and a portion of the proceeds were used to advance refund certain of the Airport's Second Series Revenue Bonds as follows (in thousands):

San Francisco International Airport Refunding Bonds
(in thousands)

Second Series Revenue Bond Issuance:	Amount Refunded	Average Interest Rate
Issue 8B	$ 825	5.20%
Issue 9b	15,310	5.00%-5.25%
Issue 10B	1,550	5.20%
Issue 11	78,950	5.75%-6.25%
Issue 12B	26,975	5.5%-5.63%
Issue 13A	10,750	7.13%
Issue 16B	6,760	5.25%-5.50%
Issue 17	2,885	5.25%-5.50%
Issue 18B	2,715	5.25%
Issue 19	685	5.25%
Total	$ 147,405	

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2006 to May 1, 2026 and call dates ranging from May 1, 2004 to May 1, 2008.

The net proceeds of $156.6 million (including original issue premium of $3.5 million, and after depositing $309 million in an irrevocable trust for the repayment of commercial paper, $20.9 million with a fiscal agent to provide for future debt service, and $0.7 million in a construction account to provide funding for future construction activity, and the payment $4.8 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Treasury Securities – State and Local Series. Those securities were deposited in irrevocable trusts with an escrow agent to provide debt service payments of the refunded portion of the bonds identified above until the bonds are called beginning May 1, 2004 and ending May 1, 2008.

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

Although the advance refunding resulted in the recognition of a deferred accounting loss of $12 million for the year ended June 30, 2002, SFO in effect reduced its aggregate debt service payments by approximately $13 million over the next 25 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $8.2 million.

On March 14, 2002, the Airport issued Second Series Revenue Bond Issue 28 (Issue 28) in the amount of $365 million with interest rates ranging for 2% to 5.5%. A portion of the proceeds from Issue 28 were deposited into an irrevocable trust with an escrow agent for the repayment of the Airport's then outstanding commercial paper, and a portion of the proceeds were used to advance refund $99.4 million of the Airport's Second Series Revenue Bonds Issue 1.

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2003 to May 1, 2013 and a call date of May 1, 2002.

The net proceeds of $97.5 million (including original issue premium of $4.3 million, and after depositing $248.1 million in an irrevocable trust for the repayment of commercial paper, $17.6 million with a fiscal agent to provide for future debt service, and $1.3 million in a construction account to provide funding for future construction activity, and the payment $4.8 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Treasury Securities – State and Local Series. Those securities were deposited in irrevocable trusts with an escrow agent to provide debt service payments of the refunded portion of Issue 1 until the bonds were called and repaid on May 1, 2002.

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

Although the advance refunding resulted in the recognition of a deferred accounting loss of $5.4 million for the year ended June 30, 2002, the Airport in effect reduced its aggregate debt service payments by approximately $11.5 million over the next 11 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $11 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 (discussed above). Moreover, SFO obtained a $200 million standby letter of credit in current fiscal year 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, 2002, there is no commercial paper balance outstanding.

Water Department

In November 1997, the San Francisco voters approved Propositions A & B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the Public Utilities 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. Under the enabling ordinance approved by the Board of Supervisors, the maximum amount of commercial paper that may be outstanding at any given time is $150 million. As of June 30, 2002, the amount of outstanding commercial paper was $90 million.

During fiscal year 2002, Water Department issued $140 million of Water Revenue Bonds, Series 2001A. The Revenue Bonds include current interest serial and term bonds with interest rates varying from 4.0 to 5.0%. The current interest serial bonds mature from November 1, 2002, through November 1, 2021 and the current interest term bonds mature from November 1, 2002 through November 1, 2031.

General Hospital Medical Center

In June 2002, the General Hospital entered into a five-year capital lease with the Finance Corporation for various equipment. The principal amount of the capital lease is $0.8 million. The interest rates range from 3% to 3.8% and the lease matures from 2003 through 2007.

Parking Garages

In May 2001, the Uptown Parking Corporation, issued $19 million of bonds for the purpose of financing improvements to the Union Square Garage facility. The bonds mature starting in 2003 and are to be fully retired by 2031. The bonds bear interest at rates from 4.5% to 6.0%. The Corporation has pledged its gross revenues and all funds and amounts held under the trust indenture as security for payment of the bonds. Additionally, the trust indenture requires the Corporation to maintain certain ratios and levels of cash and cash equivalents.

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, 2002 was $1,858 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, 2001, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits	1,935	1,722	13,951	17,608
Active members:				
Vested	1,669	1,211	16,852	19,732
Nonvested	512	592	9,688	10,792
Subtotal	2,181	1,803	26,540	30,524
Total	4,116	3,525	40,491	48,132

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 2001-02 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 2001-02 because the City is funded at 129.0% of liability.

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, 2001. 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
6/30/2000	$ 0	N/A	$ 0
6/30/2001	$ 0	N/A	$ 0
6/30/2002	$ 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 2001-02 contribution rate is 0% of annual covered payroll because the City is funded at 144.3%. 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 2001-02 was equal to the City's required and actual contributions which was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 1999 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
6/30/1997	$ 0	N/A	$0
6/30/1998	$ 0	N/A	$0
6/30/1999	$ 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 5.432% because the City is funded at 131.2%. 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 2001-02 was equal to the City's required and actual contributions which was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 1999 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% 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
6/30/1997	$12,759	100%	$0
6/30/1998	$ 8,392	100%	$0
6/30/1999	$ 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 $218.9 million in fiscal year 2002. 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 $47.3 million to provide post-retirement health care benefits for 18,335 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the Health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 2nd Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In June 1992, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the "Transportation Fund for Clean Air" Program (AB 434) which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

The Authority serves as the Congestion Management Agency under state laws, and in that capacity prioritizes state and federal transportation funds for San Francisco. The funding is administered by the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans was awarded $6 million in federal grant funds.

Following is a summary of the Authority's financial position and results of operations as of and for the year ended June 30, 2002 (in thousands).

ASSETS

Deposits and investments	$ 128,709
Receivables	26,305
Total assets	$ 155,014

LIABILITES AND FUND BALANCE

Due to other funds	$ 10,445
Other liabilities	1,829
Total liabilities	12,274
Fund balance:	
Reserved for encumbrances	134,730
Unreserved	8,010
Total fund balance	142,740
Total liabilities and fund balance	$ 155,014

OPERATIONS

Revenues:	
Sales tax	$ 62,861
Interest and investment income	8,856
Intergovernmental	3,846
	75,563
Expenditures and other financing uses:	
Public works, transportation, and commerce	78,027
Transfer to other funds	16,833
	94,860
Deficiency of revenues under expenditures and other financing uses	(19,297)
Fund balance at beginning of year	162,037
Fund balance at end of year	$ 142,740

(11) DETAIL 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 Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2001 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States both in terms of passengers (9th) 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 new International Terminal Complex (ITC), which opened December 10, 2000, was the centerpiece of SFO's Near Term Master Plan (NTMP) projects. NTMP projects include the new ITC, the AirTrain System, inbound/outbound ramps and elevated circulation roadways to connect the ITC to U.S. Highway 101, and individual projects generally consisting of other terminal, parking, cargo, general aviation, emergency response, security and other facilities and improvements. With the exception of the AirTrain system, most of the NTMP projects have been substantially completed. The Commission has issued $4.6 billion in aggregate principal amount of Second Series Revenue Bonds (exclusive of the Issue 28 Bonds), of which $2.85 billion was issued to fund costs related to the NTMP projects. In addition to Bonds issued for NTMP purposes, the Commission has issued $503 million in Bonds to refund previously outstanding senior lien revenue bonds 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 a Bay Area Rapid Transit (BART) extension to the Airport and $756.5 million to refund certain Second Series Revenue Bonds and commercial paper notes of the Commission. The Commission developed a five-year capital plan (the "Capital Plan") to meet the future needs of the Airport. However, as a result of the September 11, 2001 terrorist attacks, current economic conditions, and the resulting decrease in Airport revenues, the Commission has put its Capital Plan on hold indefinitely and has cancelled or postponed most capital projects that are not already in progress or related to safety and security of the Airport.

The Airport has financed its capital program primarily through the issuance of revenue bonds and commercial paper secured by a pledge of the Net Revenues of the Airport, and through interest earnings, Airport operating revenues, and Federal grants. On July 27, 2001, the FAA approved the Airport's collection and use of a $4.50 Passenger Facility Charge ("PFC") per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for eligible project development activities and studies relating to a potential runway reconfiguration. The FAA authorized the Airport to collect approximately $112.7 million in PFC revenue through June 2003 under this first PFC application ("PFC Application Number 1"). On March 21, 2002, the FAA approved PFC Application Number 2 for the period June 2, 2003 through April 1, 2008, to pay debt service on the bonds issued to finance eligible projects. The amount of PFC revenues to be collected under PFC Application Number 2 is estimated to be $224 million.

For the year ended June 30, 2002, the Airport has reported $40.6 million of PFC revenue which is included in other non operating revenues in the accompanying basic financial statements. The Commission intends to designate $18.8 million of PFC revenue collected during fiscal year ended June 30, 2002 as revenues under the 1991 Master Resolution. The PFC funds received by the Airport are subject to audit and final acceptance by the FAA and costs reimbursed with PFC revenues are subject to adjustment upon audit.

