



**MEMORANDUM**

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

Date: March 29, 2005

Information Provided: Rating Action (See Attachment A)

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This filing relates to the following issuers and associated CUSIP numbers:

- City and County of San Francisco General Obligation Bonds 797645
- City and County of San Francisco Certificates of Participation <sup>1</sup> 79765D
- Parking Authority of the City and County of San Francisco 797700
- City and County of San Francisco Finance Corporation 79765X
- Redevelopment Agency of the City and County of San Francisco,  
Lease Revenue Bonds 79765V

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission, notice is hereby given that on Tuesday, March 14, 2006, Fitch Ratings announced the following rating actions:

- The rating on all outstanding city-backed lease revenue bonds and certificates of participation is raised to 'A+' from 'A' ;
- The 'AA-' rating on outstanding general obligation bonds is affirmed;
- The 'A+' rating on outstanding refunding settlement obligation bonds is affirmed;
- The Rating Outlook on all of the above debt is revised to Positive from Stable

Attached is the press release of Fitch Ratings announcing the rating action.

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

## Attachment A



## Fitch Rtes San Fran. Fin. Corp., CA \$10MM Lease Bnds 'A+'; Upgrades \$499MM Other Lease-Backed Debt

13 Mar 2006 2:58 PM (EST)

Fitch Ratings-San Francisco-13 March 2006: Fitch announces the following rating actions:

- The City and County of San Francisco Finance Corporation, Calif.'s \$10,135,000 lease revenue bonds, series 2006A are rated 'A+';
- The rating on \$498.7 million in outstanding city-backed lease revenue bonds and certificates of participation (COPs) is raised to 'A+' from 'A' (as detailed below);
- The 'AA-' rating on \$1.3 billion in outstanding general obligation bonds is affirmed;
- The 'A+' rating on \$38.7 million in refunding settlement obligation bonds is affirmed.

The Rating Outlook on all of the above debt is revised to Positive from Stable.

The Finance Corporation series 2006A bonds will be sold competitively on March 21. The financial advisor for the upcoming bond sale is Kitahata and Company.

The rating upgrades reflect San Francisco's financial improvement and slow economic recovery, as well as Fitch's view that the city now exhibits more financial flexibility than in prior years. The Outlook revisions also reflect the city's financial and economic betterment, and indicate that Fitch could raise the city's tax-supported ratings within the next one to two years. A future upgrade will be dependent on the city's financial and economic performance, particularly on the ability to continue to restrain spending to within revenue receipts and enable further reserve accumulation.

The 'A+' rating on the new issue reflects Fitch's 'AA-' rating for San Francisco's general obligation bonds, as well as the sound history of the city's long-standing equipment acquisition program and a strong lease structure. The bonds are secured by rental payments made by the city to the Finance Corporation for use of about 184 pieces of equipment by six city departments. The equipment includes medical apparatus, fire trucks, ambulances, police cars, and various maintenance vehicles.

The GO and lease ratings are based on San Francisco's diverse economy, slow economic recovery, low debt burden, and strong fiscal policies that have effectively limited spending and increased reserves. Better financial results are fueled by economic recovery in the city's tourism and real estate sectors, while employment growth has only recently become evident.

Audited results for fiscal 2005 show a general fund surplus for the second consecutive year, reversing two

## Attachment A

years of operating losses. The year-end unreserved fund balance rose to \$134.2 million, a strong 5.9% of expenditures and transfers in. While this level has risen considerably, it remains below the fiscal 2001 peak. While Fitch expects the city's financial controls and economic improvement to allow reserves to grow, a return to the previous high is not expected. The year-end reserves include a voter-approved rainy day fund that is prudently structured to build a financial cushion in strong economic years while keeping high revenue gains from building unsustainable spending into the budget. While financial results for the first half of fiscal 2006 show continued sound results, Fitch remains concerned about the city's expenditure pressures, including calls to provide more generous health social services than funded by the state.

Economic recovery from a severe downturn continues to be evident, with employment growth in the San Francisco-San Mateo-Redwood City metropolitan division returning in 2005 for the first time since 2000. However, the gain was a small 0.9%, with increases in retail trade and most service sectors partially offset by continued declines or stagnation in manufacturing, transportation and utilities, and information (including telecommunications and technology.) San Francisco's unemployment rate fell to 5.0% in 2004 from a 7.0% peak in 2002, with further improvement expected when 2005 data is available. Preliminary figures for 2005 also suggest the city's first labor force gain since 2000.

Despite the nearly jobless recovery, other economic indicators have been rising considerably. Total assessed value has risen 7.5% per year on average, retail sales increased in 2004 and 2005, reversing a three-year decline, and hotel occupancy rose significantly to 74.3% in fiscal 2005 (its highest level since the fiscal 2000 peak of 80.9%)

The city's six-month budget status report shows another good year, with revenues outperforming budget estimates with expenditures at or just below budgeted levels. The positive results also result from a higher than expected year-end balance in fiscal 2005. If the current performance continues, the city could end the year with about the same reserve level as fiscal 2005. Fitch expects that the city will continue its financial acumen and prudently address fiscal needs while maintaining at least moderate reserves.

San Francisco's debt burden remains affordable despite sizable recent issuances for a hospital replacement. Including overlapping debt, debt per capita totals \$3,654 per capita and 2.6% of taxable market value. Future issuance plans are moderate. The equipment lease program began with a 1990 voter authorization that currently authorizes \$41.6 million in outstanding debt. With this sale, the amount outstanding will rise to \$33.5 million.

Fitch upgrades the following lease-secured debt to 'A+' from 'A':

- City and County of San Francisco COPs series 1997 (2789 25th Street Project);
- City and County of San Francisco COPs series 1999 (555 7th Street Property);
- City and County of San Francisco COPs series 2000 (San Bruno Jail No. 3 Replacement Project);
- City and County of San Francisco COPs series 2001A and B (30 Van Ness Avenue Property);
- City and County of San Francisco refunding COPs series 2001-1 (San Francisco Courthouse & 25 Van Ness Avenue Projects);
- City and County of San Francisco COPs series 2003A (Juvenile Hall Replacement Project);
- City and County of San Francisco refunding COPs series 2004-R1;
- City and County of San Francisco Finance Corporation lease revenue bonds series 1997 (911 Building);
- City and County of San Francisco Finance Corporation lease revenue bonds series 1998 (Combined

## Attachment A

Emergency Communications System Equipment);

--City and County of San Francisco Finance Corporation lease revenue bonds series 1998-1 and 1999-1 (Citywide Emergency Radio System);

--City and County of San Francisco Finance Corporation lease revenue bonds series 2002A, 2003A, 2004A, and 2005A;

--City and County of San Francisco Parking Authority lease revenue refunding bonds series 1998-1 (Moscone Center Garage Project);

--City and County of San Francisco Parking Authority lease revenue bonds series 2000A (North Beach Parking Garage Project);

--City and County of San Francisco Redevelopment Agency lease revenue refunding bonds series 1992, 2002 and 2004(George R. Moscone Convention Center).

Contact: Amy S. Doppelt +1-415-732-5612 or Karen Ribble +1-415-732-1756, San Francisco.

Media Relations: Christine Pollak, New York, Tel: +1 212-908-0526.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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