**NEW ISSUE–BOOK-ENTRY ONLY**

| | Moody's | S&P | Fitch |
|---|---|---|---|
| **MBIA Insured Ratings:** | **Aaa** | **AAA** | **AAA** |
| **Underlying Ratings:** | **A1** | **AA-** | **AA-** |

**RATINGS:** **(See "RATINGS" herein)**

*In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2007 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2007 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Series 2007 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."*

# $42,435,000
# CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
# LEASE REVENUE BONDS, SERIES 2007
# (OPEN SPACE FUND – VARIOUS PARK PROJECTS)

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

The City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2007 (Open Space Fund – Various Park Projects) (the "Series 2007 Bonds"), are issued pursuant to a Master Trust Agreement, dated as of October 1, 2006 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of October 1, 2007 (the "Supplemental Trust Agreement" and together with the Master Trust Agreement, the "Trust Agreement"), each by and between the City and County of San Francisco Finance Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee"), and the Charter of the City and County of San Francisco. See "INTRODUCTION–Authority for Issuance." The Series 2007 Bonds are being issued to: (i) finance the design, construction, renovation and the installation of various park improvements (collectively, the "2007 Projects"), located in the City and County of San Francisco (the "City"); (ii) fund a Reserve Fund; and (iii) pay costs associated with the issuance of the Series 2007 Bonds. See "THE 2007 PROJECTS." The City owns various real property in the City (the "Sites") that will be leased by the City, as lessor, to the Corporation, as lessee, pursuant to a site lease dated as of October 1, 2006 (the "Master Site Lease"), as amended by the First Amendment to Site Lease, dated as of October 1, 2007 (the "Supplemental Site Lease" and together with the Master Site Lease, the "Site Lease"). The Sites and the improvements thereon (collectively, the "Facilities") will be leased by the Corporation, as lessor, to the City, as lessee, pursuant to a Master Lease, dated as of October 1, 2006 (the "Master Lease"), as amended by the First Amendment to Master Lease, dated as of October 1, 2007 (the "Amendment to Master Lease" and together with the Master Lease, the "Lease").

The Series 2007 Bonds are primarily payable from rental payments to be made by the City to the Corporation pursuant to the Lease. The obligation of the City to make the Rental Payments (defined herein) is limited solely to Net Open Space Fund Property Tax Revenues (defined herein). Under the Lease, so long as the City has beneficial use and occupancy of the 2007 Facilities, the City is obligated to make Rental Payments (defined herein), in amounts sufficient, in both time and amount, to pay the principal of and interest on the Series 2007 Bonds. Under the Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments due in its annual budget and to make the necessary appropriations therefore solely from Net Open Space Fund Property Tax Revenues. See "SECURITY AND SOURCES OF PAYMENT."

The Series 2007 Bonds will be issued only as fully registered bonds without coupons 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 Series 2007 Bonds will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners of the Series 2007 Bonds will not receive physical delivery of bond certificates. Payments of principal of and interest on the Series 2007 Bonds will be made by the Trustee, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2007 Bonds. See APPENDIX F–"DTC AND THE BOOK-ENTRY ONLY SYSTEM." The Series 2007 Bonds will be dated and bear interest from their date of delivery. Interest on the Series 2007 Bonds will be payable on July 1 and January 1 of each year, commencing January 1, 2008. **The Series 2007 Bonds are subject to redemption prior to their respective stated maturities. See "THE SERIES 2007 BONDS–Redemption Provisions."**

THE SERIES 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS 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. PURSUANT TO THE LEASE, THE CITY IS OBLIGATED TO MAKE BASE RENTAL PAYMENTS SOLELY FROM THE NET OPEN SPACE FUND PROPERTY TAX REVENUES. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2007 BONDS SHALL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT OF THE ISSUANCE OF THE SERIES 2007 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

The scheduled payment of principal and interest on the Series 2007 Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series 2007 Bonds by MBIA Insurance Corporation. See "FINANCIAL GUARANTY INSURANCE."

MATURITY SCHEDULE
(See inside cover)

*This cover page contains certain information for general reference only. It is **not** a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.*

The Series 2007 Bonds are offered when, as, and if issued by the Corporation and accepted by the purchaser, subject to the approval of legality by Hawkins Delafield & Wood LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, Co-Bond Counsel. Certain legal matters will be passed upon for the Corporation by its counsel, Miller Brown & Dannis, San Diego, California, and the City by the City Attorney. It is expected that the Series 2007 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about October 4, 2007.

Dated: September 11, 2007.

**$42,435,000**
**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION**
**LEASE REVENUE BONDS, SERIES 2007**
**(OPEN SPACE FUND – VARIOUS PARK PROJECTS)**

**MATURITY SCHEDULE**

| Maturity Date (July 1) | Principal Amount | Interest Rate | Initial Reoffering Prices or Yield† | CUSIP†† (79765X) |
|---|---|---|---|---|
| 2008 | $625,000 | 5.500% | 3.400% | MR4 |
| 2009 | 1,230,000 | 5.875 | 3.400 | MS2 |
| 2010 | 1,300,000 | 5.875 | 3.410 | MT0 |
| 2011 | 1,375,000 | 5.500 | 3.440 | MU7 |
| 2012 | 1,450,000 | 5.000 | 3.460 | MV5 |
| 2013 | 1,525,000 | 4.875 | 3.480 | MW3 |
| 2014 | 1,600,000 | 4.000 | 3.500 | MX1 |
| 2015 | 1,665,000 | 4.000 | 3.540[c] | MY9 |
| 2016 | 1,730,000 | 4.000 | 3.580[c] | MZ6 |
| 2017 | 1,800,000 | 4.000 | 3.650[c] | NA0 |
| 2018 | 1,870,000 | 3.750 | 3.700[c] | NB8 |
| 2019 | 1,940,000 | 3.875 | 100 | NC6 |
| 2020 | 2,015,000 | 4.000 | 100 | ND4 |
| 2021 | 2,095,000 | 4.000 | 4.100 | NE2 |
| 2022 | 2,180,000 | 4.100 | 4.150 | NF9 |
| 2023 | 2,270,000 | 4.100 | 4.200 | NG7 |
| 2024 | 2,365,000 | 4.125 | 4.250 | NH5 |
| 2025 | 2,460,000 | 4.250 | 4.300 | NJ1 |
| 2026 | 2,565,000 | 4.250 | 4.350 | NK8 |
| 2027 | 2,675,000 | 4.375 | 4.400 | NL6 |
| 2028 | 2,790,000 | 4.375 | 4.450 | NM4 |
| 2029 | 2,910,000 | 4.500 | 100 | NN2 |

† Initial reoffering prices or yields were provided by the purchaser.



c Priced to call at 100% on July 1, 2014.

No dealer, broker, salesperson or other person has been authorized by the City or the Corporation 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 Corporation. 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 Series 2007 Bonds 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 purchaser or purchasers of the Series 2007 Bonds. 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 that provided by the City and the Corporation, has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. 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, the Corporation, the Facilities or the 2007 Projects since the date hereof.

This Official Statement is submitted in connection with the sale of the Series 2007 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City and the Corporation. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. All capitalized terms used herein, unless noted otherwise, shall have the meanings prescribed in the Trust Agreement.

In connection with the offering of the Bonds, the purchasers may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The purchasers may offer and sell the Bonds to certain dealers and dealer banks at prices lower than the initial public offering prices stated on the inside cover hereof. Such initial public offering prices may be changed from time to time by the purchasers.

This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, population changes, seismic events and various other events, conditions and circumstances, many of which are beyond the control of the Corporation. These forward-looking statements speak only as of the date of this Official Statement. The Corporation disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the Corporation with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities. 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 Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION**

**Board of Directors**

Marc Stad, *President*

Barry Fishman, *Chief Financial Officer and Secretary*

**CITY AND COUNTY OF SAN FRANCISCO**

Gavin Newsom, *Mayor*

**Board of Supervisors**

Aaron Peskin, *President, District 3*

Michela Alioto-Pier, *District 2*
Tom Ammiano, *District 9*
Chris Daly, *District 6*
Bevan Dufty, *District 8*
Sean Elsbernd, *District 7*
Ed Jew, *District 4*
Sophie Maxwell, *District 10*
Jake McGoldrick, *District 1*
Ross Mirkarimi, *District 5*
Gerardo Sandoval, *District 11*

**City and County Officials**

José Cisneros, *Treasurer*
Edward M. Harrington, *Controller*
Dennis J. Herrera, *City Attorney*

**PROFESSIONAL SERVICES**

*Corporation Counsel*
Miller Brown & Dannis
San Diego, California

*Co-Financial Advisors*
Public Financial Management, Inc.
San Francisco, California

TKG & Associates
San Francisco, California

*Co-Bond Counsel*
Hawkins Delafield & Wood LLP
San Francisco, California

Lofton & Jennings
San Francisco, California

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

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**$42,435,000**
**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION**
**LEASE REVENUE BONDS, SERIES 2007**
**(OPEN SPACE FUND – VARIOUS PARK PROJECTS)**

## INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto (this "Official Statement"), provides certain information concerning the issuance of $42,435,000 principal amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2007 (Open Space Fund – Various Park Projects) (the "Series 2007 Bonds"). Any capitalized term not defined herein shall have the meaning given to such term as set forth in the Trust Agreement or the Lease (each as defined herein), as applicable. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS–DEFINITIONS." The references to any legal documents, instruments and the Series 2007 Bonds 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 Trustee.

### Authority for Issuance

The Series 2007 Bonds are issued pursuant to Ordinance No. 249-04, passed by the Board of Supervisors of the City and County of San Francisco (the "Board of Supervisors") on October 5, 2004 and signed by the Mayor on October 14, 2004, Ordinance No. 199-07, passed by the Board of Supervisors on July 31, 2007 and signed by the Mayor on August 10, 2007, and Resolution No. 2007-03 adopted by the Board of Directors of the City and County of San Francisco Finance Corporation (the "Corporation") on August 17, 2007, the Master Trust Agreement, dated as of October 1, 2006 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of October 1, 2007 (the "Supplemental Trust Agreement" and together with the Master Trust Agreement, the "Trust Agreement"), each by and between the Corporation and U.S. Bank Trust National Association as trustee (the "Trustee") and the Charter of the City and County of San Francisco (the "Charter").

At an election held on March 7, 2000, the voters of the City and County of San Francisco (the "City") adopted Proposition C, amending the Charter by repealing the then existing Park and Open Space Fund, authorizing the creation of a new Park, Recreation and Open Space Fund (the "Open Space Fund") to purchase open space, acquire property for recreation facilities and develop and maintain those facilities, and authorizing the issuance of revenue bonds for such purposes, all as codified in Section 16.107 of the Charter.

The Open Space Fund is administered by the Recreation and Park Department of the City (the "Department"). A set-aside from the City's share of the property tax levy in an amount equal to two and one-half cents ($0.025) for each $100 assessed valuation is required by the Charter to be deposited in the Open Space Fund (the "Open Space Fund Property Tax Revenues"). The authorization to collect the set-aside to fund the Open Space Fund commenced in Fiscal Year 2000-01 and extends through July 1, 2030. See "SECURITY AND SOURCES OF PAYMENT–Net Open Space Fund Property Tax Revenues."

### Purpose

The Series 2007 Bonds are being sold to provide funds to: (i) finance the design, construction, renovation and installation of various park improvements within the City (each a "2007 Project" and collectively, the "2007 Projects"); (ii) fund a Reserve Fund; and (iii) pay costs associated with the issuance of the Series 2007 Bonds. See "THE 2007 PROJECTS."

**Security and Sources of Payment**

The Corporation previously issued $27,005,000 principal amount of its Lease Revenue Bonds, Series 2006 (Open Space Fund–Various Park Projects) (the "2006 Bonds") pursuant to the Master Trust Agreement which are payable on a parity with the Series 2007 Bonds. The Corporation may in the future issue additional bonds pursuant to the Master Trust Agreement secured on a parity with the Series 2007 Bonds and the Series 2006 Bonds (the "Parity Bonds"). The Series 2007 Bonds, the Series 2006 Bonds and any Parity Bonds are referred to collectively as the "Bonds." See "SECURITY AND SOURCES OF PAYMENT–Additional Obligations Payable from Net Open Space Fund Property Tax Revenues."

The City owns various real property (each a "Site" and collectively, the "Sites") that the City, as lessor, has leased to the Corporation, as lessee, pursuant to a site lease dated as of October 1, 2006 (the "Master Site Lease"), as amended with respect to the 2007 Projects by the First Amendment to Site Lease, dated as of October 1, 2007 (the "First Amendment to Site Lease" and together with the Master Site Lease, the "Site Lease"). The site and the improvements thereon (together, the "2007 Facilities") will be leased by the Corporation, as lessor, to the City, as lessee, pursuant to a Master Lease, dated as of October 1, 2006 (the "Master Lease"), as amended by the First Amendment to Master Lease, dated as of October 1, 2007 (the "Amendment to Master Lease" and together with the Master Lease, the "Lease"). The 2007 Facilities, and the facilities leased in connection with the 2006 Bonds are referred to collectively as the "Facilities." Pursuant to the Lease, the City is required to pay to the Corporation specified Base Rental payments in amounts sufficient to pay, when due, the principal of and interest on the Bonds, and to pay certain Additional Rental payments (collectively, the "Rental Payments") for use and possession of the Facilities. The City shall also pay (but only after payment of Base Rental) as Additional Rental under the Lease such amounts of taxes, assessments administrative costs, insurance premiums, reasonable administrative costs of the Corporation related to the Facilities and other such costs as defined in the Lease. See "SECURITY AND SOURCES OF PAYMENT–Rental Payments."

Under the Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments due in its annual budget and to make the necessary annual appropriations therefor. The Lease provides that such covenants of the City are deemed by the City to be and shall be construed to be duties imposed by law. The obligation of the City to make Rental Payments under the Lease is an obligation payable solely from the Net Open Space Fund Property Tax Revenues (defined as the amount of Open Space Fund Property Tax Revenues *less* the allocation to fund certain programs specified in Section 16.107 of the Charter), so long as the City has the right to use and occupy the Facilities. See "SECURITY AND SOURCES OF PAYMENT–Net Open Space Fund Property Tax Revenues." and "CERTAIN RISK FACTORS."

A Reserve Fund is established under the Trust Agreement for the benefit of the Owners of the Bonds. A deposit to the Reserve Fund will be funded with proceeds from the sale of the Series 2007 Bonds in the amount of $3,044,456.26 (which, together with the amount on deposit therein, is equal to Reserve Fund Requirement). See "SECURITY AND SOURCES OF PAYMENT–Reserve Fund."

Pursuant to an Assignment Agreement, dated as of October 1, 2007 (the "Assignment Agreement"), the Corporation has assigned to the Trustee, for the benefit of the Owners of the Series 2007 Bonds, substantially all of its rights under the Lease, including its right to receive and collect the Base Rental payments from the City under such Lease and its rights as may be necessary to enforce payment of the Base Rental payments.

THE SERIES 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS 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.

PURSUANT TO THE LEASE, THE CITY IS OBLIGATED TO MAKE BASE RENTAL PAYMENTS SOLELY FROM THE NET OPEN SPACE FUND PROPERTY TAX REVENUES. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2007 BONDS SHALL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT OF THE ISSUANCE OF THE SERIES 2007 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

**The City**

For certain financial information with respect to the City, see "SECURITY AND SOURCES OF PAYMENT–City Budget and Financing" and APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES."

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

**The Corporation**

The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 *et seq.* of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City pursuant to a resolution of the Board of Supervisors of the City. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes. See "THE CORPORATION."

**Bond Insurance**

Payment of the principal and interest on the Series 2007 Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued concurrently with the delivery of the Series 2007 Bonds by MBIA Insurance Corporation. See "FINANCIAL GUARANTY INSURANCE" and APPENDIX H–"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

**Risk Factors**

For a discussion of certain risk factors associated with the City's ability to make Rental Payments under the Lease and in making an investment in the Bonds, see "CERTAIN RISK FACTORS."

**Continuing Disclosure**

The City has covenanted on behalf of the Corporation and for the benefit of the Owners of the Series 2007 Bonds 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 2006-07 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The City has never failed to comply in any material respect with any previous undertakings pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE."

## THE SERIES 2007 BONDS

### General

The Series 2007 Bonds will be executed and delivered in the aggregate principal amount of $42,435,000 only as one fully registered Series 2007 Bond for each maturity. The Series 2007 Bonds will be delivered only in denominations of $5,000 or an integral multiple thereof and interest thereon shall be payable on each January 1 and July 1, commencing January 1, 2008 as long as any Series 2007 Bonds are Outstanding (each an "Interest Payment Date"). Interest on the Series 2007 Bonds shall be computed on the basis of a 360-day year composed of 12 months of 30 days each. Interest on the Series 2007 Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the cover page hereof. The principal of the Series 2007 Bonds will be payable, subject to redemption, as described below, in each year of the designated years and in the principal amounts set forth on the cover page hereof.

The Series 2007 Bonds will be registered initially in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York ("DTC"), which has been appointed as securities depository for the Series 2007 Bonds. Beneficial ownership interests in the Series 2007 Bonds will be available in book-entry form only, in denominations of $5,000 or integral multiples thereof. Purchasers of beneficial ownership interests in the Bonds ("Beneficial Owners") will not receive physical certificates representing their interests in the Bonds purchased. While held in book-entry only form, all payments of principal, premium and interest will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2007 Bonds. Payments to Beneficial Owners are the sole responsibility of DTC and its Participants. See APPENDIX F–"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

### Transfer and Exchange

The Series 2007 Bonds will be issued only as fully registered bonds, with the privilege of transfer or exchange for Series 2007 Bonds of other denominations as set forth in the Trust Agreement. All such transfers and exchanges shall be without charge to the owner, with the exception of any taxes, fees or other governmental charges. While the Series 2007 Bonds are in book-entry only form, beneficial ownership interests in the Series 2007 Bonds may only be transferred through Direct Participants and Indirect Participants as described in APPENDIX F–"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

### Redemption Provisions

*Extraordinary Mandatory Redemption.* The Series 2007 Bonds are subject to extraordinary mandatory redemption, as a whole, or in part by lot within any maturity if less than all of the Series 2007 Bonds of such maturity are to be redeemed, on the date and in such amounts as set forth in the Written Request of the City, from proceeds of insurance or proceeds of eminent domain proceedings, at the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

*Optional Redemption.* The Series 2007 Bonds maturing on or before July 1, 2014 are *not* subject to optional redemption prior to maturity. The Series 2007 Bonds maturing on or after July 1, 2015 are subject to optional redemption prior to maturity on or after July 1, 2014 at the option of the City, as a whole or in part on any date from such maturities as are selected by the City, from amounts deposited with the Trustee from any funds available therefor (other than proceeds from insurance or eminent domain proceedings), at a redemption price equal to 100% of the principal amount of Series 2007 Bonds to be redeemed plus accrued but unpaid interest to the date fixed for redemption, without premium.

Optional redemption of the Series 2007 Bonds is conditioned upon the prior delivery to the Trustee and the trustees of any Parity Bonds of a Certificate of the City to the effect that the Base Rental remaining under the Lease after the proposed redemption will be sufficient to pay when due the principal of and interest on the Series 2007 Bonds remaining Outstanding after such proposed redemption.

*Notice of Redemption*. The Trustee is required to mail notice of redemption by first class mail, postage prepaid, at least 30 but no more than 45 days prior to the redemption date, to the Owners of the Series 2007 Bonds to be redeemed, to DTC; and to the Information Services.

So long as the Series 2007 Bonds are in book-entry only form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2007 Bonds, and not directly to the Beneficial Owners.

Neither failure to receive any redemption notice nor any defect in such redemption notice so given shall affect the sufficiency of the proceedings for redemption of the Series 2007 Bonds.

*Right to Rescind Optional or Extraordinary Redemption.* Notwithstanding any other provision of the Trust Agreement, in the event that any Series 2007 Bonds are subject to extraordinary redemption from proceeds of insurance or condemnation awards or optional redemption and the Trustee shall not have on deposit available moneys sufficient to redeem the principal of plus the applicable premium, if any, and interest thereon on all of the Series 2007 Bonds proposed to be redeemed on the date fixed for redemption, on such date, the redemption shall be cancelled and in each and every such case, the Corporation, the Trustee and the Owners, as the case may be, shall be restored to their former positions and rights under the Trust Agreement. A cancellation of a redemption does not constitute a default under the Trust Agreement nor an event that with the passage of time of giving of notice or both will constitute a default under the Trust Agreement and the Trustee, the Corporation and the City will have no liability from such cancellation.

*Selection of Series 2007 Bonds for Redemption.* For purposes of selecting the Series 2007 Bonds for redemption, the Series 2007 Bonds shall be deemed to be composed of $5,000 portions or any integral multiple thereof. Whenever less than all the Outstanding Series 2007 Bonds maturing on any one date are called for redemption pursuant to the provisions of the Trust Agreement with respect to redemption from proceeds of insurance or proceeds of eminent domain proceedings at any one time, the Trustee will select the Series 2007 Bonds or portions thereof to be redeemed from the Outstanding Series 2007 Bonds maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems appropriate. If less than all the Outstanding Series 2007 Bonds are called for redemption pursuant to such provisions at any one time, the City is required to specify to the Trustee a principal amount in each maturity to be redeemed, provided that if the City specifies the Series 2007 Bonds to be redeemed in a manner which results in other than approximately equal annual debt service on the Series 2007 Bonds Outstanding following such redemption, the City is required to, at the time of such specification, deliver a Certificate of the City to the effect that the resulting Base Rental payments and Additional Rental payable during the remaining term of the Lease will not exceed the fair rental value of the Facilities during each subsequent Fiscal Year. If less than all of the Outstanding Series 2007 Bonds are called for redemption pursuant to the provisions of the Trust Agreement with respect to optional redemption, the City shall designate the maturity or maturities of the Series 2007 Bonds to be redeemed.

*Partial Redemption of Series 2007 Bonds.* Upon the surrender of any Series 2007 Bond redeemed in part only, the Trustee is required to execute and deliver to the Owners thereof, at the expense of the City, a new Series 2007 Bond or Series 2007 Bonds of authorized denominations equal to the unredeemed portion of the Series 2007 Bond surrendered and of the same series, interest rate and maturity. Such partial redemption is valid upon payment or provision for the payment of the amount required to be paid to such Owner, and the Corporation, the City and the Trustee will be released and discharged thereupon from all liability to the extent of such payment.

*Effect of Notice of Redemption.* When notice of redemption has been duly given as provided in the Trust Agreement and moneys for the redemption of the Series 2007 Bonds to be redeemed, together with interest to such redemption date, are held by the Trustee, then, from and after such redemption date, interest on the such Series 2007 Bonds will cease to accrue and such Series 2007 Bond will cease to be entitled to any benefit or security under the Trust Agreement except for the right of the Owners to receive payment of the redemption price thereof.

*Purchase in Lieu of Redemption of Series 2007 Bonds.* Unless expressly provided otherwise in the Trust Agreement money held in the Revenue Fund may be used to reimburse the Corporation for the purchase of the Series 2007 Bonds that would otherwise be subject to redemption from such moneys upon the delivery of such Series 2007 Bonds to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select the Series 2000A Bonds for redemption. The purchase price of any Series 2007 Bonds purchased by the Corporation under the Trust Agreement will not exceed the applicable redemption price of the Series 2007 Bonds which would be redeemed but for the operation of this provision. Any such purchase must be completed prior to the time notice would otherwise be required to be given to redeem the related Series 2007 Bonds. All Series 2007 Bonds so purchased will be surrendered to the Trustee for cancellation and applied as a credit against the obligation to redeem such Series 2007 Bonds from such moneys.

## SECURITY AND SOURCES OF PAYMENT

### Authority for Issuance

The Series 2007 Bonds are being issued under the authority of, and in compliance with, the Charter, the Trust Agreement, and the statutes of the State of California (the "State") as made applicable pursuant to the Charter.

### Source of Payment

The Series 2007 Bonds are special limited obligations of the Corporation payable solely from and secured solely by the Revenues pledged therefor in the Trust Agreement, together with amounts on deposit from time to time in the funds and accounts held by the Trustee (other than the Rebate Fund). "Revenues" are defined as the proceeds of the Series 2007 Bonds, if any, deposited in the Revenue Fund and the Reserve Fund, that portion of the Base Rental payments made by the City which are received by the Trustee for the benefit of the Owners of the Series 2007 Bonds pursuant to the Assignment Agreement, other amounts received by the Trustee for the benefit of the Owners of the Series 2007 Bonds under the Assignment Agreement and all other revenues, proceeds, charges, income, rents, receipts, profits and benefits derived by the Corporation as lessor of the Facilities under the Lease or otherwise from the use and operation of the Facilities or arising out of the Facilities (other than Additional Rental) and payable to the Trustee under the terms of the Assignment Agreement, including interest or profits from the investment of money in any fund or account created under the Trust Agreement (other than the Rebate Fund), any contributions from whatever source, and all rentals received by the Corporation as lessor of the Facilities from any additions or extensions of the Facilities hereafter acquired or constructed.

The obligation of the City to make Rental Payments under the Lease is an obligation payable solely from the Net Open Space Fund Property Tax Revenues so long as the City has the right to use and possess the Facilities.

THE SERIES 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS 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. PURSUANT TO THE LEASE, THE CITY IS OBLIGATED TO MAKE BASE RENTAL PAYMENTS SOLELY FROM THE NET OPEN SPACE FUND PROPERTY TAX REVENUES. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2007 BONDS SHALL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT OF THE ISSUANCE OF THE SERIES 2007 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

**Rental Payments**

Under the Lease, Base Rental and Additional Rental payments are to be made by the City to the Corporation with respect to the Facilities.

*Base Rental.* The City has covenanted in the Lease that, so long as the City has the full use and occupancy of the Facilities, it will make Base Rental payments to the Corporation, solely from Net Open Space Fund Property Tax Revenues received in each year. The Base Rental payments are calculated to be adequate for the Corporation to pay scheduled debt service on all outstanding Bonds. Base Rental payments are required to be made by the City on June 15 and December 15 of each year during the term of the Lease, commencing December 15, 2007, provided that any such payment shall be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Facilities. In the event that during any such period the City does not have use and occupancy of all or a portion of the Facilities due to material damage to, destruction of or condemnation of or defects in the title to the Facilities, Base Rental payments are subject to abatement. See "–Base Rental Payments and Abatement." The obligation of the City to make Base Rental payments is payable solely from the Net Open Space Fund Property Tax Revenues and the City has covenanted in the Lease to take such action as may be necessary to include all rental payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. See "–Net Open Space Fund Property Tax Revenues." **None of the full faith and credit, the General Fund of the City, or the taxing power of the City or the State or any of its political subdivisions is pledged to make Base Rental payments under the Lease**.

Pursuant to the Lease, by December 15 of each Fiscal Year, the City will transfer to the Trustee from Net Open Space Fund Property Tax Revenues an amount equal to the Base Rental payable in such Fiscal Year (the "Annual Transfer"). Pursuant to the Lease, in any Fiscal Year the City may not expend more than 5% of the Open Space Fund Property Tax Revenues budgeted to be received in such Fiscal Year on the acquisition of real property until the full amount of the Annual Transfer for such Fiscal Year has been made by the City to the Trustee.

Pursuant to the Assignment Agreement, the Corporation assigns to the Trustee all its rights, title and interest under the Amendment to Master Lease, including, without limitation, the rights to receive the Base Rental payments that are made by the City pursuant to the Amendment to Master Lease. Pursuant to the Trust Agreement, the Trustee shall deposit the Base Rental payments in the Revenue Fund to be used: *first*, for the payment of debt service on the Bonds; and *second*, for replenishment of the Reserve Fund in the event its balance is less than the Reserve Fund Requirement. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS–THE TRUST AGREEMENT–Allocation of Revenues."

*Additional Rental.* The City has agreed in the Lease to pay additional rental (the "Additional Rental") to the Corporation, but only after payment of Base Rental, to cover: (i) taxes, assessments, governmental charges of any type or nature charged to the Corporation or affecting the Facilities or the respective interests or estates of the Corporation or the City therein or affecting the amount available to the Corporation from rentals received thereunder for the payment of debt service on the Bonds (including taxes, assessments or governmental charges assessed or levied by any governmental agency or district having power to levy taxes, assessments or governmental charges); (ii) reasonable administrative costs of the Corporation relating to the Facilities including, but not limited to, all expenses and compensation of the Trustee or any trustee, fiscal agent or paying agent under any instrument securing Parity Bonds, fees of auditors, rebate analysts, accountants, attorneys or engineers, any deposits required to be made into the Rebate Fund and all other necessary and reasonable administrative costs of the Corporation; (iii) any amounts required to be deposited by the Corporation pursuant to the Trust Agreement or under any similar provision contained in any Parity Bond Instrument which are not otherwise available to the Corporation under the Trust Agreement; and (iv) insurance premiums for all insurance required pursuant to the Lease and not obtained by the City but only to the extent such insurance obligation is not otherwise satisfied under the terms specified in the Lease.

**Pledge of Revenues; Revenue Fund**

Under the Trust Agreement, the Corporation pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Corporation in and to all of the following, which lien and security interest, except as otherwise expressly set forth in the Trust Agreement, shall be prior in right to any other pledge, lien or security interest created by the Corporation therein: (i) the Revenues, (ii) all moneys and investments (excluding moneys on deposit in the Rebate Fund) held from time to time by the Trustee under the Trust Agreement, (iii) earnings on amounts included in provisions (i) and (ii), and (iv) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time after the date of the Trust Agreement, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be, with respect to the security provided thereby, of equal rank without preference, priority or distinction as to any Bond over any other Series 2007 Bond or Series 2007 Bonds, except as to the timing of payment of the Bonds. The Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Revenues there may be apportioned and paid such sums, for such purposes, as are expressly permitted by the provisions of the Trust Agreement with respect to the allocation of Revenues to special funds.

Except as otherwise provided in the Trust Agreement with respect to investment of moneys in funds, all Revenues to which the Corporation may at any time be entitled shall be paid directly to the Trustee and all of the Revenues collected or received by the Corporation shall be deemed to be held in trust and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Revenues will thereupon be deposited by the Trustee upon the receipt thereof in a special fund, designated as the "Revenue Fund," which fund is created under the Trust Agreement. The Revenue Fund will be maintained by the Trustee, separate and apart from all other funds, so long as any of the Bonds remain Outstanding. All moneys at any time deposited in the Revenue Fund will be held by the Trustee in trust for the benefit of the Owners from time to time of the Series 2007 Bonds and shall be disbursed, allocated and applied solely for the uses and purposes specified in the Trust Agreement. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS–THE TRUST AGREEMENT–Allocation of Revenues."

**Net Open Space Fund Property Tax Revenues**

The application of revenues held in the Open Space Fund is governed by relevant provisions of the Charter. Under the Charter, the Open Space Fund Property Tax Revenues derived from the set aside from the annual tax levy in an amount equal to two and one-half cents ($0.025) for each $100 assessed value within the City are deposited in the Open Space Fund held by the City Treasury. These moneys are held separate and apart from all other funds of the City and are required to be allocated as follows:

(i) To fund after-school recreation programs, urban forestry, community gardens, volunteer programs and a significant natural areas management program in the amounts allocated to each of such programs from the prior open space fund in the Fiscal Year 1999-2000 budget submitted by the Department, to the extent that such programs are not funded in the operating budget of the Department or in the budget of another department of the City;

(ii) To fund an undesignated contingency reserve in an amount equal to 3% of the total Open Space Fund Property Tax Revenues for such Fiscal Year; and

(iii) To fund the acquisition of real property identified in the Capital Plan (defined below) developed by the Department, in an amount equal to not less than 5% of the Open Space Fund Property Tax Revenues to be deposited in the Open Space Fund during the upcoming Fiscal Year, *provided, however,* that such allocation need not be included in the annual budget of the Department if the total City expenditures for acquisition of park, recreation and open space property to be placed under the jurisdiction of the Recreation and Park Commission of the City (the "Commission") for the period commencing with Fiscal Year 2000-01 and ending with the immediately preceding Fiscal Year exceeds an amount equal to 5% of the total amount appropriated, or to be appropriated to the Open Space Fund for the period commencing with Fiscal Year 2000-01 and ending with the close of then upcoming Fiscal Year.

Following the allocations as set forth above, the amounts remaining in the Open Space Fund, the "Net Open Space Fund Property Tax Revenues" are available to pay the principal and premium, if any, of and interest on the Series 2007 Bonds.

The table below sets forth the property taxes collected and deposited into Open Space Fund since its inception in Fiscal Year 2000-01.

**OPEN SPACE FUND PROPERTY TAX REVENUES**
**($ in thousands)**

| Fiscal Year | Gross Property Tax Revenues | Net Property Tax Revenues |
|---|---|---|
| 2000-01 | $19,796 | $14,428 |
| 2001-02 | 22,027 | 16,481 |
| 2002-03 | 21,768 | 16,243 |
| 2003-04 | 23,516 | 17,851 |
| 2004-05 | 25,837 | 19,986 |
| 2005-06 | 28,101 | 22,069 |
| 2006-07 | 30,630 | 24,396 |
| 2007-08† | 33,400 | 26,944 |

† Estimated.
Sources: Department of Recreation and Parks, the Controller's Office and the Office of Public Finance.

Section 16.107 of the Charter requires that the Commission adopt several long-term reporting plans, each of which are required to be updated annually, including, but not limited to: a Five-Year Strategic Plan to establish or reaffirm the mission, vision, goals and objectives of the Department; a Five-Year Capital Plan for the development, renovation, replacement and maintenance of capital assets and the acquisition of real property; and an Operational Plan to serve as a tool to improve operational efficiency and detailing proposed improvements to the responsiveness of the Department to the needs of the public.

In completing the first Five-Year Capital Plan, the Department identified 440 projects located on 230 park sites within the eleven Supervisorial Districts as the "Capital Projects" eligible for funding from the Open Space Fund Property Tax Revenues. For a description of the 2007 Projects expected to be designed, constructed, improved or installed with proceeds of the Series 2007 Bonds, see "THE 2007 PROJECTS."

The table below sets forth the revenues, expenditures and changes in fund balance in the Open Space Fund for the last three Fiscal Years.

**OPEN SPACE FUND**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**FISCAL YEARS 2003-04 THROUGH 2005-06**
**($ in thousands)**

| | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|
| REVENUES: | | | |
| Property taxes | $23,516 | $25,837 | $28,101 |
| Interest and investment income | 150 | 384 | 713 |
| Intergovernmental: | | | |
| State | 175 | 172 | 171 |
| Other | – | 186 | – |
| TOTAL REVENUES | 23,841 | 26,579 | 28,985 |
| EXPENDITURES | | | |
| Current: | | | |
| Public works, transportation and commerce | 6,856 | 2,930 | 532 |
| Culture and recreation | 19,289 | 23,759 | 25,725 |
| General administration and finance | – | 78 | – |
| TOTAL EXPENDITURES | 26,145 | 26,767 | 26,257 |
| Excess (deficiency) of revenues over (under) expenditures | (2,304) | (188) | 2,728 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | 150 | 329 | 935 |
| Transfers out | (518) | (2,722) | (70) |
| TOTAL OTHER FINANCING SOURCES (USES) | (368) | (2,393) | 865 |
| Net Change in fund balances | (2,672) | (2,581) | 3,593 |
| Fund balances at beginning of year | 22,871 | 20,199 | 17,618 |
| Fund balances at end of year | $20,199 | $17,618 | $21,211 |

Sources: Comprehensive Annual Financial Reports for the Years Ended June 30, 2004, 2005 and 2006.

**Reserve Fund**

The Trust Agreement requires that the Reserve Fund (which secures all of the Bonds) be established and maintained in an amount equal to the "Reserve Fund Requirement" which is defined to mean, as of any date of calculation, the least of: (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service, or (iii) 10% of the original principal amount of the Bonds.

Following the delivery of the Series 2007 Bonds, the Reserve Requirement will be equal to $5,044,037.52. Proceeds from the issuance of the Series 2007 Bonds in the amount of $3,044,456.26 will be deposited in the Reserve Fund upon delivery of the Series 2007 Bonds in order to increase the Reserve Fund to an amount equal to the Reserve Fund Requirement.

Moneys in (or available to) the Reserve Fund will be applied solely for the purpose of paying the interest on the Bonds as the same shall become due and payable, including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Trust Agreement, or for the purpose of paying the principal of the Bonds as the same become due (in both instances, however, only to the extent that there are insufficient moneys available for such purposes in the Revenue Fund). Any moneys in excess of the Reserve Fund Requirement in the Reserve Fund shall, on or before any May 15 and November 15 occurring while any Bonds are Outstanding, be transferred to the Revenue Fund or as otherwise directed in a Written Request of the City.

At the option of the City, amounts required to be held in the Reserve Fund may be substituted, in whole or in part, by the deposit of a Credit Facility with the Trustee; provided that with respect to any such substitution, (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Bonds (and the Corporation is required under the Trust Agreement to notify each Rating Agency prior to making any such substitution), and (ii) the Trustee receives, prior to any such substitution becoming effective, an Opinion of Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be released to or transferred to another fund established and held pursuant to the Trust Agreement as directed in a Written Request of the City.

**Lease Not a Debt of City; Covenant to Appropriate**

The obligation of the City to pay Base Rental payments when due is an obligation of the City payable solely from Net Open Space Fund Property Tax Revenues and does not constitute a debt of the City for which the City is obligated to pledge its general fund. Under the Lease, the City has agreed to take such action as is necessary to include in its annual budgets and to appropriate funds sufficient to meet all Rental Payments due under the Lease. The tax rate limitation imposed by the initiative constitutional amendment known as the Jarvis-Gann Amendment (Article XIII A) effectively eliminates the ability of the City to impose new property taxes for new obligations such as payment of rental payments to the Corporation for debt service on the Series 2007 Bonds. For information concerning the City's revenues and expenditures see APPENDIX A–"THE CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Revenues and Expenditures."

**Insurance**

The Corporation is required to maintain or cause the City to maintain throughout the term of the Lease: (i) general liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Facilities in the minimum amount of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) builder's risk insurance during the course of construction in an amount equal to the

Outstanding principal amount of the Series 2007 Bonds (to the extent commercially available) but in no event less than the completed value of the applicable component of a project financed with proceeds of the Bonds (the "Bond Financed Facilities Component"); (iii) all risk property insurance on all structures constituting any part of the Project in an amount equal to the Outstanding principal amount of the Series 2007 Bonds (to the extent commercially available), but in no event less than the replacement cost of the Facilities (with respect to a Bond Financed Facilities Component such insurance coverage will commence upon Substantial Completion), with such insurance covering, as nearly as practicable, 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, including a replacement cost endorsement; (iv) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Lease for a period of at least 12 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Lease for the next succeeding 12 months to insure against loss of rental income from the Facilities caused by perils covered by the insurance required by (ii) and (iii) above (with respect to a Bond Financed Facilities Component such insurance coverage will commence upon Substantial Completion); (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 (with respect to a Bond Financed Facilities Component such insurance coverage will commence upon Substantial Completion); and (vi) a CLTA policy of title insurance in an amount equal to the aggregate principal amount of the Series 2007 Bonds.

The Lease further requires the City to maintain earthquake insurance in an amount equal to the Outstanding principal amount of the Series 2007 Bonds (to the extent commercially available) or the replacement cost of the Facilities; provided that no such earthquake insurance is 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. Based upon current market conditions and the recommendations of the Risk Manager, it has been determined not to be required to obtain earthquake insurance at this time.

THE CITY MAY SELF-INSURE AGAINST ANY OF THE RISKS REQUIRED TO BE INSURED AGAINST IN THE LEASE, EXCEPT FOR SELF-INSURANCE AGAINST LOSS OF RENTAL INCOME AND TITLE INSURANCE.

**Base Rental Payments and Abatement**

The Trustee will collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the Corporation must immediately be paid by the Corporation to the Trustee. All payments of Base Rental received by the Trustee under the Lease will be deposited into the Revenue Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Lease regarding abatement.

Except to the extent of amounts available to the City under the Lease, including without limitation amounts available in the Revenue Fund and the Reserve Fund, Rental Payments under the Lease are subject to abatement during any period in which by reason of material non-completion of any Bond Financed Facilities Component, material damage to or destruction of the Facilities, or condemnation of or defects in the title of the Facilities, there is substantial interference with the right to the use and occupancy by the City of any portion of the Facilities, Rental Payments due under the Lease will be abated proportionately. In the case of abatement relating to the Facilities, the amount of abatement will be in that proportion which the Rental Payments exceed the fair rental value of the Facilities. The City is required to calculate such abatement and will provide the Corporation and the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of material non-completion of the Facilities or the date of such damage or destruction and ending with the substantial completion of the work of repair or replacement of the Facilities so damaged or destroyed; and the term of the Lease will be extended by the period during which the rental is abated under the Lease hereunder, except that such extension will in no event extend beyond July 1, 2030.

During any period of abatement, the City in its sole discretion may, in lieu of abatement elect, but is not obligated, to deliver Substitute Facilities (defined below) for all or a portion of the Facilities pursuant to the substitution provisions of the Lease. Under the Lease, during any period of abatement with respect to all or any part of the Facilities, the Corporation is required to use the proceeds of the required rental interruption insurance and the moneys on deposit in the Reserve Fund to make debt service payments on the Bonds. Any abatement of Base Rental payments could affect the Corporation's ability to pay debt service on the Series 2007 Bonds, although the Lease requires the City to maintain rental interruption insurance and the Trust Agreement requires that a Reserve Fund be established. See "CERTAIN RISK FACTORS–Abatement."

**Remedies on Default**

The Lease provides that the Trustee, as assignee of the Corporation, shall exercise any remedies on default. The Trustee is required to exercise the rights and remedies under the Trust Agreement with the same care and skill that a prudent person would exercise under the circumstances in the conduct of his or her own affairs. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental when due, or in the event that the City breaches any other terms, covenants, conditions or agreements contained in the Lease (and does not remedy such breach within 30-days' notice thereof) the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Series 2007 Bonds then Outstanding, shall proceed), without any further notice (i) to reenter the Facilities and without terminating the Lease, relet the Facilities for recreational purposes in accordance with the Charter 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 Lease, including the right to recover Base Rental payments as they become due, by pursuing any remedy available in law or in equity. See "CERTAIN RISK FACTORS–Limited Recourse on Default" and APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS–THE LEASE–Defaults and Remedies."

**Maintenance and Utilities; Changes to the Facilities**

Throughout the term of the Lease, as part of the consideration for rental of the Facilities, all improvement, repair and maintenance of the Facilities will be the responsibility of the City, and the City is required to pay for or otherwise arrange for the payment of all utility services supplied to the Facilities and shall pay or otherwise arrange for payment of the cost of the repair and replacement of the Facilities resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

Subject to the approval of the Corporation, the City has the right during the term of the Lease to make additions, alterations or improvements or to attached fixtures, structures or signs to the Facilities if said additions, alterations, improvements, fixtures, structures and signs are necessary or beneficial for the use of the Facilities by the City. The City may remove any fixture, structure or sign added by the City; provided that such removal does not materially impair the City's beneficial use of the Facilities.

**Substitution of Property**

If the City determines that the annual fair rental value of proposed substitute facilities (the "Substitute Facilities") is at least equal to the maximum annual Base Rental payments and Additional Rental payments yet unpaid under the Lease and that the Substitute Facilities are complete and available for beneficial use and occupancy by the City, the City may, without the consent of the Bondowners, amend the Lease to substitute (a "Substitution") such Substitute Facilities for all or a portion of the Facilities leased under the Lease upon compliance with all of the conditions set forth in the Lease, and following a Substitution, all or a portion of the Facilities originally leased under the Lease will be released from the leasehold thereunder.

No Substitution shall take place under the Lease until the City delivers to the Corporation and the Trustee the following:

(i) A Certificate of the City stating that: (a) the annual fair rental value of the Substitute Facilities as of the date of Substitution is no less than the maximum annual Base Rental and Additional Rental remaining unpaid hereunder at the time of such Substitution; (b) the City will, at the time of the Substitution, have beneficial use and occupancy of the Substitute Facilities, (c) the Substitute Facilities will be facilities for which Net Open Space Property Tax Revenues may be expended pursuant to Section 16.107 of the Charter, and (d) the useful life of the Substitute Facilities is equal to or greater than that of the Facilities being replaced;

(ii) An Opinion of Counsel to the effect that the amendment hereto has been duly authorized, executed and delivered and this Lease as so amended represents a valid and binding obligation of the City and the Corporation and an Opinion of Bond Counsel to the effect that the Substitution will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes or the exemption of interest on the Bonds from State of California personal income tax; and

(iii) A CLTA standard form policy of title insurance in substantially the same form as delivered in connection with the issuance and delivery of the Series 2007 Bonds in at least the amount of the aggregate principal amount of outstanding Bonds at the time of the Substitution insuring the City's leasehold interest in the Substitute Facilities hereunder, together with an endorsement thereto making such policy payable to the Trustee for the benefit of the Owners and to each trustee of Parity Bonds for the benefit of the owners thereof.

**Parity Bonds and Pre-Parity Bonds**

Under the Trust Agreement and the Lease, the Corporation may issue additional bonds (the "Parity Bonds") payable from Base Rental on a parity with the Series 2007 Bonds, but only to provide funds (i) for the construction, reconstruction, rehabilitation and/or improvement of components of the Project, (ii) for the completion of any components of the Project being financed with the proceeds of Bonds, or (iii) to refund Bonds. In connection with the issuance of Parity Bonds or Pre-Parity Bonds (as defined below) to provide funds for the construction, reconstruction, rehabilitation and/or improvement and/or completion of component of the Project, the following conditions and requirements are required to be satisfied prior to such issuance:

(i) The Corporation and the City are required to (w) amend the definition of the term "Site" contained in an exhibit to the Lease to reflect the addition of real property to the Site under the Lease; (x) amend the definition of the term "Improvements" contained in and attached to the Lease to reflect the improvements to be financed with the proceeds of the Parity Bonds and/or which then exist on the real property to be added to the definition of "Site;" (y) amend the Base Rental Payment Schedule attached to the Lease such that the Base Rental scheduled to be paid under the Lease is sufficient to pay debt service when due on the Series 2007 Bonds Outstanding and all Parity Bonds outstanding after the issuance of such Parity Bonds; and (z) make any other amendments necessary in connection with the issuance of the Parity Bonds; provided that no such amendment shall adversely affect the owners of the Series 2007 Bonds;

(ii) The City has delivered to the Trustee a Certificate of the City to the effect that the Base Rental scheduled to be paid under the Lease does not exceed the fair rental value of the Facilities as amended in connection with the issuance of such Parity Bonds;

(iii) The Parity Bond Instrument pursuant to which the Parity Bonds are issued provides that the interest payment dates for such Parity Bonds shall be January 1 and July 1 and the principal payment date for such Parity Bonds shall be July 1;

(iv) The Corporation and the Trustee execute a new assignment agreement reflecting the issuance of the Parity Bonds; and

(v) The City has delivered to the Trustee a Certificate of the City certifying that the City will be in compliance with the Lease after the issuance of the Parity or Pre-Parity Bonds.

Notwithstanding the foregoing, if Parity Bonds are issued prior to the completion of a Bond Financed Facilities Component (such bonds being herein referred to as the "Pre-Parity Bonds"), the Corporation and the City may, rather than revising the Base Rental Payment Schedule as set forth in clause (i)(y) above, provide a separate Base Rental Payment Schedule (the "Pre-Parity Base Rental Schedule") relating solely to a Bond Financed Facilities Component being financed from the proceeds of such Pre-Parity Bonds. The payments scheduled to be made under such Pre-Parity Base Rental Payment Schedule, together with any available funds set aside for capitalized interest, shall be sufficient to pay debt service on such Pre-Parity Bonds and shall not exceed the fair rental value of a Bond Financed Facilities Component being financed from the proceeds of such Pre-Parity Bonds. Upon the delivery of the Certificate of Substantial Completion (as defined in the Lease) with respect to a Bond Financed Facilities Component being financed with the proceeds of such Pre-Parity Bonds, the Base Rental Payment Schedule relating to the Series 2007 Bonds and any previously issued Parity Bonds shall then be revised as provided in clause (i) above. Prior to the delivery of the Certificate of Substantial Completion and the revision of the Base Rental Payment Schedule as described above, the Pre-Parity Bonds shall only be secured by the payments to be made under the Pre-Parity Base Rental Payment Schedule. After the delivery of the Certificate of Substantial Completion and the revision of the Base Rental Payment Schedule as set forth above, such Pre-Parity Bonds shall become Parity Bonds and will be equally and ratably secured with all Outstanding Bonds by Base Rental to be paid pursuant to the Base Rental Payment Schedule.

If Parity Bonds are issued, they will be entitled, subject to the requirements set forth above, to a pledge and assignment of, and security interest in, the Base Rental (including amounts received as insurance or condemnation proceeds) on a parity with the pledge and assignment of, and security interest in, the Base Rental established under the Trust Agreement for the benefit of the Bondholders of the Series 2007 Bonds.

**Additional Obligations Payable from Net Open Space Fund Property Tax Revenues**

The City may enter into or issue additional obligations payable from Net Open Space Fund Property Tax Revenues (such obligations may be Parity Bonds or Pre-Parity Bonds or other obligations) provided that Net Open Space Fund Property Tax Revenues estimated to be received in a Fiscal Year based on the then current aggregate assessed value of taxable property located in the City, with an adjustment to such assessed value of an increase equal to the average annual increase of aggregate assessed value in the City over the last three years (the "Adjusted Open Space Revenues") are equal to at least 125% of the maximum annual debt service of all obligation payable from Net Open Space Fund Property Tax Revenues (including the proposed obligations).

**Additional Project Components**

The Trust Agreement and the Lease permit the amendment of the Lease to add additional components to the Project and issue Parity Bonds. The Series 2007 Bonds and the Parity Bonds would then, following Substantial Completion of the additional components of such Project, be secured on a parity basis by the Base Rental payments made by the City for the use and occupancy of the Facilities and such additional components of the Project. See "SECURITY AND SOURCES OF PAYMENT–Parity Bonds and Pre-Parity Bonds."

**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." The obligation of the City to make Rental Payments is limited solely to Net Open Space Fund Property Tax Revenues. The information contained in APPENDIX C–"COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2006" is presented for informational purposes only.

**City 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."

## FINANCIAL GUARANTY INSURANCE

*The following information has been provided by MBIA Insurance Corporation for use in this Official Statement. Neither the City nor the Corporation makes any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.*

**The MBIA Insurance Corporation Insurance Policy**

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

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 this heading "FINANCIAL GUARANTY INSURANCE." Additionally, MBIA makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Corporation 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 Series 2007 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA 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, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2007 Bonds 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 Series 2007 Bonds. 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 Series 2007 Bonds 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 Series 2007 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 2007 Bonds.

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 Series 2007 Bond 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 Series 2007 Bonds or presentment of such other proof of ownership of the Series 2007 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007 Bonds in any legal proceeding related to payment of insured amounts on the Series 2007 Bonds, 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 Series 2007 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

**MBIA Insurance Corporation**

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, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

**Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**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 Series 2007 Bonds, 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 Series 2007 Bonds. MBIA does not guaranty the market price of the Series 2007 Bonds nor does it guaranty that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

**MBIA Financial Information**

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of $10.8 billion (unaudited), total liabilities of $6.8 billion (unaudited), and total capital and surplus of $4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

**Incorporation of Certain Documents by Reference**

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

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. 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 Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) 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 at its principal executive offices.

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.

## SOURCES AND USES OF FUNDS

The proceeds of the Series 2007 Bonds will be applied as follows:

| | |
|---|---|
| Sources of Funds: | |
| Series 2007 Bond Proceeds | $42,435,000.00 |
| Plus: Original Issue Premium | 446,878.55 |
| Total Sources | $42,881,878.55 |
| Use of Funds: | |
| Deposit to Series 2007 Project Account | $38,750,000.00 |
| Deposit to Reserve Fund | 3,044,456.26 |
| Deposit to Costs of Issuance Fund[(1)] | 454,713.36 |
| Purchaser's Discount[(2)] | 632,708.93 |
| Total Uses | $42,881,878.55 |

(1) Includes amounts for legal fees, Trustee fees, financial advisory fees, rating agency fees, printing costs and other issuance costs.
(2) Includes bond insurance premium.

## DEBT SERVICE SCHEDULE

The Lease requires the City to make Base Rental payments on each June 15 and December 15 during the term of the Lease, commencing December 15, 2007. Base Rental shall be for the use and occupancy of the Facilities for the Fiscal Year in which such June 15 or December 15 occurs, provided that the Base Rental paid on any June 15 or December 15 shall be only for that portion of the applicable period and to the extent that the City has use and occupancy of the Facilities.

The Trust Agreement requires that Base Rental payments be deposited in the Revenue Fund maintained by the Trustee. Pursuant to the Trust Agreement, on January 1 and July 1 of each year, commencing on January 1, 2008, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Series 2007 Bonds as the same shall become due and payable, as shown on the following page.