The Commission has three outstanding issues of Special Facility Bonds, which were issued to finance the construction of jet fuel distribution and related facilities at the Airport for the benefit of the airlines: $93.4 million of San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A; $12.3 million of San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997B (Taxable); and $19.3 million of San Francisco International Airport, 1997 Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A (collectively, the "SFO FUEL Bonds"). SFO FUEL Bonds are payable from and secured by payments made by a special purpose limited liability company (the "LLC") pursuant to a lease agreement between the Commission and the company with respect to the jet fuel distribution facilities. The LLC was formed by certain airlines operating at the Airport, including United Airlines, which were its initial members. The lease payments, and therefore the SFO FUEL Bonds, are payable from charges imposed by the LLC for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues. The SFO FUEL Bonds are further secured by an Interline Agreement among the participating airlines, including United Airlines, under which the participating airlines are obligated to make payments to the LLC equal to its total net costs, including the lease payments due to the Commission with respect to the SFO FUEL Bonds. All airlines operating at the Airport are required to have aviation fuel delivered to their aircraft through the LLC's jet fuel distribution facilities.

Due to the Commission'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, the Airport 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 ending June 30, 2002 was $17.8 million.

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). Prior to 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of $1.2 million for twenty 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. In January 2002, the Port and its insurers reached a settlement to complete the required construction repairs at Pier 48. The Port has received insurance payments of $6.8 million for approved and completed repairs and $8.0 million in an escrow account to fund certain seismic retrofit work. Through June 30, 2002, 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.

In July 1997, the Port entered into a ten-year subordinate commercial loan agreement with a bank for $12 million to finance certain capital projects. The outstanding balance of $8.7 million was paid off on July 2, 2001. The loan obligation was subordinate to all bonds payable by the Port. The loan interest rate, which adjusts with the LIBOR rate, at the payment date was 5.68%.

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 15,000 cubic yards 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 has been tested to identify potential disposal and re-use options for which the Port has obtained current cost estimates ranging from $0.8 to $1.2 million. The Port has recorded a provision of $0.8 million for the remediation of the contaminated soils as of June 30, 2002.

The Port is presently planning various development projects which involve a commitment to expend significant funds. Purchase commitments at June 30, 2002 were $9.2 million for capital projects and $1.7 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, 2002 $1.5 million has been appropriated and $0.9 million has been expended for projects under the agreement.

(c) Water Department

The San Francisco Water Department (Water) was established in 1930. Water, 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. Water delivers water, approximately 93,194 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 Public Utilities Commission (the Commission), established in 1932 provides the operational oversight for the Water Department, Hetch Hetchy Water and Power, and the Clean Water Program. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

Water 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 2002, water sales to suburban resale customers were $70.4 million. As of June 30, 2002, Water owed suburban resale customers approximately $10.9 million under the Suburban Water Rate Agreement.

As of June 30, 2002, Water had outstanding commitments with third parties of $82.4 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 this plan is estimated to be $22.7 million and was accrued in fiscal year 2001. During fiscal year 2002, Water expended $2 million in accordance with the plan.

(d) Hetch Hetchy Water and Power

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.

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.

Charges for services for the year ended June 30, 2002 include $64.8 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, 2002, Hetch Hetchy had outstanding commitments with third parties of $6.3 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy is party to a fixed price, forward contract (the Contract) to purchase electricity from a third party energy provider with scheduled future delivery over a five-year period that began July 1, 2001. Hetch Hetcy entered into the Contract on May 9, 2001 to purchase 2.19 million mWhrs of electric energy. Under this 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 $33.0 million annually, for a total of $131.8 million through June 30, 2006. Expenditures under this contract totaled $41.7 million in fiscal year ending June 30, 2002.

Hetch Hetchy serves as an intermediary agency between Pacific Gas & Electric Company (PG&E) and all City Departments for the design and construction of various electrical components and other related systems needed to deliver electricity. As of June 30, 2002 various City Departments were indebted to Hetch Hetchy for construction costs of approximately $0.21 million, incurred by Hetch Hetchy on their behalf. This is accounted for in due from other funds and internal balances within the basic financial statements. 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 Public Utilities 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 2002, Hetch Hetchy purchased $14.4 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 Modesto and Turlock Irrigation Districts (the Districts) in which the Districts 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 1998, 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. For fiscal year 2002, power sales to the Districts totaled 871,807 mWhrs or $22.6 million.

(e) Municipal Railway

The San Francisco Municipal Railway (MUNI) is the City's public transit agency. MUNI was established in 1912. During the fiscal year 1999-2000, the San Francisco Municipal Transit Agency (MTA) was created by Proposition E, a Charter amendment approved by the voters, to run MUNI. MTA replaced the San Francisco Public Transportation Commission. The data reflects the combined operations of MUNI and the San Francisco Municipal Railway Improvement Corporation (SFMRIC). 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.

The City's Annual Appropriation Ordinance provides funds to subsidize MUNI's operating deficits as determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of the fiscal year 2001-2002 General Fund Subsidy to MUNI was $94 million.

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2002, MUNI had approved capital grants with unused balances amounting to $294.6 million. Capital grants receivable as of June 30, 2002 totaled $41.2 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, 2002, MUNI had various operating grants receivable of $5.7 million.

These capital grants and operating assistance include funds from the Authority. During the year ended June 30, 2002, the Authority approved $79 million in new capital grants and $17.2 million in new operating grants for MUNI. During the same period, MUNI received total payments of $68.7 million for capital grants and $18.4 million in operating grants from the Authority. As of June 30, 2002, MUNI had $10.4 million due from the Authority for capital grants and had no funds due from the Authority 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 $88.1 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 $10.6 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRIC's Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.7 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. 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.

In April 2001, the Municipal Transportation Agency 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, after obtaining final approval from the Municipal Transportation Agency Board of Directors. MUNI simultaneously entered into two transactions, a lease 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 are not recorded on the financial statements of MUNI as of June 30, 2002.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2002 of $35.5 million, for the difference between the amount received of $388.2 and the amount paid to the trust for the future sublease payments of $352.7, which will be amortized over the life of the sublease.

(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, 2002, the subsidy for LHH was $28 million.

Net income of LHH on a GAAP basis	$21,025
Tobacco claims settlement*	(20,970)
Net loss on specific/donor restricted funds	(1,578)
Operating subsidy from City General Fund	(27,047)
Operating subsidy from General Hospital Medical Center	(1,100)
Net loss on LHH on a GAAP basis before operating subsidy	(29,670)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	9,210
Change in encumbrances and appropriation carry forwards	(10,338)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,651
Net loss of LHH requiring General Fund subsidy on a budget basis	$(28,147)

*During the fiscal year ended June 30, 2002, LHH received approximately $21 million of the tobacco settlement funds and $1.6 million in income from investments. 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, 2002, Medicare and Medi-Cal charges for services amounted to approximately $3.6 million and $102 million, respectively. As of June 30, 2002, LHH had net patient receivables from Medicare of $1.8 million and net patient receivables from Medi-Cal of $22.1 million.

During fiscal year ended June 30, 2002, LHH received approximately $12.3 million payment 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.

(g) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2002, the subsidy for SFGH was $72.3 million.

Loss before operating transfers of SFGH on a GAAP basis	$(7,374)
Reimbursement to City General Fund for SB 855 matching program	(70,523)
Net gain on specific/donor restricted funds	148
Operating transfers from City General Fund to support SFGH on:	
Operation of Mental Health Rehabilitation Facility	(938)
Other Program Support	(81)
Interest expense on the overdraft funds with the City Treasury	1,221
Operating transfers from SFGH to LHH	1,100
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(6,666)
Change in encumbrances and appropriation carryforwards	4,585
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,284
Other expenses	(101)
Net loss of SFGH requiring General Fund subsidy on a Budget basis	$(72,345)

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, 2002, Medicare and Medi-Cal revenue accounted for $50 million and $61 million of net patient service revenue respectively. As of June 30, 2002, SFGH had net patient receivables from Medicare of $8.3 million and net patient receivables from Medi-Cal of $17.2 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 $106.2 million for the fiscal year ended June 30, 2002. This revenue was offset by a reduction in the General Fund operating subsidy of $70.5 million for net SB 855 revenues of $35.7 million for the year ended June 30, 2002.

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, 2002, SFGH recognized gross patient revenue in the amount of $46 million offset by a reduction in the contribution provided by the City of $26 million for net SB 1255 revenues of $20 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, 2002, SFGH recognized net patient service revenue in the amount of $1.3 million pertaining to this program.

As of June 30, 2002, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately $46.6 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 non-operating state revenue for the year ended June 30, 2002 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, 2002, reimbursement under the Short-Doyle program amounted to approximately $5.1 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, 2002 amounted to $3.5 million and are included in non-operating state 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 $155 million and estimated costs and expenses to provide charity care were $115 million in fiscal year 2001-2002.

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, 2002 was approximately $46.0 million.

(h) Clean Water Program

The Clean Water Program (CWP) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

CWP's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

CWP has entered into several loan contracts with the California State Water Resources Control Board under which CWP borrowed monies to finance the construction of certain facilities. As of June 30, 2002, CWP had $179.6 million of loan principal outstanding.

On December 1, 2001, the CWP defeased (in-substance) $28.4 million of outstanding sewer revenue bonds. The CWP did not issue additional bonds to defease the outstanding issues, but used funds received from the State of California Water Resources Control Revolving Fund Loan Program. The defeased bonds include $21 million of 1992 sewer revenue refunding bonds with interest rates ranging from 5.7% to 5.8%, $5.4 million of 1994 sewer revenue refunding bonds with interest rates of 4.7%, and $2.0 million of 1995A sewer revenue bonds with interest rates of 5.4%. Funds of $30.2 million were deposited in an irrevocable trust with an escrow agent and invested in a U.S. Treasury Money Market Fund to provide for all future debt service payments on the refunded sewer revenue bonds. As a result, the refunded sewer revenue bonds are considered to be defeased in substance and the liability for those bonds has been removed from the accompanying basic financial statements. The difference between the $30.2 million deposited with the escrow agent and the carrying amount of the refunded sewer revenue bonds of $27.6 million (net of $0.8 million in unamortized bond issuance costs, original issue discounts, and refunding loss associated with those bonds) has been reported as a component of interest expense in the accompanying basic financial statements.