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**Debt Service Schedule**

| Payment Date | 2006 Bonds | 2007 Bonds Principal | 2007 Bonds Interest | 2007 Bonds Total | 2007 Bonds Fiscal Year Debt Service | Total Bonds Fiscal Year Debt Service |
|---|---|---|---|---|---|---|
| July 1, 2007 | – | – | – | – | – | $1,431,181 |
| January 1, 2008 | $574,365.63 | – | $447,227 | $447,227 | – | – |
| July 1, 2008 | 1,424,365.63 | $625,000 | 925,297 | 1,550,297 | $1,997,524 | 3,996,255 |
| January 1, 2009 | 550,990.63 | – | 908,109 | 908,109 | – | – |
| July 1, 2009 | 1,445,990.63 | 1,230,000 | 908,109 | 2,138,109 | 3,046,219 | 5,043,200 |
| January 1, 2010 | 526,378.13 | – | 871,978 | 871,978 | – | – |
| July 1, 2010 | 1,471,378.13 | 1,300,000 | 871,978 | 2,171,978 | 3,043,956 | 5,041,713 |
| January 1, 2011 | 500,390.63 | – | 833,791 | 833,791 | – | – |
| July 1, 2011 | 1,495,390.63 | 1,375,000 | 833,791 | 2,208,791 | 3,042,581 | 5,038,363 |
| January 1, 2012 | 480,490.63 | – | 795,978 | 795,978 | – | – |
| July 1, 2012 | 1,515,490.63 | 1,450,000 | 795,978 | 2,245,978 | 3,041,956 | 5,037,938 |
| January 1, 2013 | 459,790.63 | – | 759,728 | 759,728 | – | – |
| July 1, 2013 | 1,539,790.63 | 1,525,000 | 759,728 | 2,284,728 | 3,044,456 | 5,044,038 |
| January 1, 2014 | 438,190.63 | – | 722,556 | 722,556 | – | – |
| July 1, 2014 | 1,558,190.63 | 1,600,000 | 722,556 | 2,322,556 | 3,045,113 | 5,041,494 |
| January 1, 2015 | 415,790.63 | – | 690,556 | 690,556 | – | – |
| July 1, 2015 | 1,580,790.63 | 1,665,000 | 690,556 | 2,355,556 | 3,046,113 | 5,042,694 |
| January 1, 2016 | 393,946.88 | – | 657,256 | 657,256 | – | – |
| July 1, 2016 | 1,603,946.88 | 1,730,000 | 657,256 | 2,387,256 | 3,044,513 | 5,042,406 |
| January 1, 2017 | 368,990.63 | – | 622,656 | 622,656 | – | – |
| July 1, 2017 | 1,628,990.63 | 1,800,000 | 622,656 | 2,422,656 | 3,045,313 | 5,043,294 |
| January 1, 2018 | 343,790.63 | – | 586,656 | 586,656 | – | – |
| July 1, 2018 | 1,653,790.63 | 1,870,000 | 586,656 | 2,456,656 | 3,043,313 | 5,040,894 |
| January 1, 2019 | 317,590.63 | – | 551,594 | 551,594 | – | – |
| July 1, 2019 | 1,677,590.63 | 1,940,000 | 551,594 | 2,491,594 | 3,043,188 | 5,038,369 |
| January 1, 2020 | 290,390.63 | – | 514,006 | 514,006 | – | – |
| July 1, 2020 | 1,705,390.63 | 2,015,000 | 514,006 | 2,529,006 | 3,043,013 | 5,038,794 |
| January 1, 2021 | 262,090.63 | – | 473,706 | 473,706 | – | – |
| July 1, 2021 | 1,737,090.63 | 2,095,000 | 473,706 | 2,568,706 | 3,042,413 | 5,041,594 |
| January 1, 2022 | 231,668.75 | – | 431,806 | 431,806 | – | – |
| July 1, 2022 | 1,766,668.75 | 2,180,000 | 431,806 | 2,611,806 | 3,043,613 | 5,041,950 |
| January 1, 2023 | 199,433.75 | – | 387,116 | 387,116 | – | – |
| July 1, 2023 | 1,799,433.75 | 2,270,000 | 387,116 | 2,657,116 | 3,044,233 | 5,043,100 |
| January 1, 2024 | 165,433.75 | – | 340,581 | 340,581 | – | – |
| July 1, 2024 | 1,830,433.75 | 2,365,000 | 340,581 | 2,705,581 | 3,046,163 | 5,042,030 |
| January 1, 2025 | 130,052,50 | – | 291,803 | 291,803 | – | – |
| July 1, 2025 | 1,865,052.50 | 2,460,000 | 291,803 | 2,751,803 | 3,043,606 | 5,038,711 |
| January 1, 2026 | 92,750.00 | – | 239,528 | 239,528 | – | – |
| July 1, 2026 | 1,902,750.00 | 2,565,000 | 239,528 | 2,804,528 | 3,044,056 | 5,039,556 |
| January 1, 2027 | 47,500.00 | – | 185,022 | 185,022 | – | – |
| July 1, 2027 | 1,947,500.00 | 2,675,000 | 185,022 | 2,860,022 | 3,045,044 | 5,040,044 |
| January 1, 2028 | – | – | 126,506 | 126,506 | – | – |
| July 1, 2028 | – | 2,790,000 | 126,506 | 2,916,506 | 3,043,013 | 3,043,013 |
| January 1, 2029 | – | – | 65,475 | 65,475 | – | – |
| July 1, 2029 | – | 2,910,000 | 65,475 | 2,975,475 | 3,040,950 | 3,040,950 |
| TOTAL | $39,940,052.64 | $42,435,000 | $23,485,343.78 | $65,920,343.78 | $65,920,343.78 | $107,291,578 |

## THE 2007 PROJECTS

### Description

The Corporation will apply a portion of the proceeds of the Series 2007 Bonds to finance the design, construction, renovation and installation of the 2007 Projects. A brief description of the 2007 Projects expected to be funded with the proceeds of the Series 2007 Bonds is set forth below:

*Chinese Recreation Center (District 3).* This component of the 2007 Projects is located on an approximately 0.74 acre site on Mason and Washington Streets and consists of renovating an approximately 22,117 square foot, three-story, concrete recreation center, originally constructed in 1950 and an approximately 0.15 acre playground area. This component of the 2007 Projects includes constructing and installing Americans with Disabilities Act ("ADA") compliance modifications to improve access to the three levels of this facility, correct other minor structural and code deficiencies and replace the play structure and install rubber mats surrounding the play structure. Construction and installation of this component of the 2007 Projects is expected to commence in winter 2008 and be completed in spring 2010.

*Larsen Park Sava Pool (District 4).* This approximately 13, 200 square foot pool was constructed in 1953 and is located on 19th Avenue between Vincente and Wawona Streets. This component of the 2007 Projects consists of renovating the facility to house a 25 yard, eight-lane, multi-purpose swimming pool to accommodate recreation, lap and competitive swimming, constructing an outdoor courtyard and entrance lobby, men's and women's locker rooms, restrooms, a reception office, and lifeguard and staff facilities. Construction of this component of the 2007 Projects commenced in August 2007 and is expected to be completed in November 2008.

*Hamilton Recreation Center (District 5).* This component of the 2007 Projects is located on an approximately 4.5 acre site on Geary Boulevard and Steiner Street and consists of demolishing an existing pool and gymnasium, constructing a one-story recreation center, and a two-structure building to house a pool, locker rooms and restrooms, and installation of play structures. Construction and installation of this component of the 2007 Projects is expected to commence in October 2007 and be completed in February 2009.

*Fields Initiative - Phase II (Districts 4, 5, 6 and 11).* This component of the 2007 Projects consists of the renovation and construction of synthetic athletic fields in various neighborhood parks throughout the City and is being undertaken pursuant to a memorandum of understanding with the City Fields Foundation. Phase I of the program was completed in December 2006. Phase II of this program includes renovations to the Crocker Amazon Soccer Field, the Franklin Square Field Lights, Kimball Field Renovation and South Sunset Playground Athletic Fields. Construction of each component of this component of the 2007 Projects is expected to commence between August 2007 and November 2007 and is expected to be completed between October 2007 through May 2008.

*Franklin Square Playground Renovation (District 6).* This approximately 0.06 acre playground, located at Franklin Square on the corner of 17th and Bryant Streets, was originally constructed in 1960. This component of the 2007 Projects consists of the construction of various play areas to separate age groups and activities, and perimeter pathways surrounding the realigned fenced play areas and installation of play equipment that complies with ADA requirements and rubber mats around the play structures. Construction of this component of the 2007 Projects is expected to commence in June 2008 and be completed in winter 2008.

**Environmental Matters and Land Use Approvals**

Projects undertaken by the City, including the Projects, are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) ("CEQA"). Under CEQA, a project which may have a significant effect on the environment and which is to be approved by a public agency must comply with an environmental review process, including, in certain cases, the preparation of an Environmental Impact Report. The City Planning Department adopted findings on April 2, 2004, August 22, 2005, February 28, 2007 and May 17, 2007 determining that the 2007 Projects consist of: (i) repair, maintenance or minor alteration of existing public structures involving no expansion of use beyond that previously existing, or (ii) minor alterations in the condition of land, water and/or vegetation and are therefore exempt from further CEQA review. All other land use approvals necessary to proceed with the 2007 Projects have been obtained or are expected to be received in due course.

## THE FACILITIES

**Description**

The City leases each of the Facilities described below to the Corporation pursuant to the Site Leases, and the Corporation will lease the Facilities back to the City pursuant to the Lease. The City has covenanted in the Lease that it will use, or cause the Facilities to be used for public purposes and park and recreational purposes.

The Facilities consist of five separate properties, each of which is owned by the City. The Facilities include site development, landscaping, utilities, equipment, furnishings, improvements and appurtenant and related facilities located thereon as described below. The Facilities described under the caption "–2007 Facilities" will be added as Facilities under the Lease pursuant to the First Amendment to Master Lease.

Pursuant to the Lease, the City may substitute other real property for all or a part of the Facilities from time to time upon making certain filings with the Corporation and the Trustee. See also "SECURITY AND SOURCES OF PAYMENT–Substitution of Property."

**2007 Facilities**

*Mission Dolores Park.* This park occupies the equivalent of two large city blocks comprising approximately 14.2 acres in the Inner Mission neighborhood and was established in 1905. The site is bordered by Church, Dolores, 18$^{th}$ and 20$^{th}$ Streets, and features two children's play areas, picnic facilities, six tennis courts, a basketball court, two soccer fields, a children's play area and an approximately 2,000 square foot, two-story, wood frame stucco clubhouse and maintenance facility.

**Existing Facilities**

*Esprit Park.* This Facility is an approximately 1.8 acre site located on Potrero Hill between Minnesota, Indiana, 19th and 20th Streets and was constructed by the Esprit Corporation in 1982. This park consists of mature trees, shrubs, a running track, benches, picnic tables, parcourse fitness stations, walking paths and a one acre open lawn area. Capital improvements to repair the irrigation system and renovate aging flora in this park were completed in spring 2006.

*Ferry Park.* This Facility is an approximately 5.3 acre site located at Drumm Street, between Clay and Washington Streets and consists of open space greens, walking areas and a volleyball area. A master plan is currently under development for this park to guide future improvements and better serve the surrounding spaces and community.

*Justin Herman Plaza.* Justin Herman Plaza is an approximately 3.6 acre site located on the Embarcadero at the foot of Market Street. It consists of landscaped areas, a hardscaped plaza and the Vaillancourt Fountain, designed in 1971 by French-Canadian sculptor Francois Vaillancourt. This park is used for a variety of public uses including concerts, weekly farmers markets and passive recreation by tourists and workers in the surrounding office buildings.

*Parque Ninos Unidos.* This Facility, completed in June 2003, is an approximately one-half acre site located between Folsom and Treat Streets at 23rd Street and includes two children's play areas, lawn areas, a gazebo, a community garden, a 1,269 square foot single story clubhouse, lighting, pathways and landscaping.

**Summary of Facilities**

| Facility | Address | Original Year Completion Date | Approx. Acreage of Site | Approx. Building Square Footage | Estimated Fair Market Value[1] (In Millions) |
|---|---|---|---|---|---|
| Mission Dolores Park[2] | Church, Dolores, 18th and 20th Streets | 1918 | 14.2 | 2,000 | $77.3 |
| Espirit Park | Minnesota Street | 1982 | 1.8 | N/A | 7.0 |
| Ferry Park | Drumm Street | 2001 | 2.5 | N/A | 17.5 |
| Justin Herman Plaza | Market Street and Embarcadero | 1971 | 3.6 | N/A | 18.6 |
| Parque Ninos Unidos | 23rd and Treat Streets | 2003 | 0.5 | 1,269 | 4.0 |
| TOTAL | | | | | $124.4 |

(1) Estimated by the City and County of San Francisco, assuming sale of the property, neighborhood-appropriate zoning and normal time frames for approval of development plans, and no requirement for a vote of the electorate to remove the property from the park designation.
(2) Comprises the 2007 Facilities.
Source: City and County of San Francisco, Recreation and Park Department.

**Seismicity**

Generally, within the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to the property located at or near the center of such seismic activity. Each of the Facilities was designed to the seismic standards existing at the later of the time of original construction or renovation. The Lease only requires the City to maintain earthquake insurance with respect to the Facilities if such insurance is obtainable in reasonable amounts at reasonable costs. See also "SECURITY AND SOURCES OF PAYMENT–Insurance," "CERTAIN RISK FACTORS–Abatement" and "–Seismic Risks."

## CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law, which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

**Article XIII A of the California Constitution**

Article XIII A of the State Constitution, known as Proposition 13, was approved by State voters in June 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on: (i) any indebtedness approved by the voters prior to July 1, 1978; (ii) 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 (iii) 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 voting on the proposition, but only if certain accountability measures are included in the proposition.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

**Article XIII B of the California Constitution**

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

See APPENDIX C–"COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2006" for information on the City's appropriations limit.

**Articles XIII C and XIII D of the California Constitution**

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

**Statutory Limitations**

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other matters, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, (ii) that any new or increased special purpose tax (defined as taxes levied for other than general governmental purposes) be approved by a two-thirds vote of the voters, 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.

In *Santa Clara County Local Transportation Authority* v. *Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The 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. In *McBrearty v. City of Brawle*y (1997) 59 Cal. App. 4$^{th}$ 1441, the Fourth District Court of Appeal concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that certain provisions of Proposition 62 do not apply to charter cities. See, *Fiedler v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, Proposition 62 is subordinate to the authority of charter cities, derived from the State Constitution, to impose taxes. Proposition 218, however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution. For a discussion of taxes affected by Proposition 218 see "Articles XIII C and XIII D of the California Constitution."

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure would be insignificant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to a requirement in Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Other City Tax Revenues."

**Proposition 1A**

Proposition 1A, proposed by the State Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by a two-thirds vote of both houses of the State Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by a two-thirds vote of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, beginning July 1, 2005, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

**Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Proposition 62 and Proposition 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

## 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 Series 2007 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Series 2007 Bonds. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Series 2007 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

### Lease Payments Not Debt of the City

The obligation of the City to make the Rental Payments does not constitute a general obligation of the City. The obligation of the City to make Rental Payments from the Net Open Space Fund Property Tax Revenues does not constitute a debt or indebtedness of the City and County of San Francisco, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

### Abatement

The obligation of the City under the Lease to make Base Rental payments is in consideration for the use and right of occupancy of the Facilities. The obligation of the City to make Base Rental payments may be abated in whole or in part if the City does not have full use and right of occupancy of the Facilities, and if the Facilities 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.

In the event Base Rental payments are abated, no assurances can be given that moneys on deposit in the Base Rental Fund and Reserve Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service on the Series 2007 Bonds. In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement.

The amount of Base Rental payments due under the 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 Facilities or any portion thereof. Such abatement will continue for the period during which there is material non-completion of the Facilities or during the period commencing with the date of such damage, destruction, condemnation or title defect and will end with the substantial completion of the Facilities or the restoration of the Facilities or any portion thereof to useable condition or correction of the title defect. Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Series 2007 Bonds in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest on the Series 2007 Bonds as such amounts become due. **If damage, destruction, condemnation or title defect with respect to the Facilities to or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the Reserve Fund and any available insurance proceeds, are insufficient to make all payments with respect to the Series 2007 Bonds during the period that the Facilities, or a portion thereof, are being restored, then such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest on, the Series 2007 Bonds as a result of abatement of the City's obligation to make Rental Payments under the Lease is not an event of default under the Trust Agreement or the Lease.**

Notwithstanding the provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Project, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Series 2007 Bonds.

**Reserve Fund**

At the time of issuance of the Series 2007 Bonds, proceeds of the Series 2007 Bonds in the amount of $3,044,456.26 will be deposited in the Reserve Fund that secures all of the Bonds, to increase the amount on deposit therein to the Reserve Fund Requirement. See "SECURITY AND SOURCES OF PAYMENT–Reserve Fund." 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 payments due at the time of abatement or default.

**Limited Recourse on Default**

The Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may take possession of and relet the Facilities, provided that the Facilities may only be relet for recreational purposes in accordance with the Charter. The amounts received from such reletting may be insufficient to pay the scheduled principal and interest on the Series 2007 Bonds when due. The enforcement of any remedies provided in the Lease and in the Trust Agreement could prove to be both expensive and time-consuming.

The Lease provides that upon the failure of the City to deposit with the Trustee any Base Rental and/or Additional Rental within five calendar days after the same becomes due, or in the event that the City fails to keep, observe or perform any term, covenant, conditions or agreement contained in the Lease (and does not remedy such breach within 30-days' or such additional time reasonably required to correct such default following notice thereof by the Corporation to the City), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Series 2007 Bonds then Outstanding, shall proceed), without any further notice (i) to terminate the Lease, notwithstanding any re-entry or reletting of the Facilities and reenter the Facilities and remove all persons, possessions and personal property therein; or (ii) without terminating the Lease, collect each installment of Base Rental payments and exercise the right of entry or re-entry and relet the Facilities, provided that any such re-let is for recreational purposes in accordance with the Charter and (iii) to enforce all of its rights and remedies under the Lease by pursuing any remedy available in law or in equity.

In addition to the limitations on remedies contained in the 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.

**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 Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

**Seismic Risks**

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

The Lease requires earthquake insurance only to the extent it is obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies (see "SECURITY AND SOURCES OF PAYMENT–Insurance"). The City does not currently anticipate obtaining earthquake insurance for the Facilities. In addition, in the event any Facilities were damaged or destroyed in an earthquake, the rental interruption insurance would not provide coverage for any abatement of Base Rental. Accordingly, the risk that the Facilities may be damaged or destroyed by an earthquake and that Base Rental payments would consequently be abated in whole or in part should be considered. Further, an earthquake could have a material adverse impact on the finances of the City, which in turn could impair the ability of the City to make Base Rental payments under the Lease.

**Risk Management and Insurance**

The Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Facilities for repair or replacement in the event of damage or destruction to the Facilities. The City is also required to maintain rental interruption insurance in an amount equal to but not less than 12 months Base Rental payments. The 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 Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2007 Bonds 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. For information concerning the self insurance and risk management programs of the City see APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO - ORGANIZATION AND FINANCES–Risk Management."

**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 ON TAXES, REVENUES AND APPROPRIATIONS–Article XIII B of the California Constitution."

**Change in Law**

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or that the State Legislature or the City's Board of Supervisors will not enact legislation that will amend the laws of the State Constitution or the City's Charter, respectively, in a manner that could result in a reduction of the funds legally available to the City to make Base Rental payments. See for example "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS–Article XIII C and XIII D of the California Constitution."

## THE CITY

For information about the City, see APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES," and APPENDIX B–"CITY AND COUNTY OF SAN FRANCISCO–ECONOMY AND GENERAL INFORMATION." The City is ***not*** obligated to make Rental Payments from the General Fund. Certain financial information with respect to the City is presented for informational purposes only in APPENDIX C–"COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2006." The information in these appendices has been supplied by the City.

The Series 2007 Bonds are payable solely from Base Rental payments made by the City pursuant to the Lease, solely from Net Open Space Fund Property Tax Revenues, and certain other amounts held in certain funds or accounts 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 therein.

NEITHER THE SERIES 2007 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE CONSTITUTES A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

## THE CORPORATION

### General

The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 *et seq.* of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City pursuant to a resolution of the Board of Supervisors of the City. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

### Governance and Administration

The Corporation is governed by a three-member Board of Directors. The initial Board of Directors was appointed by the Chief Administrative Officer of the City. Members of the Board of Directors are appointed by the existing Board of Directors to indefinite terms and serve without compensation. The Corporation has no employees. Pursuant to an Administrative Services Agreement dated May 23, 1997, between the City and the Corporation, the City provides administrative services to the Corporation. There is currently one vacancy on the Board of Directors, which the Corporation expects to fill in Fiscal Year 2007-08.

The current members of the Board of Directors are as follows:

| Name | Date of Appointment |
|---|---|
| Marc Stad, *President* | November 17, 2005 |
| Barry Fishman, *Chief Financial Officer and Secretary* | March 15, 2005 |

Mr. Stad was appointed to the office of President of the Corporation and sworn in on November 17, 2005. Mr. Stad is enrolled in the Masters of Business Administration program at Stanford University's Graduate School of Business. Prior to this, Mr. Stad was an investment professional with a background in business and politics. He currently works in the Private Equity Group of Texas Pacific Group in San Francisco and previously held positions with Parthenon Capital and McKinsey & Company. Mr. Stad also served in Vice President Al Gore's office. Mr. Stad received an A.B. degree in Government from Harvard College.

Mr. Fishman was appointed to the offices of Chief Financial Officer and Secretary of the Corporation and sworn in on March 15, 2005. Mr. Fishman is retired and is teaching full time at Riordan High School in the City. In 1994, he moved to San Francisco to pursue individual business ventures. Prior to that, Mr. Fishman served as the chief executive officer of Kravif Manufacturing Co., in Fall River, Massachusetts, a manufacturer of better ladies apparel.

**Outstanding Debt**

In addition to the Series 2007 Bonds and other lease revenue bonds outstanding under its equipment lease program (as of July 31, 2007, in the aggregate principal amount of $30.415 million), the Corporation has issued other bonds secured by separate leases with the City. Additional bonds secured by separate leases with the City may be issued by the Corporation from time to time. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Statement of Direct and Overlapping Bonded Debt" and "–Lease Payments and Other Long-Term Obligations." No amount received by or on behalf of the Corporation with respect to any other bonds issued by the Corporation is available to secure payment of the Bonds.

**Limited Obligation**

THE SERIES 2007 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS 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 PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2007 BONDS SHALL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION IN RESPECT OF THE ISSUANCE OF THE SERIES 2007 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

## TAX MATTERS

**Opinion of Co-Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, and Lofton & Jennings, San Francisco, California, Co-Bond Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2007 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Series 2007 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Co-Bond Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and the Corporation in connection with the Series 2007 Bonds, and Co-Bond Counsel have assumed compliance by the City and the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2007 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Co-Bond Counsel to the City, under existing statutes, interest on the Series 2007 Bonds is exempt from personal income taxes imposed by the State of California. See "–Miscellaneous" below for a discussion of certain litigation that may relate to this State tax exemption.

Co-Bond Counsel express no opinion regarding any other Federal or state tax consequences with respect to the Series 2007 Bonds. Co-Bond Counsel render their opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update their opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Co-Bond Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2007 Bonds, or under state and local tax law.

**Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2007 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2007 Bonds to become excluded from gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City and the Corporation have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2007 Bonds from gross income under Section 103 of the Code.

**Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2007 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2007 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2007 Bonds.

Prospective owners of the Series 2007 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Series 2007 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

**Original Issue Discount**

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2007 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2007 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2007 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Co-Bond Counsel further are of the opinion that, for any Series 2007 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2007 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2007 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

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

**Bond Premium**

In general, if an owner acquires a Series 2007 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2007 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

**Information Reporting and Backup Withholding**

Information reporting requirements applies to interest paid on tax-exempt obligations, including the Series 2007 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2007 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2007 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

**Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2007 Bonds under federal or state law and could affect the market price or marketability of the Series 2007 Bonds.

Prospective purchasers should be aware that the United States Supreme Court has agreed to review *Davis v. Dep't. of Revenue of the Finance and Admin. Cabinet*, 197 S.W. 3d 557 (Ky. App. 2006), *cert. granted* 2007 U.S. LEXIS 5914 (May 21, 2007), a decision of a Kentucky appellate court, which held that provisions of Kentucky tax law that provided more favorable income tax treatment for holders of bonds issued by Kentucky municipal bond issuers than for holders of non-Kentucky municipal bonds violated the Commerce Clause of the United States Constitution. State statutes provide more favorable State income tax treatment for holders of bonds issued by the State and its political subdivisions, including the Series 2007 Bonds, than for bonds issued by other states and their political subdivisions. If the United States Supreme Court were to affirm the holding of the Kentucky appellate court, subsequent State judicial decisions or legislation designed to ensure the constitutionality of State tax law could, among other alternatives, adversely affect the State tax exemption of outstanding bonds, including the Series 2007 Bonds, to the extent constitutionally permissible, or result in the exemption from State income tax of interest on certain bonds issued by other states and their political subdivisions, either of which actions could affect the market price or marketability of the Series 2007 Bonds.

Prospective purchasers of the Series 2007 Bonds should consult their own tax advisors regarding the foregoing matters.

## LEGAL OPINIONS

The proposed form of the opinion of Hawkins Delafield & Wood LLP, San Francisco, California and Lofton & Jennings, San Francisco, California, Co-Bond Counsel, is set forth in APPENDIX G. Such opinion will be made available to the original purchasers of the Series 2007 Bonds at the time of the original delivery of the Series 2007 Bonds. The proposed form of legal opinion of Co-Bond Counsel to be delivered upon delivery of the Series 2007 Bonds undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement or other offering material relating to the Series 2007 Bonds and expresses therein no opinion with respect thereto. Certain legal matters will be passed upon for the Corporation by its counsel, Miller Brown & Dannis, San Diego, California, and for the City by the City Attorney. Co-Bond Counsel will receive compensation which is contingent upon the sale and delivery of the Series 2007 Bonds.

## CO-FINANCIAL ADVISORS

The City has retained Public Financial Management, Inc., San Francisco, California and TKG & Associates, San Francisco, California, as co-financial advisors (the "Co-Financial Advisors") in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2007 Bonds. 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 compensation of the Co-Financial Advisors is contingent upon the issuance of the Series 2007 Bonds.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Series 2007 Bonds 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 2006-07 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 summarized in APPENDIX E–"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). The City has never failed to comply in any material respect with any previous undertakings pursuant to said Rule.

## NO LITIGATION

The opinions of the Counsel to the Corporation will be furnished to the initial purchaser at the time of the original delivery of the Series 2007 Bonds.

### Corporation

No litigation is pending with service of process having been accomplished or, to the knowledge of the Counsel to the Corporation, threatened, concerning the validity of the Trust Agreement, the Lease, the Site Lease or the Assignment Agreement, and the Counsel to the Corporation will issue an opinion to that effect.

**City**

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 Series 2007 Bonds, the Lease or the Site Lease and the City Attorney will issue an opinion to that effect. The City Attorney is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to appropriate or make Base Rental payments.

## RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's, A Division of The McGraw-Hill Companies ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa," "AAA" and "AAA," respectively to the Series 2007 Bonds based upon the understanding that upon delivery of the Series 2007 Bonds, the Policy will be issued by the Bond Insurer. See "FINANCIAL GUARANTY INSURANCE." Moody's, S&P and Fitch have assigned underlying ratings of "A1," "AA-" and "AA-," respectively, to the Series 2007 Bonds. Certain information was supplied by the City to the rating agencies to be considered in evaluating the Series 2007 Bonds. 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. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Series 2007 Bonds.

## SALE OF SERIES 2007 BONDS

The Series 2007 Bonds were sold at competitive bid on September 11, 2007. The Series 2007 Bonds were awarded to Citigroup Global Markets Inc. (the "Purchaser") at a purchase price equal to $42,249,169.62 (representing the principal amount of the Series 2007 Bonds in the amount of $42,435,000, plus a net original issue premium in the amount of $446,878.55 and less a Purchaser's discount in the amount of $632,708.93). The Purchaser has represented to the Corporation that the Series 2007 Bonds have been reoffered to the public at prices or yields printed on the inside cover of the Official Statement.

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## 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 among the City, the Corporation and the purchasers or Owners of any of the Series 2007 Bonds. The preparation and distribution of this Official Statement have been authorized by the City and the Corporation.

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

CITY AND COUNTY OF SAN FRANCISCO
FINANCE CORPORATION

By: /s/ Barry Fishman
Chief Financial Officer and Secretary

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward M. Harrington
Controller

# APPENDIX A

## CITY AND COUNTY OF SAN FRANCISCO
## ORGANIZATION AND FINANCES

### Government and Organization

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), the only consolidated city and county in the State. San Francisco can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government 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" or the "Airport"), although located 14 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, the voters of the City 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 of Supervisors") in setting policy and determining budgets, while reducing the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor's appointment of a commissioner is subject to approval by a two-thirds vote of the Board of Supervisors. The Mayor appoints department heads from nominations submitted by the commissioners.

The City has an elected Board of Supervisors consisting of 11 members and an elected Mayor who serves as chief executive officer. Members of the Board of Supervisors and the Mayor each serve a four-year term. In 2000, a Charter amendment went into effect that changed the Board of Supervisors election system from a Citywide vote to elections by district. The Mayor and members of the Board of Supervisors are subject to term limits as established by the Charter. Members of the Board of Supervisors may serve no more than two successive four-year terms and may not serve another term until four years have elapsed since the end of second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer & Tax Collector, Sheriff and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District: each is a separate legal entity with a separately elected governing board. The Charter provides a civil service system for most City employees.

Gavin Newsom was elected the 42$^{nd}$ Mayor of the City on December 9, 2003 and was sworn into office on January 8, 2004. Mayor Newsom had been elected to the Board of Supervisors three times and served on the Board of Supervisors from 1997 until he was elected Mayor. Mayor

Newsom grew up in the San Francisco Bay Area and graduated from Santa Clara University in 1989 with a Bachelor of Arts degree in Political Science.

Aaron Peskin, president of an environmental non-profit organization, was elected to the Board of Supervisors in 2000 and re-elected in November 2004. He was elected President of the Board of Supervisors by a majority of the Supervisors in January 2005 and again in January 2007. Tom Ammiano, former member of the Board of Education, was elected to the Board of Supervisors in 1994 and re-elected in 1998, 2000 and 2004. The following Supervisors were also elected in November 2000: Jake McGoldrick, a college English teacher; Chris Daly, an affordable housing organizer; Sophenia (Sophie) Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Of these, Chris Daly and Sophie Maxwell were elected to two-year terms in 2000 and were re-elected in November 2002. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, was elected to a four-year term on the Board of Supervisors on December 10, 2002. Michela Alioto-Pier was appointed to the Board of Supervisors in January 2004 and elected to a four-year term in November 2006. She previously served on the San Francisco Port Commission. Sean Elsbernd was appointed to the Board of Supervisors in August 2004. He previously served as liaison to the Board of Supervisors in the Mayor's Office, a legislative aide to the Board of Supervisors, and Co-Director of the Congressional Human Rights Caucus. Jake McGoldrick, Sean Elsbernd and Gerardo Sandoval were elected to additional four-year terms in November 2004 along with Ross Mirkarimi, an investigator for the District Attorney's Office. The following Supervisors are currently serving their second successive four-year term of office and are ineligible to run in the next election for their respective districts in November 2008: Jake McGoldrick, Aaron Peskin, Tom Ammiano, and Gerardo Sandoval. Chris Daly, Bevan Dufty and Sophie Maxwell were re-elected to the Board of Supervisors on November 7, 2006 and are also serving their second successive four-year terms of office and are therefore ineligible to run in the next election for their respective districts in November 2010. Ed Jew, a neighborhood activist, was elected to the Board of Supervisors on November 7, 2006.

Dennis J. Herrera, City Attorney, was elected to a four-year term on December 11, 2001 and assumed office on January 8, 2002. Mr. Herrera was re-elected to a four-year term in November 2005. Before becoming City Attorney, Mr. Herrera was a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission. Mr. Herrera received his law degree from George Washington University School of Law and became a member of the California Bar in 1989.

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a 10-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 then-Mayor Willie L. Brown, Jr. The City Controller's appointment is also subject to confirmation by the Board of Supervisors. 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 $6.08 billion fiscal year 2007-08 budget. The City Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a certified public accountant.

José Cisneros was appointed Treasurer & Tax Collector for the City by Mayor Newsom and was sworn in on September 8, 2004. Mr. Cisneros was then elected to a four-year term in November 2005. Prior to being appointed Treasurer & Tax Collector, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the San Francisco Municipal Transportation Agency (the "MTA").

Philip Y. Ting was appointed Assessor-Recorder for the City by Mayor Newsom and was sworn in on July 21, 2005. Mr. Ting was then elected on November 8, 2005 and elected to a four-year term on November 7, 2006. Mr. Ting's professional experience includes positions as senior consultant for Arthur Andersen, Associate Director of Governmental and Community Relations at San Francisco State University and former Executive Director of the Asian Law Caucus.

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 of Supervisors. On April 26, 2005, Edwin Lee, then the City's Director of Public Works, was appointed by Mayor Newsom as the City Administrator. He has previously worked as the City's Director of Purchasing and as the Director of the Human Rights Commission. Mr. Lee has also served as the Deputy Director of the Employee Relations Division and coordinator for the Mayor's Family Policy Task Force.

**City Budget and Finances**

*General*

The City 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. No obligation to expend City funds can be incurred without a prior certification by the City Controller that sufficient revenues are or will be available in the current fiscal year, which ends June 30, to meet such obligation as it becomes due. The City Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City 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 City Controller can certify these surplus funds as a source for supplemental appropriation that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or "Original Budget" (as such term is defined below) due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

Charter Section 3.105 directs the City Controller to issue periodic or special financial reports during the fiscal year. Each year, the City Controller issues detailed Six-Month and Nine-Month Budget Status Reports to apprise the City's policy makers of the current budgetary status and projected year-end revenues and expenditures. The Charter and Administrative Code of the City require the City Controller, the Mayor's Budget Director and the Budget Analyst for the Board of

Supervisors to issue annually a Three-Year Budget Projection to report on the City's financial condition. The most recent reports can be viewed at the City Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

The City has referred to certain specified documents into this Appendix A which are hosted on the City's website. A wide variety of other information, including financial information, concerning the City is available from the City's publications, websites and its departments. Any such other information that is inconsistent with the information set forth in this Appendix A should be disregarded and no such other information is a part of or incorporated into this Appendix A.

*Forward-Looking Statements*

This Appendix A—"City and County of San Francisco—Organization and Finances" contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations or performance contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements described or implied by such forward-looking statements. Such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results, performance or achievements to differ materially from those that have been forecasted, estimated or projected. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

*Budget Process*

The City's budget process begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approval thereof by the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. Next the Mayor is required to submit a proposed budget for selected departments, based on criteria set forth in the Administrative Code, to the Board of Supervisors by the first working day of May. On or before the first working day of June, the Mayor is required to submit the complete (all departments) budget to the Board of Supervisors.

Following the submission of the Mayor's proposed budget, the City Controller provides an opinion to the Board of Supervisors regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget. The City Controller may also recommend reserves that he or she considers prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City's Capital Planning Committee also reviews the proposed budget and provides recommendations based on its conformance with the City's adopted ten-year capital plan. For a further discussion of the Capital Planning Committee and the City's ten-year capital plan, see "—Capital Plan" below.

During its budget approval process, the Board of Supervisors has the power to reduce or augment any appropriation in the proposed budget provided the total budgeted appropriation amount is not greater than the total budgeted appropriation amount submitted by the Mayor. The Board of Supervisors must adopt the Annual Appropriation Ordinance (also referred to herein as the "Original Budget") no later than the last working day of July each year, after which it is subject to the approval or veto of the Mayor as described below.

Following the adoption and approval of the Annual Appropriation Ordinance, the City makes various revisions throughout the fiscal year (the Original Budget plus any changes made to date are collectively referred to herein as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year reflecting the year-end's final revenue and expenditure appropriation for such fiscal year. The Mayor presented the fiscal year 2007-08 proposed budget to the Board of Supervisors on June 1, 2007. The Board of Supervisors adopted the fiscal year 2007-08 Original Budget (Ordinance No. 174-07) on July 24, 2007, and the Mayor signed this legislation on July 27, 2007.

The Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire budget ordinance, the Charter directs the Mayor to promptly return the budget ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any budget ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors as required by Section 2.106 of the Charter.

Overall, the fiscal year 2007-08 Original Budget assumes a continued gradual recovery in discretionary General Fund revenues from prior-year levels. The achievement of the revenue estimates is dependent upon a variety of known and unknown factors, including the general economy of the San Francisco Bay Area and the State, and certain State budget decisions, which could have either a positive or negative impact on City revenues. These conditions and circumstances may cause the actual results achieved by the City to be materially different from the estimates and projections described herein.

Under the Charter, the Treasurer & Tax Collector, upon recommendation of the City Controller, is authorized to transfer legally available monies to the City's operating cash reserve from any unencumbered funds then held in the pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer & Tax Collector has transferred unencumbered monies 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 and have been repaid within the same fiscal year in which the transfer was made together with interest at the rate earned on the pooled funds at the time the funds were used. On a related note, the City has not issued tax and revenue anticipation notes ("TRANs") to finance cash flow needs since fiscal year 1996-97 nor does the City anticipate issuing TRANs for fiscal year 2007-08. See "—Investment Policy" below.

Additionally, in November 2003, voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the City Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth as follows:

(i) 50 percent of the excess revenues to the Rainy Day Economic Stabilization account;
(ii) 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
(iii) 25 percent of the excess revenues to any lawful governmental purpose.

The Rainy Day Reserve's Economic Stabilization account is subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures. Monies in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years where General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives.

**Capital Plan**

In October 2005 the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05 that established a new capital planning process for the City. The City Administrator, in conjunction with a capital planning committee composed of other City finance and capital project officials (the "Capital Planning Committee"), is directed to develop and submit an annual ten-year capital plan (the "Capital Plan") each year for approval by the Board of Supervisors. The Capital Plan provides an assessment of the City's infrastructure needs over such period, investments required to meet the needs identified and a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted annually in parallel with the budget process. The Capital Planning Committee is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by March 1 and is due to be adopted by the Board of Supervisors and the Mayor on or before May 1. The Fiscal Year 2008-17 Capital Plan (the "Plan") was submitted to the Mayor and the Board of Supervisors on March 1, 2007. The Plan was adopted by the Board of Supervisors on March 27, 2007 (Resolution 145-07) and signed by the Mayor on April 2, 2007. The Plan totaled \$17.4 billion, including \$3.8 billion of General Fund supported projects. (The Plan is not incorporated by reference herein.) The fiscal year 2007-08 Original Budget included \$69.9 million of General Fund support for the City's capital needs.

**General Fund Results**

The City is currently completing the fiscal year 2006-07 year-end audit and is slated to publish the City's Comprehensive Annual Financial Report ("CAFR" which includes the audited financial statements for fiscal year 2006-07) in December 2007. The City also adopted its fiscal year 2007-08 budget in July 2007. Discussion of both the fiscal year 2006-07 and the fiscal year 2007-08 budgets follow.

The fiscal year 2007-08 Original Budget totaled $6.08 billion, of which $2.92 billion was allocated to the General Fund and $3.16 billion was allocated to all other funds. Such other funds include expenditures of other governmental funds and enterprise fund departments such as the Airport, the Municipal Transportation Agency (MTA), the Public Utilities Commission (PUC, which includes the Water Enterprise, the Wastewater Enterprise, and the Hetch Hetchy Water and Power System), the Port, and the City-owned Hospitals (San Francisco General and Laguna Honda).

The fiscal year 2006-07 Original Budget totaled approximately $5.75 billion, of which $2.66 billion was allocated to the General Fund, and $3.08 billion was allocated to all other funds. Budgetary results reflect that revenues have continued to grow along with the general economic recovery and are projected to exceed fiscal year 2006-07 Original and Revised Budget expectations. A detailed review of both revenues and expenditures was completed and published on February 2, 2007 in the City Controller's fiscal year 2006-07 Six-Month Budget Status Report ("Six-Month Budget Status Report") and then updated in the City Controller's fiscal year 2006-07 Nine-Month Budget Status Report ("Nine-Month Budget Status Report"). (These reports are not incorporated by reference herein.)

The City's most recently completed Comprehensive Annual Financial Report ("CAFR," which includes the City's audited financial statements) for fiscal year 2005-06 was issued in December 2006. As noted above, the fiscal year 2006-07 CAFR is pending completion. The fiscal year 2005-06 CAFR reported that the audited General Fund unreserved and available fiscal for appropriation year-end fund balance was $145.58 million, $46.10 million more than the $99.48 million assumed in the fiscal year 2006-07 Original Budget. This $46.10 million resulted primarily from additional revenue growth and expenditure savings in fiscal year 2005-06. In addition to this available year-end General Fund balance, the City deposited another $74.66 million into the two Rainy Day Reserve accounts, which by June 30, 2006 together totaled approximately $121.98 million ($97.91 million in the Economic Stabilization account, and $24.07 million in the One-Time Spending account).

Table A-1 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2003-04, 2004-05, and 2005-06 and the original budgets for fiscal year 2006-07 and 2007-08.

*TABLE A-1*

| CITY AND COUNTY OF SAN FRANCISCO<br>Budgeted General Fund Revenues and Appropriations for<br>Fiscal Years 2003-04 through 2007-08<br>(000s) | FY 2003-04<br>Final Revised<br>Budget | FY 2004-05<br>Final Revised<br>Budget | FY 2005-06<br>Final Revised<br>Budget | FY 2006-07<br>Original<br>Budget | FY 2007-08<br>Original<br>Budget |
|---|---|---|---|---|---|
| Prior-Year Budgetary Fund Balance & Reserves | $207,167 | $222,611 | $324,724 | $125,125 | $142,392 |
| Budgeted Revenues | | | | | |
| Property Taxes | $527,767 | $645,495 | $696,660 | $837,543 | $934,720 |
| Business Taxes | 288,619 | 295,230 | 288,320 | 332,168 | 359,718 |
| Other Local Taxes | 371,251 | 381,389 | 413,712 | 455,509 | 531,920 |
| Licenses, Permits and Franchises | 17,074 | 16,132 | 19,128 | 20,917 | 22,075 |
| Fines, Forfeitures and Penalties | 31,843 | 12,196 | 11,475 | 4,899 | 3,899 |
| Interest and Investment Earnings | 12,579 | 6,490 | 11,393 | 33,989 | 35,481 |
| Rents and Concessions | 19,316 | 21,902 | 19,583 | 20,138 | 19,806 |
| Grants and Subventions | 663,997 | 612,970 | 685,948 | 664,547 | 708,314 |
| Charges for Services | 107,847 | 119,637 | 130,773 | 133,972 | 137,167 |
| Other | 19,296 | 29,061 | 13,090 | 17,949 | 14,817 |
| Total Budgeted Revenues | $2,059,589 | $2,140,502 | $2,290,083 | $2,521,631 | $2,767,918 |
| Bond Proceeds & Return of Excess Deposits | 31,207 | 596 | 597 | 901 | 1,278 |
| Expenditure Appropriations | | | | | |
| Public Protection | $668,872 | $699,088 | $743,958 | $800,885 | $864,901 |
| Public Works, Transportation & Commerce | 60,467 | 63,250 | 46,708 | 38,734 | 55,531 |
| Human Welfare & Neighborhood Development | 507,740 | 525,887 | 548,935 | 589,681 | 633,914 |
| Community Health | 445,236 | 419,404 | 453,716 | 424,786 | 468,612 |
| Culture and Recreation | 93,017 | 92,245 | 81,126 | 98,969 | 101,855 |
| General Administration & Finance [1] | 131,959 | 122,666 | 140,674 | 201,970 | 187,551 |
| General City Responsibilities | 83,406 | 62,541 | 53,601 | 60,101 | $75,518 |
| Total Expenditure Appropriations | $1,990,697 | $1,985,081 | $2,068,718 | $2,215,126 | $2,387,882 |
| Budgetary reserves and designations | $9,301 | $13,487 | $22,712 | $60,377 | $56,110 |
| Transfers In | $150,354 | $161,840 | $108,902 | $57,159 | $62,308 |
| Transfers Out | (292,664) | (339,436) | (436,092) | (429,313) | (529,904) |
| Net Transfers In/Out | ($142,310) | ($177,596) | ($327,190) | ($372,154) | ($467,596) |
| Budgeted Excess (Deficiency) of Sources Over (Under) Uses | $155,655 | $187,545 | $196,784 | $0 | $0 |
| Variance of Actual vs. Budget | 66,956 | 137,179 | 281,217 | | |
| Total Actual Budgetary Fund Balance | $222,611 | $324,724 | $478,001 | $0 | $0 |

[1] Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This resulted in changes in how departments were summarized in the service area groupings above.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2006 was $461.28 million prepared using Generally Accepted Accounting Principles. ("GAAP"). Such General Fund balance was derived from audited revenues of $2.47 billion for the fiscal year ended on June 30, 2006. Audited General Fund balances as of June 30, 2006 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively, with comparative financial information for the fiscal years ended June 30, 2004, 2005 and 2006.

***TABLE* A-2**

**CITY AND COUNTY OF SAN FRANCISCO**
**General Fund Balances**
**Fiscal Year Ended June 30**
**Audited**
**(000s)**

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Reserved for rainy day (economic stabilization account) | $55,139 | $48,139 | $97,910 |
| Reserved for rainy day (one-time spending account) | | | 24,066 |
| Reserved for encumbrances | 42,501 | 57,762 | 38,159 |
| Reserved for appropriation carryforward | 32,813 | 36,198 | 124,009 |
| Reserved for subsequent years' budgets | | | |
| Reserved for baseline appropriation funding mandates | - | 6,223 | 5,232 |
| Reserved for budget savings incentive program (citywide) | 2,588 | 2,628 | 2,628 |
| Reserved for budget savings incentive program (Recreation & Park) | - | 3,075 | 3,366 |
| Reserved for salaries and benefits (MOU) | 3,654 | 9,150 | 13,349 |
| Reserved for litigation | 2,940 | - | 2,877 |
| Total Reserved Fund Balance | $139,635 | $163,175 | $311,596 |
| Unreserved - designated for litigation & contingency | $27,970 | $24,370 | $20,823 |
| Unreserved - available for appropriation | 55,006 | 137,179 | 145,582 |
| Total Unreserved Fund Balance | $82,976 | $161,549 | $166,405 |
| Total Fund Balance, Budget Basis | $222,611 | $324,724 | $478,001 |
| Budget Basis to GAAP Basis Reconciliation | | | |
| Total Fund Balance - Budget Basis | $222,611 | $324,724 | $478,001 |
| Unrealized gain on investment | 277 | 224 | (562) |
| Reserved for assets not available for appropriation | 7,142 | 9,031 | 10,710 |
| Cumulative excess property tax revenues recognized on Budget Basis | (19,882) | (24,419) | (23,806) |
| Deferred Charges and Other | 287 | (1,880) | (3,067) |
| Total Fund Balance, GAAP Basis | $210,435 | $307,680 | $461,276 |

Fiscal Year ended June 30, 2007 data not yet available.

Source: 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 CAFR for the five most recent fiscal years for which audits are available. Audited financials for the fiscal year ended June 30, 2006 are included herein as Appendix C—"THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2006." Prior years' audited financial statements can be obtained from the City Controller's website. (These reports are not incorporated by reference herein.) Excluded from these General Fund financial 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, each of which prepares separate audited financial statements.

*TABLE A-3*

**CITY AND COUNTY OF SAN FRANCISCO**

**Statement of Revenues, Expenditures and Changes in General Fund Balances (000s)**

**Fiscal Year Ended June 30**

**Audited**

| | **2002** | **2003** | **2004** | **2005** | **2006** |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Property Taxes | $507,308 | $516,955 | $547,819 | $705,949 | $783,303 |
| Business Taxes | 274,125 | 276,126 | 264,351 | 292,172 | 322,407 |
| Other Local Taxes | 334,357 | 345,735 | 403,549 | 428,244 | 480,501 |
| Licenses, Permits and Franchises | 19,548 | 16,217 | 17,501 | 19,427 | 20,825 |
| Fines, Forfeitures and Penalties | 8,591 | 5,595 | 22,158 | 9,536 | 10,195 |
| Interest and Investment Income | 20,737 | 7,798 | 3,222 | 8,374 | 22,496 |
| Rents and Concessions | 17,636 | 17,576 | 17,497 | 20,468 | 20,007 |
| Intergovernmental | 661,396 | 667,172 | 660,243 | 604,535 | 672,635 |
| Charges for Services | 102,782 | 93,840 | 95,951 | 115,812 | 126,433 |
| Other | 10,338 | 11,880 | 29,564 | 12,277 | 15,037 |
| Total Revenues | $1,956,818 | $1,958,894 | $2,061,855 | $2,216,794 | $2,473,839 |
| Expenditures: | | | | | |
| Public Protection | $650,019 | $695,693 | $670,729 | $697,450 | $739,470 |
| Public Works, Transportation & Commerce | 103,579 | 57,458 | 58,711 | 60,628 | 46,448 |
| Human Welfare and Neighborhood Development | 467,688 | 492,083 | 488,853 | 503,874 | 524,516 |
| Community Health | 395,465 | 424,302 | 413,725 | 413,110 | 377,226 |
| Culture and Recreation | 108,810 | 96,959 | 92,978 | 87,023 | 80,516 |
| General Administration & Finance | 136,143 | 130,786 | 128,135 | 120,400 | 146,567 |
| General City Responsibilities | 50,105 | 52,308 | 74,631 | 62,185 | 53,065 |
| Total Expenditures | $1,911,809 | $1,949,589 | $1,927,762 | $1,944,670 | $1,967,808 |
| Excess of Revenues over Expenditures | $45,009 | $9,305 | $134,093 | $272,124 | $506,031 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | $109,941 | $105,211 | $121,491 | $152,288 | $62,431 |
| Transfers Out | (316,691) | (303,216) | (277,464) | (330,230) | (420,086) |
| Other Financing Sources | 63,121 | 4,621 | 36,003 | 3,063 | 5,220 |
| Other Financing Uses | (176) | - | - | - | - |
| Total Other Financing Sources (Uses) | ($143,805) | ($193,384) | ($119,970) | ($174,879) | ($352,435) |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | ($98,796) | ($184,079) | $14,123 | $97,245 | $153,596 |
| Total Fund Balance at Beginning of Year | 479,187 | 380,391 | 196,312 | 210,435 | 307,680 |
| Total Fund Balance at End of Year -- GAAP Basis [1] | $380,391 | $196,312 | $210,435 | $307,680 | $461,276 |
| Unreserved & Undesignated Balance, Year End | | | | | |
| -- GAAP Basis | $136,664 | $44,718 | $63,657 | $134,199 | $138,971 |
| -- Budget Basis | $130,200 | $47,851 | $55,006 | $137,179 | $145,582 |

[1] Fund Balances include amounts reserved for rainy day (economic stabilization and one-time spending accounts), encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved designated and undesignated available fund balances (which amounts constitute unrestricted general fund balances).

Fiscal Year ended June 30, 2007 data not yet available.

Sources: Comprehensive Annual Financial Report for the Years Ended June 30, 2006 and prior. Office of the Controller, City and County of San Francisco.

**Three-Year Budget Projection Report**

Section 3.6 of the City's Administrative Code requires the City Controller, the Mayor's Budget Director and the Board of Supervisors' Budget Analyst to jointly publish an annual three-year estimated summary budget (the "Joint Report"). This summary includes a review of all major revenue and expenditure assumptions impacting the upcoming three years for the City's General Fund-supported operations, including the City's two hospitals, San Francisco General and Laguna Honda. The Administrative Code further requires that the Mayor and Board of Supervisors consider the three-year budget projection when composing the City's budget for the next fiscal year.

The most recent Joint Report was published on March 21, 2007 and covered the projection period of fiscal years 2007-08 through 2009-10. The Joint Report projected a shortfall of $25.4 million (an amount equal to less than one percent of General Fund supported budgetary spending) for fiscal year 2007-08, followed by a shortfall of $85.3 million for fiscal year 2008-09, and a surplus of $8.3 million for fiscal year 2009-10. Previous reports also included projections of shortfalls that were larger than those in this Joint Report. For example, the Joint Report's projected shortfall of $25.4 million in fiscal year 2007-08 may be viewed in the context of prior such reports which projected first-year shortfalls of $347.2 million in fiscal year 2003-04, $299.3 million in fiscal year 2004-05, $102.2 million in fiscal year 2005-06, and $12.5 million in fiscal year 2006-07. In each of these prior years, the City adopted a balanced budget as required by the City Charter.

The entire Joint Report is posted on the City Controller's website at www.sfgov.org/controller. (The Joint Report is not incorporated by reference herein.)

**Impact of State Budget**

Each year the Governor releases two primary proposed budget documents for the State: 1) the January Proposed Budget; and 2) the May Revise to the January Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, then the Governor signs what becomes known as the State's Adopted Budget. Given the City's revenue dependency on State funding, each year City policy makers review and consider the budgetary impact of projected changes related to both the January and May Revise Budgets prior to the City adopting its own budget. Revenues from the State represented 17.6% of the City's fiscal year 2006-07 General Fund Original Budget and 16.9% of the fiscal year 2007-08 General Fund Original Budget.

The State has had structural deficits for several years. In addressing these shortfalls in the recent past, the State has reduced revenues provided to local governments, including the City. It is not possible to predict with certainty how future State Budgets may adversely affect the City. Final funding provisions in the State's Adopted Budget for fiscal year 2006-07 were largely anticipated in the City's fiscal year 2006-07 Original Budget; however, some additional funding was greater than anticipated in the City's Original Budget. Key provisions assumed in the City's Original Budget included the continued shifting to the Educational Revenue Augmentation Fund ("ERAF") of funds that would otherwise have accrued to the City's General Fund in the estimated amount of $285.40 million. The State continues to offset partially the ERAF shift by in-lieu sales tax backfill funding related to the Proposition 57 Economic Recovery Bonds and in-lieu vehicle license fee ("VLF") backfill funding related to the permanent rollback of such fees in fiscal year 2003-04. (For further discussion of the effect of these "Triple Flip" backfill funding shifts, please see "Assessed Valuations, Tax Rates and Tax Delinquencies" below.) Programmatic funding changes included in the State's Adopted Budget have been reflected in the City's fiscal year 2006-07 Original Budget and backfilled with discretionary funding where applicable. The City also benefited more than anticipated in the City's fiscal year 2006-07 Original Budget from $32.90 million in additional Proposition 42 State Transportation Congestion Improvement funding for the MTA (projected to be used over the next 12 to 18 months) and $4.30 million in Proposition 42 road maintenance and reconstruction funding (the latter being adopted in a supplemental appropriation in September 2006). Various other health and human service programs showed slightly higher final allocations and have been factored into the City Controller's Nine-Month Budget Status Report projections.

The City's projected impact of the Governor's fiscal year 2007-08 Proposed Budget, as issued in January 2007, appears to have largely offsetting positive and negative changes resulting in a projected net programmatic revenue increase of $4.40 million for the City's General Fund compared to the net revenues anticipated to be realized under the State's 2006-07 Adopted Budget. However, State Transit Assistance funding reductions estimated at $20.40 million appear to impact adversely the MTA. The City's review of the Governor's May Revise resulted in slight improvement from the January Proposed Budget for General Fund supported operations, namely due to a three-year appropriation tied to Proposition 1B bond funded projects, though the estimate of $4.40 million in net programmatic revenue increases remained the same. The Adopted Budget was signed by the Governor on August 24, 2007 and may materially change from the Proposed Budget and the May Revise. The Adopted Budget is under review by the City and the City will continue to monitor State Budget developments.

**Assessed Valuations, Tax Rates and Tax Delinquencies**

Table A-4 provides a five-year history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion permitted by Proposition 13, and 2) all voter-approved overrides which fund debt service for general obligation indebtedness. The total tax rate shown in Table A-4 includes taxes assessed on behalf of the City as well as 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 (BART) District, all of which are separate legal entities from the City. See also Table A-10 "– Statement of Direct and Overlapping Debt and Long-Term Obligations" below. Additionally, a portion of property taxes collected within the City is allocated to the San Francisco Redevelopment Agency.

Total assessed value has increased on average by 7.3% per year since fiscal year 2003-04. Most recently between fiscal year 2006-07 and fiscal year 2007-08, the increase was 8.6%. Property tax delinquencies have remained low in San Francisco, ranging from 1.96% to 2.32% since fiscal year 2003-04. The delinquency rate for fiscal year 2005-06 was 2.18%.

*TABLE A-4*

**CITY AND COUNTY OF SAN FRANCISCO**
**Assessed Valuation of Taxable Property [1]**
**Fiscal Years 2003-04 through 2007-08**
**($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] | Delinquency Rate June 30 |
|---|---|---|---|---|---|---|---|---|---|
| 2003-04 | 40,778,606 | 57,505,939 | 3,808,383 | 102,092,928 | 4.7% | 3,947,660 | 1.107 | 1,100,951 | 1.96% |
| 2004-05 | 44,383,604 | 60,741,259 | 3,675,195 | 108,800,058 | 6.6% | 4,328,770 | 1.144 | 1,208,044 | 2.32% |
| 2005-06 | 48,278,509 | 64,291,494 | 3,476,725 | 116,046,728 | 6.7% | 4,640,538 | 1.140 | 1,291,491 | 2.18% |
| 2006-07 | 53,027,801 | 68,286,422 | 3,506,008 | 124,820,231 | 7.6% | 4,949,252 | 1.135 | 1,360,910 | n/a [5] |
| 2007-08 | 58,491,661 | 73,474,981 | 3,547,014 | 135,513,655 | 8.6% | 5,509,177 | 1.141 | 1,482,888 | n/a |

[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.

The FY 2007-08 property tax rate shown here is proposed and currently pending at the Board of Supervisors. Adoption occurs before the end of September each year.

[4] The final levy for fiscal years 2006-07 and 2007-08 are based on the Certificate of Assessed Valuation and do not represent audited figures, which will be available when the City's audited financial statements for these years are published.

[5] The fiscal year 2006-07 actual delinquency rate will be available in late September 2007.

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

For fiscal year 2007-08, total assessed valuation of property within the City is $135.51 billion. After deducting non-reimbursable and homeowner exemptions, net assessed valuation is $130.00 billion. Of this total, $122.28 billion (94.1%) represents secured valuations and $7.72 billion (5.9%) represents unsecured valuations. (See below for a further discussion of secured and unsecured property valuations.) The net valuation will result in total property tax revenues for all taxing entities of $1.49 billion before reflecting delinquencies. A portion of property tax revenues is applied to pay all or part of the debt service for general obligation bonds issued by the City, the San Francisco Unified School District, the San Francisco Community College District and the Bay Area Rapid Transit District. The City's General Fund allocation equals about 50% of total property tax revenue before adjusting for the State's Triple Flip (where Proposition 57 dedicated one quarter of one percent of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts. After making these State-mandated adjustments, the result is estimated property tax General Fund revenues of $934.72 million is assumed in the fiscal year 2007-08 Original Budget. The San Francisco Community College District, the San Francisco Unified School District and the ERAF are estimated to receive $17.88 million, $95.28 million and $309.41 million (before adjusting for the State's Triple Flip sales tax and VLF backfill shifts), respectively. The San Francisco Redevelopment Agency will receive approximately $78.54 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. For fiscal year 2006-07 the City Controller's Office projected an additional $27.32 million of General Fund property tax revenues as of the Nine-Month Budget Status Report in large part due to higher supplemental assessments, lower assessment appeals, and increased State sales tax and VLF backfill revenues.

Under Article XIIIA of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments. Property owners in the City filed 1,365 new applications for assessment appeal during fiscal year 2006-07. Taxpayers had until November 30, 2006 to file assessment appeals for secured property for fiscal year 2006-07. As in every year, some appeals are multiple-year or retroactive in nature. With respect to the fiscal year 2006-07 levy, property owners representing approximately 13.2% of the total assessed valuation in the City filed appeals for a partial reduction of their assessed value. This reflects a decrease in the amount appealed from the prior year, fiscal year 2005-06, where property owners representing approximately 14.0% of total assessed valuation filed for a partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases as the economy rebounds. Historically during severe economic downturns, partial reductions of up to approximately 20.0% to 30.0% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. For example, if the appeals totaling 13.2% of assessed valuation pertaining to the fiscal year 2006-07 levy were to be granted at an average reduction of 25.0%, the City would expect to issue refunds equal to 3.3% of total property tax revenue. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS" 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 property 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 subject to ad valorem taxes is entered on separate parts of the assessment roll maintained by the County Assessor-Recorder. 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-Recorder, 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) pursuing 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 Assessor-Recorder's Office in order to obtain a lien on certain property of the taxpayer; and 4) seizing and selling 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 10.0% 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.

In October 1993, the Board of Supervisors passed a resolution that 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 City Controller to allocate to the City’s taxing agencies 100.0% 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 through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This reserve has been funded at $9.15 million as of June 30, 2002, $9.05 million as of June 30, 2003, $8.93 million as of June 30, 2004, $10.08 million as of June 30, 2005, and $10.06 million as of June 30, 2006.

Assessed valuations (“AV”) of the 10 largest assessees in the City for the fiscal year ending June 30, 2006 are shown in Table A-5.

***TABLE A-5***

**CITY AND COUNTY OF SAN FRANCISCO**
**Top 10 Principal Property Assessees**
**Fiscal Year Ended June 30, 2006**

| Assessee | Type of Business | AV ($000s) | % Total AV |
|---|---|---|---|
| Embarcadero Center Venture | Offices, Commercial | $ 1,224,728 | 1.09% |
| Pacific Gas & Electric Co. | Utilities, Gas & Electric | 1,094,861 | 0.98% |
| 555 California St. Partners | Offices, Commercial | 795,000 | 0.71% |
| Equity Office Properties - One Market LLC | Offices, Commercial | 424,443 | 0.38% |
| Marriott Hotel | Hotels | 389,795 | 0.35% |
| Post-Montgomery Associates | Offices, Commercial | 389,743 | 0.35% |
| China Basin Ballpark Company LLC | Possessory Interest-Stadium | 383,007 | 0.34% |
| Olympic View Realty LLC (Park Merced) | Apartment | 342,426 | 0.31% |
| SBC California (formerly Pacific Bell) | Utilities, Communications | 337,477 | 0.30% |
| 101 California Venture | Offices, Commercial | 281,980 | 0.25% |
| Ten Largest Assessees | | $ 5,663,460 | 5.05% |
| All Other Assessees | | 106,387,880 | 94.95% |
| Total Taxable Assessed Valuation - All Taxpayers* | | $ 112,051,340 | 100.00% |

Fiscal Year ended June 30, 2007 data not yet available.
Source: Office of the Assessor, City and County of San Francisco.

Note: * Represents the Assessed Valuation as of the Basis of Levy, which excludes escape assessments processed during the fiscal year.

**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 ON TAXES, REVENUES AND APPROPRIATIONS" 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 Taxes**

Businesses in the City may be subject to two types of tax. The first is a payroll expense tax, assessed at a rate of 1.5% on gross payroll expense 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. The City also levies a registration tax on businesses which varies from $25 to $500 per year per subject business.

The fiscal year 2007-08 Original Budget includes $8.69 million in business registration revenues and $351.86 million in payroll tax revenues accruing to the General Fund. This compares to fiscal year 2006-07 Original Budgeted amounts of $8.23 million in business registration revenues and $324.49 million in payroll tax revenues. The Nine-Month Budget Status Report projected business tax revenue for FY 2006-07 to be $8.60 million greater than budget.

Prior to April 23, 2001, the City imposed an alternative-measure tax pursuant to which a business tax liability was calculated as a percentage of either its gross receipts or its payroll expense, whichever amount was greater. Between 1999 and 2001, approximately 325 businesses filed claims with the City and/or lawsuits against the City arguing that the alternative-measure tax violated the Commerce Clause of the United States Constitution. In 2001, the City entered into a settlement agreement resolving most of these lawsuits and claims for considerably less than the total amount of outstanding claims. Concurrently with the settlement of the lawsuits, the City repealed the alternative-measure tax in 2001. All claims were required to be filed by November 2001, and at this time any payments related to lawsuits or claims already filed that remain unsettled, including the Macy's Federated case described below, are expected to be covered by contingency reserves set aside by the City.

In October 2006 the First District Court of Appeal rejected the argument of Macy's Federated that it was entitled to a full refund of all taxes paid and adopted the City's proposed remedy as to the calculation of the award payable to Macy's Federated. Based on this ruling this refund amount is expected to total several hundred thousand dollars. On April 14, 2007 Macy's Federated filed a petition for writ of certiorari with the United States Supreme Court. The United States Supreme Court denied the petition for writ of certiorari on June 25, 2007, and the case has been remanded to the trial court for determination of the actual refund amount.

*TABLE A-6*

| CITY AND COUNTY OF SAN FRANCISCO<br>Business Tax Receipts ($000's)<br>Fiscal Years 2003-04 through 2007-08<br>All Funds | | | | | |
|---|---|---|---|---|---|
| Fiscal Year | | Revenue | Change | | |
| 2003-04 | $ | 264,832 | $ | (11,819) | -4.3% |
| 2004-05 | | 292,762 | | 27,930 | 10.5% |
| 2005-06 | | 323,152 | | 30,390 | 10.4% |
| 2006-07 budget | | 332,718 | | 9,566 | 3.0% |
| 2006-07 projection | | 341,318 | | 18,166 | 5.5% |
| 2007-08 budget | | 360,553 | | 19,235 | 5.6% |

Fiscal year 2007-08 change calculated from 2006-07 projection.
Actuals shown through fiscal year 2005-06.

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

**Sales and Use Tax**

The State collects the City's local sales tax on retail transactions (currently 1.0% less the 0.25% shifted by the State pursuant to the Triple Flip) along with State and special district sales taxes, and then remits the local sales tax collections to the City. The local sales tax is deposited in the City's General Fund. The fiscal year 2007-08 Original Budget includes sales and use tax revenues of $111.55 million. This compares to the fiscal year 2006-07 Original Budget of $106.24 million. The 0.25% reduction of the local sales tax allocation (related to the Triple Flip) is wholly backfilled by increased property tax allocations to the City.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and jobs. A history of sales and use tax actual revenues from fiscal year 2003-04 through fiscal year 2007-08 is presented in Table A-6. This revenue is significantly impacted by changes in the economy, and after adjusting for State shifts related to the Triple Flip, fiscal year 2005-06 collections neared prior peak levels attained in fiscal year 2000-01. The Nine-Month Budget Status Report reflects that the City Controller's Office is projecting fiscal year 2006-07 sales tax revenues to be on budget and also exceeding prior peak levels attained in fiscal year 2000-01. Table A-6 reflects the City's actual Sales and Use Tax receipts for fiscal years 2003-04 through 2005-06 along with budgeted levels for both fiscal years 2006-07 and 2007-08. The impact attributed to the Triple Flip backfill payments is also shown in Table A-7.

*TABLE A-7*

**CITY AND COUNTY OF SAN FRANCISCO**
**Sales and Use Tax Receipts ($000's)**
**Fiscal Years 2003-04 through 2007-08**

| Fiscal Year | Tax Rate | City Share | Revenue | Change | |
|---|---|---|---|---|---|
| 2003-04 | 8.50% | 1.00% | $ 120,642 | $ 5,064 | 4.4% |
| 2004-05 | 8.50% | 0.75% | 94,689 | (25,953) | -21.5% |
| 2004-05 adj. | 8.50% | 1.00% | 118,287 | (2,355) | -2.0% |
| 2005-06 | 8.50% | 0.75% | 103,074 | 8,385 | 8.9% |
| 2005-06 adj. | 8.50% | 1.00% | 136,840 | 18,553 | 15.7% |
| 2006-07 budget | 8.50% | 0.75% | 106,236 | 3,162 | 3.1% |
| 2006-07 adj. budget | 8.50% | 1.00% | 138,729 | 1,889 | 1.4% |
| 2007-08 budget | 8.50% | 0.75% | 111,546 | 5,310 | 5.0% |
| 2007-08 adj. budget | 8.50% | 0.00% | 148,636 | 9,907 | 7.1% |

Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in fiscal year 2004-05 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004.
Revenues reflect underlying sales activity by fiscal year. Actuals shown through fiscal year 2005-06.

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

**Transient Occupancy Tax**

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2006-07, revenue from transient occupancy tax is projected to grow 8.4% (or approximately $15.07 million) over fiscal year 2005-06 collections. Budgeted revenue, across all funds, from transient occupancy tax for fiscal year 2007-08 is $210.34 million, including $5.39 million allocated to the Redevelopment Agency and $126.88 million to the City's General Fund. As of the Nine-Month Budget Status Report, the City Controller's Office projected total transient occupancy tax revenues to be $11.94 million greater than the fiscal year total budget of $182.60 million. All of the $11.94 million projected surplus would accrue to the City's General Fund during fiscal year 2006-07. Table A-8 sets forth a history of transient occupancy tax receipts. This revenue is projected to exceed prior peak levels previously attained in fiscal year 2000-01.

***TABLE A-8***

| CITY AND COUNTY OF SAN FRANCISCO<br>Transient Occupancy Tax Receipts ($000's)<br>Fiscal Years 2003-04 through 2007-08<br>All Funds | | | | |
|---|---|---|---|---|
| **Fiscal Year** | **Tax Rate** | **Revenue** | **Change** | |
| 2003-04 | 14.00% | $ 148,231 | $ 19,641 | 15.3% |
| 2004-05 | 14.00% | 157,945 | 9,713 | 6.6% |
| 2005-06 | 14.00% | 179,471 | 21,527 | 13.6% |
| 2006-07 budget | 14.00% | 182,604 | 3,133 | 1.7% |
| 2006-07 projection | 14.00% | 194,544 | 15,073 | 8.4% |
| 2007-08 budget | 14.00% | 210,342 | 15,798 | 8.1% |

Revenues reflect the underlying occupancy and room rate activity by fiscal year.
Fiscal year 2007-08 change calculated from 2006-07 projection.
Actuals shown through fiscal year 2005-06.
Source: Office of the Controller, City and County of San Francisco.

## Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less, $6.80 per $1,000 for properties valued more than $250,000 and less than $999,999; and $7.50 per $1,000 for properties valued at $1.0 million or more. Budgeted revenue from real property transfer tax for fiscal year 2007-08 is $123.52 million, which assumes a 15.6% reduction from the $146.40 million in fiscal year 2006-07 projected collections. Unprecedented levels of commercial building transactions resulted in record transfer tax revenue collections during fiscal years 2004-05, 2005-06, and 2006-07. This revenue source has generally proven to be more susceptible to economic and real estate cycles than most other City revenue sources. As of the Nine-Month Budget Status Report, the City Controller's Office projected real property transfer tax revenues to be $41.40 million better than the fiscal year 2006-07 budget.

***TABLE A-9***

| CITY AND COUNTY OF SAN FRANCISCO<br>Real Property Transfer Tax Receipts ($000's)<br>Fiscal Years 2003-04 through 2007-08 | | | |
|---|---|---|---|
| Fiscal Year | Revenue | Change | |
| 2003-04 | $ 78,845 | $ 27,370 | 53.2% |
| 2004-05 | 116,797 | 37,952 | 48.1% |
| 2005-06 | 131,279 | 14,482 | 12.4% |
| 2006-07 budget | 105,000 | (26,279) | -20.0% |
| 2006-07 projection | 146,400 | 15,121 | 11.5% |
| 2007-08 budget | 123,520 | (22,880) | -15.6% |

Fiscal year 2007-08 change calculated from 2006-07 projection.
Actuals shown through fiscal year 2005-06.
Source: Office of the Controller, City and County of San Francisco.

**Utility Users Tax**

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for billing addresses in the City. Budgeted revenue from utility users tax for fiscal year 2007-08 is $80.21 million. As of the Nine-Month Budget Status Report, the City Controller's Office is projecting utility users tax revenues to be $1.57 million less than fiscal year 2006-07 budgeted levels of $79.44 million.

An Internal Revenue Service Notice issued in 2006 has the potential to affect the scope of services to which the City may apply its telephone user tax ("TUT"), with the potential result of a substantial reduction in the revenues the City receives from this source on an annual basis. The City's TUT is linked in certain respects to the Federal Excise Tax ("FET"), and on May 25, 2006 the IRS announced that it will no longer apply the FET to telephone toll services and to bundles of telephone services that include toll services. An ordinance adopted by the Board of Supervisors on August 15, 2006, and that went into effect on August 25, 2006 amended the City's Business and Tax Regulations Code to address this change in interpretation of federal law. This ordinance clarifies that the City levies its utility users tax under the City's inherent powers as a charter city and that federal law is not the basis or authority for the City's imposition of the utility users tax, including the TUT. This ordinance also provides that the City will continue to apply its TUT to all types of telephone communication services, including toll service. In addition, on July 27, 2006, the City's Treasurer & Tax Collector gave notice to the over 340 telecommunications carriers doing business in the City that the City will continue to apply its TUT to all types of telephone communication services. In Los Angeles, lawsuits have been filed challenging the authority of California cities to impose similar taxes on cellphone usage and seeking refunds. Total TUT revenues were budgeted at $37.50 million in fiscal year 2006-07 and $38.27 million for fiscal year 2007-08.

**Parking Tax**

A 25.0% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code and is paid by the occupants of the spaces, then remitted to the City monthly by the operators of the parking facilities. The City's budgeted General Fund revenue from the parking tax is $58.35 million in fiscal year 2006-07 and $64.82 million in fiscal year 2007-08. As of the Nine-Month Budget Status Report, the City Controller's Office projected parking tax revenues to be $5.50 million greater than budget.

**Intergovernmental Revenues, Grants and Subventions**

The City budgeted intergovernmental revenues, grants and subventions of $1.07 billion for fiscal year 2006-07 and $1.13 billion for fiscal year 2007-08. For fiscal year 2006-07, this includes $353.93 million from the federal government, $651.56 million from the State, and $68.68 million from other intergovernmental sources across all City funds. For fiscal year 2007-08, this included $349.71 million from the federal government, $706.70 million from the State, and $71.64 million from other intergovernmental sources across all City funds. In the General Fund, the City budgeted intergovernmental revenues, grants and subventions of $664.54 million for fiscal year 2006-07, including $194.27 million from the federal government and $470.27 million from the State. For fiscal year 2007-08, the City budgeted total revenues of $708.31 million, including $214.14 million from the federal government and $494.17 million from the State government.
As of the Nine-Month Budget Status Report for fiscal year 2006-07, the City Controller's Office

projected intergovernmental revenues, grants and subventions to be $9.15 million under budget for the General Fund. The major categories of such funds are set forth in further detail below.

*Health and Welfare Realignment*

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees. These sources are budgeted to provide $224.5 million to the City's General Fund and its two General Fund-supported county hospitals for fiscal year 2006-07. As of the Nine-Month Budget Status Report, the City Controller's Office projected health and welfare realignment revenues to be $1.66 million better than budget.

*Motor Vehicle License Fees*

The City's budget reflects the permanent roll-back of the VLF revenues, along with the associated backfill shift made by the State wherein it partially reduced the amount of property taxes shifted from the City to the ERAF to make up the difference. After factoring in State shifts, the fiscal year 2006-07 budget for vehicle license fee revenues is $5.60 million. As of the Nine-Month Budget Status Report, the City Controller's Office projected motor vehicle license fee revenues to be $0.51 million less than budget.

*Public Safety Sales Tax*

State Proposition 172, passed by California 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 $74.03 million for fiscal year 2006-07. As of the Nine-Month Budget Status Report, the City Controller's Office projected public safety sales tax revenues to be $4.25 million less than budget. This Revenue is a function of the City's proportionate share of statewide sales activity.

*Other Intergovernmental Grants and Subventions*

In addition to those categories listed above, across all funds in fiscal year 2006-07, the City budgets approximately $770.04 million in social service subventions from the State and federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services and transportation projects. Health and welfare subventions are often based on State and federal funding formulas, which currently reimburse counties according to actual spending on these services. As of the Nine-Month Budget Status Report, the City Controller's Office projected other intergovernmental grants and subventions revenues to be $4.49 million less than budget in the General Fund.

**Charges for Services**

Charges for services are budgeted at $133.97 million for fiscal year 2006-07 in the General Fund. This includes $32.84 million of general government service charges (including, for example, city planning fees), $24.58 million of public safety service charges (including, for example, boarding of prisoners and safety inspection fees), $7.08 million of recreation charges, $47.39 million of MediCal, MediCare and health service charges, $11.79 million of other miscellaneous service charges, and \$10.30 million of internal service cost recoveries. As of the Nine-Month Budget Status Report, the City Controller's Office is projecting charges for services on revenues to be \$2.33 million under budget.

**Investment Policy**

The management of the City's surplus cash is governed by an Investment Policy administered by the Office of the Treasurer & Tax Collector. 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 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 of Supervisors monthly and is made available on the City's website. (These reports are not incorporated by reference herein.)

The investment portfolio is structured with the objective of enabling the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of July 31, 2007 the City's surplus investment fund consisted of the investments classified in Table A-10, and had the investment maturity distribution presented in Table A-11.

***TABLE A-10***

**CITY AND COUNTY OF SAN FRANCISCO**
**Investment Portfolio**
**Pooled Funds**
**As of July 31, 2007**

| Type of Investment | Par Value | Book Value | Market Value |
|---|---|---|---|
| Treasury Bills | $ 25,000,000 | $ 24,438,906 | $ 24,437,500 |
| Treasury Notes | 625,000,000 | 622,692,542 | 623,271,875 |
| FNMA Discount Notes | 637,000,000 | 611,756,641 | 622,573,500 |
| Farm Credit Discount Notes | 3,000,000 | 2,975,633 | 2,979,093 |
| Federal Home Loan Discount Notes | 488,000,000 | 479,262,400 | 483,039,352 |
| FMC Discount Notes | 549,000,000 | 530,170,377 | 538,579,079 |
| Negotiable C.D.'s | 490,000,000 | 490,000,000 | 489,922,685 |
| Commercial Paper Discount | 672,000,000 | 659,312,432 | 664,932,847 |
| Public Time Deposit | 50,200,000 | 50,200,000 | 48,740,094 |
| Total | $ 3,539,200,000 | $ 3,470,808,931 | $ 3,498,476,025 |

Weighted Avergage Maturity: 128 Days

*Sources: Office of the Treasurer & Tax Collector, City and County of San Francisco*
*From Bank of New York-Custodial Safekeeping, SunGard Systems-Inventory Control Program.*

*TABLE A-11*

**CITY AND COUNTY OF SAN FRANCISCO**
**Investment Maturity Distribution**
**Pooled Funds**
**As of July 31, 2007**

| Maturity In Months | Book Value | Percentage |
|---|---|---|
| 1 to 2 | $1,125,505,625 | 32.40% |
| 2 to 3 | 341,038,574 | 9.80% |
| 3 to 4 | 251,164,356 | 7.20% |
| 4 to 5 | 315,251,084 | 9.10% |
| 5 to 6 | 372,998,126 | 10.70% |
| 6 to 12 | 1,020,352,235 | 29.40% |
| 12 to 18 | 44,498,931 | 1.30% |
| 18 to 24 | - | - |
| 24 to 36 | - | - |
| 36 to 48 | - | - |
| 48 to 60 | - | - |
| | $3,470,808,931 | 100% |

Weighted Average Maturity: 128 Days

*Source: Office of the Treasurer & Tax-Collector, City and County of San Francisco*
*From Bank of New York-Custodial Safekeeping, SunGard Systems-Inventory Control Program.*

**Statement of Direct and Overlapping Bonded Debt and Long Term Obligations**

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the "Debt Report"), presented in Table A-12 has been compiled by the City's Office of Public Finance.

The Debt Report generally includes long-term obligations sold in the public credit markets by the City and public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. In the Debt Report, lease obligations of the City, which support indebtedness incurred by others, are included. As reflected in the Debt Report, the City Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

*TABLE A-12*

**CITY AND COUNTY OF SAN FRANCISCO**

**Statement of Direct and Overlapping Debt and Long-Term Obligations**

| | | |
|---|---|---|
| **2007-2008 Assessed Valuation** (net of non-reimbursable & homeowner exemptions): | $ 130,004,478,543 | |
| **DIRECT GENERAL OBLIGATION BOND DEBT** | **Outstanding 7/31/2007** | |
| General City Purposes Carried on the Tax Roll | $1,155,943,793 | |
| **GROSS DIRECT DEBT** | $1,155,943,793 | |
| **DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS** | | |
| San Francisco COPs, Series 1997 (2789 25th Street Property) | $6,955,000 | |
| San Francisco COPs, Series 1999 (555-7th Street Property) | 6,985,000 | |
| San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage) | 6,810,000 | |
| San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project) | 130,710,000 | |
| San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property) | 11,245,000 | |
| San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1 | 27,095,000 | |
| San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property) | 33,975,000 | |
| San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project) | 40,380,000 | |
| San Francisco Finance Corporation, Equipment LRBs Series 2002A, 2003A, 2004A, 2005A, 2006A | 30,415,000 | |
| San Francisco Finance Corporation Emergency Communication Series, 1997, 1998, 1998-1, 1999-1 | 44,230,000 | |
| San Francisco Finance Corporation Moscone Expansion Center, Series, 2000-1, 2000-2, 2000-3 | 147,900,000 | |
| San Francisco Finance Corporation LRBs Series 2006A, Open Space Fund (Various Park Projects) | 26,360,000 | |
| San Francisco Lease Revenue Refunding Bonds, Series 1998-I | 1,595,000 | |
| San Francisco Redevelopment Agency Moscone Convention Center 1992 | 22,545,064 | [1] |
| San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002 | 66,205,000 | |
| San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004 | 32,855,000 | |
| San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project) | 36,670,000 | |
| San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties) | 152,120,000 | |
| San Francisco COPs, Taxable Series 2007B (City Office Buildings - Multiple Properties) | 1,580,000 | |
| **LONG-TERM OBLIGATIONS** | $826,630,064 | |
| **GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS** | $1,982,573,857 | |
| **OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | | |
| Bayshore Hester Assessment District | $855,000 | |
| San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds | 126,208,333 | |
| San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B | 241,460,793 | |
| San Francisco Community College District General Obligation Bonds - Election of 2001, 2005 | 264,370,000 | |
| San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1 | 19,090,000 | |
| San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994 | 6,965,000 | |
| San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998 | 52,760,000 | |
| San Francisco Redevelopment Agency Obligations (Property Tax Increment) | 574,527,610 | |
| San Francisco Unified School District General Obligation Bonds, Series 2004A, 2005B, 2006C - Election of 2003 | 263,380,000 | |
| San Francisco Unified School District General Obligation Bonds, Series 2007A - Election of 2006 | 100,000,000 | |
| San Francisco Unified School District COPs (1235 Mission Street), Series 1992 | 7,907,917 | |
| San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999 | 14,965,000 | |
| **TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | $1,672,489,653 | |
| **GROSS COMBINED TOTAL OBLIGATIONS** | $3,655,063,511 | [2] |

| **Ratios to Assessed Valuation:** | **Actual Ratio** | **Charter Req.** | |
|---|---|---|---|
| Gross Direct Debt (General Obligation Bonds) | 0.89% | < 3.00% | [3] |
| Gross Direct Debt & Long-Term Obligations | 1.53% | n/a | |
| Gross Combined Total Obligations | 2.81% | n/a | |

[1] The accreted value as of July 1, 2007 is $80,053,790

[2] Excludes revenue and mortgage revenue bonds, tax allocation bonds, and non-bonded third party financing lease obligations.

[3] Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal property within the City's boundaries that is subject to City taxes.

Source: Office of Public Finance, City and County of San Francisco.

**Tax Supported Debt Service**

Under the State Constitution and the Charter, the City general obligation bonds can only be authorized with the approval of the voters. As of July 31, 2007, the City had $1.16 billion aggregate principal amount of general obligation bonds outstanding.

Table A-13 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

***TABLE A-13***

**CITY AND COUNTY OF SAN FRANCISCO**
**Direct Tax Supported Debt Service**
**As of July 31, 2007[1] [2]**

| Fiscal Year | Principal | Interest | Annual Debt Service |
|---|---|---|---|
| 2008 | $89,589,405 | $53,712,739 | $143,302,144 |
| 2009 | 95,302,785 | 50,709,689 | 146,012,474 |
| 2010 | 89,646,357 | 46,289,098 | 135,935,455 |
| 2011 | 91,310,133 | 41,961,009 | 133,271,142 |
| 2012 | 79,774,124 | 37,789,837 | 117,563,961 |
| 2013 | 70,853,341 | 34,018,558 | 104,871,899 |
| 2014 | 65,472,799 | 30,617,373 | 96,090,172 |
| 2015 | 58,482,510 | 27,580,865 | 86,063,375 |
| 2016 | 61,187,490 | 23,498,871 | 84,686,361 |
| 2017 | 51,212,752 | 20,955,186 | 72,167,938 |
| 2018 | 49,803,314 | 19,852,873 | 69,656,187 |
| 2019 | 50,304,193 | 17,541,616 | 67,845,809 |
| 2020 | 43,695,406 | 15,217,160 | 58,912,566 |
| 2021 | 40,086,973 | 13,222,326 | 53,309,299 |
| 2022 | 34,703,913 | 11,189,044 | 45,892,957 |
| 2023 | 33,946,248 | 9,185,750 | 43,131,998 |
| 2024 | 31,959,001 | 7,529,907 | 39,488,908 |
| 2025 | 27,327,194 | 5,977,336 | 33,304,530 |
| 2026 | 16,925,854 | 4,622,800 | 21,548,654 |
| 2027 | 17,530,000 | 3,788,442 | 21,318,442 |
| 2028 | 18,330,000 | 2,895,411 | 21,225,411 |
| 2029 | 18,840,000 | 1,961,231 | 20,801,231 |
| 2030 | 19,660,000 | 1,001,534 | 20,661,534 |
| TOTAL[3] | $1,155,943,792 | $481,118,655 | $1,637,062,447 |

[1] The City's only outstanding direct tax supported debt is general obligation bonded indebtedness. This table does not reflect any debt other than City direct tax supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

[2] Totals reflect rounding to nearest dollar.

[3] For purposes of this table, the interest payment on the $120,000,000 general obligation bonds, Series 2005 B, C, D (Laguna Honda Hospital) are assumed to be 4.87% which is the approximate 2 year average of the SIFMA Index plus a spread. These bonds are in variable rate mode.

Source: Office of Public Finance, City and County of San Francisco.

**General Obligation Bonds Authorized but Unissued**

In November 1992, voters approved Proposition A, which authorized the issuance of up to $350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007 the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed $35 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N. A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans from time to time to the City as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007 the City initiated an initial borrowing of $2.0 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the $35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed $800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's outstanding General Obligation Bonds. On June 16, 2004, the City issued $21.93 million of General Obligation Refunding Bonds Series 2004-R1 (the "Refunding Bonds"), to refund $21.5 million of outstanding general obligation bonds. As a result of the issuance of the Refunding Bonds, the City reduced the total general obligation bond debt service by $0.9 million on a present value basis. The City has issued two more series, pursuant to the 2004 Resolution: $90.70 million of General Obligation Refunding Bonds, Series 2006-R1 in October 2006 and $66.57 million of General Obligation Refunding Bonds, Series 2006-R2 in December 2006.

In November 2000, voters approved Proposition A, which authorized the issuance of up to $105.9 million in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City has issued three series of library bonds and the City anticipates issuing the remaining $31.1 million of the total authorization in January 2008.

Table A-14 below lists the City's voter-authorized general obligation bonds including authorized programs for which 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 July 31, 2007, the City had authorized and unissued general obligation bond authority of $344.07 million.

*TABLE A-14*

**CITY AND COUNTY OF SAN FRANCISCO**
**General Obligation Bonds (as of July 31, 2007)**

| Description of Issue (Date of Authorization) | Series | Issued | Outstanding | Authorized & Unissued |
|---|---|---|---|---|
| Golden Gate Park Improvements (6/2/92) | 2001A | 17,060,000 | 13,285,000 | |
| Seismic Safety Loan Program (11/3/92) | 2007A | 2,000,000 | 1,943,793 | $313,000,000 [1] |
| Asian Art Museum Relocation Project (11/8/94) | 1999D | 16,730,000 | 2,355,000 | |
| Steinhart Aquarium Improvement (11/7/95) | 2005F | 29,245,000 | 27,175,000 | |
| Affordable Housing Bonds (11/5/96) | 1998A | 20,000,000 | 13,915,000 | |
| | 1999A | 20,000,000 | 14,975,000 | |
| | 2000D | 20,000,000 | 3,635,000 | |
| | 2001C | 17,000,000 | 13,415,000 | |
| | 2001D | 23,000,000 | 18,840,000 | |
| Educational Facilities - Community College District (6/3/97) | 1999A | 20,395,000 | 915,000 | |
| | 2000A | 29,605,000 | 1,250,000 | |
| Educational Facilities - Unified School District (6/3/97) | 1999B | 60,520,000 | 2,720,000 | |
| | 2003B | 29,480,000 | 24,950,000 | |
| Zoo Facilities Bonds (6/3/97) | 1999C | 16,845,000 | 755,000 | |
| | 2000B | 17,440,000 | 735,000 | |
| | 2002A | 6,210,000 | 5,040,000 | |
| | 2005H | 7,505,000 | 6,970,000 | |
| Laguna Honda Hospital (11/2/99) | 2005A | 110,000,000 | 110,000,000 | |
| | 2005B | 40,000,000 | 40,000,000 | |
| | 2005C | 40,000,000 | 40,000,000 | |
| | 2005D | 40,000,000 | 40,000,000 | |
| | 2005I | 69,000,000 | 69,000,000 | |
| Neighborhood Recreation and Park (3/7/00) | 2000C | 6,180,000 | 260,000 | |
| | 2001B | 14,060,000 | 10,945,000 | |
| | 2003A | 20,960,000 | 17,740,000 | |
| | 2004A | 68,800,000 | 61,690,000 | |
| California Academy of Sciences Improvement (3/7/00) | 2004B | 8,075,000 | 7,240,000 | |
| | 2005E | 79,370,000 | 73,755,000 | |
| Branch Library Facilities Improvement (11/7/00) | 2001E | 17,665,000 | 13,875,000 | |
| | 2002B | 23,135,000 | 18,770,000 | |
| | 2005G | 34,000,000 | 31,600,000 | 31,065,000 |
| **SUB TOTALS** | | **$924,280,000** | **$687,748,793** | **$344,065,000** |
| General Obligation Refunding Bonds Series 1997-1 issued 10/27/97 | | $449,085,000 | $228,090,000 | |
| General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02 | | $118,945,000 | $85,240,000 | |
| General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04 | | $21,930,000 | $3,795,000 | |
| General Obligation Refunding Bonds Series 2006-R1 issued 10/17/06 | | $90,690,000 | $89,005,000 | |
| General Obligation Refunding Bonds Series 2006-R2 issued 12/18/06 | | $66,565,000 | $62,065,000 | |
| **TOTALS** | | **$1,671,495,000** | **$1,155,943,793** | **$344,065,000** |

[1] Of the $35,000,000 authorized by the Board of Supervisors in February 2007, $2,000,000 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds Authorized but Unissued."

Source: Office of Public Finance, City and County of San Francisco.

Source: Office of Public Finance, City and County of San Francisco.

### Lease Payments and Other Long-Term Obligations

Table A-15 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 as of July 31, 2007. Note that the annual payment obligations reflected in Table A-13 include the fully-accreted value of any capital appreciation obligations that will accrue as of the final payment dates and does not include general obligation bonds.

***TABLE A-15***

**CITY AND COUNTY OF SAN FRANCISCO**
**Lease Revenue Bonds, Certificates of Participation,**
**and San Francisco Redevelopment Agency**
**As of July 31, 2007**

| Fiscal Year | Principal | Interest | Annual Payment Obligation |
|---|---|---|---|
| 2008 | $38,415,000 | $32,336,632 | $70,751,632 |
| 2009 | 45,280,247 | 42,573,124 | 87,853,371 |
| 2010 | 37,377,024 | 41,414,030 | 78,791,054 |
| 2011 | 36,013,573 | 40,412,248 | 76,425,821 |
| 2012 | 27,020,763 | 39,456,627 | 66,477,390 |
| 2013 | 27,571,157 | 38,686,699 | 66,257,856 |
| 2014 | 32,356,550 | 37,714,430 | 70,070,980 |
| 2015 | 38,915,751 | 31,659,543 | 70,575,294 |
| 2016 | 39,305,000 | 24,692,018 | 63,997,018 |
| 2017 | 38,820,000 | 22,841,786 | 61,661,786 |
| 2018 | 39,470,000 | 20,948,549 | 60,418,549 |
| 2019 | 23,855,000 | 19,441,669 | 43,296,669 |
| 2020 | 24,755,000 | 18,309,388 | 43,064,388 |
| 2021 | 25,085,000 | 17,140,221 | 42,225,221 |
| 2022 | 25,645,000 | 15,953,813 | 41,598,813 |
| 2023 | 26,195,000 | 14,738,756 | 40,933,756 |
| 2024 | 26,790,000 | 13,502,986 | 40,292,986 |
| 2025 | 23,530,000 | 12,230,549 | 35,760,549 |
| 2026 | 22,475,000 | 11,151,957 | 33,626,957 |
| 2027 | 27,170,000 | 10,026,785 | 37,196,785 |
| 2028 | 24,770,000 | 8,849,729 | 33,619,729 |
| 2029 | 25,815,000 | 7,706,991 | 33,521,991 |
| 2030 | 27,205,000 | 6,547,143 | 33,752,143 |
| 2031 | 17,475,000 | 5,359,798 | 22,834,798 |
| 2032 | 18,275,000 | 4,555,900 | 22,830,900 |
| 2033 | 16,735,000 | 3,727,075 | 20,462,075 |
| 2034 | 17,580,000 | 2,871,856 | 20,451,856 |
| 2035 | 6,575,000 | 2,224,913 | 8,799,913 |
| 2036 | 6,870,000 | 1,922,400 | 8,792,400 |
| 2037 | 7,180,000 | 1,606,275 | 8,786,275 |
| 2038 | 7,505,000 | 1,275,863 | 8,780,863 |
| 2039 | 7,840,000 | 930,600 | 8,770,600 |
| 2040 | 8,195,000 | 569,813 | 8,764,813 |
| 2041 | 8,565,000 | 192,708 | 8,757,708 |
| TOTAL [1][2] | $826,630,065 | $553,572,874 | $1,380,202,939 |

[1] Totals reflect rounding to nearest dollar.

[2] 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 4.0% - the approximate historical average of the SIFMA Index plus a spread. These bonds are in variable rate mode.

Source: 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. The following lease programs have remaining authorization:

In 1987, 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 $8.19 million in lease revenue bonds to finance the construction of North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more series of bonds under Proposition F.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.00 million, such amount increasing by five percent each fiscal year. As of July 1, 2007, the total authorized amount for such financings was $45.84 million. The total principal amount outstanding as of July 31, 2007 was $18.59 million. It is anticipated that the Corporation will issue approximately $10.30 million in equipment lease revenue bonds in April 2008.

In 1994, voters approved Proposition B, which authorized the issuance of up to $60.00 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued $22.64 million and $23.30 million of Proposition B lease revenue bonds, respectively leaving $14.00 million in remaining authorization.

In June 1997, voters approved Proposition D, which authorized the issuance of up to $100.00 million in lease revenue bonds for the construction of a new football stadium at Candlestick Point, the home of the San Francisco 49ers football team. If issued, the $100.00 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. The City has no current timetable for issuance of the Proposition D bonds.

On March 7, 2000 voters approved Proposition C, which extended a two and one half cent per $100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued $27.00 million of such Open Space Fund lease revenue bonds in October 2006. The City anticipates issuing an additional $42.00 million of such Open Space Fund lease revenue bonds under the current offering.

*Overlapping Debt*

In November 2001, voters approved Proposition A. Proposition A of 2001 authorized the issuance of up to $195.0 million in general obligation bonds to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District (the "SFCCD") and to make improvements to existing facilities. The SFCCD issued $38.0 million of such authorization in March 2002 and $110.0 million in October 2004.

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued $58.00 million of such authorization in October 2004 and $130.0 million of such authorization in October 2005. The SFUSD issued $92.00 million of such authorization in October 2006, leaving $15.00 million authorized but unissued.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco Bay Area Rapid Transit District ("BART") to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed $980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City and County of San Francisco. Of the $980.0 million, the portion payable from the levy of ad valorem taxes on property within the City ("City Portion") is approximately 29.0% or $282.0 million. BART issued $100.0 million in May 2005 and $400.0 million of such authorization in July 2007, of which the City Portion is approximately $29.0 million and $116.0 million respectively.

On November 8, 2005, voters approved an additional issuance of up to $246.3 million in general obligation bonds to improve, construct and equip existing and new facilities of the SFCCD. SFCCD issued an aggregate principal amount of $137.0 million in June 2006 consisting of the remaining $47.0 million of the November 2001 authorization and $90.0 million of the November 2005 authorization.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed $450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of $100 million under the Proposition A authorization in February 2007.

**Labor Relations**

The City's fiscal year 2007-08 budget includes approximately 30,000 full time personnel, excluding employees in the SFUSD, SFCCD, and San Francisco Superior Court. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 (formerly Locals United Health Workers – West, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (California Government code Sections 3500-3511, "Meyers-Milias-Brown Act") and the Charter[1]. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Wages, hours and working conditions of nurses and transit workers are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have gone on a union-authorized strike.

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 employees.

[1] Registered Nurses are covered under Charter Section A8.403; Transit Operators are covered under Charter Section A8.404; Police, Fire and Deputy Sheriffs are covered under charter Section A8.590-1 and all other "miscellaneous employees" are covered under Charter Section A8.409.

The City's retirement benefits are established under the Charter and approved directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefits require a voter-approved Charter amendment.

In 2006, the City negotiated three-year successor agreements (July 1, 2006 through June 30, 2009) with all labor unions covered under Charter Section A8.409. In these agreements, most unions agreed to continue paying their own retirement contribution in exchange for an additional base wage increase. In general, employees agreed to pay their employee contribution to either the California Public Employees Retirement System ("CalPERS") (either 7% or 9%, depending on the plan) or San Francisco Employees Retirement System ("SFERS" or the "Retirement System") (7.5%) retirement plans for all three years. In exchange for employees' agreement to resume payment of their retirement contribution, the City will increase employees' base pay by a cost-equivalent post-tax amount. Additionally, employees will receive some general wage increases in each year of the contract. A few unions opted to have the City continue paying the employee contribution and therefore did not receive the additional cost –equivalent post-tax increase.

In 2007, the City negotiated a three-year contract (July 1, 2007 through June 30, 2010) with the Staff Nurses and a four-year contract with the Nurse Managers (July 1, 2007 through June 30, 2011). Given the national nursing shortage, and the City's commitment to provide quality public health and meet State-mandated nurse-patient ratios, these agreements reflect wage and staffing increases to address market conditions for Registered Nurses.

Of the unions covered under Charter Section A8.590-1, the City negotiated a successor agreement with the Deputy Sheriffs, effective July 1, 2005 through June 30, 2009. Employees covered by this agreement will pay their retirement contribution and receive general wage increases each year of the agreement. In 2007, the City negotiated four-year contracts (July 1, 2007 through June 30, 2011) with the Police and Fire rank and file. In each year of these contracts, represented employees will receive market-based wage increases. The parties are in the process of negotiating successor agreements with Police and Fire Management.

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. The current contract covering transit operators expires on June 30, 2008. MTA and the union representing the transit operators will begin negotiations for a successor agreement later in 2007.

In addition, the City adopts an annual "Unrepresented Employees' Ordinance" for employees who are not exclusively represented by a union. The Ordinance for fiscal year 2007-08 provides for employees to pick-up their own retirement contribution in exchange for an additional base wage increase.

## *TABLE A-16*

**CITY AND COUNTY OF SAN FRANCISCO**

**Employee Organizations as of July 1, 2007**

| Organization | Positions | Expiration Date of MOU |
|---|---|---|
| Automotive Machinists, Local 1414 | 407 | June 30, 2009 |
| Bricklayers, Local 3/Hod Carriers, Local 36 | 18 | June 30, 2009 |
| Building Inspectors Association | 80 | June 30, 2009 |
| Carpenters, Local 22 | 107 | June 30, 2009 |
| CIR (Interns & Residents) | 204 | June 30, 2009 |
| Cement Masons, Local 580 | 29 | June 30, 2009 |
| Deputy Sheriffs Association | 882 | June 30, 2009 |
| District Attorney Investigators Association | 47 | June 30, 2009 |
| Electrical Workers, Local 6 | 791 | June 30, 2009 |
| Glaziers, Local 718 | 12 | June 30, 2009 |
| International Alliance of Theatrical Stage Employees, Local 16 | 15 | June 30, 2009 |
| Ironworkers, Local 377 | 17 | June 30, 2009 |
| Laborers International Union, Local 261 | 1,124 | June 30, 2009 |
| Municipal Attorneys' Association | 442 | June 30, 2009 |
| Municipal Executives Association | 1026 | June 30, 2009 |
| MEA - Police Management | 2 | June 30, 2007 |
| MEA - Fire Management | 8 | June 30, 2007 |
| Operating Engineers, Local 3 | 60 | June 30, 2009 |
| Painters, Local 1176 | 114 | June 30, 2009 |
| Pile Drivers, Local 34 | 17 | June 30, 2009 |
| Plumbers, Local 38 | 335 | June 30, 2009 |
| Probation Officers Association | 151 | June 30, 2009 |
| Professional & Technical Engineers, Local 21 | 4,427 | June 30, 2009 |
| Roofers, Local 40 | 14 | June 30, 2009 |
| S.F. Institutional Police Officers Association | 4 | June 30, 2009 |
| S.F. Firefighters, Local 798 | 1,725 | June 30, 2011 |
| S.F. Police Officers Association | 2,774 | June 30, 2011 |
| SEIU, Local 1021 (formerly Locals UHW, 535 and 790) | 11,136 | June 30, 2009 |
| SEIU, Local 1021 Staff & Per Diem Nurses | 1,561 | June 30, 2010 |
| SEIU, Local 1021 H-1 Rescue Paramedics | 14 | June 30, 2005 [1] |
| Sheet Metal Workers, Local 104 | 48 | June 30, 2009 |
| Stationary Engineers, Local 39 | 662 | June 30, 2009 |
| Supervising Probation Officers, Operating Engineers, Local 3 | 21 | June 30, 2009 |
| Teamsters, Local 350 | 2 | June 30, 2009 |
| Teamsters, Local 853 | 168 | June 30, 2009 |
| Teamsters, Local 856 (Multi-Unit) | 110 | June 30, 2009 |
| Teamsters, Local 856 (Supervising Nurses) | 133 | June 30, 2011 |
| TWU, Local 200 (SEAM multi-unit & claims) | 314 | June 30, 2009 |
| TWU, Local 250-A Auto Service Workers | 197 | June 30, 2009 |
| TWU-250-A Miscellaneous | 90 | June 30, 2009 |
| TWU-250-A Transit Operators | 2035 | June 30, 2008 |
| Union of American Physicians & Dentists | 186 | June 30, 2009 |
| Unrepresented Employees | 140 | June 30, 2009 |
| **TOTAL** | **31,649** [2] | |

[1] The parties are in the process of negotiating successor contract. Under the status quo, the salary link continues between the H-1 Fire Rescue Paramedics and the

[2] Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

Source: Department of Human Resources - Employee Relations Division, City and County of San Francisco.

**Risk Retention Program**

Citywide risk management is coordinated by the City's Risk Manager. 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. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e. "self-insurance"). The City obtains commercial insurance when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage.

The City's property risk management approach varies depending on various factors including whether the facility is currently under construction or if the property is owned by self-supporting enterprise departments. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, typically for more limited-scope projects, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the City's risk exposure. Other City buildings are insured in connection with bond financing covenants or otherwise are self-insured by the City. The vast majority of the City's traditional insurance program is purchased for enterprise departments and other similar revenue-generating departments (San Francisco International Airport, Municipal Railway, Public Utilities Commission, the Port and Convention Facilities). The remainder of the insured program is made up of insurance for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and statutory requirements for bonding of various public officials.

Through coordination with the Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through reserves set aside in the City's budget and also reflected in the CAFR. The reserves are sized based on both anticipated claim payments and the projected timing of disbursement.

The City actuarially determines and allocates workers' compensation costs to departments according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in City budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate workers' compensation costs. Various programs focus on accident prevention, investigation and duty modification of injured employees with medical restrictions so the injured employees can return to work as early as possible.

The City's estimated liability and workers' compensation risk exposures are summarized in Note 16 to the City's CAFR, attached hereto as Appendix C.

**Retirement System**

*History and Administration*

The Retirement System is a defined-benefit plan that was initially established in the late 1880s and was constituted in its current form by the 1932 City charter and then retained under the Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative vote at a duly called election.

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 of Supervisors appointed by the President of the Board of Supervisors.

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 all divisions of the system consisting of Administration, Investment, Retirement Services/Accounting, and Deferred Compensation. The actuary's responsibilities include the production of data and a summary of plan provisions for the independent consulting actuary retained by the Retirement Board to produce a valuation report and other analyses as described below.

*Membership*

The Retirement System's membership includes City employees who are not members of CalPERS, San Francisco Unifed School District and San Francisco Community College District employees who are not members of the State Teachers Retirement System, and San Francisco Trial Court employees other than judges.