In 1995, CWP entered into a forward purchase and sale agreement with a financial institution. Under the agreement, CWP received an up front fee of $8.9 million from the financial institution. In exchange, CWP will use its debt service payments not yet due to bondholders to purchase short-term U.S. Treasury bills at face value. Revenue is being recognized over the life of the agreement based on the present value of the future earnings. The fee was recorded as deferred revenue, and the unamortized balance as of June 30, 2002 was $1.4 million.

As of June 30, 2002, the CWP had purchase commitments for construction and for materials and services totaling $9.5 million.

(i) Parking Garages/Other

The data reflects the operations of five parking garages operated by separate nonprofit corporations organized by the City. This data also includes the San Francisco Market Corporation, a nonprofit corporation organized to acquire, construct, finance and operate a produce market. This information about these nonprofit corporations for the year ended June 30, 2002 follows (in thousands):

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	San Francisco Market	Total
Operating revenues	$ 11,461	$ 13,982	$ 2,184	$ 3,741	$ 3,004	$ 1,273	$ 35,645
Depreciation	670	-	-	-	134	264	1,068
Operating income (loss)	1,527	2,013	(120)	687	166	444	4,717
Interest and other non-operating revenues (expenses)	(1,383)	62	33	(345)	(9)	(26)	(1,668)
Change in net assets	144	2,075	(87)	342	157	418	3,049
Capital assets, additions	441	20,524	31	510	143	71	21,720
Capital assets, deletions	870	1,705	-	-	-	6	2,581
Net working capital (deficit)	(6,815)	(12,595)	147	(676)	454	683	(18,802)
Total assets	29,569	61,878	7,344	18,515	3,043	6,791	127,140
Total liabilities	19,727	33,896	426	5,788	652	714	61,203
Net assets	9,842	27,982	6,918	12,727	2,391	6,077	65,937
Total debt outstanding	$ 12,655	$ 19,620	$ -	$ 5,225	$ 104	$ 388	$ 37,992

(12) SAN FRANCISCO REDEVELOPMENT AGENCY

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 program which is funded by a grant from the U.S. Department of Housing and Urban Development. Under a grant with the Office of Economic Adjustment on behalf of the U.S. Department of Defense, the Agency has also undertaken community economic adjustment activities for planning the reuse of Hunters Point Naval Shipyard.

In October and November 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, and Tax Allocation Agreements. 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.

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 $59.4 million.

Outstanding bond issues had interest accretion of approximately $154.9 million during the current year. Interest accretion is included in the outstanding principal balance of the related bonds in the basic financial statements.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately $701 million at June 30, 2002, 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 the Low and Moderate Income Housing Fund to account for this commitment and has reserved $223 million for such expenditures. The Agency has expended $147 million for low and moderate income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $27.4 million at June 30, 2002.

During the year the Agency incorporated the Public Initiatives Development Corporation, which is chartered to develop affordable housing on the Agency's behalf. There was no financial activity during the year.

(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 2002, TIDA's primary sources of revenues included facility rents and federal grant funding from the U.S. Navy under a cooperative agreement. Under the cooperative agreement, TIDA provides caretaker services for areas of Treasure and Yerba Buena Islands which are owned by the U.S Navy and not leased to TIDA.

During fiscal year 2002, TIDA initiated negotiations with the Navy based on TIDA's application for the economic conveyance of the former naval station; issued a Request for Proposals for a Primary Developer to complete the primary developer selection process; worked on preparing a CEQA-compliant Environmental Impact Report based on the Navy's administrative draft Environmental Impact Statement; and selected a contractor to draft the Treasure Island Redevelopment Plan.

(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, 2002 is as follows (in thousands):

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental fund	$ 22,516
	General Hospital Medical Center	31,694
	Laguna Honda Hospital	10,414
	Internal Service Funds	2,027
		66,651
Nonmajor Governmental Fund	Nonmajor Governmental Fund	54
Municipal Railway	Nonmajor governmental fund	10,445
	Hetch Hetchy Water and Power	1,200
	Clean Water Program	800
		12,445
Hetchy Hetchy Water and Power	San Francisco International Airport	206
General Hospital Medical Center	Nonmajor governmental fund	802
Laguna Honda Hospital	Nonmajor governmental fund	76
Total		$ 80,234

Due to / from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component unit - SF Redevelopment Agency	$ 22,587

Interfund transfers:

Transfers Out:	Transfers In: General Fund	Nonmajor Governmental Funds	Internal Service Funds	Municipal Railway	San Francisco General Hospital	Laguna Honda Hospital	Total
General fund	$ -	$ 120,670	$ 512	$ 94,305	$ 73,646	$ 27,558	$ 316,691
Nonmajor governmental funds	21,441	180,776	-	16,833	938	1	219,989
Internal Service funds	-	-	-	-	-	-	-
San Francisco International Airport	17,784	-	-	-	-	-	17,784
General Hospital Medical Center	70,523	-	-	-	-	1,100	71,623
Hetch Hetchy Water and Power	-	382	-	-	-	-	382
Municipal Railway	193	-	-	-	-	-	193
Less amount transferred to internal service funds	-	(144,662)	-	-	-	-	(144,662)
Total transfers out	$ 109,941	$ 157,166	$ 512	$ 111,138	$ 74,584	$ 28,659	$ 482,000

The $317 million General Fund transfer out includes a total of $195.5 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $120.7 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 $70.5 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), $17.8 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)).

Included with the $180.8 million transferred out of nonmajor governmental funds is approximately $144.7 million which was transferred to a newly created internal service fund to report the operations of the Finance Corporation. Because internal service funds report certain long-term assets and liabilities that are not reported in governmental funds, there is no corresponding transfers in reported within internal service funds related to the creation of this fund (Note 1). Also, $16.8 million was transferred out of nonmajor governmental funds to Municipal Railway for transportation projects.

(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	
2003	$ 24,439
2004	16,227
2005	15,427
2006	13,021
2007	8,356
2008-2012	10,691
Total	$ 88,161

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Railway	General Hospital Medical Center	Total Business-type Activities
2003	$ 5,437	$ 4,267	$ 4,405	$ 14,109
2004	5,402	3,931	1,584	10,917
2005	5,251	2,440	608	8,299
2006	5,509	803	168	6,480
2007	5,714	153	28	5,895
2008-2012	10,318	121	-	10,439
2013-2017	-	121	-	121
2018-2022	-	121	-	121
2023-2027	-	97	-	97
Total	$ 37,631	$ 12,054	$ 6,793	$ 56,478

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	
2003	$ 2,109
2004	2,160
2005	2,198
2006	1,115
2007	757
2008-2012	3,785
2013-2017	3,785
2018-2022	3,785
2023-2027	3,785
2028-2032	3,785
2033-2037	3,785
2038-2042	3,785
2043-2047	3,786
2048-2052	2,271
Total	$ 40,891

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	
2003	$ 3,349
2004	2,042
2005	1,299
2006	898
2007	470
2008-2012	2,256
2013-2017	2,545
2018-2022	883
2023-2027	250
2028-2032	40
2033-2037	1
Total	$ 14,033

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Parking Garages	Total Business-type Activities
2003	$ 62,196	$ 26,858	$ 1,601	$ 2,515	$ 93,170
2004	47,483	23,851	1,730	2,606	75,670
2005	40,409	22,023	1,775	2,425	66,632
2006	34,481	19,302	1,802	2,155	57,740
2007	28,667	18,263	1,832	1,952	50,714
2008-2012	91,868	81,720	1,874	7,585	183,047
2013-2017	-	71,966	-	857	72,823
2018-2022	-	61,945	-	-	61,945
2023-2027	-	47,074	-	-	47,074
2028-2032	-	42,279	-	-	42,279
2033-2037	-	37,500	-	-	37,500
2038-2042	-	24,787	-	-	24,787
2043-2047	-	17,875	-	-	17,875
2048-2052	-	12,122	-	-	12,122
2053-2057	-	7,023	-	-	7,023
2058-2062	-	7,023	-	-	7,023
2063-2067	-	6,709	-	-	6,709
2068-2072	-	209	-	-	209
Total	$ 305,104	$ 528,529	$ 10,614	$ 20,095	$ 864,342

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	
2003	$ 2,642
2004	2,607
2005	2,685
2006	2,687
2007	2,688
2008-2012	12,872
2013-2017	13,473
2018-2022	13,810
2023-2027	14,456
2028-2032	15,432
2033-2037	16,518
2038-2042	17,739
2043-2047	16,085
2048-2052	444
Total	$ 134,138

(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
2003	$ 24,999	$ 2,102	$ 27,101
2004	19,953	1,651	21,604
2005	17,524	81	17,605
2006	20,090	-	20,090
2007	20,160	-	20,160
2008-2012	101,912	-	101,912
2013-2017	102,999	-	102,999
2018-2022	52,833	-	52,833
2023-2027	12,450	-	12,450
Total minimum lease payments	$ 372,920	$ 3,834	$ 376,754
Less amounts representing interest	(150,010)	(203)	(150,213)
Present value of maximum lease payments	$ 222,910	$ 3,631	$ 226,541

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.29 billion at June 30, 2002.