The Retirement System estimates that the total active membership as of June 30, 2006 was 33,061, including 2,901 vested members and 734 reciprocal members, compared to 32,760 members a year earlier. With respect to City employees, vested members are members who (i) have worked for the City for five or more years, (ii) have separated from City Service and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are members who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. The total new enrollees in the Retirement System for fiscal year 2005-06 were approximately 2,166. Checks are mailed to approximately 20,185 benefit recipients monthly.

Table A-17 shows total Retirement System membership for fiscal years 2001-02 through 2005-06.

*TABLE A-17*

**CITY AND COUNTY OF SAN FRANCISCO**
Employees' Retirement System
Fiscal Years 2001 - 02 through 2005 - 06

| Fiscal Year | Active Members | Vested Members | Reciprocal Members | **Total Non-retired** | Retirees/ Continuants | Active to Retiree Ratio |
|---|---|---|---|---|---|---|
| 2002 | 30,639 | 773 | 515 | 31,927 | 17,953 | 1.778 |
| 2003 | 32,121 | 948 | 646 | 33,715 | 18,490 | 1.823 |
| 2004 | 31,651 | 996 | 728 | 33,375 | 19,081 | 1.749 |
| 2005 | 29,164 | 2,833 | 763 | 32,760 | 20,093 | 1.630 |
| 2006 | 29,426 | 2,901 | 734 | 33,061 | 20,489 | 1.614 |

Sources: SFERS' Actuarial Valuation reports as of July 1, 2006, July 1, 2005, July 1, 2004, July 1, 2003, and July 1, 2002.

*Funding Practices*

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an independent consulting actuarial firm employed under contract by the Retirement Board. A valuation of the Retirement System is conducted each year; periodically demographic studies and other actuarial analyses of performance are also prepared. The latest report as of June 30, 2006 was issued in January 2007. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provide a recommendation to the Retirement Board as to the Retirement Board's acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer and employee contribution amounts required by the Retirement System as detailed in the report.

The actuary and the Retirement Board determine the actuarially required contribution amounts using three related calculations:

*First*, the normal cost is established for the Retirement System. The normal cost of the program represents the portion of the actuarial present value of benefits that the Retirement System will be expected to fund that is attributable to a current year's employment. The Retirement System uses the entry age normal cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities designed to fund promised benefits over the average future working life of the Retirement System members.

*Second*, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial value of Retirement System liabilities exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded accrued actuarial liability" or "UAAL." If the actuarial value of assets exceeds the actuarial value of liabilities, the contribution amount is adjusted to reflect this excess by decreasing it in an amount equal to the excess of actuarial assets over actuarial liabilities, divided by the present value of projected salaries for the next 15 years. The most recent valuation of the Retirement System shows such an excess. Such a situation is known colloquially as a "negative UAAL."

Generally speaking, the UAAL calculation is an estimate based on a series of assumptions that operate on demographic data of the Retirement System's members and beneficiaries. This process is used to estimate the sufficiency of the assets in the Retirement System to fund its liabilities, and can be thought of as a snapshot of the funding of benefits as of its date. There are a number of assumptions and calculation methods that bear on each side of the asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or loss is identified. As for calculating the pension benefit liability, certain assumptions must be made about future costs of pension benefits to generate an overall liability amount. If the Retirement System's results are better or worse than expected, the result is called an actuarial gain or loss, respectively, and under the Retirement Board's Actuarial Methods Policy any such gain or loss is amortized over a 15-year period. Similarly, if the calculated liabilities change due to changes in the aforementioned assumptions, the effect of such changes is also amortized over a 15-year period.

*Third*, after calculating the normal cost and the adjustment for UAAL, the actuary calculates supplemental costs for the various member benefit plans. Supplemental costs are additional costs resulting from the past service component of Retirement System benefit increases. In other words, when the Charter is amended to extend additional benefits to some or all beneficiaries of the Retirement System, the Retirement System's payment liability is increased by the amount of the new benefit earned in connection with the service time already accrued by the then-current beneficiaries. These supplemental costs for each beneficiary are amortized over no more than 20 years.

The actuary combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. Employee contributions are mandated by the Charter. Sources of payment may be the subject of collective bargaining agreements with each union or bargaining unit. The employer contribution is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System.

*Recent Funding Performance*

From fiscal year 1996-97 through fiscal year 2003-04, the City's dollar contribution to the Retirement System decreased to zero due to lowered funding requirements as determined by the consulting actuary of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period were due primarily to higher than projected investment earnings and lower than projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuary in the manner described above in "*—Funding Practices.*" In fiscal year 2005-06, the City contributed $126.53 million in employer contribution to the Retirement System, which was 6.58% of Pensionable Salary. This amount includes a $50.46 million General Fund contribution. In fiscal year 2006-07, the City budgeted an estimated $134.00 million in employer contribution to the Retirement System, which was 6.24% of that portion of a member's earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount included a $53.50 million General Fund contribution. The contribution rate approved to be effective July 1, 2007 is 5.91% of Pensionable Salary.

Table A-18 shows Retirement System actual contributions for fiscal years 2001-02 through 2005-06. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. The "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2001-02 through 2005-06.

*TABLE A-18*

**CITY AND COUNTY OF SAN FRANCISCO**
**Employee Retirement System ( in $000s)**
**Fiscal Years 2001-02 through 2005-06**

| Fiscal Year | Market Value of Assets | Actuarial Value of Assets | Pension Benefit Obligation | Percent Funded | Employee & Employer Contribution [1] |
|---|---|---|---|---|---|
| 2002 | $10,415,950 | $11,102,516 | $9,415,905 | 118.0% | $155,918 |
| 2003 | 10,533,013 | 11,173,636 | 10,249,896 | 109.0 | 182,069 |
| 2004 | 11,907,358 | 11,299,997 | 10,885,455 | 104.0 | 170,550 |
| 2005 | 13,135,263 | 12,659,698 | 11,765,737 | 108.0 | 248,029 |
| 2006 | 14,497,022 | 13,597,646 | 12,515,463 | 109.0 | 289,226 |

[1] For fiscal years 1999-00 through 2003-04, the City paid no employer contribution. Following are the employer contribution rates as determined by the Retirement Board Actuarial Valuations:

| Year | Rate |
|---|---|
| 2004-2005 | 4.48% |
| 2005-2006 | 6.58% |
| 2006-2007 | 6.24% |
| 2007-2008 | 5.91% |

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2006, 2005, 2004, 2003 and 2002.
SFERS' Actuarial Valuation report as of July 1, 2006, July 1, 2005, July 1, 2004, July 1, 2003, and July 1, 2002.

*Asset Management and Actuarial Valuation*

The assets of the Retirement System are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System is available upon request from the Retirement System by writing to the San Francisco Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7000. These Reports are not incorporated by reference herein.

*Other Employee Retirement Benefits*

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members; such payment from the General Fund equaled $6.74 million in fiscal year 2005-06. These contributions are summarized in Note 9 to the City's CAFR, as of June 30, 2006 attached hereto as Appendix C. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – Post-Employment Health Care Benefits and GASB 45."

## Medical Benefits

*Administration through Health Service System; Audited System Financial Statements*

Medical benefits for eligible active City employees, for retired City employees and for surviving spouses and domestic partners of covered City retirees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System") pursuant to City Charter Sections 12.200 et seq. and A8.420 et seq. Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of the SFUSD, SFCCD and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical benefits for City Beneficiaries.

The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The Health Service Board is composed of the following seven seats: a member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; and four members of the Health Service System, active or retired, elected from among their number.

The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727. (This report is not incorporated by reference herein.)

As presently structured under the City Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB Fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB Funds.

*Determination of Employer and Employee Contributions for Medical Benefits*

Contributions by the participating employers and HSS Beneficiaries to Health Service System medical benefits are determined according to applicable provisions of the Charter. To the extent annual medical premiums exceed the contributions made by employers and HSS Beneficiaries as required by the Charter, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets held in the Health Service Trust Fund.

All City Beneficiaries receive a base contribution from the City toward the monthly cost of their medical benefits calculated pursuant to Charter Section A8.423. Under that section, in January of each year, the Health Service System conducts a survey of the 10 most populous counties in California (other than the City and County of San Francisco) to determine "the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." Under City Charter Section A8.428, the City is required to contribute to the Health Service Trust Fund an amount equal to such "average contribution" for each City Beneficiary.

In addition to the average contribution described above, the City makes additional medical and other benefit contributions on behalf of City Beneficiaries who are active employees as negotiated and agreed to by such employees' applicable collective bargaining units. City bargaining units have negotiated additional City contributions for enhanced single medical coverage, dependent medical coverage and for additional benefits such as dental care for the members of such bargaining units. These contribution amounts are also paid by the City into the Health Service Trust Fund.

Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g. surviving spouses and domestic partners of City employees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "-- *Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries include the City contribution of the "average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

- Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.
- In addition to the average contribution described in the second paragraph of this subsection, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.
- After application of the calculations described above, the City contributes 50% of City retirees' remaining monthly contributions.

In addition, the City contributes 50% of the monthly contributions required for the first dependent of a retired City participant.

*Fiscal Year 2005-06 Employer Contributions for Health Service System Benefits*

For fiscal year 2005-06, the Health Service System received approximately $475.2 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately $333.4 million for Health Service System benefit costs. For the City, approximately $88.0 million[1] of this amount was for health care benefits for approximately 17,000 retired City employees and their eligible dependents and approximately $245.4 million was for benefits for approximately 27,600 active City employees and their eligible dependents. Further information on Health Service System funding can be found in the audited financial statements, which are available through Fiscal Year 2005-06.

*Post-Employment Health Care Benefits and GASB 45*

Eligibility of former City employees for retiree medical benefits is governed by the Charter. A summary description of the general categories of City employees eligible for retiree medical benefits and the current minimum eligibility requirements for such employees is set forth below:

- Employees who retire from active status after attaining age 50 and completing five years of City service can immediately commence medical benefits.
- Employees who complete five years of City service before termination can immediately commence medical benefits when they retire after attaining age 50.
- Employees who become disabled due to duty-related disability and retire can immediately commence medical benefits.
- Employees with five years of service who become disabled due to non-duty-related disability and retire can immediately commence medical benefits.
- Spouses, domestic partners and children of an eligible retiree are eligible for medical benefits. Upon the death of a covered retiree, coverage for a spouse or domestic partner of such retiree can continue for life.

The above list is provided as a summary only and is qualified in all respects by the laws, regulations and agreements applicable to the specific situation of each employee.

The City will be required to begin reporting the liability and related information for unfunded post-retirement medical benefits in the City's financial statements for the fiscal year ending June 30, 2008. This new reporting requirement is defined under the Government Accounting Standards Board Pronouncement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability—rather it requires that government agencies start to record and report a portion of the liability in each year if they do not fund it. The Government Accounting Standards Board Pronouncement #45 GASB 45 requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in FY 2007-08.

To help plan for the implementation of GASB 45, the City requested that Towers Perrin prepare a preliminary actuarial valuation of this liability. Towers Perrin estimated that if the City were to have a Funded Plan to cover post-employment medical benefits, the projected liability would be $3.0 billion and have an annual required contribution for FY 2006-07 of $290.2 million, assuming an 8.0 percent return on investments, while covering all City operations, including those that are General Fund supported. In FY 2006-07, the City's total budget included $101.0 million in funding for retiree health subsidies, which represented only the amount needed to pay for current costs due during the fiscal year. The additional potential liability to the City would, therefore, be the difference between the Towers Perrin estimate and the fiscal year 2006-07 budgeted levels,

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[1] From Health Service System audited financial statements for fiscal year ending June 30, 2006. The amount represents only eleven months of City contributions for post-retirement health care benefits due to a reporting change recognizing June contributions ($10.9 million) as deferred revenue. For a more detailed discussion of this change, please refer to page 8 of such financial statements.

The calculations in the report are sensitive to a number of critical assumptions, including but not limited to the projected rate of increases in health plan costs. The entire Towers Perrin report is posted at http://www.sfgov.org/site/uploadedfiles/controller/reports/GASB_45_Memo_Report.pdf. (This report is not incorporated by reference herein.)

*Total City Fringe Benefits Costs*

This City continued to budget funding for currently due benefits costs using a 'pay-as-you-go' approach in the fiscal year 2007-08 Original Budget. Additionally, to begin to address the issue of accrued liabilities for future retiree health costs, the City created a new Post Employment Benefits Fund and budgeted an initial $500,000 contribution in the fiscal year 2007-08 Original Budget. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Below in Table A-19, a five-year history is provided for all fringe benefits costs paid including pension, health, dental and other miscellaneous fringes. For all years shown, a 'pay-as-you-go' approach was used by the City.

As part of the planning for how the City will address this issue, Memoranda of Understanding negotiated in 2006 with City labor unions included a provision calling for a City-wide Retiree Health Benefits Committee to develop recommendations regarding funding of retiree health benefits. Any recommendation of the Committee must be reviewed and approved under the City's legislative and/or Charter amendment processes before it is implemented. The Committee met twice in 2006 and has scheduled monthly meetings for 2007. The Committee's current activities include reviewing area and industry practices with respect to retiree health benefits, and developing an understanding of the scope of future obligations contained in collective bargaining agreements and the City Charter.

***TABLE A-19***

**CITY AND COUNTY OF SAN FRANCISCO**
**Total Fringe Benefit Costs**
**Fiscal Years FY 2001-02 through FY 2005-06**
**Actuals, GAAP Basis**

| | FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 |
|---|---|---|---|---|---|
| Retirement | $ 134,603,558 | $ 118,195,016 | $ 31,864,833 | $ 114,137,336 | $ 174,738,472 |
| Social Security & Medicare | 111,319,418 | 117,693,229 | 118,167,491 | 116,589,364 | 121,589,065 |
| Health - Medical & Dental | 137,985,042 | 159,076,734 | 176,118,127 | 185,840,015 | 194,950,403 |
| Health - Retiree Medical | 35,176,043 | 58,465,398 | 72,152,041 | 86,529,571 | 96,286,433 |
| Other Fringes | 8,550,579 | 10,448,053 | 9,215,906 | 16,063,001 | 19,315,549 |
| **Total Fringe Costs** | **$ 460,135,467** | **$ 496,510,482** | **$ 438,978,453** | **$ 552,788,109** | **$ 641,105,320** |

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

**Litigation**

There are a number of lawsuits and claims pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2006, attached as Appendix C to this Official Statement, as well as those described in this Appendix A under "Business Taxes" above. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims as are presently pending will not impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations.

# APPENDIX B

# CITY AND COUNTY OF SAN FRANCISCO
# ECONOMY AND GENERAL INFORMATION

**Area and Economy**

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

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

**Population and Income**

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit, at 808,844 as of January 1, 2007, 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 2003 and 2007. The State Department of Finance projects that the City's population will reach 818,163 and 844,466 in 2010 and 2020, respectively.

***TABLE B-1***

**POPULATION AND INCOME**
**2003-2007**

| Year | City and County of San Francisco | State of California | San Francisco Per Capita Income | California Per Capita Income |
|---|---|---|---|---|
| 1990 | 723,959 | 29,760,021 | $ 16,409 | $ 19,695 |
| 2000 | 776,733 | 33,871,648 | 34,556 | 22,771 |
| 2003 | 789,700 | 35,612,000 | 55,720 | 33,749 |
| 2004 | 792,700 | 36,271,091 | 59,398 | 35,219 |
| 2005 | 799,263 | 36,810,358 | 63,140 | 36,936 |
| 2006 | 798,680 | 37,172,015 | 67,064 | 38,956 |
| 2007 | 808,844 | 37,662,518 | N/A* | N/A* |
| [1] 2010 | 816,230 | 39,246,767 | N/A* | N/A* |
| [1] 2020 | 820,545 | 43,851,741 | 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.

[1] Projections provided by the State of California, Department of Finance, Demographic and Finance Research Untis.

Sources: State of California Department of Finance, Demographic and Finance Research Units; State of California Employment Development Department; U.S. Census Bureau; U.S. Department of Commerce, Bureau of Economic Analysis.

**Conventions and Tourism**

According to the San Francisco Convention & Visitors Bureau, during the calendar year 2006 approximately 15.8 million people (124,628 average per day) visited the City, generating approximately $7.76 billion for local businesses. On average, these visitors spent about $244 per visitor per day and stayed three to four nights.

Also, as reported by PKF Consulting, hotel occupancy rates in the City averaged 76.4% for calendar year 2006, an increase of 0.9% over the previous year. Average daily San Francisco room rates during 2006 increased about 7.1% to an average of $168, compared to the prior year.

Although visitors who stay in City hotels accounted for only 35.0% of total out-of-town visitors, the Convention & Visitors Bureau estimates that such visitors generated 65.0% of total spending by visitors from outside the Bay Area. It is estimated that 40.0% of visitors to the City are on vacation, 35.0% are convention and trade show attendees, 22.0% are individual business travelers and the remaining 3.0% are en route elsewhere. International visitors are estimated to make up between 25% and 35% of overnight hotel visitors. U.S government estimates show that San Francisco's top five inbound overseas markets in 2006 were the United Kingdom, Japan, France, Germany, and Australia. In 2006, San Francisco was ranked third in market share for international visitors to the USA, behind New York and Los Angeles, even with Orlando, and ahead of Miami, Honolulu, and Las Vegas. The following table illustrates hotel occupancy and related spending from calendar years 2001 through 2006.

***TABLE B-2***

**CITY AND COUNTY OF SAN FRANCISCO**
**San Francisco Overnight Hotel Guests**

| Calendar Year | Annual Average Hotel Occupancy (%) | Visitors Staying in Hotels or Motels (000s) | Estimated Hotel Visitor Spending (000s) |
|---|---|---|---|
| 2001 | 67.0% | 3,550 | $ 3,700,000 |
| 2002 | 65.4 | 3,470 | 3,500,000 |
| 2003 | 68.1 | 3,860 | 3,680,000 |
| 2004 | 73.4 | 4,200 | 4,070,000 |
| 2005 | 75.7 | 4,500 | 4,500,000 |
| 2006 | 76.4 | 4,500 | 4,780,000 |

Source: San Francisco Convention & Visitors Bureau.

According to the San Francisco Convention & Visitors Bureau, as of June 1, 2007, convention business was almost at full capacity at the Moscone Convention Center and was at strong levels at individual hotels providing self-contained convention services. The City completed construction of an expansion to the Moscone Convention facilities in spring 2003. With the expansion, the Moscone Convention Center offers over 700,000 square feet of exhibit space covering more than 20 acres on three adjacent blocks.

**Employment**

The City benefits from a highly skilled, educated and 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 Employment Development Department, the unemployment rate for the City was 4.4% for June 2007 compared with an unadjusted unemployment rate of 5.2% for California. According to the U.S. Department of Labor, the unadjusted unemployment rate for the nation for June 2007 was 4.7%.

*TABLE B-3*

| CITY AND COUNTY OF SAN FRANCISCO<br>Civilian Labor Force, Employment, and Unemployment [1][2]<br>June 2006 and June 2007 [3] | | | | |
|---|---|---|---|---|
| **Year and Area** | **Labor Force** | **Employment** | **Unemployment** | **Unemployment Rate** |
| June 2007 | | | | |
| San Francisco | 429,100 | 410,400 | 18,700 | 4.4% |
| State | 18,216,300 | 17,268,500 | 947,800 | 5.2% |
| June 2006 | | | | |
| San Francisco | 419,000 | 400,500 | 18,400 | 4.4% |
| State | 17,896,800 | 17,015,500 | 881,300 | 4.9% |

[1] Civilian labor force data are by place of residence; include self-employed individuals, unpaid family workers, household domestic workers, and workers on strike

[2] San Francisco is in a multi-county Metropolitan Statistical Area (MSA) or Metropolitan Division (MD). Currently industry employment data are only available for the MSA or MD, not the County. The MSA Counties includes: San Francisco, Marin, and San Mateo Counties.

[3] Data not seasonally adjusted.

Source: Labor Market Information Division of the California Employment Development Department (EDD).

*TABLE B-4*

| CITY AND COUNTY OF SAN FRANCISCO<br>Estimated Average Annual Employment by Sector in 2001-2005[1] | | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Professional and Business Services | 129,700 | 111,600 | 103,400 | 100,400 | 104,800 |
| Government | 80,800 | 84,400 | 83,700 | 81,700 | 82,600 |
| Leisure and Hospitality | 72,200 | 69,900 | 69,600 | 70,700 | 71,800 |
| Trade, Transportation and Utilities | 78,000 | 74,200 | 71,200 | 70,000 | 70,000 |
| Financial, Insurance & Real Estate | 68,200 | 63,500 | 59,100 | 57,000 | 57,500 |
| Educational and Health Services | 51,900 | 51,700 | 53,200 | 54,400 | 54,600 |
| Other Services | 24,900 | 22,500 | 21,700 | 21,100 | 21,700 |
| Information | 29,800 | 23,700 | 20,500 | 19,100 | 17,600 |
| Natural Resources, Mining & Construction | 19,700 | 17,900 | 17,300 | 16,000 | 16,700 |
| Manufacturing | 17,800 | 15,100 | 13,100 | 12,300 | 11,800 |
| Total | 573,000 | 534,500 | 512,800 | 502,700 | 509,100 |

[1] City and County of San Francisco, does not include Metropolitan Statistical Area (MSA) or Metropolitan Division (MD). Most recent annual data available.

Source: California Employment Development Department.

Table B-5 below lists the 10 largest employers in the City as of December 2006.

*TABLE B-5*

**CITY AND COUNTY OF SAN FRANCISCO**
**Largest Employers in San Francisco**
**As of December 30, 2006**

| Employer | Number of Employees | Nature of Business |
|---|---|---|
| City and County of San Francisco | 30,000 | Local government |
| University of California, San Francisco | 17,500 | Health services |
| Wells Fargo & Co. Inc. | 13,794 | Banks |
| State of California | 6,228 | State government |
| California Pacific Medical Center | 5,569 | Health care |
| San Francisco Unified School District | 5,557 | Education |
| United States Postal Service, San Francisco District | 4,935 | Mail delivery |
| Pacific & Gas and Electric Corporation | 4,800 | Energy |
| Gap Inc. | 4,075 | Retail |
| Kaiser Permanente | 3,918 | Health care |

Source: San Francisco Business Times, Book of Lists 2007.

## Taxable Sales

The following table reflects a breakdown of taxable sales for the City for the period 2001-2005. Total retail sales increased in 2005 by approximately $635.0 million compared to 2004. Business and personal services and other outlet taxable sales increased by approximately $818.5 million in 2005.

*TABLE B-6*

**CITY AND COUNTY OF SAN FRANCISCO**
**Taxable Sales - Calendar Year 2001-2005**
**($000s)**

| | 2001 | 2002 | 2003 | 2004 | 2005[1] |
|---|---|---|---|---|---|
| Apparel | $749,391 | $737,396 | $760,715 | $826,686 | $880,718 |
| General Merchandise | 1,078,664 | 1,051,122 | 1,065,160 | 1,143,657 | 1,199,308 |
| Food Stores | 413,650 | 403,163 | 405,673 | 419,286 | 439,472 |
| Speciality Stores | 1,998,450 | 1,889,144 | 1,910,757 | 2,084,323 | 2,212,530 |
| Eating/Drinking | 1,883,762 | 1,844,385 | 1,879,879 | 2,067,418 | 2,237,384 |
| Household | 513,618 | 459,529 | 484,455 | 527,519 | 575,985 |
| Building Materials | 313,277 | 310,111 | 320,316 | 353,002 | 397,218 |
| Automotive | 889,936 | 803,109 | 804,964 | 850,984 | 956,031 |
| Other Retail Stores | 149,638 | 143,999 | 135,582 | 141,906 | 151,142 |
| Retail Stores Total | $7,990,386 | $7,641,958 | $7,767,501 | $8,414,781 | $9,049,788 |
| Business and Personal Services | $1,107,028 | $1,043,019 | $945,689 | $937,411 | $939,108 |
| All Other Outlets | 3,357,822 | 2,904,463 | 2,784,369 | 2,855,315 | 3,037,078 |
| Total All Outlets | $12,455,236 | $11,589,440 | $11,497,559 | $12,207,507 | $13,025,974 |

[1] Most recent annual data available.

Source: California State Board of Equalization - Taxable Sales in California (Sales & Use Tax) Annual Reports.

**Building Activity**

Table B-7 shows a summary of building activity in the City for Fiscal Years 2000-01 through 2004-05. According to the City's Department of Building Inspection, the total value of building permits was $434.0 million in Fiscal Year 2004-05.

***TABLE B-7***

**CITY AND COUNTY OF SAN FRANCISCO**
**Building Activity 2001-2005 ($000s)**

| Fiscal Year Ended June 30 | Authorized New Dwelling Units | Value of Building Permits: Residential | Non-Residential | Total |
|---|---|---|---|---|
| 2001 | 2,570 | $381,623 | $725,313 | $1,106,936 |
| 2002 | 3,273 | 299,028 | 364,801 | 663,829 |
| 2003 | 1,279 | 214,244 | 57,455 | 271,699 |
| 2004 | 1,726 | 307,603 | 122,377 | 429,980 |
| 2005 | 1,961 | 362,760 | 71,251 | 434,011 |

Source: San Francisco Department of Building Inspection, Central Permit Bureau.

**Banking and Finance**

The City is a leading center for financial activity. The headquarters of the Twelfth Federal Reserve District is located in the City, as are the headquarters of the Eleventh District Federal Home Loan Bank and the regional Office of Thrift Supervision. Wells Fargo Bank, First Republic Bank, Union Bank of California, United Commercial Bank, Bank of the Orient and Charles Schwab & Co., the nation's largest discount broker, are headquartered in the City. Investment banks located in the City include Banc of America Securities LLC, Deutsche Banc Alex Brown, Thomas Weisel Partners LLC, and Pacific Growth Equities.

**Commercial Real Estate**

According to the 2nd Quarter 2007 Report from CB Richard Ellis ("CBRE"), the City-wide vacancy rate was 8.5% and San Francisco had almost a quarter million square feet of absorption in the 2nd quarter of 2007. The average Class A asking rent City-wide is over $44.12 per square foot (psf ) (up from $40 psf in the 1st quarter 2007 and $36.11 psf in the 4th Quarter 2006), with Civic Center average Class A asking rent at $33 psf (up from $32 psf from the prior quarter) according to the CBRE Report.

**Major Development Projects**

The downtown Union Square area is the City's principal retail area and includes Macy's, Neiman Marcus, Saks Fifth Avenue, Levi's, NikeTown, Disney, Crate and Barrel, Borders Books, Nordstrom, Williams-Sonoma and Virgin Records. The recent completion of the Union Square Improvement Project, including reconstruction of the Union Square Garage, has improved accessibility to the area. The refurbished Union Square Park is now a hub for activities and events, gatherings, rallies, performances, and art exhibits.

After three years of construction, the $460.0 million Westfield San Francisco Centre (which includes the largest Bloomingdale's outside of downtown Manhattan) opened September 28, 2006. The 1.2 million square foot retail, office, and entertainment complex on the site of the former Emporium building between Market Street and Mission Street and 4th and 5th Streets is expected to draw 25 million visitors annually and generate

$600 million annually in taxable retail sales. In addition, approximately 2,000 net new permanent jobs are projected to be created, with about 20% of the jobs to be placed by community based organizations.

In fall 2007, Barneys New York is anticipated to open at 47 Stockton Street. It will be a 60,000 square foot store in the space formerly occupied by FAO Schwartz. That building, across the street from Macy's and Crate & Barrel and one block south of Neiman Marcus, has remained about three-quarters vacant since FAO Schwarz closed three years ago. Combined with the opening of Bloomingdale's in Spring 2006, the build out of the Barneys space would bring the number of department stores within a five-block radius to six.

Yerba Buena Lane is getting closer to its promise of becoming a bustling retail thoroughfare connecting Market and Mission Streets, with three new leases totaling more than 15,000 square feet recently completed. New tenants include Taste, a wine tasting collective; Hickey Freeman, a New York based retailer; high-end chocolate retailer Schoggi; and Amber India restaurant.

Another commercial development project which recently completed construction in the City is the Fillmore Renaissance Center, a mixed-use commercial and residential project at Fillmore and Eddy Streets in the Western Addition area of the City known as the Fillmore Jazz Preservation District. The project will include a Fillmore branch of Oakland's Yoshi's Jazz Club & Restaurant, a variety of restaurants and lounges, approximately 80 condominium units (15.0% of which are designated affordable) and a public parking garage.

Development is continuing at the Mission Bay redevelopment project area, portions of which are owned by the City and the Port of San Francisco. The development is projected to utilize approximately 303 acres of land comprised of 6,000 residential units (28.0% of which will be affordable units), office and commercial space, 863,637 square feet of retail space, a new public school, 51 acres of parks and recreational areas, and a 500 room hotel. In addition, the University of California is constructing an approximately 2.65 million square feet biotechnology campus on a 43-acre site in Mission Bay, and has already completed several buildings, including the Bakar recreation center and several laboratory buildings. Alexandria Real Estate, the REIT that acquired most of Mission Bay's entitled land from Catellus Corporation, completed its first lab building, next door to the Gladstone Institutes of Cardiovascular Disease, Virology and Immunology and Neurological Disease in late 2006. Sirna Therapeutics, Inc, a biotechnology company, acquired by Merck & Co. Inc is projected to occupy approximately 40,000 square feet of the 155,000 square feet building.

In addition, on September 27, 2006 FibroGen announced its plans to move its corporate headquarters from South San Francisco to Mission Bay, and become the first anchor tenant in a new 450,000 square feet laboratory building being developed by Shorenstein and SKS at 406 Illinois Street. FibroGen has a lease on 239,000 square feet of space in the building and would be the largest biotech company to locate in San Francisco to date. FibroGen plans to initially house 200 employees when it moves in 2008 but it has announced its intention to grow significantly in the coming years.

The Octavia Boulevard Project, a ground-level six-lane boulevard between Market and Hayes Streets, opened in Fall 2005. The redevelopment of this roadway system has opened up approximately 7.2 acres of property to be used for the construction of 750 to 900 housing units. In early 2007, three of the parcels were sold to housing developers after an extensive Request for Proposals and public design review competition.

Adjacent to the Old Mint, plans for the Old Mint Plaza were approved by the Board of Supervisors providing an 18,000 square feet, 290 by 54 feet wide portion of Jessie Street extending between 5th Street and Mint Street. This portion of the street will be closed to automobile traffic and redesigned to accommodate a wide range of uses, including art, theatre, live music, cafés, and street fairs.

For the Transbay Terminal, five teams submitted their responses to the Transbay Transit Center & Tower Design & Development Competition Request for Qualifications in early January; three teams remain (listed by lead designer and lead developer): Pelli Clarke Pelli Architects and Hines; Richard Rogers Partnership and

Forest City Enterprises with MacFarlane Partners; Skidmore, Owings & Merrill and Rockefeller Group Development Corporation. Selection of the finalist is scheduled for September 2007.

Progress has been made on planning for the redevelopment of Treasure Island, including development of a revised land use plan that furthers the project's commitment to creating a model of environmentally sustainable development. In mid-December 2006 the Board of Supervisors endorsed the term sheet for the overall project.

There has been significant progress made on efforts to redevelop Phase 2 of the Hunters Point Shipyard, expanding the development project area to include Candlestick Point. In May, the Redevelopment Agency Commission and the Board of Supervisors endorsed the conceptual framework to guide the City and County of San Francisco, its Redevelopment Agency, and Lennar Communities in planning an integrated, mixed-use project at the Candlestick Point Area of the Bayview Hunters Point and the Hunters Point Shipyard Redevelopment Project Areas The combined project includes a new football stadium for the 49ers, 8,500 housing units, 2.0 million square feet of research and development uses geared toward digital arts, green technology and biotechnology, 500,000 to 700,000 square feet of retail, and 350 acres of open space. In addition, Lennar/BVHP plans to complete mass grading in the third quarter of 2007 at Phase 1 of Hunters Point Shipyard, paving the way for infrastructure construction to begin for the first phase of development on Parcel A. The 75 acre first phase of development is expected to comprise approximately 1,500 housing units, 20,000 square feet of commercial uses, 34 acres of open space and other community amenities. The first finished lots are scheduled to be delivered to homebuilders by fall 2007, with finished units on the first blocks available approximately 12 months later.

**Office Development Activity**
A total of 1.8 million square feet of new office development is under construction, with another 3.2 million square feet entitled, per the San Francisco Business Times. Highlights:

- Two speculative office buildings broke ground in the fourth quarter of 2006: Tishman Speyer's 555 Mission Street (550,000 square feet) and Lowe Enterprises' 500 Terry Francois Boulevard (280,000 square feet) in Mission Bay.

- A new 450,000 square feet laboratory building, being developed by Shorenstein and SKS at 409-499 Illinois Street, is under construction in Mission Bay. FibroGen has a lease on 239,032 square feet of space in the building.

- 400 Howard Street (Foundry Square I) is currently under construction, with the entire 321,500 square feet building pre-leased to Barclays Global Investors. Completion is scheduled for the end of 2007 or early 2008.

- Both Tishman Speyer and Beacon Capital Partners are seeking approval to build "green" office buildings. Tishman-Speyer is proposing to build a 617,000 square feet green office tower at 222 Second Street; Beacon filed an application for a LEED-certified 27-story, 293,800 square feet office building at 535 Mission Street.

**Other Development – Life Sciences**

- Alexandria Real Estate Equities is speeding up its construction schedule and plans to build 2.2 million square feet of its life science complex at Mission Bay by 2011. Alexandria is now completing final construction drawings on four buildings after its success at 1700 Owens. The move comes as a response to robust demand for biotech space. The company has indicated that it is prepared to break ground on all four buildings without anchor tenants firmly in hand, according to the San Francisco Business Times.

- The 175,000 square feet expansion of China Basin Landing at 185 Berry Street is on schedule for a December 2007 completion. The space will be flexible enough to accommodate life sciences and more traditional offices.

**Hotel Development**
The City added 476 rooms in 2005: the 200 room Hotel Vitale in March and the 276 room St. Regis in November. In 2006, 86 rooms were added: the 86-room Orchard Garden Hotel which opened in November 2006. In addition, there are a total of 2,810 hotel rooms are under construction, entitled, or in the planning stage in San Francisco. There are 550 hotel rooms under construction as part of the InterContinental Hotel project, a 32-story building near Moscone West at 888 Howard Street projected to open in February 2008. In addition, another 800 rooms are entitled or planned, including:

- *144 King Street (across from AT&T Park).* Chelsea Development plans to erect a $30 million, 10 story, 132 room boutique hotel across from the AT&T Park.
- *Third and Mission.* Farallon Capital Management controls a parcel, entitled for 500 hotel rooms.
- *Fifth and Townsend*. Hotel SoMa, a 70 room boutique hotel.
- *Presidio – Main Post*. A 100 room lodge is planned for the Anza Esplanade area of the Presidio, a narrow strip of land in the heart of the park. Two Bay Area hotel companies (Joie de Vivre and Larkspur Hospitality) are among three finalists vying to develop the property.

Finally, there are 1,460 rooms in the early planning stages, including:

- *Transbay Terminal*. Part of the Transbay Redevelopment Plan includes a 60 room full service hotel.
- *First and Mission*. Solit Interests Group has proposed a 470 room hotel as part of the up-zoning around the Transbay Terminal. The hotel will be part of a 5 tower project, designed by Renzo Piano, and would also house 600 condos, and 550,000 square feet of office.
- *Pacific Telephone*. Wilson Meany Sullivan reportedly plans to convert this historic office building located at 140 New Montgomery into a high-end 70 to 80 room hotel, with another 100 residences.
- *Treasure Island*. Preliminary plans call for 400 to 500 room hotels in two separate hotel projects.

This summary is a projection only, and the eventual completion of these projects is subject to factors outside the City's control.

**Transportation Facilities**

*San Francisco International Airport*

San Francisco International Airport ("SFO" or the "Airport"), 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 2005 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers and is one of the nation's principal gateways for Pacific traffic. In fiscal 2005-06, the Airport served approximately 33 million passengers and handled 593.6 thousand metric tons of cargo, per ACI's estimates.

During fiscal year 2005-06, 59 airlines served the Airport. Domestic air carriers provided scheduled non-stop and one-stop service to over 90 destinations in the United States. Twenty-six airlines provided nonstop and one-stop scheduled passenger service to over 45 international destinations.

United Airlines operates one of its three major U.S. hubs at SFO. During Fiscal Year 2005-06, United Airlines (including Ted, United's low cost carrier operation and Skywest which operates as United Express) handled approximately 48% of the total enplaned passengers at the Airport and accounted for approximately 23% of the Airport's total revenues. On February 1, 2006, UAL Corp. ("UAL"), the parent company of United Airlines, and numerous of its subsidiaries including United Airlines, emerged from protection under Chapter 11 of the U.S. Bankruptcy Code. United Airlines continues flight operations at the Airport and remains current with its payments to the Airport for rents and landing fees.

The San Francisco Bay Area Rapid Transit District ("BART") extension to the Airport provides a connection between the Airport and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals.

The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and also over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex. The AirTrain stations are located at the north and south sides of the International Terminal, Terminals 1, 2 and 3, at the two short-term International Terminal Complex parking garages, on Lot "D" to serve the rental car facility, and on McDonnell Road to serve the West Field area of the Airport.

Table B-8 presents certain data regarding SFO for the last five fiscal years.

***TABLE B-8***

**SAN FRANCISCO INTERNATIONAL AIRPORT**
**Passenger, Cargo and Mail Data for**
**Fiscal Years ending June 30, 2003 through 2007**

| | **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) |
| 2003 | 29,174,229 | (5.7%) | 517,419 | 89,536 |
| 2004 | 30,771,464 | 5.5 | 472,964 | 79,154 |
| 2005 | 32,648,635 | 6.0 | 512,800 | 74,717 |
| 2006 | 32,987,672 | 1.0 | 524,856 | 68,715 |
| 2007* | 33,855,382 | 2.6 | 511,349 | 58,599 |

* Preliminary
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 administrative 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 has no taxing power.

The Port posted an increase in net assets of $10.3 million for the fiscal year ended June 30, 2006. Operating income totaled $4.2 million for the year.

Port properties generated $58.6 million in operating revenue in fiscal year 2005-06, as shown in the table below.

***TABLE B-9***

**PORT OF SAN FRANCISCO**
**FISCAL YEARS 2005 AND 2006 REVENUES**
**($000s)**

| Business Line | FY 04-05 Audited Revenue | Percentage of 2005 Revenue | FY 05-06 Audited Revenue | Percentage of 2006 Revenue |
|---|---|---|---|---|
| Commercial & Industrial Rent | $ 34,791 | 60.5% | $ 35,803 | 61.1% |
| Parking | 8,600 | 15.0 | 9,122 | 15.6 |
| Cargo | 5,277 | 9.2 | 4,181 | 7.1 |
| Fishing | 1,520 | 2.6 | 1,609 | 2.7 |
| Ship Repair | 1,021 | 1.8 | 1,105 | 1.9 |
| Harbor Services | 997 | 1.7 | 1,003 | 1.7 |
| Cruise | 1,679 | 2.9 | 2,065 | 3.5 |
| Other Maritime | 1,206 | 2.1 | 1,272 | 2.2 |
| Other | 2,428 | 4.2 | 2,428 | 4.1 |
| TOTAL | $ 57,519 | 100.0% | $ 58,588 | 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.

After adoption of the Port Plan, the Port worked with the San Francisco Planning Commission, the Board of Supervisors, and the San Francisco Bay Conservation and Development Commission, to align the waterfront policies for these agencies. Together, these efforts have enabled several large scale waterfront development projects to proceed.

Since 1997, the Port has overseen the successful completion of the following developments: AT&T Park, the home of the San Francisco Giants baseball team; a maritime office development on Pier 1; a renovation of the Port's Ferry Building; the Downtown Ferry Terminal project; a historic rehabilitation of Piers 1½, 3, and 5; and Rincon Park, a two-acre park and public open space located along the Embarcadero Promenade.

Major development projects currently in negotiation and/or construction include a mixed use recreation and historic preservation project at Piers 27-31 and a restaurant development located at the south end of Rincon Park.

The Port is also constructing a $27 million inter-modal bridge to provide direct rail and truck connections between Piers 80 and 94-96 along the Illinois Street right of way located in the Southern Waterfront. Funding for this project is derived from a combination of federal, state, and local grants, a capital contribution from Catellus Corporation, and Port funds.

The following development projects are in various stages of planning: a new cruise terminal development; a new waterfront park known as Brannan Street Wharf, and a 14 acre mixed-use opportunity area located at Pier 70 in the Southern Waterfront.

*Other Transportation Facilities*

The San Francisco Bay is surrounded by the nine counties comprising the Bay Area. Although the Bay itself creates a natural barrier for transportation throughout the region, several bridges, highways and public transportation systems connect the counties. The majority of the transportation modes throughout the Bay utilize San Francisco as a hub, and provide access into the City itself for commuting, entertainment, shopping and other activities. The major transportation facilities connecting the City to the remainder of the region include the Golden Gate and Bay Bridges, the Bay Area Rapid Transit rail line, CalTrain, the Valley Transportation Authority, and the Alameda-Contra Costa, San Mateo, Santa Clara and Golden Gate Transit Districts' bus lines. Public and private companies also provide ferry service across the Bay.

Other transportation services connect the Bay Area to the State, national and global economy. In addition to SFO, the 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 provide the Bay Area's air passengers with service to all major domestic cities and many international cities and are important cargo transportation facilities.

The Port of Oakland is an important cargo and transportation facility for the Bay Area providing 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.

**Education**

The City is served by the San Francisco Unified School District (the "SFUSD"). The SFUSD has a board of seven members who are elected Citywide. Schools within the SFUSD are financed from available property taxes and State, federal and local funds. The SFUSD operates 71 elementary school sites, 15 middle schools, 19 senior high schools, one adult program and 28 State funded preschool sites. The SFUSD currently sponsors 10 independent charter schools.

*Colleges and Universities*

Within the City, the University of San Francisco and California State University, 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 20 public and private colleges and universities. Most notable among them are the University of California, 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

# COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2006

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# CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

**Annual Financial Report**
**Year ended June 30, 2006**

**Prepared by:**
**Office of the Controller**

Edward Harrington

**Edward Harrington**
**Controller**

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# CITY AND COUNTY OF SAN FRANCISCO

## COMPREHENSIVE ANNUAL FINANCIAL REPORT
## YEAR ENDED JUNE 30, 2006

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- Certificate of Award – California Society of Municipal Finance Officers
- City and County of San Francisco Organization Chart
- List of Principal Officials

photo by: SF Convention & Visitors Bureau



December 20, 2006

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
Citizens of the 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 or primary government) for the fiscal year ended June 30, 2006, with the Independent Auditor's Report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

The City is responsible for the accuracy of the data and for the completeness and fairness of its presentation. The existing comprehensive structure of internal accounting controls in the City provides reasonable assurance that the financial statements are free of any material misstatements. I believe that the reported data is accurate in all material respects and that its presentation fairly depicts the City's financial position and changes to its financial position as measured by the financial activity of its various funds. I am confident that the included disclosures provide the reader with an understanding of the City's financial affairs.

The City's Charter requires an annual audit of the Controller's records. The records have been audited by Macias Gini & O'Connell LLP and are presented in this CAFR. The CAFR also incorporates financial statements for San Francisco International Airport (SFO or Airport), the San Francisco Water Department (Water Department), Hetch Hetchy Water and Power (Hetch Hetchy), the Municipal Transportation Agency (MTA), the San Francisco Wastewater Enterprise (Wastewater), the Port of San Francisco (Port), the City of San Francisco Market Corporation (Market Corporation), the City and County of San Francisco Finance Corporation (Finance Corporation), the City and County of San Francisco Health Service System (Health Service System), the San Francisco City and County Employees' Retirement System (Retirement System), and the San Francisco Redevelopment Agency (Redevelopment Agency or Agency).

This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) section of the CAFR. The MD&A provides a narrative overview and analysis of the Basic Financial Statements and is presented after the independent auditor's report.

**The 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 and status of City services.

The Financial Section includes the MD&A, Basic Financial Statements, notes to the Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that report on all City financial operations, including fund financial statements that present information for all City funds. The independent auditor's report on the Basic Financial Statements is also included.

The financial statements of several enterprise activities and of all component units of government are included in this CAFR. Some component units' financial statements are blended with the City's, such as: the San Francisco County Transportation Authority, the Finance Corporation, and the San Francisco Parking Authority. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the Redevelopment Agency and the Treasure Island Development Authority (TIDA), financial reporting is done separately.

The Statistical Section includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting—Statement No. 44. This section may be of special interest to prospective investors in our bonds.

**Profile of San Francisco's Government**

The City and County of San Francisco was established by Charter in 1850 and is the only legal subdivision of the State of California with the governmental powers of both a city and a county. The City's legislative power is exercised through a Board of Supervisors, while its executive power is vested upon a Mayor and other appointed and elected officials. The most prominent services provided by the City include public safety and protection, public transportation, construction and maintenance of all public facilities, water, parks, public health systems, social services and planning. The heads of most of these departments are appointed by the Mayor and advised by commissions and boards appointed by City elected officials.

Elected officials include the Mayor, Members of the Board of Supervisors, Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff, Superior Court Judges, and Treasurer. Since November 2000, the eleven-member Board of Supervisors has been elected through district elections. The eleven district elections are staggered for five and six seats at a time, and held in even-numbered years. Board members serve four-year terms and vacancies are filled by Mayoral appointment.

**San Francisco's Budgetary Process**

The City adopts annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The budget is adopted at the character level of expenditure within each department, and the department level is the legal level of budgetary control. Note 2 (c) to the Basic Financial Statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

**San Francisco's Local Economy**

At 17,000 residents per square mile, San Francisco is the most densely populated forty-seven square miles in the state. The City is a cultural and economic hub for the Bay Area. It is undergoing substantial demographic and socioeconomic changes that represent challenges to and opportunities for its citizens and local government.

San Francisco continued its economic recovery for fiscal year 2005-2006, reaching an estimated gross level of economic activity (Gross City Product) of $56.47 billion.[1] A booming leisure-tourism sector and increased investment and transactions in local real estate markets contributed to this rebound. Tourism helped to improve the City's retail and hospitality sectors, which translated into greater hotel and sales tax revenues for City government. Real estate market investing in office and housing markets continued to further invigorate the construction sector, as well as increase property and transfer tax revenues.

**Population**

The California Department of Finance estimates the City's population in calendar year 2005 at 794,850, which represents a growth of 0.4 percent over the prior year. Population size affects some or our intergovernmental revenues, which in total make up 20 percent of all budgeted sources, or 28 percent of General Fund sources.

The City's population composition is changing, including a declining racial and ethnic diversity. Recent demographic evidence from the U.S. Census' American Community Survey 2005 finds substantial

[1] Source: Controller's Office of Economic Analysis.





numbers of Latinos and African Americans leaving San Francisco since 2000. Population trends can ultimately impact future uses of funds.

**Employment**

Net job creation of 6,300 (a 1.2 percent increase) took place in calendar year 2005. Recent growth reflects more value-added, new-economy jobs in professional services and life science technology, but employment declines in industrial, manufacturing, and information technology sectors. The unemployment rate in the City, which reached a peak of 7.9 percent in July 2002, has continued its decline to 4.6 percent, as of June 2006.[2]

The State of California 2006 metropolitan occupational survey, reports that the average annual wage in the San Francisco Metropolitan area rose by 2.6 percent, from $52,355 in the previous year to $53,727, whereas the median wage increased by 3.7 percent, from $41,190 to $42,703 during the same period.[3]

**Housing Markets and Property Taxes**

Residential property values in San Francisco continued to rise during the current fiscal year. The main reason for this trend is the constrained growth of the supply of housing relative to the increase in purchasing power of buyers. Consequently, transfer tax and property tax revenues increased strongly from the previous fiscal year.

As of June 2006, the median price for an existing home in California was $567,360. San Francisco has a comparable median price of $754,630 for the same period.[4] This represents a 4.1 percent increase over last year's median price for the City. Despite steady construction, including an estimated 2,142 new units in San Francisco during calendar year 2005, supply constraints continue to put upward pressure on prices.[5] Demand outpacing supply contributes to continuing declines in affordability.

In part due to these affordability hurdles and excess demand conditions, 65 percent of the City's residents rent their homes and only 35 percent own. While this proportion of owners and renters is substantially different from the national average of 69 percent owners and 31 percent renters, the City's share of owner and renter-occupied housing is comparable to other densely populated urban centers in the country such as New York City and Chicago.[6]

As of June 2006, the average occupancy rate for market-rate apartments in San Francisco was 96.4 percent, 0.3 percent higher than the same period in 2005. Average rental rates increased slightly in June 2006 to $1,936 per month, compared to $1,834 in the prior year - a 5.6 percent increase.[7]

As of June 2006, the average single family home's assessed valuation in the City stood at $404,000.[8] Average assessed valuations tend to be lower than market prices because of limits on the growth in taxable property values under California's Proposition 13, which provides an incentive to buy and hold property. Property tax revenues of $783 million are the single largest source of General Fund monies accounting for nearly one third of the City's total sources of General Funds. Property tax revenues grew 10.4 percent over 2005.

[2] Source: State of California, Employment Development Department.
[3] Source: State of California, Employment Development Department. Recent county level data not yet reported. The median annual wage represents the level of income at which half of wage earners earned more, and the other half earned less.
[4] Source: California Association of Realtors.
[5] Source: California Association of Realtors.
[6] Source: National Bureau of Economic Research.
[7] Source: Real Facts.
[8] Source: Office of the Assessor, City and County of San Francisco.

On a related note, another major project under way during this fiscal year is the continuing construction at Rincon Hill. When the first of two Rincon Hill towers is finished, in the spring of 2008, it will rise 550 feet, and unit prices are expected to range from $600,000 for a small condo to $2.5 million for a three-bedroom unit at the top.

**Commercial Real Estate**

The performance of the commercial real estate sector is consistent with the economic recovery and increase in professional service jobs in the City. San Francisco's real estate office market continues to show improvement since June 2005, when the vacancy rate was 17.3 percent. The overall vacancy rate was 13.9 percent as of June 2006. This represents absorption of 19.7 percent of available space, or a net increase of 1.75 million square feet of newly rented space.

The average price for office space rose from approximately $28.68 to $33.60 per square foot, per year—a 17.2 percent increase—during the same period.[9] These market rents are still lower than the $65.88 average per square foot peak rents reached in the third quarter of 2000. We expect continued growth in office space occupancy because the City economy is producing jobs requiring the use of high-end office space.

Commercial sales activities contributed significantly to the City's transfer tax revenues which reached a peak of $131.3 million (including both commercial and residential) in fiscal year 2005-2006. While there were fewer major property transactions than in the past fiscal year, the square footage of space transacted was slightly larger than in 2005. In tandem with higher transaction prices per square foot, the net result was an increase in transfer tax revenue from all real estate transactions of 12.4 percent from the previous fiscal year.

On a related note, Westfield's San Francisco Centre's $460 million expansion, anchored by Bloomingdale's, was completed in August 2006. The San Francisco Business Times reports that the new retail mall near Union Square is the largest operating retail center in the Bay Area. It covers 1.5 million square feet of retail space dedicated to shopping, entertainment, personal and retail services, and even a higher education program—San Francisco State University's MBA Program.

**Other Tax Sources**

This fiscal year, payroll tax revenues rose 10.5 percent over the previous fiscal year, to $315.5 million. These increases reflect improved employment and wage growth. Hotel room tax revenues reached $179.5 million, a 13.6 percent increase over the previous fiscal year, reflecting a rebound in tourism.

**Travel and Tourism**

The City's Convention and Visitors Bureau estimates that 15.7 million people visited the City in calendar year 2005 and spent $7.37 billion, a 9.5 percent increase over calendar year 2004. On a related note, PKF Consulting reports that hotel occupancy rates averaged 76.7 percent in fiscal year 2005-2006, a 3.6 percent increase from the prior fiscal year. Additionally, average daily room rates increased 8.3 percent to $160.55, compared to $148.21 in the prior year.

Bookings and attendance for conventions in San Francisco have been strong, which impacts sales tax and hotel tax revenues favorably. According to the San Francisco Convention and Visitors Bureau, 2006 is on track to exceed 2005 room night numbers. Increasing international passenger traffic at SFO is another indication of the continuing growth in tourism and travel. A total of 4.09 million international travelers flew into SFO, a 4.3 percent increase over the last fiscal year. Qantas, Air Canada, Song, Air New Zealand and Independence have either begun or expanded service to more cities from SFO. As of June 2006, a total of 16.5 million passengers arrived at SFO, representing 1.5 percent more passengers

[9] Source: Cushman & Wakefield, Inc.





than the prior fiscal year, and signaling continued recovery in air travel demand to and from San Francisco.

Cruise ship calls to San Francisco have quadrupled since 2004, from 12 to 49, and passengers arriving to the City by cruise ship increased to 137,000 passengers through June 2006. This represents nearly 50,000 more passengers than the same period one year prior. By the end of calendar year 2006, the Port is projecting total passenger volume increases of 14 percent over calendar year 2005 levels.

**Improving Bond Ratings**

The City's fiscal health continued to improve over the last fiscal year. This was reflected favorably through investment grade bond ratings on City municipal debt. Moody's and Fitch Ratings both upgraded their outlooks on general obligation municipal debt issue by the City in 2006 from "stable" to "positive" in 2005. Additionally, Fitch noted our financial management exhibited "spending restraint and conservative budgeting that has resulted in increased year-end reserves."[10] These results translate into lower debt financing costs, of particular importance to planned capital projects. Voter approval must be obtained in the coming years to fund most of the capital projects noted in the 10-Year Plan.

**City Government Initiatives and Updates**

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

**City and County of San Francisco 10-Year Capital Plan**

In May 2006, the City introduced for the first time in its history a 10-Year Capital Plan (the Plan). Total investments of $15.6 billion are planned for the period between fiscal year 2006-2007 and fiscal year 2015-2016. The Plan included detailed expenditures of $3.3 billion toward General Fund items such as health care, criminal justice, streets and right-of-ways, recreation and parks, the arts, fire protection and emergency response. $2.3 billion of these funds would be expended in projects during the first five years. It also calls for $12.3 billion in enterprise department funding, including $7.2 billion for public utilities, $3.6 billion for municipal transportation, $1.1 billion for Airport projects, and $414 million for infrastructure projects at the Port. The Plan was approved by the Board of Supervisors on June 20, 2006.

**San Francisco Redevelopment Agency: Bayview Hunter's Point Redevelopment Plan**

The Bayview Hunters Point Redevelopment Plan calls for 2.4 million square feet of commercial, retail, industrial and residential floor space. It is expected to yield over 5,500 jobs and approximately 3,700 net new dwelling units supported by institutional, utility and transportation networks and by a multitude of mitigation plans and alternatives over the next 30 years. Dramatic zoning and infrastructure changes will soon begin transforming the landscape of the 1,575 acres of redevelopment project area.[11]

The Environmental Impact Report for projects to come in the Bayview Hunter's Point Redevelopment area was completed in February 21, 2006, and approved by the Redevelopment Agency on March 7, 2006. The Board of Supervisors passed an ordinance on June 1, 2006 clearing the way for the Agency to move forward with its redevelopment and rezoning plan.

[10] Mayor's Office of Public Finance and Fitch Ratings, September 2006.
[11] Bayview Hunters Point Redevelopment Project, February 28, 2006.

**Port of San Francisco**

The Port has many ongoing projects in planning and development stages[12]:

- Piers 27-31 Mixed Use Recreation Project,
- Piers 1½ -3-5 Historic Rehabilitation Project,
- Piers 15-17 Exploratorium and Rincon Park Restaurants,
- Bryant Street Piers (Piers 30-32 and Seawall Lot 330) Cruise Terminal and Mixed-Use Development,
- Brannan Street Wharf, Pier 70 Area, and Pier 90 - 94 Backlands.

The Port Authority's 10-Year Capital Plan identified a total of $1.2 billion primarily for deferred maintenance and seismic upgrade work required for Port facilities over the coming decade to finance all of the above improvements. Of that total, they expect $414 million of the funding to come from Port tenants, the Port's operating budget, revenue bonds, development projects and Infrastructure Financing District bonds. The remainder continues to be unfunded and deferred.

**Treasure Island Development Authority**

TIDA has completed various aspects of the proposed redevelopment project for Treasure Island, including plans addressing land use, open space, affordable housing, infrastructure, transportation, community facilities, fiscal impact, phasing and jobs and equal opportunity programs. The proposed project includes 1,800 affordable housing units and 4,200 market-rate dwellings. Total land development costs are estimated at approximately $1.2 billion and the proposed plan has estimated the following sources of funding for capital improvements:

- $498 million in private capital from the Treasure Island Community Development, LLC,
- $361 million in Mello-Roos (tax-exempt) bonds, and
- $338 million in projected tax increment financing.

In May 2006, the Treasure Island Community Development, LLC, the City's venture partner in TIDA, presented to the Land Use and Economic Development Committee of the Board of Supervisors a revised draft of the Treasure Island Transportation Plan. The plan proposes a mix of transportation modes and systems that may mitigate additional traffic congestion from the dramatic increase in the Islands' resident population.

**Third Street Light Rail Project**

The first stage of the Third Street Muni Metro light rail service will extend south from the current terminal at Fourth and King Streets along Third Street and Bayshore Boulevard, ending at the Bayshore CalTrain Station in Visitacion Valley. Track work has been completed in the center of the street to improve the safety and reliability of the service along the 19 stops. This phase of the light rail project is expected to open for service in spring of 2007.

A second, not yet funded, phase of the project would extend light rail service north from King Street along Third Street, entering a new Central Subway near Bryant Street, crossing beneath Market Street and running under Stockton Street to Clay Street. Underground subway stations will be located at Moscone Center, Market Street, Union Square and Clay Street in Chinatown. Muni and the City are actively pursuing funding for the Central Subway.

[12] Source: City and County of San Francisco Capital Plan FY 2007-2016.





**Toward Universal Health Care: Health Care Access Program**

In 2005, approximately 82,000 San Francisco residents lacked health care insurance coverage on any given day. The Department of Public Health is planning a Health Care Access Program to address the problem of the lack of access to health care coverage by residents and workers in San Francisco. The program's initial projected cost approximates $198 million, and its implementation is expected to be phased in fiscal year 2007-2008. Funding for the program will be achieved by reallocating funds from current uses. In addition, employers' contributions to employee health care spending accounts may be instituted to supplement funding of this program.

**San Bruno Jail**

In August 2006, San Francisco opened its newest jail facility in San Bruno. This modern site houses up to 768 inmates in a safer and more humane environment and replaces County Jail #3, a facility built in the 1930's. Certificates of participation with a final maturity of 2033 funded the $137 million project.

**311 Call Center**

The City's goal of developing and deploying an easily accessible, centralized call center for City residents to channel customer service and information requests is soon to be a reality. The 311 Call Center will provide a single point of contact for all non-emergency City services, and allow customers to call one easy-to-remember number to receive information and access City services. When fully implemented, it will be staffed 24 hours a day, 7 days a week. Trained customer service representatives from all City departments will be available to respond to residents' needs for City services. The 311 Call Center will go live in the spring of 2007.

**Affordable Housing and Homeownership Program**

The Affordable Housing and Homeownership Programs were created to provide the City's homeless, seniors, and low- and moderate-income families with affordable dwellings. During the two-year fiscal periods ending 2003 to 2005, a total of 1,277 units were completed. For fiscal year 2005-2006, an additional 240 units were completed. Two ordinances were passed by the Board of Supervisors during fiscal year 2005-2006, expanding and increasing the inclusionary housing affordability program requirements on market-rate development to apply to any development with five or more units, where below-market rate units must comprise at least 15 percent of the units developed onsite, or 20 percent of units developed off-site, or pay an in-lieu fee to otherwise satisfy the requirements. Previously, these thresholds were applicable to developments with ten or more units, where 12 percent of on-site or 17 percent of off-site units had to be priced below-market. These initiatives promise to yield even a greater number of affordable housing units in the coming years.

**Homeless Housing Outreach Efforts**

Project Homeless Connect is a landmark service program that links community volunteers and health and human services and programs with the homeless and indigent. It originated in San Francisco in 2004 and has been so successful that it has been emulated in thirty-two cities across the United States. As of June 2006, 18,107 volunteers have provided services to more than 12,000 homeless clients. The main goal of this program is to transition the City's homeless off the streets and into permanent, supportive housing.

**San Francisco Connect**

Project Homeless Connect has evolved and led to the formation of San Francisco Connect. This diverse partnership of agencies with different goals have come together to serve not just the needs of the homeless and the indigent, but also support services for City residents at large, and for youth and families. As of August 2006, a dozen San Francisco Connect events have taken place in which corporate and community volunteers have provided goods and services to over 24,000 persons. One example is Project Green Connect, where volunteers can improve neighborhood parks, street gardens and other public spaces.

**Disaster Preparedness**

Over the past year, the City has increased its emergency planning and preparedness activities by expanding the size and role of the City's Disaster Council, developing a Bay Area Regional Preparedness Plan, and implementing the San Francisco's new Emergency Notification Plan, known as SF Alert. Under the expanded Council, the City's leaders in emergency preparedness met together to manage the City's Homeland Security grants, update the City's emergency planning documents, and participate in training exercises. Over the past year, the City has managed Homeland Security grants totaling $85.6 million, of which $20.8 was received in fiscal year 2005-2006 to fund planning, training, equipment, and disaster recovery activities. The City has updated its emergency operations plan and continues to conduct simulations and exercises for its emergency workers to prepare for natural and manmade disasters. Comprehensive and redundant back-up systems are being developed to secure financial data so that checks can be issued to City employees and vendors. City staff is trained to abide by federal emergency reimbursement guidelines to ensure damage is assessed accurately, costs are quantified, and reimbursement claims are filed. Alternate operation centers are established in the event City offices become inaccessible.

The Bay Area Regional Response Plan has been developed, under the leadership of the San Francisco Office of Emergency Services. The new plan includes ten Bay Area counties and the cities of Oakland, San Francisco and San Jose. The plan enables the region to effectively respond to a major disaster, comply with the national requirements for incident command structures, integrate communications, information sharing, transportation, regional care and shelter, and coordinate fire and search and rescue efforts.

San Francisco's new emergency notification system enables the City's first response command staff to be alerted and assembled within minutes of a disaster. Also, it delivers a consistent message to all pertinent staff within minutes, and reduces the need for manual notification.

**San Francisco General Hospital Medical Center**

San Francisco General Hospital Medical Center, like all acute care hospitals in California, is required under state law to make the hospital seismically safe or face closure after 2013. In fiscal year 2005-2006, the City funded a $1.1 million environmental impact report and began to conduct a feasibility study to rebuild the hospital. The City has budgeted $12 million in fiscal year 2006-2007 towards pre-development costs to more accurately project costs for the new hospital to be able to fully inform voters who will need to approve the bonds necessary to complete the project. A general obligation bond will be needed to fund construction.

**Laguna Honda Hospital**

In fiscal year 2005-2006, the replacement of Laguna Honda Hospital began. There are five buildings that will be affected and completion of the buildings is expected between July 2008 through September 2009. Residents are expected to move into the Link and South buildings in November 2008.

**Awards**

**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 Finance Report (CAFR) for the fiscal year ended June 30, 2005. This was the twenty-fourth consecutive year (fiscal years ended June 30, 1982 – 2005) 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.

The City also received the Award for Outstanding Financial Reporting, issued by the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 2005. The award was issued in recognition of the City meeting the professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the report was prepared.

**Acknowledgements**

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 Macias Gini & O'Connell LLP for their invaluable professional support during the audit. 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

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

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# 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, 2005

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.

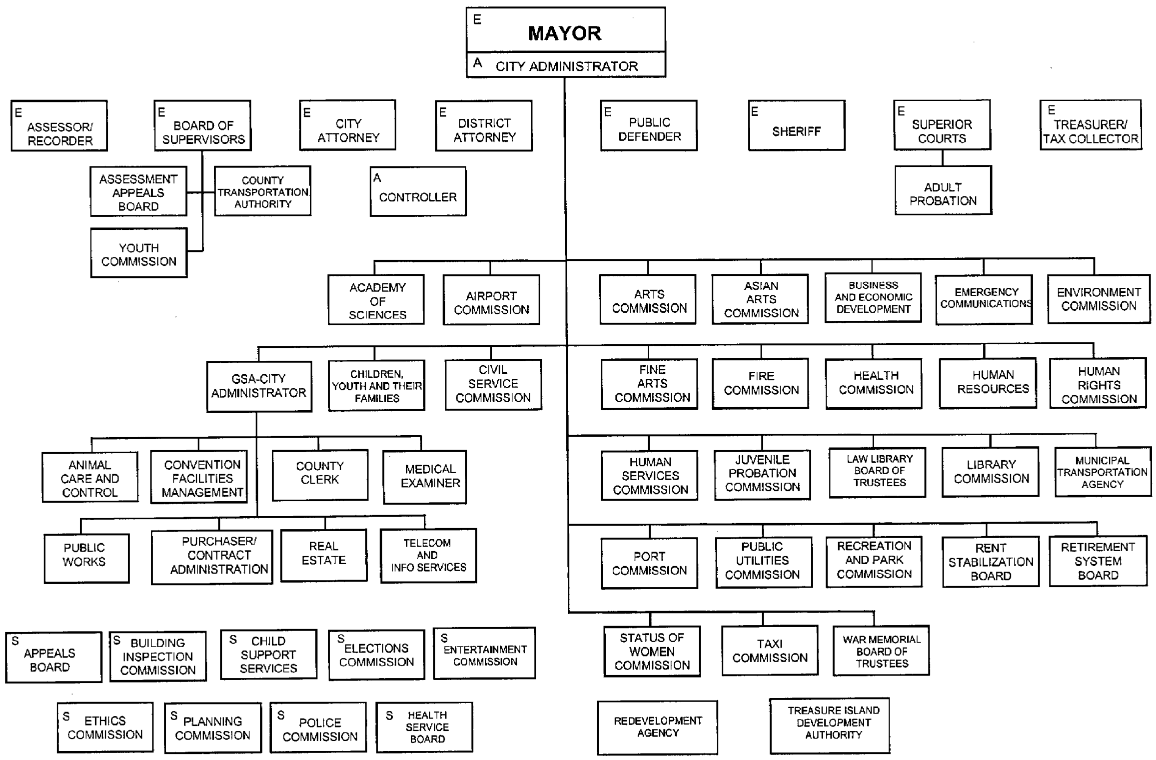
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

# City and County of San Francisco Organization Chart

(As of June 30, 2006)




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



# California Society of Municipal Finance Officers

**Certificate of Award**

***Outstanding Financial Reporting 2004-05***

**Presented to the**

## City of San Francisco

***This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.***

***February 24, 2006***

**Bill Thomas, Chair**
**Professional & Technical Standards Committee**

***Dedicated to Excellence in Municipal Financial Management***

## List of Principal Officials
**As of June 30, 2006**

### ELECTED OFFICIALS

| | |
|---|---|
| Mayor | Gavin Newsom |
| Board of Supervisors: | |
| President | Aaron Peskin |
| Supervisor | Michela Alioto-Pier |
| Supervisor | Tom Ammiano |
| Supervisor | Chris Daly |
| Supervisor | Bevan Dufty |
| Supervisor | Sean Elsbernd |
| Supervisor | Fiona Ma |
| Supervisor | Sophie Maxwell |
| Supervisor | Jake McGoldrick |
| Supervisor | Ross Mirkarimi |
| Supervisor | Gerardo Sandoval |
| Assessor-Recorder | Phil Ting |
| City Attorney | Dennis J. Herrera |
| District Attorney | Kamala D. Harris |
| Public Defender | Jeff Adachi |
| Sheriff | Michael Hennessey |
| Superior Courts | |
| Presiding Judge | Robert L. Dondero |
| Treasurer | José Cisneros |

### APPOINTED OFFICIALS

| | |
|---|---|
| City Administrator | Edwin M. Lee |
| Controller | Edward Harrington |

### DEPARTMENT DIRECTORS/ADMINISTRATORS

| | |
|---|---|
| Administrative Services | Darryl M. Burton |
| Animal Care and Control | Carl Friedman |
| Consumer Assurance | David Frieders |
| Convention Facilities Management | John Noguchi |
| County Clerk | Nancy Alfaro |
| Chief Medical Examiner | Amy P. Hart, M.D. |
| Purchaser – Office of Contract Administration | Naomi Kelly |
| Real Estate | Amy Brown |
| Academy of Sciences | J. Patrick Kociolek, Ph.D. |
| Adult Probation | Arturo Faro (Acting) |
| Aging and Adult Services | Anne Hinton |
| Airports Commission | John L. Martin |
| Appeals Board | Robert H. Feldman |





### DEPARTMENT DIRECTORS/ADMINSTRATORS *(Continued)*

| | |
|---|---|
| Arts Commission | Richard Newirth |
| Asian Arts Commission | Emily J. Sano |
| Building Inspection Commission | Amy Lee (Acting) |
| Board of Supervisors | Gloria L. Young |
| Assessment Appeals Board | Dawn Duran |
| County Transportation Authority | José Luis Moscovich |
| Child Support Services | Karen M. Roye |
| Children, Youth and Their Families | Margaret Brodkin |
| Civil Service Commission | Kate Favetti |
| Economic and Workforce Development | Jesse Blout |
| Elections Commission | John Arntz |
| Emergency Communications | Pamela Katz (Acting) |
| Ethics Commission | John St. Croix |
| Environment Commission | Jared Blumenfeld |
| Fine Arts Commission | John E. Buchanan, Jr. |
| Fire Commission | Joanne Hayes-White |
| Health Commission | Mitchell H. Katz, M.D. |
| Human Resources | Philip A. Ginsburg |
| Human Rights Commission | Virginia Harmon |
| Human Services Commission | Trent Rohrer |
| Juvenile Probation Commission | William Siffermann |
| Law Library Board of Trustees | Marcia Bell |
| Library Commission | Luis Herrera |
| Municipal Transportation Agency | Nathaniel P. Ford, Sr. |
| Planning Commission | Dean Macris (Acting) |
| Police Commission | Heather Fong |
| Port Commission | Monique Moyer |
| Public Utilities Commission | Susan Leal |
| Public Works | Fred V. Abadi, Ph.D. |
| Recreation and Park Commission | Yomi Agunbiade |
| Rent Stabilization Board | Delene Wolf |
| Retirement System Board | Clare M. Murphy |
| Status of Women Commission | Emily Murase |
| Superior Court | Gordon Park-Li |
| Taxi Commission | Heidi Machen |
| Telecommunications and Information Services | Chris Vein |
| War Memorial Board of Trustees | Elizabeth Murray |

### DISCRETELY PRESENTED COMPONENT UNITS

| | |
|---|---|
| Redevelopment Agency | Marcia Rosen |
| Treasure Island Development Authority | Joanne Sakai (Acting) |

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# Financial Section

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

photo by: SF Convention & Visitors Bureau

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco

## Independent Auditor's Report

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, 2006, which collectively comprise 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. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Wastewater Enterprise, Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues as of and for the year ended June 30, 2006:

| Opinion Unit | Assets | Net Assets/ Fund Balances | Revenues |
|---|---|---|---|
| Governmental activities | 1% | 11% | 0% |
| Business-type activities | 96% | 95% | 70% |
| Discretely presented component units | 100% | 97% | 94% |
| Municipal Transportation Agency enterprise fund | 97% | 100% | 93% |
| Aggregate remaining fund information | 89% | 91% | 42% |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2005 basic financial statements and, in our report dated December 29, 2005, we expressed unqualified opinions, based on our audit and the reports of other auditors, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of other auditors provide a reasonable basis for our opinions.



In our opinion, based on our audit and the reports of other auditors, 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 the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2005, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents 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 and the other auditors 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 and the other auditors 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 fund financial statements and schedules and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.

Macias Gini & O'Connell LLP
Certified Public Accountants
Walnut Creek, California

December 20, 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2004-2005 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2005-2006 basic financial statements.

## FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately $6.21 billion (net assets). Of this amount, $464.6 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased by $438.5 million or 7.6 percent, during fiscal year 2005-2006, more than doubling the $148.8 million increase at the end of the prior fiscal year. This year's growth is due to primarily to an 11.5 percent rise in total revenues while overall expenses grew slightly less than 7.2 percent.

- Net assets for the City's governmental activities increased by $293.5 million, or 19.6 percent, at the end of fiscal year 2005-2006, continuing the trend of the prior fiscal year when governmental activities net assets increased by $194.3 million.

- At June 30, 2006, the City's total ending fund balance for governmental funds increased by $247.3 million, or 23.2 percent, to approximately $1.32 billion. Within this total, $190.2 million, 8.0 percent more than last fiscal year, is unreserved and available for spending at the government's discretion within the purposes specified for the City's funds. This improvement was consistent with the City's improved economy and supported by significant increases in revenues including: property, business and other local taxes, interest and investment income, state grants, and charges for services.

- The City's General Fund had an unreserved fund balance of $139.0 million at the end of fiscal year 2005-2006, a $4.8 million increase over the previous fiscal year, and the total fund balance was $461.3 million, a 50.0 percent increase over the previous fiscal year. This growth was primarily due to increasing revenue related to property taxes, business taxes, other local taxes, state and federal grants, and charges for service, coupled with only a 1.2 percent increase in expenditures this year. Due to the strong revenue growth, the City increased the General Fund's "rainy day" reserves by $73.8 million, to a total of $122.0 million as of June 30, 2006.

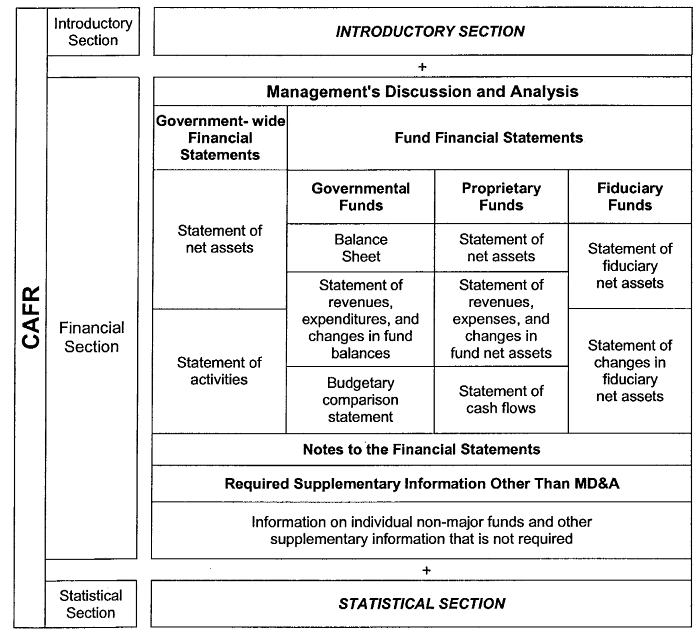
- The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by $473 million during fiscal year 2005-2006. This included issuance of general obligation bonds for the following capital improvement projects: $79.4 million for the Academy of Sciences, $29.2 for Steinhart Aquarium, $34.0 million for Branch Libraries, $7.5 million for the Zoo, and $69.0 million towards the re-building of the Laguna Honda Hospital. The City also issued $507.8 million in revenue bonds to improve and re-build the City's water system and retire commercial paper outstanding. In addition, this year the San Francisco International Airport and the San Francisco Water Department issued $467.0 million and $110.1 million, respectively, in revenue refunding bonds.



## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

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



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 Statements | 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 accounting and current financial resources 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 | All assets and liabilities, both financial and capital, short-term and long-term | All assets held in a trustee or agency capacity for others |
| **Type of inflow and outflow information** | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public works, transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general City responsibilities. The business-type activities of the City include an airport, port, public transportation systems (including parking), water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and a produce market.



The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, the San Francisco Redevelopment Agency, and a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority and San Francisco Finance Corporation. Included within the business-type activities of the government-wide financial statements is the operation of the San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

**Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts that 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 (SFO or Airport), Port of San Francisco (Port), San Francisco Water Department (Water Department), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency (MTA), Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the San Francisco Wastewater Enterprise (Wastewater), all of which are considered to be major funds of the City.

- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

## Notes to the Basic Financial Statements

The notes to the basic 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 and Schedules

The combining statements and schedules 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.





### Net Assets
### June 30, 2006 (in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| **Assets:** | | | | | | |
| Current and other assets | $ 2,073,433 | $ 1,942,426 | $ 2,162,036 | $ 1,757,114 | $ 4,235,469 | $ 3,699,540 |
| Capital assets | 2,674,862 | 2,371,726 | 8,529,054 | 8,417,813 | 11,203,916 | 10,789,539 |
| Total assets | 4,748,295 | 4,314,152 | 10,691,090 | 10,174,927 | 15,439,385 | 14,489,079 |
| **Liabilities:** | | | | | | |
| Long-term liabilities outstanding | 2,138,652 | 2,017,494 | 5,701,283 | 5,319,853 | 7,839,935 | 7,337,347 |
| Other liabilities | 815,025 | 795,576 | 577,374 | 587,595 | 1,392,399 | 1,383,171 |
| Total liabilities | 2,953,677 | 2,813,070 | 6,278,657 | 5,907,448 | 9,232,334 | 8,720,518 |
| **Net assets:** | | | | | | |
| Invested in capital assets, net of related debt | 1,438,010 | 1,159,696 | 3,438,397 | 3,391,450 | 4,876,407 | 4,551,146 |
| Restricted | 428,646 | 541,853 | 437,366 | 429,990 | 866,012 | 971,843 |
| Unrestricted (deficit) | (72,038) | (200,467) | 536,670 | 446,039 | 464,632 | 245,572 |
| Total net assets | $ 1,794,618 | $ 1,501,082 | $ 4,412,433 | $ 4,267,479 | $ 6,207,051 | $ 5,768,561 |

## Analysis of Net Assets

Net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $6.2 billion at the close of the fiscal year 2005-2006.

The largest portion of the City's net assets reflects its $4.9 billion (79 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. This percentage is substantially the same as in the prior two fiscal years. The City uses capital assets to provide services to citizens; consequently, they 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 to pay these liabilities.

Another portion of the City's net assets, $866.0 million (14 percent) represents resources that are subject to external restrictions as to how they may be used. The remaining balance, unrestricted net assets, $464.6 million (7 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these categories of net assets totaled 21 percent in fiscal year 2005-2006, essentially equivalent to the prior year's percentage.

At the end of the fiscal year 2005-2006, the City had 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 $72.0 million related in part to $125 million in debt from general obligation bonds for the San Francisco Unified School District and San Francisco Community College District, which are recorded with no corresponding assets.

## Changes in Net Assets
## Year Ended June 30, 2006 (in thousands)

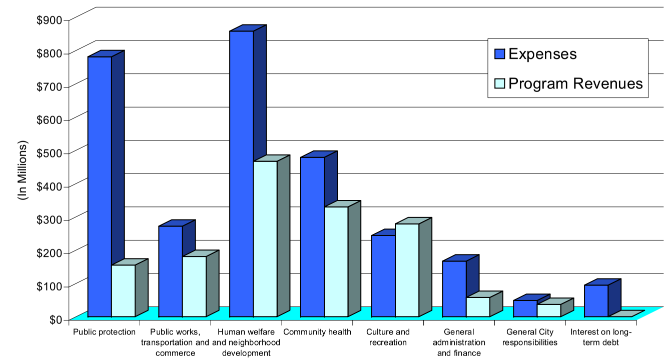
| | Governmental activities 2006 | Governmental activities 2005 | Business-type activities 2006 | Business-type activities 2005 | Total 2006 | Total 2005 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 399,265 | $ 351,029 | $ 1,714,488 | $ 1,683,830 | $ 2,113,753 | $ 2,034,859 |
| Operating grants and contributions | 859,919 | 834,607 | 188,672 | 180,807 | 1,048,591 | 1,015,414 |
| Capital grants and contributions | 248,329 | 55,435 | 110,403 | 93,724 | 358,732 | 149,159 |
| General revenues: | | | | | | |
| Property taxes | 1,016,220 | 920,314 | - | - | 1,016,220 | 920,314 |
| Business taxes | 323,153 | 292,763 | - | - | 323,153 | 292,763 |
| Other local taxes | 595,664 | 538,085 | - | - | 595,664 | 538,085 |
| Interest and investment income | 71,129 | 29,490 | 53,161 | 33,268 | 124,290 | 62,758 |
| Other | 56,022 | 47,153 | 272,873 | 237,102 | 328,895 | 284,255 |
| Total revenues | 3,569,701 | 3,068,876 | 2,339,597 | 2,228,731 | 5,909,298 | 5,297,607 |
| **Expenses** | | | | | | |
| Public protection | 780,642 | 738,688 | - | - | 780,642 | 738,688 |
| Public works, transportation and commerce | 272,397 | 213,335 | - | - | 272,397 | 213,335 |
| Human welfare and neighborhood development | 858,396 | 619,753 | - | - | 858,396 | 619,753 |
| Community health | 478,844 | 503,259 | - | - | 478,844 | 503,259 |
| Culture and recreation | 244,423 | 256,336 | - | - | 244,423 | 256,336 |
| General administration and finance | 167,490 | 152,850 | - | - | 167,490 | 152,850 |
| General City responsibilities | 49,054 | 59,024 | - | - | 49,054 | 59,024 |
| Unallocated Interest on long-term debt | 94,923 | 89,690 | - | - | 94,923 | 89,690 |
| Airport | - | - | 633,102 | 628,445 | 633,102 | 628,445 |
| Transportation | - | - | 695,593 | 711,733 | 695,593 | 711,733 |
| Port | - | - | 55,329 | 54,897 | 55,329 | 54,897 |
| Water | - | - | 213,584 | 197,848 | 213,584 | 197,848 |
| Power | - | - | 119,146 | 116,683 | 119,146 | 116,683 |
| Hospitals | - | - | 646,149 | 598,160 | 646,149 | 598,160 |
| Sewer | - | - | 160,701 | 160,650 | 160,701 | 160,650 |
| Market | - | - | 1,035 | 1,055 | 1,035 | 1,055 |
| Total expenses | 2,946,169 | 2,632,935 | 2,524,639 | 2,469,471 | 5,470,808 | 5,102,406 |
| Increase/(decrease) in net assets before special items and transfers | 623,532 | 435,941 | (185,042) | (240,740) | 438,490 | 195,201 |
| Special items | - | - | - | (46,358) | - | (46,358) |
| Transfers | (329,996) | (241,600) | 329,996 | 241,600 | - | - |
| Change in net assets | 293,536 | 194,341 | 144,954 | (45,498) | 438,490 | 148,843 |
| Net assets at beginning of year | 1,501,082 | 1,306,741 | 4,267,479 | 4,312,977 | 5,768,561 | 5,619,718 |
| Net assets at end of year | $ 1,794,618 | $ 1,501,082 | $ 4,412,433 | $ 4,267,479 | $ 6,207,051 | $ 5,768,561 |

### Analysis of Changes in Net Assets

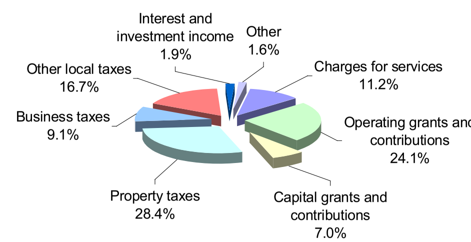
The City's net assets overall increased by $438.5 million during fiscal year 2005-2006, compared to a $148.8 million increase last fiscal year. The governmental activities component of this change was a $293.5 million increase, a significant improvement from the prior year's increase of $194.3 million. The City's business-type activities' increase of $145.0 million was a $190.5 million improvement from the prior year's decrease of $45.5 million. This significant increase was due largely to positive net asset growth at the Airport, MTA, Hetch Hetchy, Wastewater, and Laguna Honda Hospital. A discussion of the changes in both governmental and business-type activities is presented on the following pages.



**Expenses and Program Revenues - Governmental Activities**




**Revenues By Source - Governmental Activities**




**Governmental activities.** Governmental activities increased the City's total net assets by $293.5 million during fiscal year 2005-2006, compared to a $194.3 million during fiscal year 2004-2005. Key factors contributing to this year's increase are as follows:

- Overall, governmental activities' revenue increased by approximately $500.8 million, expenses increased by $313.2 million, and net transfers increased by $88.4 million. This resulted in a net asset increase of $293.5 million for governmental activities at the end of fiscal year 2005-2006. The capital contribution for the City's new de Young Museum accounted for slightly more than $202 million of the revenue increase. This amount was almost offset by recognition of an increase of $218 million in loan allowances due to a change in accounting policy for the City's Low Income Housing program. Combined, the reporting of these two reporting events resulted in only a slight change in net assets in governmental activities.

- Property tax revenue increased significantly by $95.9 million or 10.4 percent during this fiscal year. Most of this growth, $73.3 million, stems from increasing assessment values and lower assessment appeals activity in an improving real estate market. Much of the remaining increase, $17.6 million, is related to State revenue shifts to local governments. For the City, this increase to property tax revenue had corresponding reductions to sales tax revenue ($10.2 million) and Vehicle License Fee revenue ($7.4 million). The remaining $5.0 million in growth represents taxes for voter-approved General Obligation debt.

- Business tax revenue increased $30.4 million or 10.4 percent, due largely to wage growth as well as moderate employment growth. San Francisco had 6,300 more jobs in calendar year 2005 as compared to calendar year 2004, representing an annual growth in jobs of 1.2 percent.

- Revenues from other local taxes, which includes real property transfer tax, hotel, sales, utility users and parking tax, had growth of $57.6 million or 10.7 percent. The economic recovery brought increased hotel occupancy and average daily room rates in the City, increased transfer tax revenues associated with increased property sales activity, improved sales and utility user tax collections as well as increased parking tax collections due to parking rate increases and economic recovery. The largest components of growth were hotel tax (up $21.6 million or 13.6 percent), real property transfer tax (up $14.5 million or 12.4 percent), local sales tax (up $8.4 million or 8.9 percent), utility user tax (up $3.9 million or 5.3 percent), and parking tax (up $3.1 million or 9.3 percent).

- Interest and investment income improved by about $41.6 million, or 141 percent, during the year primarily due to higher interest rates and average daily cash balances during the fiscal year. The earned yield on City pooled investments increased from 2.3 percent to 4.2 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with increasing interest rates from the Federal Reserve. At the fiscal year end, deposits and investments for governmental activities with the City Treasury were $1,511.9 million, a 22.0 percent increase over the previous year.

- The Capital contributions revenue significant increase of $192.9 million is primarily due to recognition of the City's newly rebuilt de Young Museum ($202.0 million less a decrease in capital grants of $9.1 million). This premier art museum opened early in 2005-2006 and was constructed with private funding through an independent non-profit corporation. The decrease of $9.1 million is largely due to decreases in federal grants for public protection, including homeland security funds.

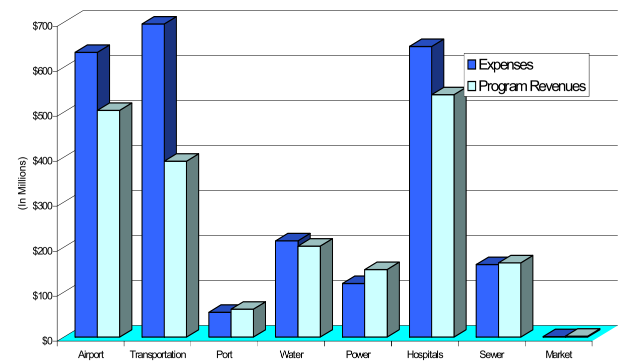
- In 2005-2006 there was also a change in accounting policy regarding the reporting of long-term loan debt allowance expense for the City's Low Income Housing Program. The resulting increase in the allowance was $218 million and is included in human welfare and neighborhood development expenses. This amount almost offsets the increase in capital contributions, noted above.

- Net transfers to business-type activities were $330.0 million in fiscal year 2005-2006, a net $88.4 million increase from the end of fiscal year 2004-2005. These transfers included a net increase of $52.3 to Laguna Honda Hospital related to support for re-construction of the hospital, a $65.6 million net increase to San Francisco General Hospital Medical Center related to the restructuring of local match requirements for State health funding, a decrease of $20.5 million to MTA resulting from a decrease in funding for transportation projects, a net decrease of $6.4 million in Airport transfers, and a $2.6 million dollar decrease in other transfers.

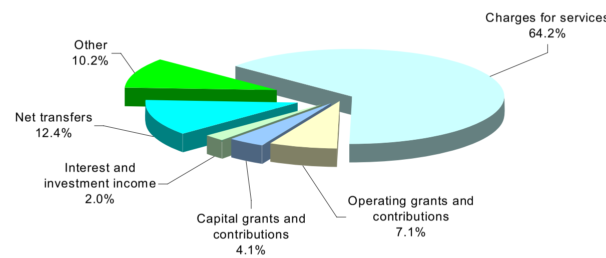


The charts shown previously illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, human welfare and neighborhood development is the largest function in expense (29.1 percent), followed by public protection (26.5 percent), and community health (16.3 percent). General revenues such as property, business, and sales taxes are not shown by program, but are used to support program activities citywide. For governmental activities, property taxes were the largest single source of funds (28.4 percent) in fiscal year 2005-2006, as compared to 30.0 percent in fiscal year 2004-2005. In addition, operating grants and contributions were the second largest source of funds (24.1 percent) in fiscal year 2005-2006 down from 27.3 percent in fiscal year 2004-2005. The ratios for other revenue categories shifted only slightly since the prior fiscal year and were as follows for fiscal year 2005-2006; business taxes (9.1 percent), other local taxes (16.7 percent), and charges for services (11.2 percent). The slight decrease in some ratios is partly due to the increase in capital contributions this year which was previously discussed.

**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 $145.0 million. A significant increase from the prior year decrease of $45.5 million. Key factors of this improvement are:

- The Municipal Transportation Agency (MTA) had net assets of $1.8 billion at June 30, 2006, an increase of approximately $53.0 million over the prior fiscal year. The total net assets include $1.76 billion (98 percent) for MUNI, the City's municipal railway. The remainder represents the combined net assets of the Department of Parking and Traffic and the Parking Authority. Between the end of fiscal year 2004-2005 and 2005-2006, MUNI's net assets increased by approximately $40.8 million, primarily due to continued work on the Third Street Light Rail Line, a major expansion project for the MUNI funded by federal, state and local capital contributions. MUNI's total operating revenues of $141 million were $13.7 million higher for fiscal year 2005-2006 over the prior year. Non-operating revenues increased about 8.8 percent, or $20.1 million, to $249.8 during this same period. This increase was primarily due to increases in parking fines revenues and state operating grants. The City's General Fund subsidy to the MTA for 2005-2006 totaled $161.8 million including $118.4 to MUNI and $43.4 million for the Department of Parking and Traffic, slightly more than the fiscal 2004-2005 amounts of $101.7 million and $36.1 million, respectively.

- Laguna Honda Hospital, the City's long term care hospital, had an increase to net assets of $68.2 million. This increase included $49.6 million in transfers from the non-major governmental funds which account for the Laguna Honda Hospital General Obligation Bond proceeds and capital project activity. In addition, the hospital received a $39.9 million transfer from the City's General Fund and $1.2 million from the San Francisco General Hospital Medical Center. This $90.7 million of inflow was offset by approximately $22.5 million in operating and non-operating losses, compared to last year's loss of $20.7 million.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by 11.2 percent or $41.6 million for fiscal year 2005-2006. Approximately $29.0 million of this increase is seen in increases to cash deposits and $9.0 million in current receivables. The latter includes a $4.8 million increase in a settlement receivable from litigation with Pacific Gas & Electric. Hetch Hetchy's net asset increase for fiscal year 2005-2006 was approximately $19.1 million more than the $22.5 million increase for fiscal year 2004-2005. Power sales increased $18.0 million to $139.6 during the current fiscal year and other operating revenues increased by $4.0 million to $7.7 million. For the current year, there was a small increase in total expenses, $2.4 million, due primarily to general administrative costs.

- The Water Department's net assets were $433.1 million at the end of fiscal year 2005-2006, essentially equal to the prior fiscal year. Since 2003, the department has been working on a massive capital project to rebuild the water system, a multi-billion dollar, ten-year program approved by the voters in November 2002. Related to this work, the Water Department's total assets and total liabilities each increased by about $429.2 million at the end of this fiscal year. These increases were due mostly to cash proceeds from revenue bond sales and the associated liability. Operationally, the department saw an improvement of approximately $6.5 million at the end of fiscal year 2005-2006 compared to the prior fiscal year. This effectively offset a decrease to net assets by the same amount at the end fiscal year 2004-2005. A $15.7 million increase in revenue from water sales, primarily to retail customers, contributed to this positive change. There was also a $6.6 million increase in interest and investment income due largely to higher average daily balances and increasing interest rates. On the expense side, operating expenses increased by $10.5 million and interest expense rose by $5.3 million, a 24.6% increase due to interest expense on bonds payable.



- The Airport's net assets decreased by $42.7 million, or 11.9 percent, at the end of fiscal year 2005-2006. Operating revenues decreased by a total of $22.0 million due primarily to a $39.6 million decline in aviation revenues offset by a $17.6 million increase in parking, transportation, concession, and rental revenues which included the reinstatement of the duty free minimum rent agreements. The Airport's operating expenses rose close to $13.8 million. This change included increases in personnel and contractual services ($16 million), repairs and maintenance and environmental cleanup ($3 million), offset by a decrease in repairs and maintenance costs ($5 million). The transfer from the Airport to the City's General Fund was $21.5 million for fiscal year 2005-2006, an increase of $1.8 million increase over 2004-2005.

As shown in the previous charts, the two largest of San Francisco's business-type activities - the San Francisco International Airport and the Municipal Transportation Agency each had total expenses over $600 million in fiscal year 2005-2006. The City's long-term and acute care hospitals together also had total expenses of $646 million. Together, these four enterprises make up over 78 percent of the total expenses for business-type activities. As in prior years, charges for services provided the largest share of revenues, 64.2 percent, for business-type activities.

## 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 fund statements 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 approximately $1.32 billion, an increase of $247.3 million over the end of the prior year. The increase is due to revenue sources increasing at a faster rate than expenditures, consistent with the City's improving economy.

A total of $190.2 million of the fund balance in the governmental funds constitutes unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, an indication that it is not available for new spending because it has already been committed. These commitments include support for: (1) a General Fund "rainy day" reserve ($122.0 million), (2) encumbrances for existing contracts and purchase orders ($461.3 million), (3) funds continued for programs or projects in future fiscal years ($453.8 million), (3) pay debt service ($57.4 million), and (4) for a limited number of other purposes ($30.9 million).

The General Fund is the chief operating fund of the City and had an unreserved fund balance of $139.0 million at the end of fiscal year 2005-2006, a $4.8 million increase over the fiscal year 2004-2005 unreserved fund balance of $134.2 million. The General Fund's total fund balance was $461.3 for fiscal year 2005-2006, a 50 percent improvement over the prior year balance of $307.7 million. This increase was mainly due to a general increase in revenues from property, business, other local taxes and charges for services, coupled with only a moderate increase in expenditures. Overall for the fiscal year ended June 30, 2006, the General Fund's revenues exceeding expenditures by $506.0 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 fiscal year 2005-2006, the unreserved fund balance of $139.0 million represents 7.1 percent of total General Fund expenditures of $1.97 billion, and the total fund balance represents approximately 23.4 percent of that amount. For the prior fiscal year, 2004-2005, the General Fund's unreserved fund balance of $134.2 million was 6.9 percent of the total expenditures of $1.94 billion, and the total fund balance represented approximately 15.8 percent of expenditures.

### Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the business-activities section of the government-wide financial statements, but in more detail.

At the end of fiscal year 2005-2006, the unrestricted net assets for the Airport were $280.2 million, the Water Department 78.2 million, Hetch Hetchy $142.0 million, Wastewater $58.2 million, the Port $34.5 million, San Francisco General Hospital Medical Center $0.8 million, and the San Francisco Market Corporation $3.1 million. Two proprietary funds had a deficit in unrestricted net assets: the Municipal Transportation Agency had a deficit of $44.8 million; and Laguna Honda Hospital $15.7



million. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $5.5 million.

The total increase in net assets for the enterprise funds was $145.0 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Airport's decrease in net assets is partly related to its major capital assets being depreciated faster than the repayment of its bonded debt.

The following table shows actual revenues, expenses and results of operations (excluding capital contributions and expenses) for the current fiscal year in the City's proprietary funds (in thousands):

| | Operating Revenues | Operating Expenses | Operating Income (Loss) | Non-Operating Revenues (Expense) | Capital Contributions Special Items, and Others | Interfund Transfers | Change In Net Assets |
|---|---|---|---|---|---|---|---|
| Airport | $ 455,342 | $ 432,811 | $ 22,531 | $ (92,234) | $ 48,544 | $ (21,513) | (42,672) |
| Water | 201,833 | 186,934 | 14,899 | (14,250) | - | (602) | 47 |
| Hetch Hetchy | 149,500 | 119,146 | 30,354 | 11,299 | - | - | 41,653 |
| Municipal Transportation Agency | 210,692 | 691,100 | (480,408) | 275,138 | 58,399 | 199,850 | 52,979 |
| General Hospital | 341,035 | 473,991 | (132,956) | 73,973 | - | 61,551 | 2,568 |
| Wastewater Enterprise | 164,703 | 140,954 | 23,749 | (12,439) | - | - | 11,310 |
| Port | 58,588 | 54,429 | 4,159 | 2,726 | 3,460 | - | 10,345 |
| Laguna Honda Hospital | 131,292 | 170,035 | (38,743) | 16,215 | - | 90,710 | 68,182 |
| Market Corporation | 1,503 | 1,035 | 468 | 74 | - | - | 542 |
| Total | $ 1,714,488 | $ 2,270,435 | $ (555,947) | $ 260,502 | $ 110,403 | $ 329,996 | $ 144,954 |

### 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 2005-2006, the net assets of the Retirement System and Health Service System totaled $14.54 billion, representing an increase of $1.36 billion in total net assets since June 30, 2005. This 10.3 percent increase is primarily due to a third year of improved performance of the Retirement Trust's investments. The Investment Trust Fund's net assets totaled $547.4 million, an increase in net assets of $227.0 million or 70.8 percent since June 30, 2005 due to the increase in additions over withdrawals and distributions to external participants of 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 2005-2006, the City approved $64.0 million in General Fund supplemental appropriations for various departments primarily for capital projects including affordable housing, street resurfacing and recreation facilities.

During the year, actual revenues and other resources were $133.0 million more than budgeted. While the City realized $208.2 million more revenue than budgeted for property taxes, business taxes, other local taxes, franchises, interest and investment income, these increases were partially offset by $50.9 million less in transfer funding primarily related to the State's restructuring of public health funding for indigent care along with other key variances of, $11.1 million less in federal and $9.2 million in state subvention revenues (though these shortfalls were more than offset by savings in social service costs), $7.9 million less in general government service charges due to lower internal service cost recoveries, and $5.4 million less in other revenues due to postponed property sales. All budgetary revenue is shown on page 31.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $148.2 million in appropriation savings. This is primarily due to the following factors:

- A savings of $76.5 million in the Department of Public Health, due largely to $50.5 million in savings related to the State's restructuring of public health funding for indigent care wherein counties were no longer required to send the State matching funds as well as $26.0 million in operating cost savings.

- A savings of $24.1 million in the Human Services Agency, due largely to lower program costs related to CalWORKS Childcare and Aid, Medi-Cal Eligibility, County Adult Assistance Programs (CAAP), In-Home Supportive Services and related operations costs. These savings are partly offset by shortfalls in federal and state social service funding.

- A savings of $20.2 million in transfers to other funds because higher hospital revenues and cost savings resulted in lower required subsidy transfers for San Francisco General Hospital Medical Center and Laguna Honda Hospital.

- A close-out savings of $22.7 million in budgetary reserves and designations largely due to unspent General Reserve savings not used for supplemental appropriation or other contingencies during fiscal year 2005-2006.

As a result of the strong revenue growth, the City made record deposits into the Rainy Day Reserves during fiscal year 2005-2006, including an additional $49.8 million into the Economic Stabilization Account and an additional $24.9 million into the One-Time Spending Account. Combined these two Rainy Day Reserve accounts totaled $122.0 million by fiscal year end 2005-2006.

The net effect of the strong revenue growth, expenditure savings and record deposits into the Rainy Day Reserve accounts was a positive budgetary fund balance available for subsequent year appropriation of $145.6 million at the end of fiscal year 2005-2006. The City's fiscal year 2006-2007 Adopted Original Budget assumed an available balance of $99.5 million, so an additional $46.1 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance reserve details.)

## Capital Assets and Debt Administration

### Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2006, increased by $414.4 million, 3.8 percent, to $11.2 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. Governmental activities contributed $303.2 million or 2.8 percent to this total while $111.2 million or one percent was from business-type activities. Details are shown in the table below.



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

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | $ 143,640 | $ 143,640 | $ 194,783 | $ 193,781 | $ 338,423 | $ 337,421 |
| Facilities and Improvement | 1,884,952 | 1,704,266 | 5,974,331 | 6,081,285 | 7,859,283 | 7,785,551 |
| Machinery and equipment | 44,246 | 46,021 | 799,846 | 847,935 | 844,092 | 893,956 |
| Infrastructure | 240,601 | 185,223 | 464,477 | 485,043 | 705,078 | 670,266 |
| Property held under lease | 536 | 536 | 2,607 | 2,667 | 3,143 | 3,203 |
| Easements | - | - | 79,358 | 85,534 | 79,358 | 85,534 |
| Construction in progress | 360,887 | 292,040 | 1,013,652 | 721,568 | 1,374,539 | 1,013,608 |
| Total | $ 2,674,862 | $ 2,371,726 | $ 8,529,054 | $ 8,417,813 | $ 11,203,916 | $ 10,789,539 |

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

- Under governmental activities, approximately $202 million of $303 million net increase was due to a capital contribution of the newly re-built de Young Museum, part of the Fine Arts Museums of San Francisco, discussed earlier under the analysis of net assets. The remaining $101 million increase was mainly due to construction-in-progress work at various park and recreational sites, branch libraries, as well as various street improvement and traffic signal upgrades, and work at Juvenile Hall and the San Bruno Jail.

- The Water Department's net capital assets increased by $95.6 million. Close to 81.4 percent of this, or $77.8 million, reflects the net increase in construction-in-progress on the department's ten-year water system improvement project. This change includes a $136.8 million increase in construction projects offset by $46.6 million in transfers to facilities and improvements, $6.7 million transfers to equipment, and $5.7 million expensed for projects not continued. The increase included water main replacements at various locations, progress on the Lincoln Way Transmission Line and the Sunset Upgrade Project. The remaining net increase of $17.8 million reflects the increase to facilities, improvements and equipment less increase to depreciation.

- MUNI had a $90 million increase to construction-in-progress. This was largely due to $57.4 million in continued work on the Third Street Light Rail, a major expansion of the transportation system in the City's southeast neighborhoods, as well as $24.6 million in work on Trolley Overhead reconstruction, New Central Subway, Bayshore and Geary Corridor and other system projects.

- Laguna Honda Hospital's net capital assets increased by $65.8 million due almost entirely to construction-in-progress on the capital project to rebuild the hospital. This work is partially funded by the Laguna Honda General Obligation Bonds.

- The Port's net capital assets increased about 7.0 percent, or $17.2 million. This increase included completion of security projects at the Port's cruise, ferry and cargo facilities' completion of the Ferry Terminal Public Pier, improvements to parking lots and progress on the Illinois Street Intermodal Bridge.

- Hetch Hetchy increased net capital assets by $3.1 million or 1.1 percent. This included the completion of a $3.7 million project to improve electrical reliability in San Francisco and a $3.1 million project to replace turbine generators.

- The Airport reported a decrease in net capital assets of $83.3 million or 2.2 percent due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. This plan includes the new International Terminal (completed in 2001), the Bay Area Rapid Transit (BART) Station at SFO and Air Train people mover (completed in 2003) and new parking facilities, roadways, runway improvements, and other Airport facilities.

At the end of the year, the City's business type activities had approximately $346.6 million in commitments for various capital projects. Of this, MTA had approximately $150.0 million, Water Department had $84.6 million, Hetch Hetchy had $17.3 million, Wastewater had $39.1 million, Port had $6.3 million, Laguna Honda Hospital had $8.6 million and the Airport had $40.7 million. In addition, there was approximately $345.0 million reserved for encumbrances in capital project funds for the general government.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

For governmental activities, no net infrastructure assets were recorded in fiscal year 2000-2001 - the first year of presentation in the GASB 34 format, because the historical costs did not meet the threshold established by GASB. Beginning in fiscal year 2001-2002, 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 debt outstanding of $7.8 billion. Of this amount, $1.23 billion is general obligation bonds backed by the full faith and credit of the City and $6.5 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial paper and capital leases increased by $473 million during fiscal year 2005-2006, primarily due to issuance of bonded debt in the governmental activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing $577.1 million in refunding bonds. Of this amount, the Airport issued $467.0 million and the Water Department $110.1 million in refunding revenue bonds. The City also issued general obligation bonds for the improvement of California Academy of Sciences for $79.4 million, Steinhart Aquarium for $29.2 million, Branch Libraries for $34.0 million and Zoo Facilities for $7.5 million, totaling $150.1 million. In addition, the City issued $69 million in general obligation bonds for the improvement of Laguna Honda Hospital, $507.8 million in revenue bonds to improve the City's water system and to retire the commercial paper outstanding and $19.6 million in lease revenue bonds to finance equipment through the San Francisco Finance Corporation.