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, 2002, 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 Airport carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the Airport. The Airport does not carry insurance for losses due to seismic activity. The Airport is self-insured for general liability up to the first $10,000 and the Airport 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 $15,000,000 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, 2002 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, 2000, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2000-2001	$ 189,427	$ 35,219	$ (33,184)	$ 191,462
2001-2002	$ 191,462	$ (16,305)	$ (88,426)	$ 86,731

Breakdown of the estimated claims payable at June 30, 2002 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables	$ 9,224
Long-term portion of estimated claims payable	32,221
Business-type activities:	
Current portion of estimated claims payables	16,668
Long-term portion of estimated claims payable	28,618
Total	$ 86,731

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 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, 2002.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2002 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, 2002 was $ 304.2 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, 2000, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2000-2001	$ 234,616	$ 77,812	$ (55,636)	$ 256,792
2001-2002	256,792	109,671	(62,282)	304,181

Breakdown of the accrued workers' compensation liability at June 30, 2002 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability..................	$ 38,926
Long-term portion of accrued workers' compensation liability..............	137,851
Business-type activities:	
Current portion of accrued workers' compensation liability..................	30,476
Long-term portion of accrued workers' compensation liability..............	96,928
	$ 304,181

(17) SUBSEQUENT EVENTS

Long-term Debt

In July 2002, the Downtown Parking Corporation issued $13.6 million in Parking Revenue Refunding Bonds, Series 2002. The Series 2002 bonds were sold to provide funds, together with other available moneys, to refund $12.8 million aggregate outstanding principal amount of the Corporation's Parking Revenue Bonds, Series 1993. The proceeds of the 1993 Bonds were used to fund seismic upgrading and remodeling of the garage, and construction of two additional levels of parking, increasing parking capacity by approximately 840 spaces. The Series 2002 bonds have interest rates ranging from 3.0% to 5.375% and mature from April 2003 through April 2018. The bonds are secured by the revenues of the Corporation derived from the operation of the garage and the Corporation's leasehold interest in the garage.

In August 2002, the Water Department issued $164 million of Water Revenue Bonds, Series 2002A. Of the proceeds from the issuance, $90 million was used to refund all of Water's outstanding commercial paper. In addition, Water issued $86 million Water Revenue Bonds, Series 2002B for the purpose of refunding all outstanding Water Revenue Refunding Bonds Series 1992A.

In September 2002, the Finance Corporation redeemed $0.8 million of the Combined Emergency Communications Center, lease revenue bonds, Series 1997. The redemption resulted in a decrease in total debt service by $0.8 million on a net present value basis.

In October 2002, the City issued an aggregate amount of $29.3 million in General Obligation Bonds that consist of the Zoo Facilities Bonds, Series 2002A for $6.2 Million and $23.1 million for Branch Library Facilities Improvement Bonds, Series 2002B. The 2002A bonds will finance the acquisition, construction or reconstruction of San Francisco Zoo facilities and properties. The 2002B bonds will finance the acquisition, renovation and construction of branch libraries and other library facilities, except the Main Library. Interest rates range from 2.5% to 5.0%. The bonds mature from June 2003 through June 2022.

In October 2002, the Ellis-O'Farrell Parking Corporation issued $5.5 million in Parking Revenue Refunding Bonds, Series 2002. The Series 2002 bonds were being sold to provide funds, together with other available moneys, to refund $5.2 million aggregate outstanding principal amount of the Corporation's Parking Revenue Bonds, Series 1992. The proceeds of the 1992 Bonds were used to fund seismic upgrading and remodeling of the garage, and construction of two and one-half additional levels of parking, increasing parking capacity by approximately 350 spaces. The Series 2002 bonds have interest rates ranging from 3.5% to 4.7% and mature from April 2005 through April 2017. The bonds are secured by the revenues of the Corporation derived from the operation of the garage and the Corporation's leasehold interest in the garage.

Also in October 2002, Department of Parking and Traffic lease purchase financed the acquisition and installation of new electronic meters in the amount of $26 million. Interest rate on the lease purchase financing is 3.62% and the maturity dates are from April 2003 through October 2009.

In 1994, the City issued $35 million in Taxable General Obligation Bonds (Seismic Safety Loan Program) to provide loans for the seismic strengthening of privately owned unreinforced masonry buildings in the City. In October 2002, from proceeds of the bonds loan repayment and other sources, the City paid in full the $26.7 million outstanding principal, accrued interest from June 2002, and the redemption premiums.

The Redevelopment Agency of the City and County of San Francisco has its Commission and the Board of Supervisor's approval to issue up to $72 million in Lease Revenue Refunding Bonds to refund a portion of the 1992 Lease Revenue Bonds maturing on July 1, 2018. It is anticipated that such bonds would be issued in December 2002 or January 2003. As a result of the issuance of the lease revenue refunding bonds, the Agency would reduce total debt service payment and realize up-front savings, which will be applied to the construction of the Moscone West project. However, the issuance of the lease revenue refunding bonds may result in an increase in principal amount of outstanding lease revenue bonds by approximately $8.8 million.

Revenue Bonds Redemption

In October 2002, the General Purpose Sewer Revenue Bonds Series 1991 were completely redeemed and has the effect of reducing revenue bonds as reported as of June 30, 2002 by $3.6 million.

Elections

On November 5, 2002, the San Francisco voters approved the following propositions that will have fiscal impact on the City:

Proposition A - Water Bonds This authorizes the City to issue up to $1.62 billion in Revenue Bonds to finance improvements to its water system. Improvements will upgrade and strengthen the system's pipelines, tunnels and other facilities against earthquakes; upgrade the water storage and pipe transport system to the Bay Area; upgrade the water distribution system in San Francisco; meet future water quality standards and increase water system capacity.

Proposition E - Control of Operational Activities of Water Department, Clean Water Program, and Hetch Hetchy Water and Power This establishes provisions for exclusive control of various operational activities of the Water Department, Clean Water Program and Hetch Hetchy Water and Power enterprises. Such activities include rate-setting standards and methods, planning and reporting requirements, transfer of surplus funds between enterprises, contracting independence, issuance of revenue bonds, or other financing sources. Proposition E establishes a Rate Fairness Board consisting of seven members that will participate in rate setting. Proposition E also repeals the rate freeze enacted in 1998 for sewer rates. Proposition E is effective July 2, 2006 for water rates.

Proposition H - Police and Firefighter Retirement Benefits This amends the City's Charter to change the formula for retirement benefits for police and firefighters. The City estimates that retirement benefits would increase, as estimated by the Retirement System Actuary, by $28 million per year for the next 20 years, dropping after 20 years to an ongoing cost of approximately $8.2 million per year. However, no cash would be required since the City's Retirement System currently has a surplus and the City does not expect to have to make a contribution to the Retirement System for at least the next ten years.

Proposition I - Paid Parental Leave This amends the City's Charter to provide up to twelve weeks of paid leave for City employees who take time off after the birth, adoption, or foster care acceptance of a child. It also provides up to sixteen weeks of paid leave to City employees who give birth or suffer a pregnancy-related disability. The City estimates the increased cost of this amendment will be $6.3 million per year.

Proposition P - Public Utilities Revenue Bond Oversight Committee This proposition creates a committee to oversee the City's use of utility revenue-bond funds. The committee will report to the Mayor, Board of Supervisors and Public Utilities Commission (PUC) on whether these bond funds are being used for authorized purposes. The oversight committee can hold public hearings; review the expenditure of utility revenue-bond funds; review the PUC's capital improvement plans and proposals and other financial records; inspect utility facilities; and hire independent auditor, inspectors and other experts to assist in their oversight activities.

Wellness Program

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 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 Wellness Program will be in effect from July 1, 2002 to June 30, 2003.

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 estimates that the total cost of this will be $1.6 million during Fiscal Year ending June 30, 2003. The General City portion of this estimate is $1.3 million and the Enterprise Funds portion is $0.3 million.

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APPENDIX D

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

The following summary discussion of selected features of the Trust Agreement, the Project Lease and the Property Lease, all dated as of May 1, 2003, are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the office of the Controller of the City.

DEFINITIONS

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

"Administrative Code" means the San Francisco Administrative Code, as amended from time to time.

"Authorized Denomination" means $5,000 or any integral multiple thereof.

"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 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.

"Certificate Payment Date" means, with respect to any Certificate, the March 1 date designated therein, which is the date on which the principal component of the Base Rental evidenced and represented thereby shall become due and payable.

"Certificate Year" shall have the meaning assigned to such term in the Tax Certificate.

"Certificates" means the City and County of San Francisco Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project) authorized by the Trust Agreement and at any time Outstanding thereunder, which are executed and delivered by the Trustee under and pursuant to Trust Agreement.

"City" means the City and County of San Francisco, and its successors and assigns.

"City Representative" means the Mayor, the Controller, the Director of Public Finance or any other official of the City designated and authorized by the Controller of the City to act on behalf of the City under or with respect to the Trust Agreement, the Project Lease, the Property Lease and all other agreements related thereto.

"Closing Date" means the date of the original execution and delivery of the Certificates.

"Code" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such section.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the City, dated the Closing Date, as originally executed and as it may be amended from time to time.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Property Lease, the Project Lease, the Certificates and the preliminary and final official statements pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the financing of the Project and with respect to the validation proceedings occurring in connection therewith; any computer and other expenses incurred in connection with the Certificates; the initial fees and expenses of the Trustee and any paying agent (including without limitation, origination fees and first annual fees payable in advance); and other fees and expenses incurred in connection with the execution and delivery of the Certificates or the implementation of the financing for the Project, to the extent such fees and expenses are approved by a City Representative.