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 $114 billion in value as of the close of the fiscal year. As of June 30, 2006, the City had $1.23 billion in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 1.04 percent of gross (1.08 percent of net) taxable assessed value of property. As of June 30, 2006, there were an additional $346.1 million in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total



debt burden would be approximately 1.33 percent of gross (1.38 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2006 were:

| | |
|---|---|
| Moody's Investors Service, Inc. | Aa3 |
| Standard & Poor's | AA |
| Fitch Ratings | AA- |

During the fiscal year, Moody's Investors Service, Inc and Standard & Poor's affirmed their ratings with a stable outlook. Fitch Ratings affirmed its ratings and revised the outlook from stable to positive on the City's outstanding bonds.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. SFO's underlying debt ratings were upheld by Moody's Investors Service, Standard & Poor's, and Fitch Ratings at A1, A, and A, respectively, with a stable rating outlook. With municipal bond insurance purchased for revenue bond issues, Moody's Investor Service, Poor's and Fitch have assigned SFO the ratings of "Aaa", "AAA", and "AAA" respectively. The Water Department carried underlying ratings of A1 and A+ from Moody's Investor Service and Standard & Poor's, respectively, based on Municipal Bond Insurance Policies issued by MBIA and FSA, respectively.

Since the close of fiscal year 2005-2006, the City has issued $206.0 in refunding bonds. Of this amount, the Water Department issued $48.7 million in revenue refunding bonds, and the City issued $157.3 million in general obligation refunding bonds.

Additional information in the City's long-term debt can be found in Note 8 to the Basic Financial Statements.

## Economic factors and next year's budget and rates

- San Francisco's unemployment rate has continued to improve. After peaking at 7.0 percent during calendar year 2002, the unemployment rate stood at 4.6 percent, as of June 2006 compared to 5.3 percent in June 2005. The recent improvement in unemployment is mainly attributed to job growth in San Francisco and the Bay Area generally.

- The San Francisco metro area (including Marin and San Mateo counties) experienced jobs growth of 1.3 percent or 12,500 jobs from June 2005 through June 2006. The largest gains in employment were in the service sector including professional, technical and scientific services, leisure and hospitality services, administrative and support services, and government services. For San Francisco County, jobs grew by 1.2 percent or 6,300 in calendar year 2005 (the most recent period for which county-level data is available).

- San Francisco's commercial real estate sector continued to rebound over the prior year, leading to occupancy gains, and increases in rental rates and commercial building sales. As of the third quarter of 2006, San Francisco had seen 13 consecutive quarters when more space was being rented than new space was becoming available for rent. This positive trend resulted in increasing asking rental rates. As of the third quarter of 2006, the average direct asking rental rates were $33.60 per square foot – a 23 percent increase compared to the end of 2004. The overall vacancy rate was 13.3 percent in the third quarter of 2006 – a significant improvement from the historic high of almost 23 percent in the second quarter of 2003.

- The continuing gradual economic recovery is favorably impacting local tax revenue growth, including property, real property transfer, business, hotel room, sales, payroll, and parking taxes. This growth has helped to balance the City's budget in recent years, ensuring the continued ability to fund ongoing services and capital improvements.

- San Francisco faced a projected General Fund shortfall of $12.5 million at the beginning of fiscal year 2006-2007 - a shortfall significantly lower than previous years. This improvement was largely attributable to the economic rebound, resulting in increasing revenues as well as continued control over expenditure growth. These factors combined with the use of one-time sources, including the use of fund balance and prior year reserves, meant that the City was able to avoid making reductions in public safety, health and human services, and many other critical programs in the 2006-2007 budget year.



## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below are the contacts for questions about this report or requests for additional financial information.

City and County of San Francisco
Office of the Controller
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

### Individual Department Financial Statements

San Francisco International Airport
Office of the Airport Deputy Director
Business and Finance Division
PO Box 8097
San Francisco, CA 94128

Port of San Francisco
Fiscal Officer
Pier 1, The Embarcadero
San Francisco, CA 94111

San Francisco Water Department
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Director of Accounting Financial Services
1155 Market Street, 4th Floor
San Francisco, CA 94103

Laguna Honda Hospital
Chief Financial Officer
375 Laguna Honda Blvd.
San Francisco, CA 94116

Municipal Transportation Agency
MTA Finance and Administration
1 South Van Ness Avenue, 7th Floor
San Francisco, CA 94103

Health Service System
1145 Market Street, Suite 200
San Francisco, CA 94103

San Francisco General Hospital Medical Center
Chief Financial Officer
1001 Potrero Avenue, Suite 2A7
San Francisco, CA 94110

San Francisco Employees'
Retirement System
Executive Director
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

### Component Unit Financial Statement

San Francisco Redevelopment Agency
One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

### Blended Component Units Financial Statements

San Francisco County Transportation Authority
Deputy Director for Administration and Finance
100 Van Ness Avenue, 26th Floor
San Francisco, CA 94102

San Francisco Finance Corporation
Mayor's Office of Public Finance
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, 2006

## (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 | $ 1,511,936 | $ 681,935 | $ 2,193,871 | $ - | $ 1,268 |
| Deposits and investments outside City Treasury | 48,885 | 9,758 | 58,643 | 169,046 | - |
| Receivables (net of allowance for uncollectible amounts of $84,334 for the primary government): | | | | | |
| Property taxes and penalties | 42,586 | - | 42,586 | - | - |
| Other local taxes | 168,457 | - | 168,457 | - | - |
| Federal and state grants and subventions | 154,086 | 57,707 | 211,793 | - | - |
| Charges for services | 22,194 | 194,800 | 216,994 | - | - |
| Interest and other | 16,132 | 43,787 | 59,919 | 7,641 | 4 |
| Loans receivable | 7,025 | 132 | 7,157 | 12 | - |
| Capital lease receivable from primary government | - | - | - | 14,460 | |
| Due from component unit | 782 | - | 782 | - | - |
| Inventories | - | 53,051 | 53,051 | - | - |
| Deferred charges and other assets | 10,423 | 3,531 | 13,954 | - | - |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 54,218 | 54,218 | - | - |
| Deposits and investments outside City Treasury | - | 45,306 | 45,306 | 78,413 | - |
| Grants and other receivables | - | 36 | 36 | 1,206 | - |
| Total current assets | 1,982,506 | 1,144,261 | 3,126,767 | 270,778 | 1,272 |
| Noncurrent assets: | | | | | |
| Loans receivable (net of allowance for uncollectible amounts of $383,869 and $158,166 for the primary government and component units, respectively) | 67,016 | 455 | 67,471 | 10,455 | - |
| Advance to component unit | 4,024 | - | 4,024 | - | - |
| Capital lease receivable from primary government | - | - | - | 175,636 | - |
| Deferred charges and other assets | 19,887 | 72,632 | 92,519 | 9,565 | - |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 617,925 | 617,925 | - | - |
| Deposits and investments outside City Treasury | - | 265,093 | 265,093 | 20,797 | - |
| Grants and other receivables | - | 61,670 | 61,670 | - | - |
| Property held for resale | - | - | - | 15,988 | - |
| Capital assets: | | | | | |
| Land and other assets not being depreciated | 504,527 | 1,208,435 | 1,712,962 | 119,965 | - |
| Facilities, infrastructure, and equipment, net of depreciation | 2,170,335 | 7,320,619 | 9,490,954 | 146,638 | - |
| Total capital assets | 2,674,862 | 8,529,054 | 11,203,916 | 266,603 | - |
| Total noncurrent assets | 2,765,789 | 9,546,829 | 12,312,618 | 499,044 | - |
| Total assets | $ 4,748,295 | $ 10,691,090 | $ 15,439,385 | $ 769,822 | $ 1,272 |

*(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, 2006

### (In Thousands)

| | Primary Government: Governmental Activities | Primary Government: Business-Type Activities | Primary Government: Total | Component Units: San Francisco Redevelopment Agency | Component Units: Treasure Island Development Authority |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 178,765 | $ 121,868 | $ 300,633 | $ 7,962 | $ 3,207 |
| Accrued payroll | 64,377 | 46,498 | 110,875 | - | - |
| Accrued vacation and sick leave pay | 65,948 | 43,182 | 109,130 | 1,254 | - |
| Accrued workers' compensation | 41,803 | 35,466 | 77,269 | - | - |
| Estimated claims payable | 23,811 | 24,629 | 48,440 | - | - |
| Bonds, loans, capital leases, and other payables | 262,599 | 142,119 | 404,718 | 27,791 | - |
| Capital lease payable to component unit | 14,460 | - | 14,460 | - | - |
| Accrued interest payable | 7,764 | 18,472 | 26,236 | 27,207 | - |
| Unearned grant and subvention revenues | 2,421 | - | 2,421 | - | - |
| Due to primary government | - | - | - | 782 | - |
| Internal balances | 27,966 | (27,966) | - | - | - |
| Deferred credits and other liabilities | 125,111 | 91,061 | 216,172 | 750 | 664 |
| Liabilities payable from restricted assets: | | | | | |
| Bonds, loans, capital leases, and other payables | - | 17,393 | 17,393 | - | - |
| Accrued interest payable | - | 26,321 | 26,321 | - | - |
| Other | - | 38,331 | 38,331 | - | - |
| Total current liabilities | 815,025 | 577,374 | 1,392,399 | 65,746 | 3,871 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation and sick leave pay | 66,576 | 36,381 | 102,957 | 1,553 | - |
| Accrued workers' compensation | 160,678 | 126,188 | 286,866 | - | - |
| Estimated claims payable | 45,666 | 53,154 | 98,820 | - | - |
| Bonds, loans, capital leases, and other payables | 1,690,096 | 5,438,803 | 7,128,899 | 700,942 | - |
| Advance from primary government | - | - | - | 4,024 | - |
| Capital lease payable to component unit | 175,636 | - | 175,636 | - | - |
| Accrued interest payable | - | - | - | 63,839 | - |
| Deferred credits and other liabilities | - | 46,757 | 46,757 | 6,117 | - |
| Total noncurrent liabilities | 2,138,652 | 5,701,283 | 7,839,935 | 776,475 | - |
| Total liabilities | 2,953,677 | 6,278,657 | 9,232,334 | 842,221 | 3,871 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 1,438,010 | 3,438,397 | 4,876,407 | 67,463 | - |
| Restricted for: | | | | | |
| Reserve for rainy day | 121,976 | - | 121,976 | - | - |
| Debt service | 53,076 | 256,055 | 309,131 | 54,821 | - |
| Capital projects | 10,589 | 148,957 | 159,546 | - | - |
| Community development | 71,207 | - | 71,207 | - | - |
| Transportation Authority activities | 23,727 | - | 23,727 | - | - |
| Grants and other purposes | 148,071 | 32,354 | 180,425 | 15,988 | - |
| Unrestricted (deficit) | (72,038) | 536,670 | 464,632 | (210,671) | (2,599) |
| Total net assets (deficit) | $ 1,794,618 | $ 4,412,433 | $ 6,207,051 | $ (72,399) | $ (2,599) |

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, 2006

### (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 | $ 780,642 | $ 51,874 | $ 103,358 | $ - | $ (625,410) | $ - | $ (625,410) | $ - | $ - |
| Public works, transportation and commerce | 272,397 | 113,861 | 30,223 | 37,411 | (90,902) | - | (90,902) | - | - |
| Human welfare and neighborhood development | 858,396 | 29,181 | 437,381 | 150 | (391,684) | - | (391,684) | - | - |
| Community health | 478,844 | 52,183 | 278,218 | - | (148,443) | - | (148,443) | - | - |
| Culture and recreation | 244,423 | 64,720 | 3,144 | 210,768 | 34,209 | - | 34,209 | - | - |
| General administration and finance | 167,490 | 55,799 | 2,400 | - | (109,291) | - | (109,291) | - | - |
| General City responsibilities | 49,054 | 31,647 | 5,195 | - | (12,212) | - | (12,212) | - | - |
| Unallocated Interest on long-term debt | 94,923 | - | - | - | (94,923) | - | (94,923) | - | - |
| Total governmental activities | 2,946,169 | 399,265 | 859,919 | 248,329 | (1,438,656) | - | (1,438,656) | - | - |
| Business-type activities: | | | | | | | | | |
| Airport | 633,102 | 455,342 | - | 48,544 | - | (129,216) | (129,216) | - | - |
| Transportation | 695,593 | 210,692 | 122,057 | 58,399 | - | (304,445) | (304,445) | - | - |
| Port | 55,329 | 58,588 | - | 3,460 | - | 6,719 | 6,719 | - | - |
| Water | 213,584 | 201,833 | - | - | - | (11,751) | (11,751) | - | - |
| Power | 119,146 | 149,500 | - | - | - | 30,354 | 30,354 | - | - |
| Hospitals | 646,149 | 472,327 | 66,585 | - | - | (107,237) | (107,237) | - | - |
| Sewer | 160,701 | 164,703 | 30 | - | - | 4,032 | 4,032 | - | - |
| Market | 1,035 | 1,503 | - | - | - | 468 | 468 | - | - |
| Total business-type activities | 2,524,639 | 1,714,488 | 188,672 | 110,403 | - | (511,076) | (511,076) | - | - |
| Total primary government | $5,470,808 | $2,113,753 | $ 1,048,591 | $ 358,732 | (1,438,656) | (511,076) | (1,949,732) | - | - |
| **Component units:** | | | | | | | | | |
| San Francisco Redevelopment Agency | $ 142,493 | $ 25,345 | $ 13,912 | $ - | | | | (103,236) | - |
| Treasure Island Development Authority | 9,188 | 8,208 | - | - | | | | - | (980) |
| Total component units | $ 151,681 | $ 33,553 | $ 13,912 | $ - | | | | (103,236) | (980) |
| General Revenues: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Property taxes | | | | | 1,016,220 | - | 1,016,220 | 65,826 | - |
| Business taxes | | | | | 323,153 | - | 323,153 | - | - |
| Other local taxes | | | | | 595,664 | - | 595,664 | 5,549 | - |
| Interest and investment income | | | | | 71,129 | 53,161 | 124,290 | 10,751 | 56 |
| Other | | | | | 56,022 | 272,873 | 328,895 | 9,722 | 527 |
| Transfers - internal activities of primary government | | | | | (329,996) | 329,996 | - | - | - |
| Total general revenues and transfers | | | | | 1,732,192 | 656,030 | 2,388,222 | 91,848 | 583 |
| Change in net assets | | | | | 293,536 | 144,954 | 438,490 | (11,388) | (397) |
| Net assets (deficit) - beginning | | | | | 1,501,082 | 4,267,479 | 5,768,561 | (61,011) | (2,202) |
| Net assets (deficit) - ending | | | | | $ 1,794,618 | $4,412,433 | $6,207,051 | $ (72,399) | $ (2,599) |

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, 2006
### (with comparative financial information as of June 30, 2005)
### (In Thousands)

| | General Fund 2006 | General Fund 2005 | Other Governmental Funds 2006 | Other Governmental Funds 2005 | Total Governmental Funds 2006 | Total Governmental Funds 2005 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Deposits and investments with City Treasury | $ 443,102 | $ 314,607 | $ 1,060,891 | $ 915,547 | $ 1,503,993 | $ 1,230,154 |
| Deposits and investments outside City Treasury | 1,465 | 355 | 22,287 | 45,745 | 23,752 | 46,100 |
| Receivables: | | | | | | |
| Property taxes and penalties | 34,157 | 26,141 | 8,429 | 6,890 | 42,586 | 33,031 |
| Other local taxes | 154,505 | 148,744 | 13,952 | 12,788 | 168,457 | 161,532 |
| Federal and state grants and subventions | 63,843 | 61,412 | 90,243 | 89,559 | 154,086 | 150,971 |
| Charges for services | 17,117 | 7,416 | 5,077 | 6,832 | 22,194 | 14,248 |
| Interest and other | 6,184 | 4,406 | 9,035 | 3,726 | 15,219 | 8,132 |
| Due from other funds | 30,859 | 29,743 | 3,960 | 12,303 | 34,819 | 42,046 |
| Due from component unit | 3,848 | 2,416 | 958 | 959 | 4,806 | 3,375 |
| Loans receivable (net of allowance for uncollectible amount of $383,869 in 2006; $165,336 in 2005) | - | 1,174 | 74,041 | 241,728 | 74,041 | 242,902 |
| Deferred charges and other assets | 7,243 | 6,797 | 1,729 | 1,570 | 8,972 | 8,367 |
| Total assets | $ 762,323 | $ 603,211 | $ 1,290,602 | $ 1,337,647 | $ 2,052,925 | $ 1,940,858 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | $ 84,710 | $ 82,524 | $ 88,151 | $ 53,335 | $ 172,861 | $ 135,859 |
| Accrued payroll | 51,792 | 39,729 | 10,982 | 8,812 | 62,774 | 48,541 |
| Deferred tax, grant and subvention revenues | 33,473 | 26,880 | 30,442 | 19,371 | 63,915 | 46,251 |
| Due to other funds | 821 | 1,857 | 61,964 | 77,614 | 62,785 | 79,471 |
| Agency obligations | - | - | - | 40 | - | 40 |
| Deferred credits and other liabilities | 130,251 | 144,541 | 94,755 | 267,899 | 225,006 | 412,440 |
| Bonds, loans, capital leases, and other payables | - | - | 150,000 | 150,000 | 150,000 | 150,000 |
| Total liabilities | 301,047 | 295,531 | 436,294 | 577,071 | 737,341 | 872,602 |
| Fund balances: | | | | | | |
| Reserved for rainy day | 121,976 | 48,139 | - | - | 121,976 | 48,139 |
| Reserved for assets not available for appropriation | 10,710 | 9,031 | 20,202 | 17,683 | 30,912 | 26,714 |
| Reserved for debt service | - | - | 57,429 | 45,540 | 57,429 | 45,540 |
| Reserved for encumbrances | 38,159 | 57,762 | 423,120 | 97,920 | 461,279 | 155,682 |
| Reserved for appropriation carryforward | 124,009 | 36,198 | 294,340 | 549,571 | 418,349 | 585,769 |
| Reserved for subsequent years' budgets | 27,451 | 22,351 | 8,004 | 8,004 | 35,455 | 30,355 |
| Unreserved (deficit), reported in: | | | | | | |
| General fund | 138,971 | 134,199 | - | - | 138,971 | 134,199 |
| Special revenue funds | - | - | 35,243 | 30,809 | 35,243 | 30,809 |
| Capital project funds | - | - | 13,662 | 7,193 | 13,662 | 7,193 |
| Permanent fund | - | - | 2,308 | 3,856 | 2,308 | 3,856 |
| Total fund balances | 461,276 | 307,680 | 854,308 | 760,576 | 1,315,584 | 1,068,256 |
| Total liabilities and fund balances | $ 762,323 | $ 603,211 | $ 1,290,602 | $ 1,337,647 | $ 2,052,925 | $ 1,940,858 |

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, 2006
### (In Thousands)

| | |
|---|---|
| Fund balances - total governmental funds | $ 1,315,584 |
| 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. | 2,670,387 |
| Bond issue costs are not financial resources and, therefore, are not reported in the funds. | 14,338 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (2,161,461) |
| Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due. | (6,459) |
| 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 are offset by deferred revenue in the funds. | 164,015 |
| 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. | (201,786) |
| Net assets of governmental activities | $ 1,794,618 |

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, 2006 (with comparative financial information for year ended June 30, 2005)

### (In Thousands)

| | General Fund | | Other Governmental Funds | | Total Governmental Funds | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Property taxes | $ 783,303 | $ 705,949 | $ 224,848 | $ 212,696 | $ 1,008,151 | $ 918,645 |
| Business taxes | 322,407 | 292,172 | 746 | 591 | 323,153 | 292,763 |
| Other local taxes | 480,501 | 428,244 | 115,163 | 109,841 | 595,664 | 538,085 |
| Licenses, permits and franchises | 20,825 | 19,427 | 6,837 | 6,515 | 27,662 | 25,942 |
| Fines, forfeitures and penalties | 10,195 | 9,536 | 4,254 | 2,973 | 14,449 | 12,509 |
| Interest and investment income | 22,496 | 8,374 | 47,550 | 19,894 | 70,046 | 28,268 |
| Rents and concessions | 20,007 | 20,468 | 32,419 | 28,982 | 52,426 | 49,450 |
| Intergovernmental: | | | | | | |
| Federal | 182,448 | 165,739 | 168,537 | 183,025 | 350,985 | 348,764 |
| State | 490,187 | 438,697 | 75,802 | 84,240 | 565,989 | 522,937 |
| Other | - | 99 | 23,500 | 25,684 | 23,500 | 25,783 |
| Charges for services | 126,433 | 115,812 | 137,561 | 125,938 | 263,994 | 241,750 |
| Other | 15,037 | 12,277 | 46,528 | 45,210 | 61,565 | 57,487 |
| Total revenues | 2,473,839 | 2,216,794 | 883,745 | 845,589 | 3,357,584 | 3,062,383 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public protection | 739,470 | 697,450 | 47,928 | 41,044 | 787,398 | 738,494 |
| Public works, transportation and commerce | 46,448 | 60,628 | 228,221 | 135,268 | 274,669 | 195,896 |
| Human welfare and neighborhood development | 524,516 | 503,874 | 172,586 | 141,025 | 697,102 | 644,899 |
| Community health | 377,226 | 413,110 | 94,515 | 87,940 | 471,741 | 501,050 |
| Culture and recreation | 80,516 | 87,023 | 176,463 | 151,999 | 256,979 | 239,022 |
| General administration and finance | 146,567 | 120,400 | 14,628 | 14,718 | 161,195 | 135,118 |
| General City responsibilities | 53,065 | 62,185 | 698 | 614 | 53,763 | 62,799 |
| Debt service: | | | | | | |
| Principal retirement | - | - | 86,970 | 80,306 | 86,970 | 80,306 |
| Interest and fiscal charges | - | - | 75,975 | 61,524 | 75,975 | 61,524 |
| Bond issuance costs | - | - | 1,933 | 4,842 | 1,933 | 4,842 |
| Capital outlay | - | - | 153,493 | 130,224 | 153,493 | 130,224 |
| Total expenditures | 1,967,808 | 1,944,670 | 1,053,410 | 849,504 | 3,021,218 | 2,794,174 |
| Excess (deficiency) of revenues over expenditures | 506,031 | 272,124 | (169,665) | (3,915) | 336,366 | 268,209 |
| Other financing sources (uses): | | | | | | |
| Transfers in | 62,431 | 152,288 | 162,092 | 119,265 | 224,523 | 271,553 |
| Transfers out | (420,086) | (330,230) | (135,069) | (183,193) | (555,155) | (513,423) |
| Issuance of bonds and loans | | | | | | |
| Face value of bonds issued | - | - | 219,120 | 346,225 | 219,120 | 346,225 |
| Face value of loans issued | - | - | 5,359 | 500 | 5,359 | 500 |
| Premium on issuance of bonds | - | - | 10,233 | 11,989 | 10,233 | 11,989 |
| Payment to refunded bond escrow agent | - | - | - | (38,913) | - | (38,913) |
| Other financing sources-capital leases | 5,220 | 3,063 | 1,662 | 1,479 | 6,882 | 4,542 |
| Total other financing sources (uses) | (352,435) | (174,879) | 263,397 | 257,352 | (89,038) | 82,473 |
| Net change in fund balances | 153,596 | 97,245 | 93,732 | 253,437 | 247,328 | 350,682 |
| Fund balances at beginning of year | 307,680 | 210,435 | 760,576 | 507,139 | 1,068,256 | 717,574 |
| Fund balances at end of year | $ 461,276 | $ 307,680 | $ 854,308 | $ 760,576 | $ 1,315,584 | $ 1,068,256 |

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, 2006

### (In Thousands)

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ 247,328 |
| 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 plus capital contribution of an asset to the City. | 302,816 |
| 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 financial resources. | 19,058 |
| Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 8,069 |
| Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities. | 1,202 |
| 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. | (156,332) |
| Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period. | 18,915 |
| Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period. | 1,138 |
| The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period. | (137,509) |
| 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 amount of bond premiums capitalized during the current period. | (10,233) |
| Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities. | (10,748) |
| The net revenues of certain activities of internal service funds is reported with governmental activities. | 9,832 |
| Change in net assets of governmental activities | $ 293,536 |

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, 2006

### (In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Budgetary fund balance, July 1** | $ 120,483 | $ 324,724 | $ 324,724 | $ - |
| **Resources (inflows):** | | | | |
| Property taxes | 696,660 | 696,660 | 782,690 | 86,030 |
| Business taxes | 288,320 | 288,320 | 322,407 | 34,087 |
| Other local taxes: | | | | |
| Sales tax | 102,780 | 102,780 | 103,074 | 294 |
| Hotel room tax | 121,462 | 121,462 | 130,824 | 9,362 |
| Utility users tax | 70,920 | 70,920 | 76,444 | 5,524 |
| Parking tax | 33,120 | 33,120 | 36,165 | 3,045 |
| Real Property Transfer Tax | 83,000 | 83,000 | 131,279 | 48,279 |
| Stadium Operator Admission Tax | 2,430 | 2,430 | 2,716 | 286 |
| Licenses, permits, and franchises: | | | | |
| Licenses and permits | 6,705 | 6,705 | 7,088 | 383 |
| Franchise tax | 12,423 | 12,423 | 13,737 | 1,314 |
| Fines, forfeitures, and penalties | 11,475 | 11,475 | 10,195 | (1,280) |
| Interest and investment income | 11,307 | 11,393 | 30,953 | 19,560 |
| Rents and concessions: | | | | |
| Garages - Recreation and Park | 7,926 | 7,926 | 9,207 | 1,281 |
| Rents and concessions - Recreation and Park | 9,980 | 9,979 | 9,082 | (897) |
| Other rents and concessions | 1,679 | 1,679 | 1,718 | 39 |
| Intergovernmental: | | | | |
| Federal subventions: | | | | |
| Health and social service subventions | 197,359 | 184,911 | 177,804 | (7,107) |
| Other grants and subventions | 8,980 | 8,596 | 4,644 | (3,952) |
| State subventions: | | | | |
| Social service subventions | 84,812 | 97,120 | 93,184 | (3,936) |
| Health/mental health subventions | 105,064 | 105,646 | 100,900 | (4,746) |
| Health and welfare realignment | 158,447 | 158,447 | 157,921 | (526) |
| Public safety sales tax | 70,000 | 70,000 | 69,344 | (656) |
| Motor vehicle in-lieu | 36,660 | 36,660 | 35,764 | (896) |
| Other grants and subventions | 19,406 | 24,568 | 33,393 | 8,825 |
| Charges for services: | | | | |
| General government service charges | 47,031 | 47,096 | 39,161 | (7,935) |
| Public safety service charges | 21,607 | 21,607 | 24,908 | 3,301 |
| Recreation charges - Recreation and Park | 5,798 | 5,798 | 6,776 | 978 |
| MediCal, MediCare and health service charges | 56,548 | 56,272 | 55,588 | (684) |
| Other financing sources: | | | | |
| Transfers from other funds | 107,570 | 108,902 | 57,965 | (50,937) |
| Proceeds from issuance of bonds and loans | 597 | 597 | - | (597) |
| Other resources (inflows) | 12,644 | 13,090 | 7,681 | (5,409) |
| Total amounts available for appropriation | $ 2,513,193 | $ 2,724,306 | $2,857,336 | $ 133,030 |

*(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, 2006

### (In Thousands)



| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Charges to appropriations (outflows):** | | | | |
| Public Protection | | | | |
| Administrative Services - Animal Care and Control | $ 3,264 | $ 3,258 | $ 3,238 | $ 20 |
| Administrative Services - Medical Examiner | 4,383 | 4,409 | 4,317 | 92 |
| Adult Probation | 9,812 | 9,915 | 9,915 | - |
| District Attorney | 25,500 | 26,521 | 26,521 | - |
| Fire Department | 203,696 | 203,947 | 203,359 | 588 |
| Juvenile Probation | 33,010 | 31,346 | 31,120 | 226 |
| Police Department | 271,485 | 285,977 | 285,976 | 1 |
| Public Defender | 18,026 | 18,813 | 18,813 | - |
| Sheriff | 131,256 | 127,527 | 127,481 | 46 |
| Trial Courts | 32,341 | 32,245 | 32,202 | 43 |
| Public Works, Transportation and Commerce | | | | |
| Board of Appeals | 539 | 535 | 530 | 5 |
| Business and Economic Development | 4,539 | 2,203 | 2,110 | 93 |
| Clean Water | 196 | 204 | 157 | 47 |
| Department of Public Works | 33,780 | 34,189 | 34,189 | - |
| Emergency Communications | 4,231 | 5,409 | 5,334 | 75 |
| Parking and Traffic Commission | - | 68 | 37 | 31 |
| Public Utilities Commission | - | 16 | 8 | 8 |
| Telecommunications and Information Services | 7,311 | 4,084 | 4,083 | 1 |
| Human Welfare and Neighborhood Development | | | | |
| Children, Youth and Their Families | 13,306 | 12,188 | 11,986 | 202 |
| Commission on the Status of Women | 2,364 | 2,438 | 2,380 | 58 |
| County Education Office | 71 | 71 | 71 | - |
| Environment | 571 | 1,125 | 1,067 | 58 |
| Human Rights Commission | 1,074 | 1,309 | 1,308 | 1 |
| Human Services | 535,540 | 531,204 | 507,101 | 24,103 |
| Mayor - Housing and Neighborhood | - | 600 | 600 | - |
| Community Health | | | | |
| Public Health Operations | 350,600 | 372,284 | 346,277 | 26,007 |
| State Funding Match Requirments | 82,000 | 81,432 | 30,949 | 50,483 |
| Culture and Recreation | | | | |
| Academy of Sciences | 1,702 | 1,702 | 1,702 | - |
| Art Commission | 5,922 | 6,039 | 6,039 | - |
| Asian Art Museum | 6,298 | 6,315 | 6,115 | 200 |
| Fine Arts Museum | 8,834 | 8,512 | 8,373 | 139 |
| Law Library | 404 | 432 | 432 | - |
| Recreation and Park Commission | 72,045 | 58,126 | 57,762 | 364 |
| General Administration and Finance | | | | |
| Administrative Services | 31,179 | 25,517 | 25,226 | 291 |
| Assessor/Recorder | 10,015 | 9,218 | 9,049 | 169 |
| Board of Supervisors | 9,409 | 9,637 | 9,615 | 22 |

*(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, 2006

### (In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| City Attorney | 6,913 | 10,857 | 10,843 | 14 |
| City Planning | 17,078 | 15,927 | 15,382 | 545 |
| Civil Service | 550 | 544 | 498 | 46 |
| Controller | 21,427 | 18,866 | 18,850 | 16 |
| Elections | 11,081 | 11,861 | 11,861 | - |
| Ethics Commission | 1,382 | 1,389 | 1,286 | 103 |
| Health Service System | 100 | - | - | - |
| Human Resources | 12,757 | 9,861 | 9,695 | 166 |
| Mayor | 6,282 | 6,698 | 6,679 | 19 |
| Retirement Services | 436 | 242 | 241 | 1 |
| Treasurer/Tax Collector | 22,152 | 20,057 | 19,773 | 284 |
| General City Responsibilities | | | | |
| General City Responsibilities | 53,684 | 53,601 | 52,849 | 752 |
| Other financing uses: | | | | |
| Transfers to other funds | 390,531 | 436,092 | 415,936 | 20,156 |
| Budgetary reserves and designations | 54,117 | 22,712 | - | 22,712 |
| Total charges to appropriations | 2,513,193 | 2,527,522 | 2,379,335 | 148,187 |
| Total Sources less Current Year Uses | - | 196,784 | 478,001 | 281,217 |
| Budgetary Reserves Carried Into Subsequent Year | - | 60,977 | - | (60,977) |
| New Deposits Into Rainy Day Reserves in Current Year | | | | |
| Economic Stabilization Account | - | 49,772 | - | (49,772) |
| One-Time Spending Account New Deposits | - | 24,886 | - | (24,886) |
| **Budgetary fund balance, June 30** | $ - | $ 332,419 | $ 478,001 | $ 145,582 |

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

| | |
|---|---|
| Sources/inflows of resources | |
| Actual amounts (budgetary basis) "available for appropriation" | $2,857,336 |
| 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 | (324,724) |
| Property tax revenue - Teeter Plan | 613 |
| Unrealized loss on investment | (786) |
| Interest earnings/charges from other funds assigned to General Fund being reclassified | (7,672) |
| Interest earnings from agency funds reclassified as other revenues | 7,356 |
| Grant revenue accrued on a GAAP basis in prior year and received in current year | (319) |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (57,965) |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | $2,473,839 |
| Uses/outflows of resources | |
| Actual amounts (budgetary basis) "total charges to appropriations" | $2,379,335 |
| Difference - budget to GAAP: | |
| Capital asset purchases funded under capital leases with Finance Corporation | 4,424 |
| Advance and other prepaid fees and expenditures | (15) |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (415,936) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | $1,967,808 |

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, 2006

### (with comparative financial information as of June 30, 2005)

### (In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | Governmental Activities-Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | Total | | | |
| | San Francisco International Airport | Water Department | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Waste Water Enterprise | Port of San Francisco | Laguna Honda Hospital | Market Corporation | 2006 | 2005 | 2006 | 2005 |
| **ASSETS** | | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | $ 240,171 | $ 101,550 | $ 121,929 | $ 62,311 | $ 34,278 | $ 55,631 | $ 66,065 | $ - | $ - | $ 681,935 | $ 651,311 | $ 7,943 | $ 8,196 |
| Deposits and investments outside City Treasury | 120 | 40 | 10 | 6,185 | 10 | 3 | 13 | 1 | 3,376 | 9,758 | 8,017 | 25,133 | 16,057 |
| Receivables (net of allowance for uncollectible amounts of $41,774 and $29,030 in 2006 and 2005, respectively): | | | | | | | | | | | | | |
| Federal and state grants and subventions | - | - | - | 54,369 | 1,928 | - | 1,410 | - | - | 57,707 | 52,907 | - | - |
| Charges for services | 31,931 | 41,071 | 23,686 | 8,292 | 34,339 | 24,652 | 3,380 | 27,435 | 14 | 194,800 | 148,463 | 78 | - |
| Interest and other | 7,950 | 1,027 | 988 | 19,593 | 13,269 | 381 | 579 | - | - | 43,787 | 42,255 | 835 | 457 |
| Loans receivable | - | - | 132 | - | - | - | - | - | - | 132 | 130 | 21,855 | 18,862 |
| Due from other funds | - | 145 | 15,713 | 29,775 | - | - | - | - | - | 45,633 | 53,339 | - | 2,301 |
| Inventories | 76 | 1,738 | 276 | 43,189 | 5,261 | - | 1,152 | 1,359 | - | 53,051 | 52,874 | - | - |
| Deferred charges and other assets | 2,245 | - | - | 1,222 | - | - | 38 | - | 26 | 3,531 | 3,644 | 149 | 148 |
| Restricted assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 14,192 | - | - | - | - | - | 4,528 | 35,498 | - | 54,218 | 45,285 | - | - |
| Deposits and investments outside City Treasury | 40,221 | - | - | - | - | - | 5,085 | - | - | 45,306 | 51,750 | - | - |
| Grants and other receivables | 36 | - | - | - | - | - | - | - | - | 36 | 1,115 | - | - |
| Total current assets | 336,942 | 145,571 | 162,734 | 224,936 | 89,085 | 80,667 | 82,250 | 64,293 | 3,416 | 1,189,894 | 1,111,090 | 55,993 | 46,021 |
| Noncurrent assets: | | | | | | | | | | | | | |
| Deferred charges and other assets | 53,525 | 8,018 | - | 2,219 | - | 3,051 | 5,819 | - | - | 72,632 | 65,054 | 2,551 | 2,403 |
| Loans receivable | - | - | 455 | - | - | - | - | - | - | 455 | 587 | 210,947 | 212,958 |
| Restricted assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 152,999 | 364,068 | - | 24,016 | - | 76,842 | - | - | - | 617,925 | 383,439 | - | - |
| Deposits and investments outside City Treasury | 152,764 | 79,083 | - | 30,332 | 12 | 6 | 2,067 | 829 | - | 265,093 | 216,687 | - | - |
| Grants and other receivables | 53,636 | 2,290 | - | 5,055 | - | 462 | - | 227 | - | 61,670 | 33,596 | - | - |
| Capital assets: | | | | | | | | | | | | | |
| Land and other assets not being depreciated | 70,506 | 217,584 | 57,845 | 487,459 | 4,971 | 78,964 | 156,365 | 134,741 | - | 1,208,435 | 915,349 | - | - |
| Facilities, infrastructrure, and equipment, net of depreciation | 3,606,265 | 690,170 | 212,228 | 1,402,416 | 48,998 | 1,233,863 | 113,759 | 8,092 | 4,828 | 7,320,619 | 7,502,464 | 4,475 | 4,155 |
| Total capital assets | 3,676,771 | 907,754 | 270,073 | 1,889,875 | 53,969 | 1,312,827 | 270,124 | 142,833 | 4,828 | 8,529,054 | 8,417,813 | 4,475 | 4,155 |
| Total noncurrent assets | 4,089,695 | 1,361,213 | 270,528 | 1,951,497 | 53,981 | 1,393,188 | 278,010 | 143,889 | 4,828 | 9,546,829 | 9,117,176 | 217,973 | 219,516 |
| Total assets | 4,426,637 | 1,506,784 | 433,262 | 2,176,433 | 143,066 | 1,473,855 | 360,260 | 208,182 | 8,244 | 10,736,723 | 10,228,266 | 273,966 | 265,537 |

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO
## Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Proprietary Funds
## Year ended June 30, 2006
## (with comparative financial information for year ended June 30, 2005)
## (In Thousands)

| | Business-type Activities - Enterprise Funds: Major Funds | | | | | | | | Other Fund | Total | | Governmental Activities-Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | San Francisco International Airport | Water Department | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Waste Water Enterprise | Port of San Francisco | Laguna Honda Hospital | Market Corporation | 2006 | 2005 | 2006 | 2005 |
| Operating revenues: | | | | | | | | | | | | | |
| Aviation | $ 263,422 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 263,422 | $ 303,015 | $ - | $ - |
| Water and power service | - | 189,603 | 139,627 | - | - | - | - | - | - | 329,230 | 295,488 | - | - |
| Passenger fees | - | - | - | 134,553 | - | - | - | - | - | 134,553 | 120,193 | - | - |
| Net patient service revenue | - | - | - | - | 326,910 | - | - | 130,661 | - | 457,571 | 479,655 | - | - |
| Sewer service | - | - | - | - | - | 159,281 | - | - | - | 159,281 | 144,348 | - | - |
| Rents and concessions | 81,865 | 8,763 | 234 | 34,666 | 2,055 | - | 47,038 | - | - | 174,621 | 157,249 | 61 | - |
| Parking and transportation | 61,186 | - | - | 34,417 | - | - | 9,122 | - | - | 104,725 | 99,228 | - | - |
| Charges for services | - | - | - | 2,152 | - | - | - | - | 1,503 | 3,655 | 2,028 | 98,943 | 92,150 |
| Other revenues | 48,869 | 3,467 | 9,639 | 4,904 | 12,070 | 5,422 | 2,428 | 631 | - | 87,430 | 82,626 | - | - |
| Total operating revenues | 455,342 | 201,833 | 149,500 | 210,692 | 341,035 | 164,703 | 58,588 | 131,292 | 1,503 | 1,714,488 | 1,683,830 | 99,004 | 92,150 |
| Operating expenses: | | | | | | | | | | | | | |
| Personal services | 153,777 | 58,452 | 22,318 | 422,050 | 265,147 | 44,798 | 21,047 | 144,035 | 191 | 1,131,815 | 1,092,794 | 42,648 | 40,203 |
| Contractual services | 52,863 | 5,767 | 4,788 | 41,824 | 118,588 | 7,962 | 2,531 | 6,289 | 473 | 241,085 | 222,750 | 30,948 | 28,861 |
| Light, heat and power | 18,544 | - | 46,742 | 1,035 | - | - | 3,360 | - | 73 | 69,754 | 68,934 | - | - |
| Materials and supplies | 7,654 | 10,137 | 1,879 | 36,286 | 55,517 | 8,565 | 1,323 | 12,750 | 3 | 134,114 | 119,564 | 16,678 | 14,421 |
| Depreciation and amortization | 162,009 | 41,877 | 10,701 | 96,967 | 6,825 | 37,228 | 9,536 | 1,034 | 286 | 366,463 | 386,679 | 1,185 | 1,119 |
| General and administrative | 2,813 | 32,930 | 21,761 | 54,876 | 125 | 13,725 | 1,421 | - | 9 | 127,660 | 132,048 | 485 | 450 |
| Services provided by other departments | 11,136 | 31,553 | 2,608 | 35,713 | 25,579 | 24,105 | 11,562 | 5,927 | - | 148,183 | 137,351 | 4,834 | 4,088 |
| Other | 24,015 | 6,218 | 8,349 | 2,349 | 2,210 | 4,571 | 3,649 | - | - | 51,361 | 49,993 | 2,415 | 2,279 |
| Total operating expenses | 432,811 | 186,934 | 119,146 | 691,100 | 473,991 | 140,954 | 54,429 | 170,035 | 1,035 | 2,270,435 | 2,210,113 | 99,193 | 91,421 |
| Operating income (loss) | 22,531 | 14,899 | 30,354 | (480,408) | (132,956) | 23,749 | 4,159 | (38,743) | 468 | (555,947) | (526,283) | (189) | 729 |
| Nonoperating revenues (expenses): | | | | | | | | | | | | | |
| Operating grants: | | | | | | | | | | | | | |
| Federal | - | - | - | 24,093 | - | - | - | 362 | - | 24,455 | 23,776 | - | - |
| State / other | - | - | - | 97,964 | 66,223 | 30 | - | - | - | 164,217 | 157,031 | - | - |
| Interest and investment income (loss) | 25,331 | 11,665 | 3,564 | 3,144 | (110) | 5,385 | 2,993 | 1,115 | 74 | 53,161 | 33,268 | 7,966 | 6,468 |
| Interest expense | (200,291) | (26,650) | - | (4,493) | (946) | (19,747) | (900) | (1,177) | - | (254,204) | (259,358) | (8,200) | (6,523) |
| Other, net | 82,726 | 735 | 7,735 | 154,430 | 8,806 | 1,893 | 633 | 15,915 | - | 272,873 | 237,102 | 28 | 8 |
| Total nonoperating revenues (expenses) | (92,234) | (14,250) | 11,299 | 275,138 | 73,973 | (12,439) | 2,726 | 16,215 | 74 | 260,502 | 191,819 | (206) | (47) |
| Income (loss) before capital contributions, transfers and special item | (69,703) | 649 | 41,653 | (205,270) | (58,983) | 11,310 | 6,885 | (22,528) | 542 | (295,445) | (334,464) | (395) | 682 |
| Capital contributions | 48,544 | - | - | 58,399 | - | - | 3,460 | - | - | 110,403 | 93,724 | - | - |
| Transfers in | - | - | - | 211,122 | 93,803 | - | - | 90,760 | - | 395,685 | 359,016 | 636 | 270 |
| Transfers out | (21,513) | (602) | - | (11,272) | (32,252) | - | - | (50) | - | (65,689) | (117,416) | - | - |
| Net income (loss) before special item | (42,672) | 47 | 41,653 | 52,979 | 2,568 | 11,310 | 10,345 | 68,182 | 542 | 144,954 | 860 | 241 | 952 |
| Special item | - | - | - | - | - | - | - | - | - | - | (46,358) | - | - |
| Change in net assets | (42,672) | 47 | 41,653 | 52,979 | 2,568 | 11,310 | 10,345 | 68,182 | 542 | 144,954 | (45,498) | 241 | 952 |
| Net assets (deficit) at beginning of year | 357,595 | 433,015 | 370,402 | 1,748,723 | 48,435 | 915,067 | 297,422 | 89,412 | 7,408 | 4,267,479 | 4,312,977 | (1,477) | (2,429) |
| Net assets (deficit) at end of year | $ 314,923 | $ 433,062 | $ 412,055 | $ 1,801,702 | $ 51,003 | $926,377 | $ 307,767 | $157,594 | $ 7,950 | $4,412,433 | $4,267,479 | $ (1,236) | $ (1,477) |

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, 2006
## (with comparative financial information as of June 30, 2005)
## (In Thousands)

| | Business-type Activities - Enterprise Funds: Major Funds | | | | | | | | Other Fund | Total | | Governmental Activities-Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | San Francisco International Airport | Water Department | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Waste Water Enterprise | Port of San Francisco | Laguna Honda Hospital | Market Corporation | 2006 | 2005 | 2006 | 2005 |
| **LIABILITIES** | | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | | |
| Accounts payable | 27,794 | 5,657 | 9,743 | 49,093 | 17,434 | 4,244 | 4,457 | 3,306 | 140 | 121,868 | 123,029 | 5,904 | 7,237 |
| Accrued payroll | 5,829 | 4,040 | 1,415 | 16,198 | 9,956 | 2,549 | 899 | 5,612 | - | 46,498 | 40,412 | 1,603 | 1,385 |
| Accrued vacation and sick leave pay | 6,306 | 5,060 | 1,105 | 13,977 | 8,482 | 2,244 | 971 | 5,037 | - | 43,182 | 41,624 | 1,869 | 1,828 |
| Accrued workers' compensation | 1,492 | 1,860 | 395 | 23,911 | 4,030 | 869 | 555 | 2,354 | - | 35,466 | 38,005 | 216 | 241 |
| Estimated claims payable | 15 | 1,168 | 1,024 | 20,325 | - | 1,247 | 850 | - | - | 24,629 | 22,503 | - | - |
| Due to other funds | - | - | - | 247 | 2,294 | - | - | 15,126 | - | 17,667 | 16,841 | - | 1,374 |
| Deferred credits and other liabilities | 43,305 | 13,633 | 476 | 3,883 | 22,677 | - | 3,700 | 3,326 | 61 | 91,061 | 84,043 | 29,675 | 19,731 |
| Accrued interest payable | - | 11,401 | - | 394 | - | 6,542 | 135 | - | - | 18,472 | 11,631 | 1,305 | 1,082 |
| Bonds, loans, capital leases, and other payables | 67,092 | 15,450 | 104 | 7,869 | 1,122 | 49,875 | 84 | 523 | - | 142,119 | 185,612 | 20,672 | 18,310 |
| Liabilities payable from restricted assets: | | | | | | | | | | | | | |
| Bonds, loans, capital leases, and other payables | 13,418 | - | - | - | - | - | 3,975 | - | - | 17,393 | 16,578 | - | - |
| Accrued interest payable | 26,070 | - | - | - | - | - | 251 | - | - | 26,321 | 32,240 | - | - |
| Other | 9,173 | 15,527 | - | 896 | - | 6,823 | 4,820 | 1,092 | - | 38,331 | 28,416 | - | - |
| Total current liabilities | 200,494 | 73,796 | 14,262 | 136,793 | 65,995 | 74,393 | 20,697 | 36,376 | 201 | 623,007 | 640,934 | 61,244 | 51,188 |
| Noncurrent liabilities: | | | | | | | | | | | | | |
| Accrued vacation and sick leave pay | 6,024 | 5,335 | 1,037 | 10,734 | 6,706 | 2,072 | 808 | 3,665 | - | 36,381 | 33,694 | 2,061 | 1,894 |
| Accrued workers' compensation | 3,460 | 6,859 | 1,543 | 82,369 | 16,684 | 3,304 | 2,564 | 9,405 | - | 126,188 | 138,618 | 889 | 910 |
| Estimated claims payable | 22 | 4,632 | 3,975 | 39,279 | - | 4,732 | 514 | - | - | 53,154 | 46,215 | - | - |
| Deferred credits and other liabilities | - | 1,180 | - | 32,776 | - | 9 | 12,699 | - | 93 | 46,757 | 39,409 | - | - |
| Bonds, loans, capital leases, and other payables | 3,901,714 | 981,920 | 390 | 72,780 | 2,678 | 462,968 | 15,211 | 1,142 | - | 5,438,803 | 5,061,917 | 211,008 | 213,022 |
| Total noncurrent liabilities | 3,911,220 | 999,926 | 6,945 | 237,938 | 26,068 | 473,085 | 31,796 | 14,212 | 93 | 5,701,283 | 5,319,853 | 213,958 | 215,826 |
| Total liabilities | 4,111,714 | 1,073,722 | 21,207 | 374,731 | 92,063 | 547,478 | 52,493 | 50,588 | 294 | 6,324,290 | 5,960,787 | 275,202 | 267,014 |
| **NET ASSETS** | | | | | | | | | | | | | |
| Invested in capital assets, net of related debt | (134,016) | 254,221 | 270,073 | 1,774,574 | 50,169 | 820,914 | 256,466 | 141,168 | 4,828 | 3,438,397 | 3,391,450 | 4,292 | 3,561 |
| Restricted: | | | | | | | | | | | | | |
| Debt service | 153,498 | 79,813 | - | 21,825 | - | 919 | - | - | - | 256,055 | 202,006 | - | - |
| Capital projects | 15,210 | 20,817 | - | 17,749 | - | 46,343 | 16,758 | 32,080 | - | 148,957 | 183,079 | - | - |
| Other purposes | - | - | - | 32,354 | - | - | - | - | - | 32,354 | 44,905 | - | - |
| Unrestricted (deficit) | 280,231 | 78,211 | 141,982 | (44,800) | 834 | 58,201 | 34,543 | (15,654) | 3,122 | 536,670 | 446,039 | (5,528) | (5,038) |
| Total net assets (deficit) | $ 314,923 | $ 433,062 | $ 412,055 | $ 1,801,702 | $ 51,003 | $926,377 | $307,767 | $ 157,594 | $ 7,950 | $4,412,433 | $4,267,479 | $ (1,236) | $ (1,477) |

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, 2006
### (with comparative financial information for year ended June 30, 2005)
### (In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | | | | |
| | San Francisco Interna-tional Airport | Water Department | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Waste Water Enterprise | Port of San Francisco | Laguna Honda Hospital | Market Corporation | Total 2006 | Total 2005 | Governmental Activities-Internal Service Funds 2006 | Governmental Activities-Internal Service Funds 2005 |
| Cash flows from operating activities: | | | | | | | | | | | | | |
| Cash received from customers, including cash deposits | $ 489,457 | $ 171,722 | $ 147,237 | $ 231,677 | $ 343,034 | $ 162,891 | $ 8,553 | $ 129,758 | $ 1,497 | $ 1,685,826 | $ 1,655,760 | $ 118,313 | $ 107,964 |
| Cash received from tenants for rent | - | 8,621 | 234 | 2,263 | 2,055 | - | 49,519 | - | - | 62,692 | 59,965 | - | - |
| Cash paid to employees for services | (152,371) | (57,435) | (21,429) | (429,205) | (202,272) | (42,763) | (20,903) | (143,882) | (191) | (1,070,451) | (1,065,114) | (42,268) | (40,109) |
| Cash paid to suppliers for goods and services | (146,015) | (82,183) | (78,518) | (167,429) | (264,962) | (59,098) | (19,321) | (26,143) | (627) | (844,296) | (718,282) | (59,230) | (52,464) |
| Cash paid for judgements and claims | - | (5,981) | (4,562) | (7,742) | - | (2,926) | (870) | - | - | (22,081) | (15,292) | - | - |
| Net cash provided by (used in) operating activities | 191,071 | 34,744 | 42,962 | (370,436) | (122,145) | 58,104 | 16,978 | (40,267) | 679 | (188,310) | (82,963) | 16,815 | 15,391 |
| Cash flows from noncapital financing activities: | | | | | | | | | | | | | |
| Operating grants | - | 125 | 126 | 215,294 | 65,683 | 30 | - | - | - | 281,258 | 290,449 | - | - |
| Transfers in | - | - | - | 200,475 | 93,803 | - | - | 90,760 | - | 385,038 | 280,003 | 636 | 270 |
| Transfers out | (21,513) | (602) | - | (17,164) | (32,252) | - | - | (50) | - | (71,581) | (117,416) | - | - |
| Transit Impact Development fees received | - | - | - | 410 | - | - | - | - | - | 410 | 426 | - | - |
| Claims settlement proceeds | 10,642 | - | - | - | - | - | - | - | - | 10,642 | - | - | - |
| Other noncapital increases | 6,547 | - | - | 15,450 | 9,960 | - | 307 | 6,589 | - | 38,853 | 19,832 | - | - |
| Other noncapital decreases | - | - | - | (908) | - | - | - | - | - | (908) | (17,440) | - | - |
| Net cash provided by (used in) noncapital financing activities | (4,324) | (477) | 126 | 413,557 | 137,194 | 30 | 307 | 97,299 | - | 643,712 | 455,854 | 636 | 270 |
| Cash flows from capital financing activities: | | | | | | | | | | | | | |
| Capital grants | 30,328 | - | - | 71,521 | - | - | 3,809 | 16,276 | - | 121,934 | 98,967 | - | - |
| Transfers in | - | - | - | 32,132 | - | - | - | - | - | 32,132 | 78,657 | - | - |
| Bond sale proceeds and loans received | - | 630,135 | - | - | - | - | - | - | - | 630,135 | 22,313 | 19,671 | - |
| Principal payments on commercial paper borrowings | - | (120,000) | - | - | - | - | - | - | - | (120,000) | - | - | - |
| Proceeds from sale of capital assets | 10 | 36 | 8 | 16 | - | - | 11 | - | - | 81 | 236 | - | - |
| Proceeds from commercial paper borrowings | - | 40,000 | - | - | - | - | - | - | - | 40,000 | 55,000 | - | - |
| Proceeds from passenger facility charges | 59,327 | - | - | - | - | - | - | - | - | 59,327 | 63,385 | - | - |
| Acquisition of capital assets | (73,366) | (135,300) | (16,870) | (101,156) | (7,344) | (44,803) | (16,160) | (66,892) | (65) | (461,956) | (400,770) | (1,455) | (1,850) |
| Retirement of capital leases, bonds and loans | (79,125) | (123,085) | - | (8,086) | - | (15,915) | (3,470) | (375) | - | (230,056) | (144,487) | (19,321) | (15,910) |
| Bond issue costs paid | (1,537) | - | - | - | | - | - | - | - | (1,537) | (4,092) | (319) | (74) |
| Interest paid on debt | (199,760) | (22,893) | - | (4,211) | (946) | (21,438) | (705) | (1,177) | - | (251,130) | (261,472) | (7,575) | (6,216) |
| Other capital financing increases | - | - | - | 2,574 | 1,281 | 2,051 | - | - | - | 5,906 | 7,875 | - | - |
| Other capital financing decreases | (3,688) | - | (101) | (4) | - | - | (3,299) | - | - | (7,092) | (7,297) | - | - |
| Net cash provided by (used in) capital financing activities | (267,811) | 268,893 | (16,963) | (7,214) | (7,009) | (80,105) | (19,814) | (52,168) | (65) | (182,256) | (491,685) | (8,999) | (24,050) |
| Cash flows from investing activities: | | | | | | | | | | | | | |
| Purchases of investments with trustees | (894,328) | (567,685) | - | (3,644) | - | - | - | - | - | (1,465,657) | (1,901,356) | - | - |
| Proceeds from sale of investments with trustees | 910,190 | 502,918 | - | 460 | - | - | - | - | - | 1,413,568 | 1,966,505 | - | - |
| Interest and investment income (loss) | 30,319 | 9,454 | 2,838 | 3,070 | (110) | 5,024 | 2,984 | 1,116 | 74 | 54,769 | 23,660 | 773 | 423 |
| Claims settlement proceeds | - | - | - | - | - | - | - | - | - | - | | - | - |
| Other investing activities | - | 939 | - | (543) | (12) | - | - | 167 | - | 551 | 6,478 | (402) | (211) |
| Net cash provided by (used in) investing activities | 46,181 | (54,374) | 2,838 | (657) | (122) | 5,024 | 2,984 | 1,283 | 74 | 3,231 | 95,287 | 371 | 212 |
| Net increase (decrease) in cash and cash equivalents | (34,883) | 248,786 | 28,963 | 35,250 | 7,918 | (16,947) | 455 | 6,147 | 688 | 276,377 | (23,507) | 8,823 | (8,177) |
| Cash and cash equivalents-beginning of year | 441,463 | 216,872 | 92,976 | 58,230 | 26,370 | 149,423 | 74,722 | 29,352 | 2,688 | 1,092,096 | 1,115,603 | 24,253 | 32,430 |
| Cash and cash equivalents-end of year | $ 406,580 | $ 465,658 | $ 121,939 | $ 93,480 | $ 34,288 | $ 132,476 | $ 75,177 | $ 35,499 | $ 3,376 | $ 1,368,473 | $ 1,092,096 | $ 33,076 | $ 24,253 |

*(Continued)*

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



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# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Cash Flows *(Continued)*
## Proprietary Funds

### Year ended June 30, 2006
### (with comparative financial information for year ended June 30, 2005)
### (In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | | | | |
| | San Francisco International Airport | Water Department | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Waste Water Enterprise | Port of San Francisco | Laguna Honda Hospital | Market Corporation | Total 2006 | Total 2005 | Governmental Activities-Internal Service Funds 2006 | Governmental Activities-Internal Service Funds 2005 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | | |
| Operating income (loss) | $ 22,531 | $ 14,899 | $ 30,354 | $ (480,408) | $ (132,956) | $ 23,749 | $ 4,159 | $ (38,743) | $ 468 | $ (555,947) | $ (526,283) | $ (189) | $ 729 |
| Adjustments for non-cash activities: | | | | | | | | | | | | | |
| Depreciation and amortization | 162,009 | 41,877 | 10,701 | 96,967 | 6,825 | 37,228 | 9,536 | 1,034 | 286 | 366,463 | 393,353 | 1,185 | 1,119 |
| Provision for uncollectibles | 816 | - | 339 | (378) | - | (799) | 156 | - | - | 134 | 4,362 | - | - |
| Write-off of capital assets | 670 | 5,731 | 2,557 | - | - | 2,214 | - | - | - | 11,172 | 26,570 | - | - |
| Other | 13,390 | (1,322) | 7,753 | 14,004 | - | - | 345 | - | - | 34,170 | 11,977 | 28 | 8 |
| Changes in assets/liabilities: | | | | | | | | | | | | | |
| Receivables, net | (9,446) | (6,121) | (7,685) | (4,984) | 941 | (1,812) | (1,212) | (4,208) | (6) | (34,533) | 11,907 | 18,513 | 15,187 |
| Due from other funds | - | - | (1,378) | - | (540) | - | - | - | - | (1,918) | (3) | 24 | - |
| Inventories | (28) | 122 | (6) | (230) | (139) | - | 22 | 82 | - | (177) | (5,010) | - | - |
| Deferred charges and other assets | (351) | - | - | (211) | - | - | 1,679 | - | (2) | 1,115 | 6,049 | - | (26) |
| Accounts payable | (6,129) | (3,814) | (2,373) | 4,732 | (114) | (79) | 1,701 | (1,259) | (77) | (7,412) | (323) | (429) | 1,384 |
| Accrued payroll | 731 | (181) | 643 | 1,320 | 1,418 | 996 | 145 | 996 | - | 6,068 | 5,237 | 218 | 120 |
| Accrued vacation and sick leave pay | 842 | 811 | 273 | 611 | (2,185) | 221 | 88 | (1,293) | - | (632) | (260) | 208 | 39 |
| Accrued workers' compensation | (167) | (1,632) | (512) | (9,072) | 952 | (501) | 393 | 450 | - | (10,089) | (4,116) | (46) | (65) |
| Estimated claims payable | - | 2,223 | 2,997 | 9,838 | - | (3,113) | (363) | - | - | 11,582 | 19,393 | - | - |
| Due to other funds | - | (207) | - | (2,448) | 3,653 | - | - | 2,674 | - | 3,672 | (2,063) | - | - |
| Deferred credits and other liabilities | 6,203 | (17,642) | (701) | (177) | - | - | 329 | - | 10 | (11,978) | (23,753) | (2,697) | (3,104) |
| Total adjustments | 168,540 | 19,845 | 12,608 | 109,972 | 10,811 | 34,355 | 12,819 | (1,524) | 211 | 367,637 | 443,320 | 17,004 | 14,662 |
| Net cash provided by (used in) operating activities | $ 191,071 | $ 34,744 | $ 42,962 | $ (370,436) | $ (122,145) | $ 58,104 | $ 16,978 | $ (40,267) | $ 679 | $ (188,310) | $ (82,963) | $ 16,815 | $ 15,391 |
| Reconciliation of cash and cash equivalents to the statement of net assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury: | | | | | | | | | | | | | |
| Unrestricted | $ 240,171 | $ 101,550 | $ 121,929 | $ 62,311 | $ 34,278 | $ 55,631 | $ 66,065 | $ - | $ - | $ 681,935 | $ 651,311 | $ 7,943 | $ 8,196 |
| Restricted | 167,191 | 364,068 | - | 24,016 | - | 76,842 | 4,528 | 35,498 | - | 672,143 | 428,144 | - | - |
| Unrestricted deposits and investments outside City Treasury | 120 | 40 | 10 | 6,185 | 10 | 3 | 13 | 1 | 3,376 | 9,758 | 8,017 | 25,133 | 16,057 |
| Total deposits and investments | 407,482 | 465,658 | 121,939 | 92,512 | 34,288 | 132,476 | 70,606 | 35,499 | 3,376 | 1,363,836 | 1,087,472 | 33,076 | 24,253 |
| Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents | - | - | - | 968 | - | - | 4,571 | - | - | 5,539 | 4,845 | - | - |
| Less: Investments not meeting the definition of cash equivalents | (902) | - | - | - | - | - | - | - | - | (902) | (221) | - | - |
| Cash and cash equivalents at end of year on statement of cash flows | $ 406,580 | $ 465,658 | $ 121,939 | $ 93,480 | $ 34,288 | $ 132,476 | $ 75,177 | $ 35,499 | $ 3,376 | $ 1,368,473 | $ 1,092,096 | $ 33,076 | $ 24,253 |

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, 2006

## (In Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Fund | Agency Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments with City Treasury | $ 70,387 | $ 553,370 | $ 100,125 |
| Deposits and investments outside City Treasury: | | | |
| Cash and deposits | 22,749 | 109 | 120 |
| Short term bills and notes | 943,168 | - | - |
| Debt securities | 3,669,902 | - | - |
| Equity securities | 7,197,575 | - | - |
| Real estate | 1,316,852 | - | - |
| Venture capital | 1,492,752 | - | - |
| Receivables: | | | |
| Employer and employee contributions | 23,706 | - | 35,151 |
| Brokers, general partners and others | 133,277 | - | - |
| Interest and other | 41,380 | 3,086 | 109,718 |
| Invested securities lending collateral | 2,040,873 | - | - |
| Deferred charges and other assets | - | - | 26,658 |
| Total assets | 16,952,621 | 556,565 | $ 271,772 |
| **Liabilities** | | | |
| Accounts payable | 13,116 | 9,123 | $ 53,546 |
| Estimated claims payable | 8,888 | - | - |
| Agency obligations | - | - | 218,226 |
| Obligations under fixed coupon dollar reverse repurchase agreements | 99,141 | - | - |
| Payable to brokers | 209,422 | - | - |
| Securities lending collateral | 2,040,873 | - | - |
| Deferred credits and other liabilities | 41,619 | - | - |
| Total liabilities | 2,413,059 | 9,123 | $ 271,772 |
| **Net Assets** | | | |
| Held in trust for pension and other employee benefits and external pool participants | $ 14,539,562 | $ 547,442 | |

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, 2006
### (In Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Fund |
|---|---|---|
| Additions: | | |
| Employees' contributions | $ 233,228 | $ - |
| Employer contributions | 531,240 | - |
| Contributions to pooled investments | - | 2,572,088 |
| Total contributions | 764,468 | 2,572,088 |
| Investment income: | | |
| Interest | 230,005 | 15,894 |
| Dividends | 144,493 | - |
| Net increase in fair value of investments | 1,337,743 | - |
| Securities lending income | 77,358 | - |
| Fixed coupon dollar reverse repurchase agreement income | 5,467 | - |
| Total investment income | 1,795,066 | 15,894 |
| Less investment expenses: | | |
| Securities lending borrower rebates and expenses | (67,909) | - |
| Fixed coupon dollar reverse repurchase finance charges and expenses | (5,372) | - |
| Other expenses | (40,785) | - |
| Total investment expenses | (114,066) | - |
| Total additions, net | 2,445,468 | 2,587,982 |
| Deductions: | | |
| Benefit payments | 1,067,953 | - |
| Refunds of contributions | 8,719 | - |
| Distribution from pooled investments | - | 2,361,025 |
| Administrative expenses | 11,222 | - |
| Total deductions | 1,087,894 | 2,361,025 |
| Change in net assets | 1,357,574 | 226,957 |
| Net assets at beginning of year | 13,181,988 | 320,485 |
| Net assets at end of year | $ 14,539,562 | $ 547,442 |

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 (The Authority)* - The voters of the City created the Authority in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, 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 Authority is reported in a special revenue fund in the City's basic financial statements. Financial statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

*San Francisco City and County Finance Corporation (The 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. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

*San Francisco Parking Authority (The Parking Authority)* - The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the MTA administrative offices at 1 South Van Ness Avenue, 7th Floor, San Francisco, CA 94102.

***Discretely Presented Component Units***

*San Francisco Redevelopment Agency (The 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 blended component unit of the Agency. The

SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

In May 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. PIDC is reported as a blended component unit of the Agency, due to the Board of PIDC being comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, PIDC is reported as a blended component unit of the Agency.

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 finance department, 1 South Van Ness Avenue, San Francisco, CA 94103.

*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 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 their 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. 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 and the Bay Area Air Quality Management District, 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. Agency funds, however, report only assets and liabilities and cannot be said to have a measurement focus. 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, grants and subventions, 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 (Water Department). The Water Department is engaged in the distribution of water to the City and certain suburban areas.

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

The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Department of Parking and Traffic (DPT), which includes the Parking Authority. MUNI was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of MUNI by acquiring, constructing, and financing improvements to the City's public transportation system. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.

The ***General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.

The ***Wastewater Enterprise Fund*** (formerly known as the Clean Water Program) 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 operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital, the City-owned skilled nursing facility which specializes in serving elderly and disabled residents.

Additionally, the City reports the following fund types:

The ***Permanent Fund*** accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

The ***Internal Service Funds*** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds





account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.

The ***Pension and Other Employee Benefit Trust Funds*** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, 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: the State of California, human welfare, community health and transportation programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the Water Department and Hetch Hetchy. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, 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 nonoperating 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 substantially modified accrual basis of accounting except for capital project funds and certain debt service funds which substantially 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) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The Administrative Code Chapter 3 outlines the City's general budgetary procedures, with Section 3.3 detailing the budget timeline. A summary of the key budgetary steps are summarized as follows:

***Original Budget***

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.

(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.

(3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.

(4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.

(5) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's Proposed Budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.

(6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.

(7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

***Final Budget***

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.





The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors through 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 (school district), San Francisco Community College District (community college district), and the City are involuntary participants in the City's investment pool. As of June 30, 2006, involuntary participants accounted for approximately 94 percent of the pool. Voluntary participants accounted for 6 percent of the pool. Further, the school district, community college district, the Trial Courts of the State of California, and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2006, \$547 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these three external participants is 15 percent. Internal participants accounted for 85 percent of 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* - 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.

*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. Such market value estimates involve subjective judgments, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

The fair values of venture capital investments are estimated based primarily on audited financial statements provided to the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The City Charter and Retirement System 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 collateral may consist of cash or noncash; noncash collateral is generally U.S. treasuries or other U.S. government obligations. The Retirement System's securities custodians are agents in lending the Plan's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. 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 seventy-five 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 eighty-four 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 thirty-nine 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 Retirement System 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-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. This credit exposure at June 30, 2006 was approximately $734 thousand.

*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 fair 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 (The Agency)* – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2006. 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 of less than one year at the date of purchase are valued at the amortized cost, which approximates fair value as of June 30, 2006.

***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, Investment 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 funds, MTA, Laguna Honda Hospital, General Hospital Medical Center, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

### (e) Loans Receivable

For the purposes of the fund financial statements, the 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 (MOH) administers several housing programs and issues loans to qualified applicants. During fiscal year 2005-2006, the MOH reevaluated its methodology for calculating the allowance for uncollectible loans. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. As a result of this change in methodology, the City recorded an expense of $218 million in the government-wide statement of activities to increase the allowance for those loan portfolios which meet the City's policy criteria. Of this amount, $179 million is related to loans outstanding at the beginning of the year. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting deferred credit account. Accordingly, $383.9 million of the $450.9 million loan portfolio is not expected to be ultimately collected as of June 30, 2006.

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. The governmental fund types also use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

### (g) Redevelopment Agency Property Held for Resale

Property held for resale are both residential and commercial and are 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. Property held for sale may, during the period it is held by the Agency, generate rental income, which is recognized as it becomes due and is considered collectible.

### (h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Facilities and Improvements | 15 to 175 |
| Infrastructure | 15 to 70 |
| Machinery and Equipment | 2 to 75 |
| Easements | 20 |

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

### (i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination.

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or





death. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 and will sunset by June 30, 2009.

This Program provides:

> Effective July 1, 2002, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment for a portion of sick leave earned but unused at the time of separation. The amount of this payment shall be equal to 2.5% of sick leave balances earned but unused at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums of supplements, at the time of separation. Vested sick leave hours as described by Civil Service Commission rules, shall not be included in this computation.

The City accrues for all salary-related items, including the Program, in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

### (j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion

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. San Francisco International Airport's bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The remaining bond premiums, discounts, and issuance costs are calculated using the straight-line 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.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide and proprietary fund financial statements.

### (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 rainy day* - The City's Charter requires that the City set aside funds into a reserve account in years in which revenue growth exceeds five percent compared to the year before. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent.

*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 carryforward* - At the end of the fiscal year, certain budgeted expenditures are authorized to be carried over and expended in the ensuing year. A reserve of fund balance is established in the amount of these budget authorizations.

*Reserve for subsequent years' budgets* - A portion of fund balance is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments.

***Restricted Net Assets***

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* - This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2006, the government-wide statement of net assets reported restricted assets of $428.6 million in governmental activities and $437.4 million in business-type activities. For governmental activities, $23.7 million is restricted by enabling legislation.

- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

***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, 2006.

*Designation for litigation and contingencies* - This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year.

***Deficit Net Assets/Fund Balances***

The Culture and Recreation Fund had a $0.5 million deficit as of June 30, 2006. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.





The Environmental Protection Fund has a $7 thousand deficit as of June 30, 2006. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a $4.8 million deficit as of June 30, 2006. The deficit will be covered as hotel tax revenues are realized.

The Telecommunications and Information Internal Service Fund had a $2.3 million deficit in total net assets as of June 30, 2006. Approximately $0.6 million of this deficit is due to current year 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.

### (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 and a liability of the requesting 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 2004-2005 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2005-2006 basic financial statements.

### (q) Effects of New Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. In the current year, the City did not identify any prominent events or changes resulting in impairment of capital assets.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. The City implemented this new reporting requirement in the fiscal year 2005-2006 financial statements.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The disclosure changes related to this statement are reflected in note 2 (k).

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting standards for termination benefits. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. Application of this statement is effective for the City in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. For all other termination benefits, the City has determined this statement does not impact the City's fiscal year 2005-2006 financial statements.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.





In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In September 2006, GASB issued Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*." This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006. The City plans on implementing GASB Statement No. 48 for the fiscal year 2007-2008 financial statements.

In December 2006, GASB issued Statement No. 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations*." This statement issued a standard that will require state and local governments to provide the public with better information about the financial impact of environmental cleanups. This statement is effective for the City's fiscal year ending June 30, 2009.

### (r) 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 statement of net assets 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.

(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, $1,315,584, differ from net assets of governmental activities, $1,794,618, 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 funds 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 | $ 1,503,993 | $ - | $ 7,943 | $ - | $ 1,511,936 |
| Deposits and investments outside City Treasury | 23,752 | - | 25,133 | - | 48,885 |
| Receivables, net: | | | | | |
| Property taxes and penalties | 42,586 | - | - | - | 42,586 |
| Other local taxes | 168,457 | - | - | - | 168,457 |
| Federal and state grants and subventions | 154,086 | - | - | - | 154,086 |
| Charges for services | 22,194 | - | - | - | 22,194 |
| Interest and other | 15,219 | - | 913 | - | 16,132 |
| Due from other funds | 34,819 | - | - | (34,819) | - |
| Due from component unit | 4,806 | - | - | - | 4,806 |
| Loans receivable, net | 74,041 | - | - | - | 74,041 |
| Capital assets, net | - | 2,670,387 | 4,475 | - | 2,674,862 |
| Deferred charges and other assets | 8,972 | 14,338 | 7,000 | - | 30,310 |
| Total assets | 2,052,925 | 2,684,725 | 45,464 | (34,819) | 4,748,295 |
| **Liabilities** | | | | | |
| Accounts payable | 172,861 | - | 5,904 | - | 178,765 |
| Accrued payroll | 62,774 | - | 1,603 | - | 64,377 |
| Accrued vacation and sick leave pay | - | 128,594 | 3,930 | - | 132,524 |
| Accrued workers' compensation | - | 201,376 | 1,105 | - | 202,481 |
| Estimated claims payable | - | 69,477 | - | - | 69,477 |
| Accrued interest payable | - | 6,459 | 1,305 | - | 7,764 |
| Deferred tax, grant and subvention revenues | 63,915 | (61,494) | - | - | 2,421 |
| Due to other funds/internal balances | 62,785 | - | - | (34,819) | 27,966 |
| Deferred credits and other liabilities | 225,006 | (101,618) | 1,723 | - | 125,111 |
| Bonds, loans, capital leases, and other payables | 150,000 | 1,761,111 | 231,680 | - | 2,142,791 |
| Total liabilities | 737,341 | 2,003,905 | 247,250 | (34,819) | 2,953,677 |
| **Fund balances/net assets** | | | | | |
| Total fund balances/net assets | 1,315,584 | 680,820 | (201,786) | - | 1,794,618 |
| Total liabilities and fund balances/net assets | $ 2,052,925 | $ 2,684,725 | $ 45,464 | $ (34,819) | $ 4,748,295 |





(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 | $ 3,361,174 |
| Accumulated depreciation | (690,787) |
| | $ 2,670,387 |

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. $ 14,338

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 | $ (128,594) |
| Accrued workers' compensation | (201,376) |
| Estimated claims payable | (69,477) |
| Bonds, loans, capital leases, and other payables | (1,761,111) |
| Deferred credits and other liabilities | (903) |
| | $ (2,161,461) |

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (6,459)

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 | $ 61,494 |
| Deferred credits and other liabilities | 102,521 |
| | $ 164,015 |

(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.

| | |
|---|---|
| Net deficit before adjustments | (1,236) |
| Adjustments for internal balances with San Francisco Finance Corporation: | |
| Capital lease receivables from other governmental and enterprise funds | (232,802) |
| Deferred charges and other assets | 4,300 |
| Deferred credits and other liabilities | 27,952 |
| | $ (201,786) |

In addition, intrafund receivables and payables among various internal service funds of $0.3 million are eliminated.

### (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, $247,328, differs from the change in net assets for governmental activities $293,536, 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 | $ 1,008,151 | $ 8,069 | $ - | $ - | $ - | $ 1,016,220 |
| Business taxes | 323,153 | - | - | - | - | 323,153 |
| Other local taxes | 595,664 | - | - | - | - | 595,664 |
| Licenses, permits and franchises | 27,662 | - | - | - | - | 27,662 |
| Fines, forfeitures and penalties | 14,449 | - | - | - | - | 14,449 |
| Interest and investment income | 70,046 | 250 | - | 833 | - | 71,129 |
| Rents and concessions | 52,426 | 1,185 | - | - | - | 53,611 |
| Intergovernmental: | | | | | | |
| Federal | 350,985 | - | - | - | - | 350,985 |
| State | 565,989 | (233) | - | - | - | 565,756 |
| Other | 23,500 | - | - | - | - | 23,500 |
| Charges for services | 263,994 | - | - | - | - | 263,994 |
| Other revenues | 61,565 | - | 202,013 | - | - | 263,578 |
| Total revenues | 3,357,584 | 9,271 | 202,013 | 833 | - | 3,569,701 |
| **Expenditures/Expenses** | | | | | | |
| Expenditures: | | | | | | |
| Public protection | 787,398 | (11,261) | 8,523 | (4,018) | - | 780,642 |
| Public works, transportation and commerce | 274,669 | (213) | 8,143 | (10,202) | - | 272,397 |
| Human welfare and neighborhood development | 697,102 | 160,769 | 525 | - | - | 858,396 |
| Community health | 471,741 | 6,188 | 915 | - | - | 478,844 |
| Culture and recreation | 256,979 | (3,941) | 19,089 | (8,789) | (18,915) | 244,423 |
| General administration and finance | 161,195 | (8,939) | 15,495 | (261) | - | 167,490 |
| General City responsibilities | 53,763 | (5,329) | - | (175) | 795 | 49,054 |
| Debt service: | | | | | | |
| Principal retirement | 86,970 | - | - | - | (86,970) | - |
| Interest and fiscal charges | 75,975 | - | - | 8,200 | 10,748 | 94,923 |
| Bond issuance costs | 1,933 | - | - | - | (1,933) | - |
| Capital outlay | 153,493 | - | (153,493) | - | - | - |
| Total expenditures/expenses | 3,021,218 | 137,274 | (100,803) | (15,245) | (96,275) | 2,946,169 |
| **Other financing sources (uses)/changes in net assets** | | | | | | |
| Net transfers (to) from other funds | (330,632) | - | - | 636 | - | (329,996) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | 219,120 | - | - | - | (219,120) | - |
| Face value of loans issued | 5,359 | - | - | - | (5,359) | - |
| Premium on issuance of bonds | 10,233 | - | - | - | (10,233) | - |
| Other financing sources - capital leases | 6,882 | - | - | (6,882) | - | - |
| Total other financing sources (uses)/changes in net assets | (89,038) | - | - | (6,246) | (234,712) | (329,996) |
| **Net change for the year** | $ 247,328 | $ (128,003) | $ 302,816 | $ 9,832 | $ (138,437) | $ 293,536 |





| | | |
|---|---|---|
| (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. | $ 8,069 |
| | Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities. | 1,202 |
| | | $ 9,271 |
| | 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. | $ 19,058 |
| | 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. | (156,332) |
| | | $ (137,274) |
| (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. In fiscal year 2005-2006, the City received the newly constructed deYoung Museum from the Fine Arts Museums of San Francisco. | |
| | Capital expenditures | $ 168,710 |
| | Depreciation expense | (66,776) |
| | Loss on disposal of capital assets | (9) |
| | Write-off of construction in progress | (1,122) |
| | Capital contribution - received newly constructed deYoung Museum from the Fine Arts Museums of San Francisco | 202,013 |
| | Difference | $ 302,816 |
| (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. | $ 9,832 |
| (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 lessee. | |
| | Total property rent payments | $ 18,915 |
| | Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities. | |
| | Bond issuance costs | $ 1,933 |
| | Amortization of bond issuance costs | (795) |
| | Difference | $ 1,138 |

| | |
|---|---|
| Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period | $ (10,233) |

Repayment of bond principal is reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders.

| | |
|---|---|
| Principal payments made | $ 86,970 |

Bond and loan proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:

| | |
|---|---|
| General obligation bonds | $ (219,120) |
| Loans | (5,359) |
| | (224,479) |
| | $ (137,509) |

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses which are expended within the fund statements, and (3) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

| | |
|---|---|
| Decrease in accrued interest | $ 58 |
| Interest payment on capital lease obligations on the Moscone Convention Center | (10,784) |
| Amortization of bond premiums, discounts and refunding losses | 784 |
| Increase in arbitrage rebate liability | (806) |
| | $ (10,748) |



CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

## (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 generally accepted accounting principles (GAAP). 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 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 balance of the General Fund as of June 30, 2006 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

| | General Fund |
|---|---|
| Fund Balance - Budget Basis | $ 478,001 |
| Unrealized Gains/(Losses) on Investments | (562) |
| Cumulative Excess Property Tax Revenues Recognized on a Budget Basis | (23,806) |
| Deferred Charges and Other | (3,067) |
| Reserved for Assets Not Available for Appropriation | 10,710 |
| Fund Balance - GAAP Basis | $ 461,276 |

General Fund Budget basis fund balance at June 30, 2006 is composed of the following (in thousands):

| | | |
|---|---|---|
| Reserved for Rainy Day - Economic Stabilization Reserve | $ 97,910 | |
| Reserved for Rainy Day - One-Time Spending Account | 24,066 | |
| Reserved for Encumbrances | 38,159 | |
| Reserved for Appropriation Carryforward | 124,009 | |
| Reserved for Subsequent Years' Budgets: | | |
| Baseline Appropriation Funding Mandates | 5,232 | |
| Budget Savings Incentive Program | 2,628 | |
| Budget Savings Incentive Program - Recreation and Park | 3,366 | |
| Litigation | 2,877 | |
| Salaries and benefits costs (MOU) | 13,349 | |
| Total Reserved Fund Balance | | $ 311,596 |
| Designated for Litigation and Contingencies | 20,823 | |
| Unreserved, Undesignated Fund Balance - Available for Appropriation | 145,582 | |
| Total Unreserved Amounts | | 166,405 |
| Fund Balance, June 30, 2006 - Budget basis | | $ 478,001 |

Of the $145.6 million unreserved, undesignated fund balance – available for appropriation, $99.5 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2006-2007.

## (5) DEPOSITS AND INVESTMENTS

### (a) *Cash, Deposits and Investments Presentation*

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

| | Primary Government | | | | Component Units |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total | |
| Deposits and investments with City Treasury | $ 1,511,936 [1] | $ 681,935 | $ 723,882 [2] | $ 2,917,753 | $ 1,268 |
| Deposits and investments outside City Treasury | 48,885 [3] | 9,758 | 14,643,227 | 14,701,870 | 169,046 |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 672,143 | - | 672,143 | - |
| Deposits and investments outside City Treasury | - | 310,399 | - | 310,399 | 99,210 |
| Invested securities lending collateral | - | - | 2,040,873 | 2,040,873 | - |
| Total deposits and investments | $ 1,560,821 | $ 1,674,235 | $ 17,407,982 | $ 20,643,038 | $ 269,524 |
| Cash and deposits | $ (50,915) | $ 5,429 | $ 22,711 | $ (22,775) | $ 13,077 |
| Investments | 1,611,736 | 1,668,806 | 17,385,271 | 20,665,813 | 256,447 |
| Total deposits and investments | $ 1,560,821 | $ 1,674,235 | $ 17,407,982 | $ 20,643,038 | $ 269,524 |

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,503,993) and internal service funds ($7,943).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($70,387), investment trust fund ($553,370) and agency funds ($100,125).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($23,752) and internal service funds ($25,133).

### (b) *Cash and Deposits*

The City had cash and deposits at June 30, 2006, 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 | $ 1,690 | $ - | $ 832 | $ - | $ - | $ - | $ 1 | $ - |
| Federally insured deposits | 600 | 600 | 318 | 318 | 100 | 100 | 271 | 271 |
| Collateralized deposits* | (53,705) | 22,914 | 160 | 150 | 3,752 | 3,752 | 12,805 | 14,359 |
| Uninsured and uncollateralized | 500 | 500 | 4,119 | 3,999 | 18,859 | 18,859 | - | - |
| | $ (50,915) | $ 24,014 | $ 5,429 | $ 4,467 | $ 22,711 | $ 22,711 | $ 13,077 | $ 14,630 |

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2006, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $78 million. Of the $78 million of outstanding checks, $8.2 million relates to the San Francisco Unified School District and Community College District, which have been reflected in an investment trust fund.





#### *Custodial Credit Risk - Deposits*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2006, $2.06 million and $15.1 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

### (c) *Investment Policies*

#### *Cash and Cash Equivalents*

The City's cash and cash equivalents include all highly liquid investments and are considered to be cash on hand, restricted assets demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### *Treasurer's Pool*

The City's investment 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. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee), comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

Although the California Government Code and the City's investment policy do not limit the amount of City funds that may be invested in treasury bills and treasury notes, purchases of treasury bonds are restricted to a maximum of five percent of the total portfolio at the time of purchase. Further, the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments. However, the City's investment policy requires that investments in federal agencies should neither exceed 60 percent of the total portfolio at the time of purchase nor have a weighted average maturity in excess of 270 days. If it exceeds 270 days, the total should not exceed 30 percent of the total par value of the portfolio. The investment policy also limits each type of agency instrument.

The City's investment policy also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that they yield a minimum of 0.125% higher than equal maturity U.S. Treasury instruments. The investment policy restricts exposure to $100,000 for all savings institutions and requires that each deposit be fully guaranteed by the Federal Deposit Insurance Corporation. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

Also, the California State Government Code requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 270 days and that the issuer must be rated in the highest ranking by at least one of the national rating agencies. However, the Treasurer's investment policy is more restrictive in that it requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 180 days.

The table below identifies the investment types that are authorized for the City, along with the related interest rate risk and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Bills | N/A | None | None |
| U.S. Treasury Notes | N/A | None | None |
| U.S. Treasury Bonds | N/A | 5% | None |
| U.S. Agency Securities | N/A | 60% | None |
| Commercial Paper Discounts | 180 days | 40% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Public Time Deposit | 1 year | None | None |
| Public Demand Accounts | N/A | None | None |
| Bankers Acceptances | 180 days | 40% | 30% |
| Repurchase Agreements | 30 days | None | None |
| Reverse Repurchase Agreements | 45 days | None | $75 million |

The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. Those instruments are valued at par, cost, or fair value at the time of donation.

### *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.

### *Employees' Retirement System*

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; and alternative investments, which include investments in a variety of commingled partnership vehicles.

### *San Francisco Redevelopment Agency*

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.





Certain investments of the Agency are in the Local Agency Investment Fund (LAIF). LAIF is sponsored by the State Treasurer and prepares its market value report detailing the carrying cost and the estimated fair value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated fair values. In addition, the Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

### *(d) Investment Risks*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2006 (in thousands). The Employees' Retirement System's interest rate risk information begins on page 69.

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| | Fair Value | Less than 1 year | 1 to 5 years | 5 to 10 years | More than 10 years |
| **Primary Government:** | | | | | |
| Investments in City Treasury: | | | | | |
| U.S. Treasury Bills | $ 334,334 | $ 334,334 | $ - | $ - | $ - |
| U.S. Treasury Notes | 1,058,972 | 543,977 | 514,995 | - | - |
| U.S. Agencies - Discount | 800,839 | 800,839 | - | - | - |
| Commercial paper | 812,472 | 812,472 | - | - | - |
| Negotiable certificates of deposits | 639,895 | 639,895 | - | - | - |
| Public time deposits | 4,934 | 4,934 | - | - | - |
| Less: Treasure Island Development Authority | | | | | |
| Investments with City Treasury | (1,268) | (1,268) | - | - | - |
| Subtotal investments in City Treasury | 3,650,178 | $ 3,135,183 | $ 514,995 | $ - | $ - |
| Investments Outside City Treasury: | | | | | |
| (Governmental and Business-Type) | | | | | |
| U.S. Treasury Notes | 196,354 | $ 194,449 | $ 1,905 | $ - | $ - |
| U.S. Treasury Bills | 16,592 | 14,147 | 2,445 | - | - |
| U.S. Agencies - Coupon | 5,670 | 2,221 | 3,449 | - | - |
| U.S. Agencies - Discount | 7,044 | 7,044 | - | - | - |
| Money market mutual funds | 127,284 | 127,284 | - | - | - |
| Equity securities | 829 | 829 | - | - | - |
| Commercial paper | 740 | 740 | - | - | - |
| Subtotal investments outside City Treasury | 354,513 | $ 346,714 | $ 7,799 | $ - | $ - |
| Employees' Retirement System investments | 16,661,122 | | | | |
| **Total Primary Government** | 20,665,813 | | | | |
| **Component Units:** | | | | | |
| Redevelopment Agency: | | | | | |
| U.S. Agencies - Coupon | 52,800 | $ 39,369 | $ 13,431 | $ - | $ - |
| U.S. Agencies - Discount | 10,388 | 10,388 | - | - | - |
| Bankers' acceptances | 10,042 | 10,042 | - | - | - |
| Commercial paper | 10,328 | 10,328 | - | - | - |
| Certificate of deposit | 7,535 | 7,535 | - | - | - |
| Repurchase agreements | 1,302 | - | 1,302 | - | - |
| State Local Agency Investment Fund | 49,383 | 49,383 | - | - | - |
| Money market mutual funds | 92,604 | 92,604 | - | - | - |
| Guaranteed investment contracts | 20,797 | - | 987 | - | 19,810 |
| Subtotal Redevelopment Agency | 255,179 | $ 219,649 | $ 15,720 | $ - | $ 19,810 |
| Treasure Island Development Authority: | | | | | |
| Investments with City Treasury | 1,268 | $ 1,268 | $ - | $ - | $ - |
| Subtotal Treasure Island Development Authority | 1,268 | $ 1,268 | $ - | $ - | $ - |
| **Total Component Units** | 256,447 | | | | |
| **Total Investments** | $ 20,922,260 | | | | |

One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits investments to securities with short maturities, such as the following:

- The maximum maturity of commercial paper is 180 days. Investment in commercial paper will comprise not more than 30% of the Agency's portfolio if average maturity is no more than 31 days or 15% if average maturity is more than 31 days.

- The maximum maturity of corporate notes is five years. Investment in corporate notes may not exceed 15% of the Agency's portfolio.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2006 for each investment type in the City's Treasury.

| Investment Type | Minimum Legal Rating | Standard & Poor's Rating | Total Investment Portfolio |
|---|---|---|---|
| U.S. Treasury Bills | N/A | A-1 | 9% |
| U.S. Treasury Notes | N/A | A-1 | 29% |
| U.S. Agencies | N/A | A-1 | 22% |
| Commercial Paper | A-1 | A-1 | 22% |
| Negotiable Certificates of Deposits | N/A | A-1 | 18% |

As a means of limiting its exposure to credit risk, the Agency's investment policy limits investments to high-quality securities with an investment grade of A or better, and maintaining a portfolio diversified by type and issuer.

| Investment Type | Credit Ratings | Total Investment Portfolio |
|---|---|---|
| U.S. Agencies - Coupon | AAA | 21% |
| U.S. Agencies - Discount | AAA | 4% |
| Commercial paper | A-1/P-1+ | 4% |
| Repurchase agreements | Not rated | 1% |
| State Local Agency Investment Fund | Not rated | 19% |
| Money market mutual funds | AAAm | 36% |
| Guaranteed investment contracts | AA or Higher | 8% |
| Bankers acceptances | Not rated | 4% |
| Certificates of deposit | N/A | 3% |

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name.





The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2006, $1.3 million of the Agency's investments are uninsured and unregistered.

***Concentration of Credit Risk***

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to single issuer limitation. More than 5 percent of the City's investments with the City Treasurer are in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and the Federal National Mortgage Association. These investments represent 9 percent, 7 percent, and 6 percent, respectively, of the City's investments in U.S. Agencies. The City's investments in commercial paper are with Bank of America, U.S. Bank, and Union Bank, with Bank of America representing 15 percent of the total 22 percent investment in commercial paper. The City's investments in negotiable certificates of deposit are with Wells Fargo Bank and Bank of America, with Wells Fargo Bank representing 11 percent of the total 18 percent investment in negotiable certificates of deposit.

In addition, more than five percent of the Airport's investments with its trustees are in Federal Home Loan Bank and Federal National Mortgage Association. These investments represent 51 percent and 48 percent, respectively, of the Airport's investments with its trustees. The Finance Corporation's investments with its trustee are held in Federal Home Loan Bank for 19 percent and Federal National Mortgage Association for 20 percent.

***(e) Treasurer's Pool***

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2006 (in thousands):

| | |
|---|---|
| **Statement of Net Assets** | |
| Net assets held in trust for all pool participants | $ 3,591,164 |
| Equity of internal pool participants | 3,043,722 |
| Equity of external pool participants | 547,442 |
| Total equity | $ 3,591,164 |
| **Statement of Changes in Net Assets** | |
| Net assets at July 1, 2005 | $ 2,828,140 |
| Net change in investments by pool participants | 763,024 |
| Net assets at June 30, 2006 | $ 3,591,164 |

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2006 (in thousands):

| Types of Investment | Rates | Maturities | Par Value | Carrying Value |
|---|---|---|---|---|
| U.S. government securities | 4.42% - 5.16% | 07/06/06-03/31/08 | $ 1,412,000 | $ 1,393,306 |
| Federal agencies | 4.85% - 5.21% | 07/05/06-02/23/07 | 810,000 | 800,839 |
| Negotiable certificate of deposits | 5.02% - 5.28% | 07/03/06-08/23/06 | 640,000 | 639,895 |
| Commercial paper | 5.00% - 5.32% | 07/05/06-08/22/06 | 820,000 | 812,472 |
| Public time deposits | 3.00% - 5.40% | 07/16/06-06/06/07 | 5,200 | 4,934 |
| | | | $ 3,687,200 | 3,651,446 |
| Carrying amount of deposits in Treasurer's Pool | | | | (60,282) |
| Total cash and investments in Treasurer's Pool | | | | $ 3,591,164 |

### *(f) Retirement System Investments*

The Retirement System's investments as of June 30, 2006 are summarized as follows (in thousands):

| | |
|---|---|
| Fixed Income Investments: | |
| Short-term bills and notes | $ 943,168 |
| Debt securities: | |
| U.S. Government and agencies | 1,151,022 |
| U.S. Corporate | 2,080,693 |
| International government | 329,792 |
| International corporate | 108,395 |
| Subtotal debt securities | 3,669,902 |
| Total fixed income investments | 4,613,070 |
| Equity securities: | |
| Domestic | 4,300,868 |
| International | 2,896,707 |
| Total equity securities | 7,197,575 |
| Real estate holdings | 1,316,852 |
| Venture capital | 1,492,752 |
| Investment in lending agent's short-term investment pool | 2,040,873 |
| **Total Retirement System Investments** | $ 16,661,122 |

### *Interest Rate Risk*

The Retirement System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2006.

| Investment Type | Market Value | Less than 1 year | 1-6 years | 6-10 years | 10+ years |
|---|---|---|---|---|---|
| Asset Backed Securities | $ 82,077 | $ - | $ 4,176 | $ 6,537 | $ 71,364 |
| Commercial Mortgage-Backed Securities | 469,713 | - | 11,577 | 43,743 | 414,393 |
| Commercial Paper | 1,116 | 1,116 | - | - | - |
| Corporate Bonds | 511,778 | 23,035 | 202,833 | 202,684 | 83,226 |
| Corporate Convertible Bonds | 178,396 | 755 | 18,961 | 7,486 | 151,194 |
| Government Agencies | 315,860 | - | 298,281 | 13,319 | 4,260 |
| Government Bonds | 915,297 | 17,482 | 551,438 | 174,627 | 171,750 |
| Government Mortgage-Backed Securities | 178,824 | - | - | 196 | 178,628 |
| Index Linked Government Bonds | 57,720 | - | 166 | 25,556 | 31,998 |
| Loans | 15,344 | - | 15,344 | - | - |
| Mortgages | 69,575 | - | 31,053 | 12,098 | 26,424 |
| Municipal/Provincial Bonds | 8,252 | - | 4,385 | 3,821 | 46 |
| Non-Government Backed Collateralized Mortgage Obligations | 99,106 | 400 | 9,575 | 2,250 | 86,881 |
| Other Fixed Income | 3,000 | 3,000 | - | - | - |
| Short-term Bills and Notes | 75,114 | 75,114 | - | - | - |
| **Total** | $ 2,981,172 | $ 120,902 | $ 1,147,789 | $ 492,317 | $ 1,220,164 |



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### *Credit Risk*

The Retirement System's fixed income managers are limited within their portfolios to no more than 10% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government as of June 30, 2006 (amounts in thousands):

| Investment Type | Fair Value | AAA | AA | A | BBB | BB | B | C | Not Rated |
|---|---|---|---|---|---|---|---|---|---|
| Asset Backed Securities | $ 82,077 | $ 17,954 | $ - | $ - | $ 2,065 | $ 9,080 | $ 763 | $ - | $ 52,215 |
| Commercial Mortgage-Backed | 469,713 | 61,276 | 16,600 | 10,198 | 26,756 | 42,680 | 9,424 | 761 | 302,018 |
| Corporate Bonds | 1,395,642 | 15,709 | 16,323 | 52,867 | 75,844 | 95,080 | 148,486 | 30,101 | 961,232 |
| Corporate Convertible Bonds | 178,396 | - | 4,584 | 13,234 | 35,732 | 24,370 | 14,405 | 2,669 | 83,402 |
| Government Agencies | 315,860 | 259,760 | 3,478 | 470 | - | - | - | - | 52,152 |
| Government Bonds | 337,865 | 143,801 | 12,858 | 68,950 | 45,921 | 29,863 | 10,870 | 373 | 25,229 |
| Government Mortgage-Backed Securities | 183,684 | - | - | - | - | - | - | - | 183,684 |
| Index Linked Government Bonds | 11,805 | 3,137 | - | - | - | - | - | - | 8,668 |
| Mortgages | 121,428 | - | - | - | - | - | - | - | 121,428 |
| Municipal/Provincial Bonds | 8,252 | - | 8,065 | 187 | - | - | - | - | - |
| Non-Government Backed Collateralized Collateralized Mortgage Obligations | 99,105 | 25,362 | 480 | 924 | 3,041 | 4,428 | 3,430 | - | 61,440 |
| Other fixed Income | 18,344 | - | - | - | - | - | - | - | 18,344 |
| Short-term bills and notes | 72,594 | - | - | - | - | - | - | - | 72,594 |
| Total | $ 3,294,765 | $ 526,999 | $ 62,388 | $ 146,830 | $ 189,359 | $ 205,501 | $ 187,378 | $ 33,904 | $ 1,942,406 |

The ratings are the lower of the ratings by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Investments not rated by either Moody's or S&P are shown as not rated in the above table.

### *Custodial Credit Risk*

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2006, $5.7 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

### *Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2006, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk is as follows (in thousands):

| Currency | Cash | Equity | Fixed Income | Venture Capital | Swaps | Total |
|---|---|---|---|---|---|---|
| Argentine peso | $ - | $ - | $ 4,621 | $ - | $ - | $ 4,621 |
| Australian dollar | 157,323 | 72,271 | - | - | - | 229,594 |
| Brazilian real | (3,618) | 19,573 | 2,467 | - | 8,092 | 26,514 |
| British pound sterling | 192,440 | 427,263 | 47,495 | 2,783 | - | 669,981 |
| Canadian dollar | 133,927 | 94,841 | 14,679 | - | - | 243,447 |
| Chilean peso | 3,617 | - | - | - | - | 3,617 |
| Chinese yuan renminbi | 80,555 | - | - | - | - | 80,555 |
| Czech koruna | (2,991) | 7,729 | - | - | - | 4,738 |
| Danish krone | (2,181) | 19,690 | 788 | - | - | 18,297 |
| Egyptian pound | 16 | 1,777 | - | - | 2,233 | 4,026 |
| Euro currency | (508,138) | 795,899 | 109,050 | 113,130 | - | 509,941 |
| Hong Kong dollar | (8,632) | 86,565 | - | - | - | 77,933 |
| Hungarian forint | 50 | 5,920 | - | - | - | 5,970 |
| Indian rupiah | (245) | 3,040 | - | - | - | 2,795 |
| Japanese yen | (1,848) | 624,967 | 86,849 | 9,390 | - | 719,358 |
| Kazakhstan tenge | - | - | - | - | 1,435 | 1,435 |
| Malaysian ringgit | 63 | 17,039 | - | - | - | 17,102 |
| Mexican peso | 113 | 9,135 | 3,269 | - | - | 12,517 |
| New Israeli shekel | 108 | 8,946 | - | - | - | 9,054 |
| New Romanian Leu | 5,004 | - | - | - | - | 5,004 |
| New Taiwan dollar | 9,343 | - | - | - | - | 9,343 |
| New Zealand dollar | (39,204) | 2,509 | 3,137 | - | - | (33,558) |
| Nigerian naira | 10 | - | - | - | 4,155 | 4,165 |
| Norwegian krone | 57,698 | 21,475 | - | - | - | 79,173 |
| Peruvian nuevo sol | 831 | - | - | - | - | 831 |
| Philippine peso | 3,056 | - | - | - | - | 3,056 |
| Polish zloty | 7,795 | 10,553 | 5,995 | - | - | 24,343 |
| Russian ruble (new) | 10,167 | - | 6,113 | - | 2,444 | 18,724 |
| Singapore dollar | 10,112 | 19,032 | - | - | - | 29,144 |
| South African rand | (2,214) | 43,487 | - | - | - | 41,273 |
| South Korean won | (1,744) | 100,929 | - | - | - | 99,185 |
| Swedish krona | (28,950) | 37,402 | 1,151 | - | - | 9,603 |
| Swiss franc | 46,331 | 149,627 | - | - | - | 195,958 |
| Thai baht | (2,749) | 10,996 | - | - | - | 8,247 |
| Turkish lira | 4,095 | 3,312 | - | - | - | 7,407 |
| Uruguayan peso | 46 | - | 2,725 | - | - | 2,771 |
| Total | $ 120,186 | $ 2,593,977 | $ 288,339 | $ 125,303 | $ 18,359 | $ 3,146,164 |

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 fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2006, the fair value of open contracts is reported as liabilities and can be summarized as follows (in thousands):

| | |
|---|---|
| Purchase contracts | $ 6,808,465 |
| Sales contracts | (6,821,290) |
| Net fair value | $ (12,825) |



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The Retirement System utilized these contracts to hedge (or decrease) the currency risk of foreign investments, 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 impact on market risk of these contracts can be summarized as follows (in thousands):

| | |
|---|---|
| Contracts used to hedge or to settle trades, net | $ (1,387,002) |
| Contracts used to increase investment exposure in a foreign currency or to settle trades, net | 1,374,177 |
| Net fair value | $ (12,825) |

***Securities Lending***

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and securities at 105% of the fair market value of domestic securities and non-domestic securities lent. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

The Retirement System lent $2,350,346 in securities and received collateral of $364,213 and $2,040,873 in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2006, are summarized in the following table (in thousands):

| Security Type | Fair Value of Loaned Securities | Cash Collateral | Fair Value of Non-Cash Collateral |
|---|---|---|---|
| Securities Loaned for Cash Collateral: | | | |
| International Corporate Fixed | $ 5,650 | $ 5,842 | $ - |
| International Equities | 416,062 | 428,695 | - |
| International Government Fixed | 23,431 | 23,954 | - |
| U.S. Agencies | 321,877 | 327,556 | - |
| U.S. Corporate Fixed | 158,598 | 161,201 | - |
| U.S. Equities | 514,048 | 523,569 | - |
| U.S. Government Fixed | 560,925 | 570,056 | - |
| Securities Loaned with Non-Cash Collateral: | | | |
| International Equities | 275,659 | - | 287,816 |
| International Government Fixed | 43,837 | - | 45,547 |
| International UK Gilt | 6,314 | - | 6,498 |
| U.S. Agencies | 2,812 | - | 2,859 |
| U.S. Corporate Fixed | 7,162 | - | 7,278 |
| U.S. Equities | 10,297 | - | 10,479 |
| U.S. Government Fixed | 3,674 | - | 3,736 |
| Total | $ 2,350,346 | $ 2,040,873 | $ 364,213 |

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2006, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

### *(g) Supplemental disclosure of non-cash investing, capital and financing activities*

San Francisco International Airport

During the fiscal year 2005-2006, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 33 in 10 separate series. The $467 million in proceeds were deposited immediately into irrevocable trusts to refund certain revenue bonds previously issued.

**Other Non-Cash Transactions**

The following represents the other non-cash transactions as of June 30, 2006 (in thousands):

| | San Francisco International Airport | San Francisco Water Department | Hetch Hetchy Water & Power | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of Francisco | Laguna Honda Hospital | Internal Service Funds | Total 2006 |
|---|---|---|---|---|---|---|---|---|---|
| Donated inventory | $ - | $ - | $ - | $ 519 | $ - | $ - | $ - | $ - | $ 519 |
| Tenant Improvements | - | - | - | - | - | 10,947 | - | - | 10,947 |
| Acquisition of capital assets on accounts payable and capital leases | 22,249 | 15,007 | 870 | 2,068 | 6,823 | 1,895 | 142 | 195 | 49,249 |
| Total | $ 22,249 | $ 15,007 | $ 870 | $ 2,587 | $ 6,823 | $ 12,842 | $ 142 | $ 195 | $ 60,715 |





## (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 1978-1979, general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 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. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $135 million for the year ended June 30, 2006.