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

"Credit Facility" means any letter of credit, line of credit, insurance policy, surety bond or other credit source deposited with the Trustee by the City to satisfy the Reserve Requirement.

"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.

“Depository” means DTC and its successors and assigns or if (a) the then Depository resigns from its functions as securities depository of the Certificates or (b) the City discontinues use of the Depository pursuant to the Trust Agreement, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Certificates and which is selected by the City.

“Director of Property” means the City’s Director of Property or any successor officer of the City who performs substantially the same duties as the Director of Property performs as of the date of the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Electronic Notice” means notice given by The Bond Buyer Wire or Bloomberg Business News.

“Event of Default” means any one or more of the events described in the Trust Agreement.

“Final Completion” or “Final Completion of the Project” means the construction of Phase II of the Project, the installation of improvements and the substantial readiness of Phase II of the Project for use and occupancy by the City (subject to minor architectural finish items e.g., 'punch list' items) as evidenced by the delivery of the Certificate of Final Completion.

“Financing Documents” mean the Trust Agreement, the Property Lease, the Project Lease and the Continuing Disclosure Certificate, including any amendments or supplements to any of the foregoing documents.

“Fiscal Year” means the fiscal year of the City being July 1 to the following June 30 or any subsequent fiscal year adopted by the City.

“Fitch” means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Government Certificates” means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Government Obligations, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the Government Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Government Obligations and (iii) the underlying Government Obligations are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Government Obligations” means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the

Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Trustee, obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and prerefunded municipal obligations rated in the highest rating category by Moody's and S&P.

"Hazardous Substances" means any and all substances, wastes, pollutants and contaminants now or at any time after the date of the Project Lease included within such (or any similar) term under federal, state or local statute, ordinance, code or regulation now existing or hereinafter enacted or amended.

"Independent Counsel" means an attorney or firm of attorneys selected by the City.

"Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, or any successor thereto.

"Interest Payment Date" means a date on which interest evidenced and represented by the Certificates becomes due and payable, being March 1 and September 1 in each year, commencing September 1, 2003, and continuing until the Certificate Payment Date or earlier prepayment date of the Certificates.

"Investment Earnings" means interest received in respect of the investment of money on deposit in any fund or account maintained under the Trust Agreement.

"Leased Property" means the Site together with all improvements, structures and fixtures related thereto and located on the Site, as the same may be modified, substituted or withdrawn in accordance with the terms of the Project Lease.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Net Proceeds" means any net proceeds of insurance or condemnation proceeds paid with respect to the affected portion of the Leased Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

"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 Certificate Payment Date 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 in 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.

"Owner" means the registered owner, as indicated in the Certificate Register, of any Certificate.

"Permitted Encumbrances" means (i) those liens, charges, security interests and encumbrances other than those existing on or prior to the Closing Date or on or prior to the date any project is substituted for the Leased Property 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, including the exceptions listed on Schedule B to the Pro Forma Policy, 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 Leased Property 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, the obligations of which are guaranteed by the full faith and credit 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, the obligations of which are guaranteed by the non-full faith and credit 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) above, which, exclusive of accrued interest, shall be maintained at least 100% of par. In addition, repurchase agreements shall meet the following criteria: (i) the third party (who shall not be the provider of the collateral) has possession of the repurchase securities and the Government Obligations or Government Certificates; (ii) failure to maintain the requisite collateral levels shall require liquidation and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities;

(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.

In connection with the purchase of any Permitted Investment, the City may enter into agreements, including forward purchase agreements, with the seller thereof.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prepayment Notice" shall have the meaning assigned to such term in the Trust Agreement.

"Prepayment Price" means the principal amount represented by the Certificates, plus any applicable premium.

"Principal Office of the Trustee" means the corporate trust office of the Trustee located in San Francisco, California, or such other office that the Trustee may designate in writing to the City from time to time as the corporate trust office for purposes of this Trust Agreement; provided, however, that for purposes of the registration, transfer, exchange, payment or surrender of Certificates, the term "Principal Office of the Trustee" means care of the corporate trust office of the Trustee in St. Paul, Minnesota.

"Pro Forma Policy" means the Pro Forma Title Insurance Policy prepared by the Title Company, with respect to the Site.

"Project" means the new juvenile detention facility and related improvements to be acquired, constructed or renovated on the Site, as the same may be amended, modified or supplemented from time to time in accordance with this Project Lease. The Project will be constructed in two major phases. The first phase of the Project includes the completion of a complete and operational facility to house all required components of the Juvenile Hall ("Phase I"). The second phase of the Project includes the outdoor recreational field and a staff parking lot for the Juvenile Hall ("Phase II").

"Project Costs" means the contract price paid or to be paid to or at the direction of any contractor for the acquisition, construction, installation or improvement to, or rehabilitation of, the Project, and reimbursement to the City for any payments made for or in connection with the acquisition of or improvement to the Leased Property by the City prior to or subsequent to the Closing Date.

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

"Project Lease" means the Project Lease dated as of May 1, 2003, by and between the Trustee and the City with respect to the Project, including any amendments or supplements thereto.

"Project Lease Event of Default" means the occurrence and continuation of any event of default specified in the Project Lease.

"Project Lease Term" has the meaning assigned in the Project Lease.

"Project Lease Year" means the period from the Closing Date through February 29, 2004 and thereafter the period from each March 1, to and including the following February 28 or 29, as the case may be, during the Project Lease Term.

"Property Lease" means that certain Property Lease dated as of May 1, 2003, by and between the Trustee and the City with respect to the Leased Property, including any amendments or supplements thereto.

"Rating Agencies" means S&P, Fitch and/or Moody's, whichever then has a current rating on the Certificates.

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

"Record Date" means any Regular Record Date.

"Regular Record Date" means the close of business on the 15th day of the calendar month next preceding each Interest Payment Date, whether or not a Business Day.

"Rental Payments" means all Base Rental and Additional Rental payable under the Project Lease.

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

"Reserve Requirement" means, as of any date of calculation, the least of (i) the maximum annual principal and interest payable with respect to the Certificates in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest payable with respect to the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered.

"Risk Manager" means the Risk Manager of the City or any successor officer of the City performing substantially the same duties as the Risk Manager performs as of the date of the Project Lease.

"S&P" means Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Sinking Account Installment" means the principal amount of the Certificates required to be paid on any Interest Payment Date pursuant to sinking account installment prepayment under the Trust Agreement.

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

"State" means the State of California.

"Substantial Completion" or "Substantial Completion of the Project" means the construction of Phase I of the Project, the installation of improvements and the substantial readiness of Phase I of the Project for use and occupancy by the City (subject to minor architectural finish items, e.g. 'punch list' items) as evidenced by the delivery of the Certificate of Substantial Completion.

"Title Company" means Chicago Title Company.

"Tax Certificate" means the Tax Certificate dated the Closing Date and executed by the City.

"Tax-Exempt" means, with respect to interest on or with respect to any obligations of a state or local government, including the Certificates, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Treasurer" means the Treasurer of the City and County of San Francisco.

"Trust Agreement" means that certain Trust Agreement, dated as of May 1, 2003, by and between the City and the Trustee, including any amendments or supplements thereto.

"Trustee" means U.S. Bank National Association, a national banking association organized and existing under the laws of United States of America, acting in its capacity as such under the Trust Agreement, or any successor appointed as provided therein.

"Written Certification," "Written Direction" or "Written Request" means an instrument in writing signed on behalf of the City by a City Representative.

TRUST AGREEMENT

Moneys Held in Trust

The money and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the purposes specified in the Trust Agreement, and such money and investments, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of (i) the City, (ii) the Trustee, or (iii) any Owner or beneficial owner of any Certificate.

Funds and Accounts

The Trust Agreement establishes the following funds and accounts to be held by the Trustee: the Costs of Issuance Fund, the Project Fund, the Base Rental Fund, the Reserve Fund and the Rebate Fund.

Establishment and Application of Costs of Issuance Fund. There is established under the Trust Agreement in trust a special fund designated as the "Costs of Issuance 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 disburse money from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case, promptly after receipt of, and in accordance with, a Written Request of a City Representative. Any amounts remaining in the Costs of Issuance Fund on the earlier of the date on which a City Representative has notified the Trustee in writing that all Costs of Issuance have been paid or the date which is 12 months from the Closing Date shall be transferred by the Trustee to the Base Rental Fund, provided that such transfer has been approved in writing by a City Representative.

Establishment and Application of Project Fund. There is established under the Trust Agreement in trust a special fund designated as the "Project Fund," which fund shall be deemed 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 Trustee shall, from time to time, disburse money from the Project Fund to pay Project Costs, as provided in the Trust Agreement, in each case promptly after receipt of, and in accordance with, a Written Request of the City. Each officer of the City required to execute such Written Request shall have full authority to execute such Written Request without any further approval of the Board of Supervisors of the City. If, after payment by the Trustee of all requisitions theretofore tendered to the Trustee under the provisions of the Trust Agreement, and delivery to the Trustee of a Written Certificate of the City to the effect that all Project Costs have been paid, if there shall remain any balance of money in the Project Fund, all money so remaining shall be transferred first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and thereafter to the Base Rental Fund. Notwithstanding any other provision of the Trust Agreement, the City may, in its sole discretion and at any time, direct the Trustee to transfer moneys on deposit in the Project Fund representing investment earnings on amounts therein to the Base Rental Fund if the City determines, in its sole discretion, that such moneys will not be needed for the improvement of the Project. The Trustee shall make such transfer upon the receipt of a request executed by a City Representative directing it to make such transfer.

Establishment and Application of Base Rental Fund.

(a) There is established under the Trust Agreement 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 Base Rental Fund 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. The Trustee shall deposit in the Base Rental Fund (i) all Base Rental payments, (ii) all amounts, if any, required to be deposited in the Base Rental Fund pursuant to the Project Lease, (iii) all investment earnings required to be deposited therein pursuant to the provisions of the Trust Agreement, and (iv) all amounts required to be deposited pursuant to paragraph (b) below.

Moneys from the proceeds of the Certificates deposited in the Base Rental Fund and earnings thereon shall be credited as amounts due as Base Rental from the City on the following dates in the following amounts:

Date	Disbursements
September 1, 2003	$ 552,984.00
March 1, 2004	921,640.00
September 1, 2004	921,640.00
March 1, 2005	921,640.00
September 1, 2005	921,640.00

Any additional amounts in the Base Rental Fund shall also be credited to the Base Rental until expended.

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 that are available for the payment of interest and principal with respect to the Certificates. These amounts shall be deposited into the Base Rental Fund as appropriate, based upon Exhibit B of the Project Lease, as adjusted pursuant to the terms thereof.

Moneys held in the Base Rental Fund, other than as provided in subparagraph (b), below, 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 or Sinking Account Installments, if any, 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 represented by the Certificates when due, available amounts shall be allocated proportionately among the Certificates based on the amount of interest and principal then due with respect to each Certificate.

(b) Any net 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 or Leased Property, as applicable, and, under the terms of the Trust Agreement, required to be deposited into the Base Rental Fund, any amounts required to be transferred to the Base Rental Fund 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 Base Rental Fund. The Trustee shall, on the scheduled prepayment date withdraw from the Base Rental Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Certificates to be prepaid on such date.

(c) 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. Commencing March 1, 2006, 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 until expended).

Establishment and Application of Reserve Fund.

(a) There is established under the Trust Agreement in trust a special fund designated as the "Reserve Fund," together with such accounts therein as the City may request the Trustee to establish, 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.

(b) 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 components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy such Credit Facility shall be for the term of the Bonds. 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.

(c) 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.

(d) 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. In making any such valuations under the Trust Agreement, the Trustee may utilize and rely upon securities pricing services that may be available to it, including those within its regular accounting system. Any moneys in the Reserve Fund in excess of the

Reserve Requirement on each March 1 and September 1, commencing September 1, 2003, 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. There is established under the Trust Agreement 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.

Surplus

After (a) (i) payment or prepayment or provision for payment or prepayment of all amounts due with respect to the Certificates and payment of all fees and expenses to the Trustee, or (ii) defeasance of the Certificates pursuant to the Trust Agreement and (b) the transfer of any additional amounts required to be deposited into the Rebate Fund pursuant to a Written Request from a City Representative in accordance with the Tax Certificate, any amounts remaining in any of the funds, accounts or subaccounts established under the Trust Agreement (except for the Rebate Fund) and not required for such purposes shall after payment of any amounts due to the Trustee as evidenced by a Written Request of a City Representative, be remitted to the City and used for any lawful purpose thereof; provided, however, that in the event of defeasance, amounts shall not be remitted to the City until the City has delivered or caused to be delivered an opinion of Independent Counsel to the effect that remission of such amounts to the City shall not affect the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates. Investment Earnings on amounts on deposit in all funds, accounts or subaccounts established under the Trust Agreement shall be applied as provided in the Trust Agreement.

Additional Rental

In the event the Trustee receives Additional Rental pursuant to the Project Lease, the Trustee shall 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. 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 Leased Property 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 Leased Property 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 Leased Property or a portion thereof 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 the prepayment of Certificates in accordance with the Trust Agreement or applied to the cost of repair or replacement of the Leased Property 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 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, remaining after the Leased Property 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 Leased Property 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, it shall so notify the Trustee in writing, and then any excess amounts shall be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Eminent Domain

If the Leased Property 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 eminent domain provisions of 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 Leased Property 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 Leased Property, 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 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 remaining after the Leased Property has been replaced by property available to the City in substantially the same condition and fair rental value as that which existed prior to the eminent domain proceedings or the 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 Leased Property (including any replacement property) 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 shall be transferred to the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Title Insurance

Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property or any portion thereof for the benefit of the Owners shall be applied and disbursed by the Trustee as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental payable by the City under the Project Lease, such proceeds shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Amounts not required to be so deposited shall, if there is first delivered to the Trustee and the City a written certificate of a City Representative to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental 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 such amounts shall be transferred to the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

(b) If any portion of the Leased Property has been affected by such title defect, and if the City certifies in writing that such title defect will result in an abatement of Base Rental payable by the City under the Project Lease, then either (i) the Trustee on behalf of the City shall use the insurance proceeds to remove the title defect, or (ii) the Trustee shall, if not notified in writing by a City Representative within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, deposit such proceeds in the Base Rental Fund, and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

(c) Any excess proceeds with respect to title insurance remaining after application pursuant to the terms of the Trust Agreement shall be paid to the City to be used for any lawful purpose.

Investments

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, as Trustee, 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 Permitted Investments listed in clause (a) of the definition thereof that mature on the day prior to the next Interest Payment Date or in Permitted Investments described in clause (d) of the definition thereof, 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) of the definition thereof which (i) will mature on the day prior to the next Interest Payment Date and (ii) bears the highest net yield.

The Trustee acknowledges under the Trust Agreement 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.

For the purpose of determining the amount in any fund or account under the Trust Agreement other than the Reserve Fund, all Permitted Investments shall be valued on or before each March 1 and September 1 at the greater of cost or market value. All Permitted Investments on deposit in the Reserve Fund shall be valued on or before each March 1 and September 1.

The Trustee shall deposit, as and when received, all Investment Earnings on amounts on deposit in all funds, accounts and subaccounts maintained by it under the Trust Agreement with respect to the Certificates as follows (i) all Investment Earnings on amounts on deposit in the Base Rental Fund and the Project Fund shall be retained therein; (ii) all Investment Earnings on amounts on deposit in the Reserve Fund shall be transferred to the Base Rental Fund, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund; (iii) all Investment Earnings on amounts on deposit in the Rebate Fund shall be retained therein; and (iv) all Investment Earnings on amounts on deposit in the Costs of Issuance Fund shall be retained therein; in each case until such moneys are expended or such funds are closed as provided in the Trust Agreement.

Trustee

The Trust Agreement describes the Trustee and its duties, the procedures for its removal, resignation and compensation, and procedures for the appointment of any successor Trustee. In carrying out its duties under the Trust Agreement, the Trustee shall use the same degree of care and skill in its exercise as a prudent person would exercise or use in the conduct of such person's own affairs.

The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing under the Trust Agreement, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Trust Agreement, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or any substantial portion thereof or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City and to the Owners. Upon receiving such notice of resignation, the City shall appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment, other than pursuant to court order.

The Trustee must be a corporation, banking association or trust company doing business and having a principal corporate trust office in California and (i) having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authority or (ii) a wholly-owned subsidiary of a bank, trust company or bank holding company meeting on an aggregate basis the tests set out in clause (i) above. If such corporation, banking association, or trust company publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such corporation, banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

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. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners 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, or (e) 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 of the Trust Agreement, 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 payment date of any Certificate or reduce the rate of interest with respect thereto or extend the time of payment of such interest or reduce the amount of principal represented thereby 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 to the Trust Agreement 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 amendment provisions of the Trust Agreement without the prior written consent of the Owners of all Certificates then Outstanding.

Amendments to Project Lease

The Property Lease or the Project Lease may be amended in writing by agreement between the parties thereto with the written 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. Notwithstanding the foregoing, the Property Lease, the Project Lease and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners, 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 contained in the Property Lease or the Project Lease, (b) in regard to questions arising under the Property Lease or 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 Leased Property to release from the Property Lease or the Project Lease any portion thereof or to add or substitute other property and/or improvements for the Leased Property or any portion thereof or (d) 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 Property Lease or 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 satisfied the requirements set forth in the Project Lease.

Certain Covenants

City to Perform Property Lease and Project Lease. The City covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Property Lease and the Project Lease.

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and the City will not suffer or permit any default by it to occur thereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by it.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental, and such accounting records shall be available for inspection by the City or any Owner or his agent duly authorized in writing with prior notice at reasonable hours and under reasonable conditions.

Tax Matters. In order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the City covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code. In furtherance of this covenant, the City agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate, as such Tax Certificate may be amended from time to time. The Trustee agrees to comply with any written instructions received from a City Representative which such City Representative indicates must be followed in order to comply with the Tax Certificate. The Trustee shall have no duty or responsibility to enforce compliance by the City of such covenant or the terms of the Tax Certificate.

Continuing Disclosure. The City has covenanted under the Project Lease that it will comply with the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, to the extent indemnified from and against any cost, liability or expense, may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Certificate holder or Beneficial Owner may take such actions as may be necessary and appropriate, to cause the City to comply with the provisions of the Continuing Disclosure Certificate.

Events of Default

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

(a) the City fails to deposit any required Base Rental payment with the Trustee; or

(b) the City breaches any other term, covenant or condition contained in the Project Lease or 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 Certificate 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 payment 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 (and upon written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding, 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.

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 instruct the Trustee to apply amounts the Rebate Fund in a manner consistent with the Trust Agreement and comply with the 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 of, premium, if any, and interest with respect to such Certificate to the Certificate Payment Date 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 Certificate Payment Date 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.

PROPERTY LEASE

Lease of Leased Property

Under the Property Lease the City leases the Site to the Trustee, together with all buildings and improvements thereon (collectively, the "Leased Property"), subject (i) to the terms of the Property Lease and any and all covenants, reservations, exceptions and other matters that are of record and (ii) to Permitted Encumbrances. The City also grants to the Trustee such rights of ingress and egress to the Site as the Trustee may require in order to fulfill its obligations under the Property Lease and under the Project Lease.

Ownership

The City represents that it is the sole owner of and holds fee title to the Leased Property, subject to Permitted Encumbrances.

Term

The Property Lease shall commence on the earlier of the Closing Date or the date of recordation thereof in the official records of the City and end on the earlier to occur of (i) March 1, 2043, or (ii) the termination of the Project Lease.

Assignment and Project Lease

As long as the Project Lease is in effect and there has been no event of default thereunder, the Trustee shall not assign, mortgage, hypothecate or otherwise encumber the Property Lease or any rights thereunder or the leasehold created thereby pursuant to any trust agreement, indenture or deed of trust or otherwise, or sublet the Leased Property, in all cases, without the written consent of the City. The City expressly approves and consents to the Project Lease.

Right of Entry

The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time.

Expiration

The Trustee agrees, upon the expiration of the Property Lease, to quit and surrender the Leased Property together with all improvements thereon; it being the understanding of the parties thereto that upon termination of the Property Lease title to the Leased Property shall vest in the City free and clear of any interest of the Trustee or any assignee of the Trustee.

Taxes

The City covenants and agrees to pay any and all taxes and assessments, if any, levied or assessed upon the Leased Property and all buildings and improvements thereon.

Eminent Domain

If the whole or any part of the Leased Property shall be taken under the power of eminent domain, the interest of the Trustee shall be recognized and is hereby determined to be the aggregate amount of unpaid Base Rental payments under the Project Lease through the remainder of its term (excluding any contingent or potential liabilities), and any eminent domain proceeds shall be paid to the Trustee, as assignee of the interest of the Trustee under the Property Lease, in accordance with the terms of the Project Lease and the Trust Agreement.

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 thereunder and shall be entitled to all of the rights and privileges granted under any such assignment.

Partial Invalidity

If any one or more of the terms, provisions, promises, covenants or conditions of the Property Lease shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of the Property Lease shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

PROJECT LEASE

Project Lease Term; Transfer of Title To City

Under the Project Lease, the Trustee, solely in its capacity as Trustee under the Trust Agreement, leases the Leased Property to the City, and the City leases the Leased Property 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 Leased Property, all on the terms and conditions set forth in the Project Lease.

The term of the Project Lease shall begin on the Closing Date and end on the earliest of (a) March 1, 2033, 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 Trust Agreement or (c) the date of termination of the Project Lease due to casualty or condemnation in accordance with the terms thereof; provided, however, that, to the extent permitted by law, if Base Rental has been abated in any year in accordance with the Project Lease or has otherwise gone unpaid in whole or in part, the term of the Project Lease shall end on the earlier of March 1, 2043 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 eminent domain or default provisions thereof), all of the Trustee's right, title and interest with respect to the Leased Property, 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 thereof, 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 Leased Property 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 below, such amounts constituting the aggregate rent payable under the Project Lease.

Base Rental. The City agrees to pay, from any legally available funds, aggregate Base Rental in the amounts set forth under the caption "Base Rental" in Exhibit B to the Project Lease, which constitutes the principal and interest represented by the Certificates. The Base Rental consists of annual rental payments with principal and interest components, the interest components being paid semiannually as interest on the principal components computed on the basis of a 360-day year composed of twelve 30-day months. The Base Rental payable by the City shall be paid in arrears and shall be due on March 1 and September 1 in each year and payable on each February 25 and August 25 during the Project Lease Term, commencing August 25, 2003. Base Rental payable on August 25 and the following February 25 shall be for the period from March 1 of the prior year to February 28 or 29, as the case may be, of the current year; provided, however, that the aggregate Base Rental payable on August 25, 2003 and February 25, 2004 shall be for the period from the Closing Date to February 29, 2004.

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 as represented by 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 Capitalized Interest Account or 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 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, 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 Leased Property 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 be deposited in the Rebate Fund in accordance with the Tax Certificate;

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

(vi) Amounts required to replace, maintain and repair the Leased Property pursuant to the Project Lease.

Amounts constituting Additional Rental payable under 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.

Budget

The City covenants under 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 all such Rental Payments, subject to the Project Lease. The requirement to include the Rental Payments in the annual budget and to make the necessary appropriations therefor are deemed to be, and shall be construed as, ministerial duties imposed by law. Notwithstanding the foregoing, the obligation of the City to make Base Rental or Additional 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. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

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 Leased Property or any portion thereof, or defects in title to the Leased Property, or any portion thereof, there is substantial interference with the right to the use and occupancy of the Leased Property 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) or (iii) above, do not exceed the annual fair rental value of the portions of the Leased Property 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 Leased Property 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 Leased Property, or portion thereof, pursuant to the Project Lease.

Pursuant to the Project Lease, Base Rental is calculated on an annual basis, and rental abatement shall also be calculated on an annual basis taking into account the entire twelve-month period commencing March 1, within which the damage or destruction occurs. If at any time it shall be necessary to calculate rental abatement, for purposes of calculation for any twelve-month period commencing March 1 and ending February 28 or 29, as the case may be, the total amount of Base Rental payable within such twelve month period shall be divided by 360 days. The maximum amount of daily rental abatement for such twelve month period shall not exceed the result of such calculation. The maximum amount of daily abatement for any period of less than twelve months shall be calculated in a manner consistent with the preceding two sentences.

Triple Net Lease

The Project Lease is intended to be a triple net lease. The City agrees 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 Leased Property, or cause the same to be maintained, in good order, condition and repair. The City shall replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with the right to the use and occupancy of the Leased Property 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 Leased Property 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 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 Leased Property. 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 Leased Property 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 Leased Property 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 Leased Property. The City hereby expressly waives the right to make repairs or to perform maintenance of the Leased Property 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 Leased Property 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 property is substituted for the Leased Property 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, including the exceptions listed in the Pro Forma Policy, 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 Leased Property that are not due and payable or the amount, validity or application of which is being contested in accordance with the Project Lease (collectively, the "Permitted Encumbrances").

Taxes, Other Governmental Charges and Utility Charges

The City contemplates that the Leased Property will be used for a governmental purpose of the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to the Leased Property. Nevertheless, the City hereby agrees to pay during the Project Lease Term, as the same respectively become due, all taxes (except for income or franchise taxes of the Trustee), utility charges and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property; provided, however, that with respect to any governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Project Lease is in effect; and provided further, that the City may contest in good faith the validity or application of any tax, utility charge or governmental charge in any reasonable manner that, in the opinion of Independent Counsel does not adversely affect the right, title and interest of the Trustee in and to any portion of the Leased Property or its rights or interests under the Project Lease or subject any portion of the Leased Property to loss or forfeiture. Any such taxes or charges shall constitute Additional Rental under the Project Lease and shall be payable directly to the entity assessing such taxes or charges.

Insurance

The City shall maintain or cause to be maintained, throughout the Project Lease Term (but during the period of construction of the Project only if such insurance is not provided by the contractor under the construction contract for the Project):

(i) General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Leased Property. 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.

(ii) All risk property insurance on all structures constituting any part of the Leased Property 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 Leased Property. 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.

(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 Leased Property; 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.

(iv) Commencing September 1, 2005, 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 (such amount to be adjusted annually on or prior to March 1 of each year, commencing March 1, 2006, 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 Leased Property caused by perils covered by the insurance required by clauses (ii) and (iii) above. Such insurance shall not be subject to any deductible.

(v) 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.

(vi) Builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates, or the replacement cost of the Leased Property, which insurance shall be outstanding until Final Completion of the Project.

All policies of insurance required under clauses (ii) through (v), 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 by the Project Lease shall be in a form certified by the Risk Manager 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 liability 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 all insurance under the Project Lease 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, shall specifically identify the Leased Property as being covered by such insurance, the amount of coverage applicable to the Leased Property and the amount of the deductible applicable to the Leased Property. 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 March 1 of each year, commencing March 1, 2004, that there is in effect the insurance or the 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 March 1, commencing March 1, 2004, 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 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 fee title of the Site in the name of the City and a leasehold interest in the Leased Property in the name of the Trustee, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates.

Liens

The City promptly shall pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Property and that may be secured by any mechanic's, materialman's or other lien against the Leased Property, or the interest of the Trustee therein, and shall cause each such lien to be fully discharged and released; provided, however, that the City or the Trustee (i) may contest in good faith any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the City shall forthwith pay and discharge such judgment or lien, or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty or forfeiture.

Acquisition, Construction and Renovation of the Project

The Trustee agrees to acquire, construct and renovate, or cause the acquisition, construction and renovation of, the Project pursuant to the plans and specifications submitted to and approved by the City, as the same may be amended from time to time by the City. The Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. The City, as agent of the Trustee, shall use its best efforts to cause the construction, renovation and installation to be performed diligently to the end that the Project will be substantially completed in accordance with the aforesaid plans and specifications on or prior to December 12, 2004. The City shall cause the acquisition, construction, renovation, installation or improvement to the Project to be completed in accordance with any applicable requirements of governmental authorities and law. Upon Substantial Completion of the Project, the City shall promptly deliver to the Trustee a Certificate of Substantial Completion stating that the Project has been completed and is being fully used and occupied by the City.

Application of Insurance Proceeds

General. Proceeds of insurance, if any, received in respect of destruction of or damage to any portion of the Leased Property by fire or other casualty or event, or proceeds of, earthquake insurance, if such earthquake insurance is obtained, shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If there is an abatement of Rental Payments pursuant to the Trust Agreement as a result of such casualty or event, and the City elects pursuant to the Trust Agreement to apply such insurance proceeds and such other sums as are deposited pursuant to such section to the prepayment of Certificates rather than to the replacement or repair of the destroyed or damaged portion of the Leased Property, then the Project Lease shall terminate with respect to the destroyed or damaged portion of the Leased Property as of the later of the date of such election by the Trustee or the date the amount required by the Trust Agreement is received by the Trustee and in either case, after payment of any Additional Rental owed under the Project Lease. If the City elects, pursuant to the Trust Agreement, to apply such proceeds to the repair or replacement of the portion of the Leased Property that has been damaged or destroyed and there has been an abatement of Rental Payments pursuant to the Trust Agreement, then Rental Payments shall again begin to accrue with respect thereto upon repair or replacement of such portion of the Leased Property.

Title Insurance. Proceeds of title insurance received with respect to the Leased Property shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement.

Eminent Domain

Total Condemnation. If the Leased Property, or so much thereof as to render the remainder of the Leased Property 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 replacement of the condemned Leased Property, 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 Leased Property.

Partial Condemnation. If less than a substantial portion of the Leased Property 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 Leased Property, subject only to such rental abatement as is required by the Project Lease. The City and the Trustee 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 Leased Property, 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 the completion or repair or replacement of such portion of the Leased Property.

Prepayment of Rental Payments

The City may prepay, or cause to be prepaid, all or any portion of the principal component of Base Rental payments then unpaid as provided under "THE CERTIFICATES – Prepayment."

Additions and Improvements; Removal

The City has the right during the Project Lease Term to make any additions or improvements to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the Leased Property, so long as the fair rental value of the Leased Property is not thereby materially reduced. Title to all fixtures, equipment or personal property placed by the City on the Leased Property shall remain in the City to the extent that such items may be removed from the Site without damage. Title to any personal property, improvements or fixtures placed on any portion of the Leased Property by any sublessee or licensee of the City shall be controlled by the sublease or license agreement between such sublessee or licensee and the City, which sublease or license agreement shall not be inconsistent with the Project Lease.

Default

Events of Default. The following shall be 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 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, in the Property 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 Certificate 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 Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, relet the Leased Property 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 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 Leased Property, 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 such reentry 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 the interest with respect to the Certificates to be 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 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, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City shall have delivered to the Trustee and to the Rating Agencies all of the following:

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

(ii) Evidence that a copy of the Project Lease and, if applicable, the Property Lease, or amendments thereto containing the amended legal description of the Leased 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 Leased Property and/or improvements that will constitute the Leased Property 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 Leased Property and/or improvements that will constitute the Leased Property 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; provided that no such appraisal shall be necessary for the release from the Project Lease and the Property Lease, following Substantial Completion of the Project, of portions of the Site and the improvements thereon, other than the Project and the portion of the Site directly under the Project; it being the intent of the parties to the Project Lease that following Substantial Completion, the Leased Property shall consist solely of the Project and the portion of the Site upon which the Project is located;

(v) In the case of the addition or substitution of property for the then existing Leased Property, 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 Leased Property after such addition or substitution in an amount at least equal to the amount of such insurance provided with respect to the Leased Property prior to such addition or substitution. Each such insurance instrument, when issued, shall insure such added or substituted property subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted property 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 or the Property Lease;

(vii) 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, the Property Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Project Lease, the Property 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 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 the property that will constitute the Leased Property 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 property that will constitute the Leased Property after such addition, release or substitution and that such property is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such property in the manner intended by the City).

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APPENDIX E

FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the CITY AND COUNTY OF SAN FRANCISCO (the "City") in connection with the execution and delivery of $41,965,000 City and County of San Francisco Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project) (the "Certificates") evidencing proportionate interests of the holders thereof in a Project Lease, dated May 1, 2003 between the City and U.S. Bank National Association (the "Trustee"), including the right to receive Base Rental payments to be made by the City. The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2003, between the City and the Trustee (the "Trust Agreement"). The City hereby covenants as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms 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); or (b) is treated as the owner of any Certificates for federal income tax purposes.

"City Representative" shall mean the Controller of the City or another City official designated by the Controller and authorized to act on behalf of the City under or with respect to this Disclosure Certificate.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, which has filed with the City 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. The National Repositories currently approved by the SEC are set forth at: 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 the State Repository.

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

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Report.

(a) The City shall, or, if the City is no longer acting as Dissemination Agent, the City shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (currently June 30), commencing with the report for the 2002-2003 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of its Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the City's fiscal year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the City (if the Dissemination Agent is other than the City) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the City's Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the City is available to provide to Repositories by the date required in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A hereto.

(d) 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 Report.

The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The amount of Certificates Outstanding under the Trust Agreement, the balance of the Reserve Fund and the status of completion and construction of the Project.

(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 authorized, but unissued, tax-supported indebtedness of the City.

(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 SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such document so included by reference.

SECTION 5. Reporting of Significant Events.

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

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) modifications to rights of Holders;

(4) optional, contingent or unscheduled Certificate calls;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions or events adversely affecting the tax-exempt status of the Certificates;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;

(9) unscheduled draws on credit enhancements reflecting financial difficulties;

(10) substitution of credit or liquidity providers, or their failure to perform; and

(11) release, substitution or sale of property securing repayment of the 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, or cause to have filed, a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 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 prepayment 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 for a Listed Event under Section 5(c).

SECTION 7. City Representative; Dissemination Agent. The City Representative shall have the authority to act on behalf of the City under or with respect to this Disclosure Certificate. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate, provided that the amendment or waiver, in the opinion of the City Attorney, is permitted by the Rule.

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 hereunder to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee, pursuant to the Trust Agreement, may (and, at the request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Certificates, shall), or any 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 only be instituted 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 Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 13. Severability. Any provision of this Disclosure Certificate found to be prohibited by law shall not be effective only to the extent of such prohibition, and shall not invalidate the remainder of this Disclosure Certificate.

Date: May 13, 2003

CITY AND COUNTY OF SAN FRANCISCO

By: ____
Edward M. Harrington, Controller

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Participant: City and County of San Francisco

Name of Certificate Issue: Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project)

Date of Issuance: May 13, 2003

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the City's Continuing Disclosure Certificate dated May 13, 2003. The City anticipates that the Annual Report will be filed by _______________.

Dated: ________________

____

on behalf of the City and County of San Francisco
as Dissemination Agent

cc: City and County of San Francisco

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The 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 Certificate will be issued for each maturity of the 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, (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. Nothing on that website is incorporated into this document.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation 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 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all 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 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 Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such 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.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within an issue are being prepaid, 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 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 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 City of the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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.

DTC may discontinue providing its services as depository with respect to the 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 as described in the Trust Agreement.

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of, interest on or any premium with respect to the Certificates paid to DTC or its nominee as the registered owner, or any prepayment 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 and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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.

According to DTC, the foregoing information with respect to DTC has been provided for informational purposes only and is not intended to serve as a representation, warranty, or contact modification of any kind.

APPENDIX G

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINION

[__________, 2003]

Board of Supervisors
City and County of San Francisco
San Francisco, California

Re: City and County of San Francisco
Certificates of Participation, Series 2003
(Juvenile Hall Replacement Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-special counsel in connection with the execution and delivery of $41,965,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, Series 2003 (Juvenile Hall Replacement Project) (the "Certificates"). In such connection, we have reviewed a Property Lease, dated as of May 1, 2003 (the "Property Lease"), by and between the City and County of San Francisco (the "City") and U.S. Bank National Association, as trustee (the "Trustee"), a Project Lease, dated as of May 1, 2003 (the Project Lease"), by and between the Trustee and the City, a Trust Agreement, dated as of May 1, 2003 (the "Trust Agreement"), by and between the City and the Trustee, a tax certificate of the City, dated as of the date hereof (the "Tax Certificate"), opinions of the City Attorney and counsel to the Trustee, certificates of the City, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Project Lease.

Certain agreements, requirements and procedures contained or referred to in the Property Lease, the Project Lease, the Trust Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Project Lease) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest portion of any Base Rental payment if any change occurs or action is taken or omitted upon the advice or approval of any counsel other than co-special counsel.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, the default judgment rendered on August 22, 2002, by the Superior Court of the County of San Francisco in the action entitled *City and County of San Francisco v. All Persons*, No. 409-730, filed August 16, 2002, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events 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 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 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 Property Lease, the Project Lease, the Trust Agreement 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 a city and county 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 or interests in any of the real or personal property described in or subject to the lien of the Property Lease, the Project 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. Finally, we undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Certificates and express no opinion relating thereto.

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

1. The City is a charter city and county, organized and existing under its Charter and the Constitution and laws of the State of California.

2. The Property Lease, the Project 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.

3. The obligation of the City to make the Base Rental payments during the term of the Project Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

4. 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.

5. The portion of each Base Rental payment designated as and constituting interest paid by the City under the Project Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership of disposition of the Certificates.

Very truly yours,

APPENDIX H

FORM OF 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

SPECIMEN

President

Attest: ______________________

Assistant Secretary

STD-R-CA-6
4/95

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