Taxable valuation for the year ended June 30, 2006 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $106.9 billion, an increase of 6.2%. The secured tax rate was $1.140 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, $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.140 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.36% and 2.52%, respectively, of the current year tax levy, for an average delinquency rate of 1.43% 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 tax 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, 2006 was $10.1 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, 2006, was as follows (in thousands):

### Governmental Activities:

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 143,640 | $ - | $ - | $ 143,640 |
| Construction in progress | 292,040 | 151,705 | (82,858) | 360,887 |
| Total capital assets, not being depreciated | 435,680 | 151,705 | (82,858) | 504,527 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 2,140,598 | 223,653 | (141) | 2,364,110 |
| Machinery and equipment | 256,437 | 17,646 | (3,336) | 270,747 |
| Infrastructure | 194,466 | 60,794 | - | 255,260 |
| Property held under lease | 4,816 | - | - | 4,816 |
| Total capital assets, being depreciated | 2,596,317 | 302,093 | (3,477) | 2,894,933 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 436,332 | 42,967 | (141) | 479,158 |
| Machinery and equipment | 210,416 | 19,412 | (3,327) | 226,501 |
| Infrastructure | 9,243 | 5,416 | - | 14,659 |
| Property held under lease | 4,280 | - | - | 4,280 |
| Total accumulated depreciation | 660,271 | 67,795 | (3,468) | 724,598 |
| Total capital assets, being depreciated, net | 1,936,046 | 234,298 | (9) | 2,170,335 |
| Governmental activities capital assets, net | $ 2,371,726 | $ 386,003 | $ (82,867) | $ 2,674,862 |

### Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2006, was as follows (in thousands):

#### San Francisco International Airport

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,316 | $ - | $ - | $ 2,316 |
| Construction in progress | 45,042 | 84,475 | (61,327) | 68,190 |
| Total capital assets, not being depreciated | 47,358 | 84,475 | (61,327) | 70,506 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 4,769,544 | 57,832 | (10,205) | 4,817,171 |
| Machinery and equipment | 65,869 | 3,664 | (905) | 68,628 |
| Easements | 138,609 | 758 | - | 139,367 |
| Total capital assets, being depreciated | 4,974,022 | 62,254 | (11,110) | 5,025,166 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 1,148,818 | 152,341 | (3,560) | 1,297,599 |
| Machinery and equipment | 59,464 | 2,734 | (905) | 61,293 |
| Easements | 53,075 | 6,934 | - | 60,009 |
| Total accumulated depreciation | 1,261,357 | 162,009 | (4,465) | 1,418,901 |
| Total capital assets, being depreciated, net | 3,712,665 | (99,755) | (6,645) | 3,606,265 |
| Capital assets, net | $ 3,760,023 | $ (15,280) | $ (67,972) | $ 3,676,771 |





#### San Francisco Water Department

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 17,929 | $ - | $ - | $ 17,929 |
| Construction in progress | 121,863 | 136,825 | (59,033) | 199,655 |
| Total capital assets, not being depreciated | 139,792 | 136,825 | (59,033) | 217,584 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 1,027,836 | 46,655 | - | 1,074,491 |
| Machinery and equipment | 104,194 | 13,041 | (342) | 116,893 |
| Total capital assets, being depreciated | 1,132,030 | 59,696 | (342) | 1,191,384 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 391,206 | 33,610 | - | 424,816 |
| Machinery and equipment | 68,451 | 8,267 | (320) | 76,398 |
| Total accumulated depreciation | 459,657 | 41,877 | (320) | 501,214 |
| Total capital assets, being depreciated, net | 672,373 | 17,819 | (22) | 690,170 |
| Capital assets, net | $ 812,165 | $ 154,644 | $ (59,055) | $ 907,754 |

#### Hetch Hetchy Water and Power

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 4,215 | $ - | $ - | $ 4,215 |
| Construction in progress | 50,906 | 15,903 | (13,179) | 53,630 |
| Total capital assets, not being depreciated | 55,121 | 15,903 | (13,179) | 57,845 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 443,372 | 9,413 | - | 452,785 |
| Machinery and equipment | 39,058 | 1,654 | (149) | 40,563 |
| Total capital assets, being depreciated | 482,430 | 11,067 | (149) | 493,348 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 243,263 | 9,050 | - | 252,313 |
| Machinery and equipment | 27,279 | 1,651 | (123) | 28,807 |
| Total accumulated depreciation | 270,542 | 10,701 | (123) | 281,120 |
| Total capital assets, being depreciated, net | 211,888 | 366 | (26) | 212,228 |
| Capital assets, net | $ 267,009 | $ 16,269 | $ (13,205) | $ 270,073 |

### Municipal Transportation Agency

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 26,245 | $ - | $ - | $ 26,245 |
| Construction in progress | 379,203 | 90,946 | (8,935) | 461,214 |
| Total capital assets, not being depreciated | 405,448 | 90,946 | (8,935) | 487,459 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 383,597 | 3,826 | - | 387,423 |
| Machinery and equipment | 1,089,266 | 5,145 | (13,147) | 1,081,264 |
| Infrastructure | 716,725 | 2,341 | - | 719,066 |
| Total capital assets, being depreciated | 2,189,588 | 11,312 | (13,147) | 2,187,753 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 155,713 | 6,083 | - | 161,796 |
| Machinery and equipment | 316,413 | 64,941 | (12,402) | 368,952 |
| Infrastructure | 231,683 | 22,906 | - | 254,589 |
| Total accumulated depreciation | 703,809 | 93,930 | (12,402) | 785,337 |
| Total capital assets, being depreciated, net | 1,485,779 | (82,618) | (745) | 1,402,416 |
| Capital assets, net | $ 1,891,227 | $ 8,328 | $ (9,680) | $ 1,889,875 |

### San Francisco General Hospital Medical Center

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 542 | $ - | $ - | $ 542 |
| Construction in progress | 2,683 | 3,097 | (1,351) | 4,429 |
| Total capital assets, not being depreciated | 3,225 | 3,097 | (1,351) | 4,971 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 128,432 | 2,366 | - | 130,798 |
| Machinery and equipment | 48,442 | 3,232 | - | 51,674 |
| Total capital assets, being depreciated | 176,874 | 5,598 | - | 182,472 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 87,617 | 3,805 | - | 91,422 |
| Machinery and equipment | 39,032 | 3,020 | - | 42,052 |
| Total accumulated depreciation | 126,649 | 6,825 | - | 133,474 |
| Total capital assets, being depreciated, net | 50,225 | (1,227) | - | 48,998 |
| Capital assets, net | $ 53,450 | $ 1,870 | $ (1,351) | $ 53,969 |



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### San Francisco Wastewater Enterprise

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 22,168 | $ - | $ - | $ 22,168 |
| Construction in progress | 33,558 | 51,890 | (28,652) | 56,796 |
| Total capital assets, not being depreciated | 55,726 | 51,890 | (28,652) | 78,964 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 1,937,406 | 19,759 | - | 1,957,165 |
| Machinery and equipment | 26,716 | 8,113 | (53) | 34,776 |
| Total capital assets, being depreciated | 1,964,122 | 27,872 | (53) | 1,991,941 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 699,636 | 35,867 | - | 735,503 |
| Machinery and equipment | 21,267 | 1,361 | (53) | 22,575 |
| Total accumulated depreciation | 720,903 | 37,228 | (53) | 758,078 |
| Total capital assets, being depreciated, net | 1,243,219 | (9,356) | - | 1,233,863 |
| Capital assets, net | $ 1,298,945 | $ 42,534 | $ (28,652) | $ 1,312,827 |

### Port of San Francisco

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 119,452 | $ 1,002 | $ - | $ 120,454 |
| Construction in progress | 20,394 | 25,356 | (9,839) | 35,911 |
| Total capital assets, not being depreciated | 139,846 | 26,358 | (9,839) | 156,365 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 273,279 | 9,224 | - | 282,503 |
| Machinery and equipment | 13,477 | 946 | (64) | 14,359 |
| Total capital assets, being depreciated | 286,756 | 10,170 | (64) | 296,862 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 165,473 | 8,427 | - | 173,900 |
| Machinery and equipment | 8,158 | 1,109 | (64) | 9,203 |
| Total accumulated depreciation | 173,631 | 9,536 | (64) | 183,103 |
| Total capital assets, being depreciated, net | 113,125 | 634 | - | 113,759 |
| Capital assets, net | $ 252,971 | $ 26,992 | $ (9,839) | $ 270,124 |

### Laguna Honda Hospital

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 914 | $ - | $ - | $ 914 |
| Construction in progress | 67,919 | 65,908 | - | 133,827 |
| Total capital assets, not being depreciated | 68,833 | 65,908 | - | 134,741 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 27,388 | 719 | - | 28,107 |
| Machinery and equipment | 12,907 | 222 | - | 13,129 |
| Property held under lease | 2,802 | 43 | - | 2,845 |
| Total capital assets, being depreciated | 43,097 | 984 | - | 44,081 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 22,835 | 715 | - | 23,550 |
| Machinery and equipment | 11,985 | 216 | - | 12,201 |
| Property held under lease | 135 | 103 | - | 238 |
| Total accumulated depreciation | 34,955 | 1,034 | - | 35,989 |
| Total capital assets, being depreciated, net | 8,142 | (50) | - | 8,092 |
| Capital assets, net | $ 76,975 | $ 65,858 | $ - | $ 142,833 |

### Other Fund – San Francisco Market Corporation

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | $ 9,531 | $ 64 | $ - | $ 9,595 |
| Machinery and equipment | 55 | - | - | 55 |
| Total capital assets, being depreciated | 9,586 | 64 | - | 9,650 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 4,538 | 270 | - | 4,808 |
| Machinery and equipment | - | 14 | - | 14 |
| Total accumulated depreciation | 4,538 | 284 | - | 4,822 |
| Total capital assets, being depreciated, net | 5,048 | (220) | - | 4,828 |
| Capital assets, net | $ 5,048 | $ (220) | $ - | $ 4,828 |





### Total Business-type Activities

| | Balance July 1, 2005 | Increases* | Decreases* | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 193,781 | $ 1,002 | $ - | $ 194,783 |
| Construction in progress | 721,568 | 474,400 | (182,316) | 1,013,652 |
| Total capital assets, not being depreciated | 915,349 | 475,402 | (182,316) | 1,208,435 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 9,000,385 | 149,858 | (10,205) | 9,140,038 |
| Machinery and equipment | 1,399,984 | 36,017 | (14,660) | 1,421,341 |
| Infrastructure | 716,725 | 2,341 | - | 719,066 |
| Property held under lease | 2,802 | 43 | - | 2,845 |
| Easements | 138,609 | 758 | - | 139,367 |
| Total capital assets, being depreciated | 11,258,505 | 189,017 | (24,865) | 11,422,657 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 2,919,100 | 250,167 | (3,560) | 3,165,707 |
| Machinery and equipment | 552,049 | 83,313 | (13,867) | 621,495 |
| Infrastructure | 231,682 | 22,907 | - | 254,589 |
| Property held under lease | 135 | 103 | - | 238 |
| Easements | 53,075 | 6,934 | - | 60,009 |
| Total accumulated depreciation | 3,756,041 | 363,424 | (17,427) | 4,102,038 |
| Total capital assets, being depreciated, net | 7,502,464 | (174,407) | (7,438) | 7,320,619 |
| Capital assets, net | $ 8,417,813 | $ 300,995 | $ (189,754) | $ 8,529,054 |

* The increases and decreases include transfers of categories of capital assets from properties held under lease to facilities and improvements.

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

| | |
|---|---|
| Governmental activities | |
| Public protection | $ 9,180 |
| Public works, transportation, and commerce | 14,984 |
| Human welfare and neighborhood development | 548 |
| Community health | 930 |
| Culture and recreation | 25,242 |
| General administration and finance | 15,892 |
| Capital assets held by the City's internal service funds charged to the various functions on a prorated basis | 1,019 |
| Total depreciation expense - governmental activities | $ 67,795 |
| Business-type activities: | |
| Airport | 162,009 |
| Water | 41,877 |
| Power | 10,701 |
| Transportation | 93,930 |
| Hospitals | 7,859 |
| Sewer | 37,228 |
| Port | 9,536 |
| Market | 284 |
| Total depreciation expense - business-type activities | $ 363,424 |

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.6 billion as of June 30, 2006. In addition, the Water Department had utility type assets with useful lives over 100 years, which totaled $4.5 million as of June 30, 2006.

During the fiscal year ended June 30, 2006, the City's enterprise funds incurred total interest expense and interest income of approximately $261.2 million and $53 million, respectively. Of these amounts, interest expense of approximately $7 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2006, the Water Department, Hetch Hetchy, and the Wastewater Enterprise expensed $5.7 million, $2.6 million, and $2.2 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

In addition, the City received a capital contribution of the newly completed de Young Museum from the Fine Arts Museums of San Francisco. The new de Young Museum, with a total cost of $202 million, is located in Golden Gate Park and opened on October 15, 2005. The addition of the asset was included in the facilities and improvements of the governmental activities.

***Component Unit –Redevelopment Agency***

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2006 was as follows (in thousands):

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Property held under lease | $ 104,968 | $ - | $ - | $ 104,968 |
| Construction in progress | 22,292 | 2,628 | (9,923) | 14,997 |
| Total capital assets, not being depreciated/amortized | 127,260 | 2,628 | (9,923) | 119,965 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 161,439 | 10,886 | - | 172,325 |
| Machinery and equipment | 7,827 | 241 | - | 8,068 |
| Leasehold improvements | 21,602 | 600 | - | 22,202 |
| Total capital assets, being depreciated | 190,868 | 11,727 | - | 202,595 |
| Less accumulated depreciation and amortization for: | | | | |
| Facilities and improvements | 36,015 | 4,056 | - | 40,071 |
| Machinery and equipment | 7,440 | 228 | - | 7,668 |
| Leasehold improvements | 7,786 | 432 | - | 8,218 |
| Total accumulated depreciation and amortization | 51,241 | 4,716 | - | 55,957 |
| Total capital assets, being depreciated, net | 139,627 | 7,011 | - | 146,638 |
| Redevelopment Agency capital assets, net | $ 266,887 | $ 9,639 | $ (9,923) | $ 266,603 |





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

### Short-Term Obligations

The following is a summary of short-term obligations of the City as of June 30, 2006 (in thousands):

| Type of Obligation | Final Maturity Date | Interest Rates | Amount |
|---|---|---|---|
| Governmental activities: | | | |
| Commercial paper | 2007 | 3.37 to 3.6% | $150,000 |

### Changes in Short-Term Obligations

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2006, are as follows (in thousands):

| | July 1, 2005 | Additional Obligations | Current Maturities | June 30, 2006 |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Commercial paper | $ 150,000 | $ - | $ - | $ 150,000 |
| Governmental activities short-term obligations | $ 150,000 | $ - | $ - | $ 150,000 |
| Enterprise activities: | | | | |
| Commercial paper | | | | |
| San Francisco Water Department | $ 80,000 | $ - | $ (80,000) | $ - |
| Business-type activities short-term obligations | $ 80,000 | $ - | $ (80,000) | $ - |

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority (the Authority) authorized the issuance of an initial tranche of up to $50 million and in September 2004, the Authority authorized the second tranche of $100 million of a programmed $200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide an interim source of financing for the Authority's New Transportation Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million, with an expiration date of April 14, 2007. The expiration date of the irrevocable letter of credit was extended through Authority Board Resolution 06-01 on July 12, 2005 to December 29, 2015. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2006, $150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 3.37% to 3.6%.

San Francisco Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the San Francisco Water Department. In May and June 1999, the San Francisco 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. There is no outstanding commercial paper as of June 30, 2006. The commercial paper retired in fiscal year 2005-2006 has interest rates ranging from 2.48% to 3.23%.

### Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2006 (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 7.05% | $ 80,305 |
| California Academy of Sciences | 2025 | 3.0 to 5.25% | 84,005 |
| Library | 2025 | 2.5 to 5.0% | 67,085 |
| Laguna Honda Hospital | 2030 | 3.25 to 5.0%* | 299,000 |
| Museums | 2019 | 4.5 to 5.5% | 12,660 |
| Parks and playgrounds | 2024 | 2.4 to 5.75% | 129,835 |
| Steinhart Aquarium | 2025 | 3.0 to 5.0% | 28,180 |
| Schools | 2023 | 2.4 to 5.75% | 125,175 |
| Zoo facilities | 2025 | 2.5 to 5.75% | 39,145 |
| Refunding | 2016 | 3.0 to 5.75% | 366,815 |
| General obligation bonds - governmental activities | | | 1,232,205 |
| LEASE REVENUE BONDS: | | | |
| San Francisco Finance Corporation (b) & (e) | 2030 | 2.1 to 5.5%** | 231,265 |
| Lease revenue bonds - governmental activities | | | 231,265 |
| OTHER LONG-TERM OBLIGATIONS: | | | |
| Certificates of participation (c) & (d) | 2034 | 3.0 to 5.3% | 276,160 |
| Loans (c), (d) & (f) | 2025 | 2.0 to 7.498% | 12,377 |
| Capital leases payable (c) & (f) | 2025 | 1.5 to 7.05% | 190,279 |
| Settlement Obligation Bonds (d) | 2011 | 2.4 to 3.05% | 32,955 |
| Accrued vacation and sick leave (d) & (f) | | | 132,524 |
| Accrued workers' compensation (d) & (f) | | | 202,481 |
| Estimated claims payable (d) & (f) | | | 69,477 |
| Other long-term obligations - governmental activities | | | 916,253 |
| DEFERRED AMOUNTS: | | | |
| Bond issuance premiums | | | 24,983 |
| Bond issuance discounts | | | (2,341) |
| Bond refunding | | | (5,092) |
| Deferred amounts | | | 17,550 |
| Governmental activities total long-term obligations | | | $ 2,397,273 |

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 the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Laguna Honda Hospital General Obligation Bonds Series 2005 A and Series 2005 I are fixed rate bonds. Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated above are for Series 2005 A and Series 2005 I. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2006 was 2.86%. The rate at June 30, 2006 was 3.88%.

** 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, 2006 was 1.80%. The rate at June 30, 2006 was 3.88%.





BUSINESS-TYPE ACTIVITIES

| Entity and Type of Obligation | Final Maturity Date | Remaining Interest Rates | Amount |
|---|---|---|---|
| San Francisco International Airport: | | | |
| Revenue bonds | 2032 | 3.0 to 8.0%* | $ 4,048,005 |
| San Francisco Water Department: | | | |
| Revenue bonds | 2032 | 3.125 to 6.5% | 981,765 |
| Accreted interest | | | 2,945 |
| Hetch Hetchy Water and Power: | | | |
| Notes, loans, and other payables | 2010 | 3.0% | 494 |
| Municipal Transportation Agency: | | | |
| Parking and Traffic | | | |
| Revenue bonds | 2020 | 4.0 to 5.0% | 20,150 |
| Lease revenue bonds | 2022 | 3.8 to 5.5% | 9,455 |
| Capital leases | 2008 | 5.11% | 57 |
| Notes, loans and other payables** | 2010 | 3.0 to 5.25% | 16,041 |
| Downtown Parking - parking revenue refunding bonds | 2018 | 4.0 to 5.375% | 10,760 |
| Ellis-O'Farrell - parking revenue refunding bonds | 2017 | 3.5 to 4.7% | 4,960 |
| Japan Center Garage Corporation - notes, loans and other payables | 2008 | 6.75% | 203 |
| Uptown Parking - revenue bonds | 2031 | 4.5 to 6.0% | 18,115 |
| San Francisco General Hospital Medical Center: | | | |
| Capital leases | 2011 | 5.0 to 8.5% | 3,800 |
| San Francisco Wastewater Enterprise: | | | |
| Revenue bonds | 2025 | 3.0 to 5.25% | 396,270 |
| State of California - Revolving fund loans | 2021 | 2.8 to 3.5% | 118,868 |
| Port of San Francisco: | | | |
| Revenue bonds | 2010 | 2.25 to 4.0% | 16,550 |
| Notes, loans and other payables | 2029 | 4.5% | 3,279 |
| Laguna Honda Hospital: | | | |
| Capital leases | 2009 | 3.465% | 1,665 |
| Accrued vacation and sick leave | | | 79,563 |
| Accrued workers' compensation | | | 161,654 |
| Estimated claims payable | | | 77,783 |
| Deferred Amounts: | | | |
| Bond issuance premiums | | | 64,473 |
| Bond issuance discounts | | | (16,765) |
| Bond refunding | | | (102,775) |
| Business-type activities total long-term obligations | | | $ 5,917,315 |

* Includes Second Series Revenue Bonds Issue 32, which were issued in an auction mode and Issue 33 initially issued as variable rate bonds in a weekly mode. The average interest rate on the Issue 32 was 2.791% for the period July 1, 2005 through June 30, 2006. The average interest rate on the Issue 33 Bonds from inception through June 30, 2006 was 3.415%.

** Includes an unamortized loan premium of $0.7 million for Parking and Traffic.

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**

| Entity and Type of Obligation | Final Maturity Date | Remaining Interest Rates | Amount |
|---|---|---|---|
| SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY: | | | |
| Lease Revenue Bonds: | | | |
| Moscone Convention Center (a) | 2025 | 2.0 to 7.05% | $ 132,645 |
| Hotel Tax Revenue Bonds (b) | 2025 | 4.4 to 6.94% | 64,795 |
| Financing Authority Bonds: | | | |
| Tax Allocation Revenue Bonds (c) | 2031 | 2.98 to 8.3% | 510,903 |
| South Beach Harbor Variable Rate Refunding Bonds (d) | 2017 | Variable (3.98% at 6/30/06) | 8,500 |
| Less deferred amounts: | | | |
| Bond issuance premiums | | | 8,604 |
| Bond issuance discounts | | | (671) |
| Refunding loss | | | (4,043) |
| Sub-total | | | 720,733 |
| California Department of Boating and Waterways Loan (e) | 2037 | 4.5% | 8,000 |
| Accreted interest payable | | | 74,151 |
| Accrued vacation and sick leave pay | | | 2,807 |
| Component unit total long-term obligations | | | $ 805,691 |

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, 2006, the City's debt limit (3% of valuation subject to taxation) was $3.4 billion. The total amount of debt applicable to the debt limit was $1.2 billion. The resulting legal debt margin was $2.2 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 certificates of participation and has recognized an arbitrage liability of $0.9 million as of June 30, 2006. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of $67 thousand was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2006. Each enterprise fund has performed a similar analysis of its debt, which is subject to arbitrage rebate requirements. Any





material arbitrage liability related to the debt of the enterprise funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

## Assessment District

During June 1996, the City issued $1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

## Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2006, the aggregate outstanding obligation of such bonds was $83.1 million.

### Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2006, are as follows (in thousands):

| | July 1, 2005 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 1,086,355 | $ 219,120 | $ (73,270) | $ 1,232,205 | $ 75,950 |
| Lease revenue bonds | 230,620 | 19,555 | (18,910) | 231,265 | 20,550 |
| Certificates of participation | 283,320 | - | (7,160) | 276,160 | 9,240 |
| Settlement obligation bond | 38,670 | - | (5,715) | 32,955 | 5,860 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 16,254 | 10,398 | (1,669) | 24,983 | - |
| For issuance discounts | (2,425) | - | 84 | (2,341) | - |
| On refunding | (5,843) | - | 751 | (5,092) | - |
| Total bonds payable | 1,646,951 | 249,073 | (105,889) | 1,790,135 | 111,600 |
| Loans | 7,961 | 5,359 | (943) | 12,377 | 877 |
| Capital leases | 198,703 | 6,499 | (14,923) | 190,279 | 14,582 |
| Accrued vacation and sick leave pay | 125,037 | 82,154 | (74,667) | 132,524 | 65,948 |
| Accrued workers' compensation | 214,805 | 25,583 | (37,907) | 202,481 | 41,803 |
| Estimated claims payable | 83,537 | 7,046 | (21,106) | 69,477 | 23,811 |
| Governmental activities long-term obligations | $ 2,276,994 | $ 375,714 | $ (255,435) | $ 2,397,273 | $ 258,621 |

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 ended June 30, 2006, $231.3 million of lease revenue bonds, $0.2 million of capital leases, $3.9 million of accrued vacation and sick leave pay and $1.1 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2006, are as follows (in thousands):

| | July 1, 2005 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **San Francisco International Airport** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 4,114,431 | $ 467,000 | $ (533,426) | $ 4,048,005 | $ 80,510 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 17,109 | - | (633) | 16,476 | - |
| For issuance discounts | (17,350) | - | 1,853 | (15,497) | - |
| On refunding | (60,590) | (12,533) | 6,363 | (66,760) | - |
| Total Bonds payable | 4,053,600 | 454,467 | (525,843) | 3,982,224 | 80,510 |
| Accrued vacation and sick leave pay | 11,490 | 8,705 | (7,865) | 12,330 | 6,306 |
| Accrued workers' compensation | 5,119 | 1,967 | (2,134) | 4,952 | 1,492 |
| Estimated claims payable | 845 | - | (808) | 37 | 15 |
| Long-term obligations | $ 4,071,054 | $ 465,139 | $ (536,650) | $ 3,999,543 | $ 88,323 |
| **San Francisco Water Department** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 486,970 | $ 617,880 | $ (123,085) | $ 981,765 | $ 15,450 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 6,687 | 21,487 | (687) | 27,487 | - |
| For issuance discounts | (2,758) | (17) | 1,507 | (1,268) | - |
| On refunding | (7,411) | (6,702) | 554 | (13,559) | - |
| Total bonds payable | 483,488 | 632,648 | (121,711) | 994,425 | 15,450 |
| Accreted interest payable | 2,749 | 196 | - | 2,945 | - |
| Accrued vacation and sick leave pay | 9,584 | 6,993 | (6,182) | 10,395 | 5,060 |
| Accrued workers' compensation | 10,351 | 387 | (2,019) | 8,719 | 1,860 |
| Estimated claims payable | 5,286 | 4,476 | (3,962) | 5,800 | 1,168 |
| Long-term obligations | $ 511,458 | $ 644,700 | $ (133,874) | $ 1,022,284 | $ 23,538 |
| **Hetch Hetchy Water and Power** | | | | | |
| Notes, loans, and other payables | $ 595 | $ - | $ (101) | $ 494 | $ 104 |
| Accrued vacation and sick leave pay | 1,869 | 1,255 | (982) | 2,142 | 1,105 |
| Accrued workers' compensation | 2,450 | - | (512) | 1,938 | 395 |
| Estimated claims payable | 2,002 | 7,073 | (4,076) | 4,999 | 1,024 |
| Long-term obligations | $ 6,916 | $ 8,328 | $ (5,671) | $ 9,573 | $ 2,628 |
| **Municipal Transportation Agency** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 56,350 | $ - | $ (2,365) | $ 53,985 | $ 2,450 |
| Lease revenue bonds | 10,465 | - | (1,010) | 9,455 | 1,050 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 940 | - | (32) | 908 | - |
| Total bonds payable | 67,755 | - | (3,407) | 64,348 | 3,500 |
| Notes, loans, and other payables | 20,575 | - | (4,331) | 16,244 * | 4,331 |
| Capital leases | 195 | - | (138) | 57 | 38 |
| Accrued vacation and sick leave pay | 24,100 | 708 | (97) | 24,711 | 13,977 |
| Accrued workers' compensation | 115,352 | 9,549 | (18,621) | 106,280 | 23,911 |
| Estimated claims payable | 49,766 | 18,941 | (9,103) | 59,604 | 20,325 |
| Long-term obligations | $ 277,743 | $ 29,198 | $ (35,697) | $ 271,244 | $ 66,082 |

* Includes an unamortized loan premium of $0.7 million for Parking and Traffic.



CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2006, are as follows (in thousands) - continued:

| | July 1, 2005 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **San Francisco General Hospital Medical Center** | | | | | |
| Capital leases | $ 2,519 | $ 3,474 | $ (2,193) | $ 3,800 | $ 1,122 |
| Accrued vacation and sick leave pay | 14,236 | 10,869 | (9,917) | 15,188 | 8,482 |
| Accrued workers' compensation | 22,899 | 2,144 | (4,329) | 20,714 | 4,030 |
| Long-term obligations | $ 39,654 | $ 16,487 | $ (16,439) | $ 39,702 | $ 13,634 |
| **San Francisco Wastewater Enterprise** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 396,270 | $ - | $ - | $ 396,270 | $ 33,445 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 20,381 | - | (1,006) | 19,375 | - |
| On refunding | (23,397) | - | 1,727 | (21,670) | - |
| Total bonds payable | 393,254 | - | 721 | 393,975 | 33,445 |
| State of California - Revolving fund loans | 134,783 | - | (15,915) | 118,868 | 16,430 |
| Accrued vacation and sick leave pay | 4,095 | 2,206 | (1,985) | 4,316 | 2,244 |
| Accrued workers' compensation | 4,674 | 317 | (818) | 4,173 | 869 |
| Estimated claims payable | 9,092 | - | (3,113) | 5,979 | 1,247 |
| Long-term obligations | $ 545,898 | $ 2,523 | $ (21,110) | $ 527,311 | $ 54,235 |
| **Port of San Francisco** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 19,940 | $ - | $ (3,390) | $ 16,550 | $ 3,975 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 303 | - | (76) | 227 | - |
| On refunding | (1,048) | 262 | - | (786) | - |
| Total bonds payable | 19,195 | 262 | (3,466) | 15,991 | 3,975 |
| Notes, loans, and other payables | 3,359 | - | (80) | 3,279 | 84 |
| Accrued vacation and sick leave pay | 1,692 | 87 | - | 1,779 | 971 |
| Accrued workers' compensation | 2,726 | 1,119 | (726) | 3,119 | 555 |
| Estimated claims payable | 1,727 | 517 | (880) | 1,364 | 850 |
| Long-term obligations | $ 28,699 | $ 1,985 | $ (5,152) | $ 25,532 | $ 6,435 |
| **Laguna Honda Hospital** | | | | | |
| Capital leases | $ 2,040 | $ 142 | $ (517) | $ 1,665 | $ 523 |
| Accrued vacation and sick leave pay | 8,252 | 9,559 | (9,109) | 8,702 | 5,037 |
| Accrued workers' compensation | 13,052 | 3,797 | (5,090) | 11,759 | 2,354 |
| Long-term obligations | $ 23,344 | $ 13,498 | $ (14,716) | $ 22,126 | $ 7,914 |

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2006, is as follows (in thousands):

| | July 1, 2005 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Total Business-type Activities:** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 5,073,961 | $ 1,084,880 | $ (662,266) | $ 5,496,575 | $ 135,830 |
| Lease revenue bonds | 10,465 | - | (1,010) | 9,455 | 1,050 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 45,420 | 21,487 | (2,434) | 64,473 | - |
| For issuance discounts | (20,108) | (17) | 3,360 | (16,765) | - |
| On refunding | (92,446) | (18,973) | 8,644 | (102,775) | - |
| Total bonds payable | 5,017,292 | 1,087,377 | (653,706) | 5,450,963 | 136,880 |
| Accreted interest payable | 2,749 | 196 | - | 2,945 | - |
| State of California - Revolving fund loans | 134,783 | - | (15,915) | 118,868 | 16,430 |
| Notes, loans, and other payables | 24,529 | - | (4,512) | 20,017 | 4,519 |
| Capital leases | 4,754 | 3,616 | (2,848) | 5,522 | 1,683 |
| Accrued vacation and sick leave pay | 75,318 | 40,382 | (36,137) | 79,563 | 43,182 |
| Accrued workers' compensation | 176,623 | 19,280 | (34,249) | 161,654 | 35,466 |
| Estimated claims payable | 68,718 | 31,007 | (21,942) | 77,783 | 24,629 |
| Business-type activities long-term obligations | $ 5,504,766 | $ 1,181,858 | $ (769,309) | $ 5,917,315 | $ 262,789 |

The changes in long term obligations for the component unit for the year ended June 30, 2006, are as follows (in thousands):

| | July 1, 2005 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2006 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Component Unit: San Francisco Redevelopment Agency** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 675,046 | $ 88,610 | $ (55,313) | $ 708,343 | $ 27,791 |
| Refunding bonds | 10,000 | - | (1,500) | 8,500 | - |
| Less deferred amounts: | | | | | |
| For issuance premiums | 9,207 | 93 | (696) | 8,604 | - |
| For issuance discounts | (241) | (468) | 38 | (671) | - |
| On refunding | (3,042) | (1,315) | 314 | (4,043) | - |
| Total bonds payable | 690,970 | 86,920 | (57,157) | 720,733 | 27,791 |
| Accreted interest payable | 77,025 | 8,703 | (11,577) | 74,151 | 10,809 (1) |
| Notes, loans, and other payables | 8,000 | - | - | 8,000 | - |
| Accrued vacation and sick leave pay | 2,701 | 1,198 | (1,092) | 2,807 | 1,254 |
| Component unit - long-term obligations | $ 778,696 | $ 96,821 | $ (69,826) | $ 805,691 | $ 39,854 |

(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, 2006, for governmental activities are as follows (in thousands):

| Governmental Activities (1) (2) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year Ending | General Obligation Bonds | | Lease Revenue Bonds | | Other Long-Term Obligations | | Total | |
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | $ 75,950 | $ 59,048 | $ 20,550 | $ 9,538 | $ 15,977 | $ 14,566 | $ 112,477 | $ 83,152 |
| 2008 | 85,175 | 55,419 | 19,255 | 8,780 | 16,028 | 14,061 | 120,458 | 78,260 |
| 2009 | 89,040 | 51,395 | 17,335 | 8,064 | 16,617 | 13,443 | 122,992 | 72,902 |
| 2010 | 90,065 | 47,130 | 9,135 | 7,408 | 17,121 | 12,876 | 116,321 | 67,414 |
| 2011 | 91,860 | 42,671 | 8,580 | 7,044 | 17,759 | 12,230 | 118,199 | 61,945 |
| 2012-2016 | 340,810 | 156,108 | 35,880 | 30,270 | 56,906 | 52,670 | 433,596 | 239,048 |
| 2017-2021 | 240,805 | 81,690 | 37,840 | 22,363 | 47,246 | 40,077 | 325,891 | 144,130 |
| 2022-2026 | 144,140 | 33,383 | 43,690 | 13,526 | 45,633 | 28,626 | 233,463 | 75,535 |
| 2027-2031 | 74,360 | 8,214 | 39,000 | 4,118 | 53,695 | 16,205 | 167,055 | 28,537 |
| 2032-2036 | - | - | - | - | 34,510 | 2,769 | 34,510 | 2,769 |
| Total | $ 1,232,205 | $ 535,058 | $ 231,265 | $ 111,111 | $ 321,492 | $ 207,523 | $ 1,784,962 | $ 853,692 |

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

(2) Includes the following variable rate demand notes, the Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. Currently, they bear interest at a weekly rate. The rate at June 30, 2006 was 3.88%, together with an ancillary fee of 0.242% and 0.255% for Moscone bonds and Laguna Honda bonds respectively, was used to project the interest payment in this table.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands):

| San Francisco International Airport (1) | | | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year Ending | Revenue Bonds | | Other Long-Term Obligations | | Total | |
| June 30 | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | $ 80,510 | $ 195,107 | $ - | $ - | $ 80,510 | $ 195,107 |
| 2008 | 94,275 | 190,127 | - | - | 94,275 | 190,127 |
| 2009 | 108,425 | 186,578 | - | - | 108,425 | 186,578 |
| 2010 | 118,795 | 180,498 | - | - | 118,795 | 180,498 |
| 2011 | 143,905 | 175,598 | - | - | 143,905 | 175,598 |
| 2012-2016 | 804,490 | 768,860 | - | - | 804,490 | 768,860 |
| 2017-2021 | 990,050 | 562,445 | - | - | 990,050 | 562,445 |
| 2022-2026 | 1,126,520 | 310,918 | - | - | 1,126,520 | 310,918 |
| 2027-2031 | 564,050 | 75,527 | - | - | 564,050 | 75,527 |
| 2032 | 16,985 | 858 | - | - | 16,985 | 858 |
| Total | $ 4,048,005 | $ 2,646,516 | $ - | $ - | $ 4,048,005 | $ 2,646,516 |

(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 requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands) - continued:

**San Francisco Water Department (1)**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 15,450 | $ 49,830 | $ - | $ - | $ 15,450 | $ 49,830 |
| 2008 | 19,015 | 45,348 | - | - | 19,015 | 45,348 |
| 2009 | 25,395 | 44,356 | - | - | 25,395 | 44,356 |
| 2010 | 26,505 | 43,259 | - | - | 26,505 | 43,259 |
| 2011 | 27,710 | 42,040 | - | - | 27,710 | 42,040 |
| 2012-2016 | 160,770 | 188,176 | - | - | 160,770 | 188,176 |
| 2017-2021 | 148,695 | 150,491 | - | - | 148,695 | 150,491 |
| 2022-2026 | 168,020 | 112,759 | - | - | 168,020 | 112,759 |
| 2027-2031 | 193,945 | 68,725 | - | - | 193,945 | 68,725 |
| 2032-2036 | 165,085 | 24,807 | - | - | 165,085 | 24,807 |
| 2037 | 31,175 | 741 | - | - | 31,175 | 741 |
| Total | $ 981,765 | $ 770,532 | $ - | $ - | $ 981,765 | $ 770,532 |

**Hetch Hetchy Water and Power (1)**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ - | $ - | $ 104 | $ 14 | $ 104 | $ 14 |
| 2008 | - | - | 107 | 11 | 107 | 11 |
| 2009 | - | - | 110 | 8 | 110 | 8 |
| 2010 | - | - | 115 | 4 | 115 | 4 |
| 2011 | - | - | 58 | 1 | 58 | 1 |
| Total | $ - | $ - | $ 494 | $ 38 | $ 494 | $ 38 |

**Municipal Transportation Agency (1) (2)**

| Fiscal Year Ending June 30 | Revenue/Lease Revenue Bonds Principal | Revenue/Lease Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 3,500 | $ 3,162 | $ 4,369 | $ 725 | $ 7,869 | $ 3,887 |
| 2008 | 3,650 | 3,020 | 4,538 | 506 | 8,188 | 3,526 |
| 2009 | 3,810 | 2,869 | 6,381 | 283 | 10,191 | 3,152 |
| 2010 | 3,125 | 2,726 | 279 | 61 | 3,404 | 2,787 |
| 2011 | 3,260 | 2,587 | - | - | 3,260 | 2,587 |
| 2012-2016 | 18,785 | 10,494 | - | - | 18,785 | 10,494 |
| 2017-2021 | 15,755 | 5,617 | - | - | 15,755 | 5,617 |
| 2022-2026 | 4,750 | 2,846 | - | - | 4,750 | 2,846 |
| 2027-2031 | 5,500 | 1,420 | - | - | 5,500 | 1,420 |
| 2032-2036 | 1,305 | 78 | - | - | 1,305 | 78 |
| Total | $ 63,440 | $ 34,819 | $ 15,567 | $ 1,575 | $ 79,007 | $ 36,394 |

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

(2) Unamortized loan premiums of $0.7 million (MTA) are not included in principal payments.



CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands) - continued:

**San Francisco Wastewater Enterprise (1)**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 33,445 | $ 16,718 | $ 16,430 | $ 3,701 | $ 49,875 | $ 20,419 |
| 2008 | 34,500 | 15,698 | 13,337 | 3,168 | 47,837 | 18,866 |
| 2009 | 35,665 | 14,646 | 13,761 | 2,744 | 49,426 | 17,390 |
| 2010 | 37,130 | 13,183 | 14,199 | 2,307 | 51,329 | 15,490 |
| 2011 | 26,320 | 11,827 | 14,650 | 1,856 | 40,970 | 13,683 |
| 2012-2016 | 122,615 | 43,194 | 36,631 | 4,369 | 159,246 | 47,563 |
| 2017-2021 | 66,890 | 18,935 | 9,860 | 764 | 76,750 | 19,699 |
| 2022-2026 | 39,705 | 3,038 | - | - | 39,705 | 3,038 |
| Total | $ 396,270 | $ 137,239 | $ 118,868 | $ 18,909 | $ 515,138 | $ 156,148 |

**Port of San Francisco (1)**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 3,975 | $ 453 | $ 84 | $ 148 | $ 4,059 | $ 601 |
| 2008 | 4,070 | 348 | 88 | 144 | 4,158 | 492 |
| 2009 | 4,185 | 222 | 92 | 140 | 4,277 | 362 |
| 2010 | 4,320 | 75 | 96 | 136 | 4,416 | 211 |
| 2011 | - | - | 100 | 131 | 100 | 131 |
| 2012-2016 | - | - | 574 | 585 | 574 | 585 |
| 2017-2021 | - | - | 715 | 443 | 715 | 443 |
| 2022-2026 | - | - | 892 | 267 | 892 | 267 |
| 2027-2031 | - | - | 638 | 58 | 638 | 58 |
| Total | $ 16,550 | $ 1,098 | $ 3,279 | $ 2,052 | $ 19,829 | $ 3,150 |

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006 for business-type activities is as follows (in thousands):

**Total Business-type Activities (1) (2)**

| Fiscal Year Ending June 30 | Revenue/Lease Revenue Bonds Principal | Revenue/Lease Revenue Bonds Interest | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2007 | $ 136,880 | $ 265,270 | $ 20,987 | $ 4,588 | $ 157,867 | $ 269,858 |
| 2008 | 155,510 | 254,541 | 18,070 | 3,829 | 173,580 | 258,370 |
| 2009 | 177,480 | 248,671 | 20,344 | 3,175 | 197,824 | 251,846 |
| 2010 | 189,875 | 239,741 | 14,689 | 2,508 | 204,564 | 242,249 |
| 2011 | 201,195 | 232,052 | 14,808 | 1,988 | 216,003 | 234,040 |
| 2012-2016 | 1,106,660 | 1,010,724 | 37,205 | 4,954 | 1,143,865 | 1,015,678 |
| 2017-2021 | 1,221,390 | 737,488 | 10,575 | 1,207 | 1,231,965 | 738,695 |
| 2022-2026 | 1,338,995 | 429,561 | 892 | 267 | 1,339,887 | 429,828 |
| 2027-2031 | 763,495 | 145,672 | 638 | 58 | 764,133 | 145,730 |
| 2032-2036 | 183,375 | 25,743 | - | - | 183,375 | 25,743 |
| 2037-2041 | 31,175 | 741 | - | - | 31,175 | 741 |
| Total | $ 5,506,030 | $ 3,590,204 | $ 138,208 | $ 22,574 | $ 5,644,238 | $ 3,612,778 |

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

(2) Unamortized loan premiums of $0.7 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for the component unit are as follows (in thousands):

| Component Unit: San Francisco Redevelopment Agency (1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year Ending June 30 | Lease Revenue Bonds | | Tax Revenue Bonds | | Other Long-Term Obligations | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | $ 5,146 | $ 12,728 | $ 20,150 | $ 26,245 | $ 2,495 | $ 4,183 | $ 27,791 | $ 43,156 |
| 2008 | 5,544 | 13,027 | 27,198 | 23,615 | 2,582 | 4,024 | 35,324 | 40,666 |
| 2009 | 5,350 | 13,289 | 26,367 | 24,177 | 2,652 | 3,865 | 34,369 | 41,331 |
| 2010 | 5,152 | 13,565 | 26,736 | 23,149 | 2,799 | 3,661 | 34,687 | 40,375 |
| 2011 | 5,019 | 13,776 | 28,414 | 22,017 | 3,352 | 3,493 | 36,785 | 39,286 |
| 2012-2016 | 39,119 | 55,653 | 168,051 | 77,782 | 22,078 | 14,345 | 229,248 | 147,780 |
| 2017-2021 | 55,500 | 8,138 | 148,077 | 27,520 | 20,258 | 9,057 | 223,835 | 44,715 |
| 2022-2026 | 11,815 | 1,256 | 39,865 | 42,212 | 21,015 | 4,058 | 72,695 | 47,526 |
| 2027-2031 | - | - | 16,155 | 4,798 | 1,932 | 747 | 18,087 | 5,545 |
| 2032-2036 | - | - | 9,890 | 1,312 | 2,108 | 272 | 11,998 | 1,584 |
| 2037-2041 | - | - | - | - | 24 | 1 | 24 | 1 |
| Total | $ 132,645 | $ 131,432 | $ 510,903 | $ 272,827 | $ 81,295 | $ 47,706 | $ 724,843 | $ 451,965 |

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

### *Governmental Activities Long-term Liabilities*

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2006, are as follows (in thousands):

**Governmental Activities - General Obligation Bonds**
(in thousands)

| | |
|---|---|
| Authorized and unissued as of June 30, 2005 | $ 565,185 |
| Bonds issued: | |
| Series 2005E, California Academy of Sciences Improvement Bonds | (79,370) |
| Series 2005F, Steinhart Aquarium Improvement Bonds | (29,245) |
| Series 2005G, Branch Library Facilities Improvement Bonds | (34,000) |
| Series 2005H, Zoo Facilities Bonds | (7,505) |
| Series 2005I, Laguna Honda Hospital | (69,000) |
| Net authorized and unissued as of June 30, 2006 | $ 346,065 |

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2006.

In July 2005, the City issued $150.1 million in General Obligation Bonds, consisting of California Academy of Sciences Improvement Bonds, Series 2005E in the amount of $79.4 million; Steinhart Aquarium Improvement Bonds, Series 2005F in the amount of $29.2 million; Branch Library Facilities Improvement Bonds, Series 2005G, in the amount of $34 million and Zoo Facilities Bonds, Series 2005H in the amount of $7.5 million. Interest rates range from 3.0% to 5.0%. The bonds mature from June 2006 through June 2025. Debt service payments are funded through ad valorem taxes on property.

The California Academy Sciences Bonds were issued to provide funds to finance the acquisition, construction, and reconstruction of certain improvements to the California Academy of Sciences, and all other works, property and structures necessary or convenient for these purposes. The Steinhart





Aquarium Bonds were issued to provide funds to finance the acquisition, construction and reconstruction of certain improvements to the Steinhart Aquarium, and all other works, property and structures necessary or convenient for these purposes. The Branch Library Facilities Bonds were issued to provide funds to finance the acquisition, renovation and construction of branch libraries and other library facilities, convenient for these purposes. The Zoo Facilities Bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for these purposes.

In September 2005, the City issued General Obligation Bonds, Laguna Honda Hospital, Series 2005I in the amount of $69 million. Interest rates range from 4.0% to 5.0%. The bonds mature from June 2008 through June 2030. The bonds were issued to provide funds 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. Debt service payments are funded through ad valorem taxes on property.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2006 were as follows:

**Governmental Activities - Lease Revenue Bonds**
(in thousands)

| | |
|---|---|
| Authorized and unissued as of June 30, 2005 | $ 135,554 |
| Increase in authorization in this fiscal year: | |
| Current year annual increase in Finance Corporation's equipment program | 1,980 |
| Current year maturities in Finance Corporation's equipment program | 8,720 |
| Bonds issued: | |
| Series 2005A, San Francisco Finance Corporation | (9,420) |
| Series 2006A, San Francisco Finance Corporation | (10,135) |
| Net authorized and unissued as of June 30, 2006 | $ 126,699 |

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of

June 30, 2006, the total authorized amount is $41.6 million. The total accumulated annual authorization since 1990 is $21.6 million, of which $2 million is new annual authorization for the fiscal year ending June 30, 2006.

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 $123.6 million in equipment lease revenue bonds since 1991. As of June 30, 2006, $94.6 million has been repaid, leaving $29 million in equipment lease revenue bonds outstanding and $12.5 million available for new issuance.

In October 2005, the Finance Corporation issued its thirtieth Series of equipment lease revenue bonds, Series 2005A in the amount of $9.4 million, with interest rates ranging from 3.25% to 5%. The bonds mature from April 2006 to October 2010.

In April 2006, the Finance Corporation issued its fourteenth Series of equipment lease revenue bonds, Series 2006A in the amount of $10.1 million, with interest rates ranging from 3.375% to 4%. The bonds mature from October 2006 to October 2011.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2006, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2006, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds. Currently, the bonds bear interest at a weekly rate.

Fillmore Renaissance Center Project Loan

In July 2005, the City entered into an agreement with the Department of Housing and Urban Development (HUD) for an approved Section 108 Loan in the maximum amount of $5.5 million. The funds were committed to the Fillmore Renaissance Center Project, a mixed-use commercial housing development located in San Francisco Redevelopment Agency's Jazz Preservation District. During the fiscal year 2005-2006, HUD advanced to the City loan funds totaling $5.4 million.

There are quarterly interest payments only in the first two years based on the variable 90-DAY LIBOR rate on the outstanding principal balance. Principal payments will begin in August 2007 through August 2025 at an interest rate to be determined when the loan is converted into a fixed rate financing by the City. The average interest rate on the loan is 4.74% from its first payment in August 2005 through June 30, 2006.





***Business-Type Activities Long-Term Liabilities***

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

In February 2006, the San Francisco International Airport (SFO or Airport) issued its Second Series Variable Rate Revenue Refunding Bonds Issue 33 (Issue 33 Bonds) in ten separate series in the principal amount of $467 million. The Issue 33 Bonds were initially issued as variable rate bonds in a Weekly Mode, subject to conversion by the Airport to another interest rate mode. The initial interest rate was established by the Airport for the interest rate period commencing February 15, 2006 for each series of Issue 33 Bonds.

Each series of the Issue 33 Bonds may bear a different interest rate and be subject to a different mode. As of June 30, 2006, each series of the Issue 33 Bonds was in a Weekly Mode. For the period February 15, 2006 through June 30, 2006, the average interest rate on the Issue 33 Bonds was 3.415%.

Proceeds from the Issue 33 Bonds were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

| | Amount Refunded | Interest Rate | Call Price |
|---|---|---|---|
| Second Series Revenue Bond Issuance: | | | |
| Issue 10 | $ 162,100 | 5.125% - 5.700% | $ 102.000 |
| Issue 12 | 183,725 | 5.500% - 5.900% | 101.000 |
| Issue 13 | 56,730 | 5.500% - 8.000% | 101.000 |
| Issue 14 | 51,745 | 5.500% - 8.000% | 101.000 |
| | $ 454,300 | | |

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2006 to May 1, 2026 and were called on May 1, 2006.

The net proceeds of $463.1 million (after payment of $3.9 million in underwriting fees, insurance and surety premiums, and costs of issuance) plus an additional $6.1 million (net of payment of $2.5 million to a cost of issuance account) of available debt service funds were used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on refunded bonds identified above until called on May 1, 2006.

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 statements of net assets.

Although the refunding resulted in the recognition of a deferred accounting loss of $12.5 million for the year ended June 30, 2006, the Airport in effect reduced its aggregate debt service payments by approximately $101.2 million (based on an interest swap rate of 3.39% for the hedged portion, and an assumed interest rate of 3.62% for the unhedged portion of the Issue 33 Bonds) over the next 21 years and obtained an economic gain (the difference between the present values of the old and new debt service payments), of $79.2 million.

During fiscal year 2004-2005, the Airport issued Second Series Revenue Refunding Bonds Issue 31F and Series Issue 32 for $109.1 million and $197.7 million respectively, to refund previously issued debt. The Series Issue 31F Bonds were issued as fixed rate bonds. The Series Issue 32 Bonds were initially issued and remain in auction mode, subject to conversion by the Airport to another interest rate mode.

Each series of Issue 32 Bonds may bear a different interest rate and is subject to different auction periods. As of June 30, 2006, series 32B, 32C and 32D were in a 35-day auction period and Series 32A and 32E were in a 7-day auction period. For the period July 1, 2005 through June 30, 2006, the average interest rate on the Issue 32 Bonds was 2.791%.

SFO entered into seven forward-starting interest rate swap agreements in December 2004 in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32, on February 10, 2005, and a portion of its Variable Rate Refunding Bonds, Issue 33, on February 15, 2006. Pursuant to these interest rate swaps, SFO receives a monthly variable rate payment from each counterparty equal to 63.5% of the USD-LIBOR-BBA, plus 0.29%, times the notional amount of the swap, which is intended to approximate to the variable interest rates SFO pays on the Issue 32 Bonds and the hedged portion of the Issue 33 Bonds. SFO makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the interest rate swaps is to achieve a synthetic fixed rate with respect to the Issue 32 Bonds and the hedged portion of the Issue 33 Bonds.

For the fiscal year ended June 30, 2006, SFO paid the total of $9.5 million in fixed rate payments to the counterparties and received $8.7 million in floating rate payments in return, resulting in total net swap payments to the counterparties of $0.8 million. During the same period, SFO made variable interest rate payments on the related bonds of $8.5 million, resulting in SFO receiving $0.2 million more from the counterparties than it paid in interest on the related variable rate bonds. The effective synthetic fixed rate on the related bonds was 3.34%.

The four interest rate swaps relating to the Issue 32 Bonds went into effect on February 10, 2005, the date of the issuance of the Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three interest rate swaps relating to the Issue 33 Bonds went into effect on February 15, 2006, the date of issuance of the Issue 33 Bonds and the first payment commenced on March 1, 2006. All of the interest rate swaps are terminable at any time at the option of SFO at their fair market value.

The interest rate swaps relating to the Issue 32 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 32 Bonds. The following is additional information regarding each swap and the counterparties as of June 30, 2006 (in thousands):

| Counterparty/guarantor | Initial notional amount | Counterparty credit ratings (S&P/Moody's) | Fixed rate payable by Airport | Fair value to Airport |
|---|---|---|---|---|
| J.P. Morgan Chase Bank, N.A. | $ 70,000 | AA-/Aa2 | 3.444% | $ 3,425 |
| Bear Sterns Capital Markets, Inc. | 30,000 | A/A1 | 3.444% | 1,468 |
| J.P. Morgan Chase Bank, N.A. | 69,930 | AA-/Aa2 | 3.445% | 3,415 |
| Bear Sterns Capital Markets, Inc. | 29,970 | A/A1 | 3.445% | 1,464 |
| (Aggregate notional amount) | $ 199,900 | | | $ 9,772 |

The interest rate swaps relating to the Issue 33 Bonds terminate by their terms on May 1, 2019, the final maturity date for the Issue 33 Bonds. The following is additional information regarding each swap and counterparties as of June 30, 2006 (in thousands):

| Counterparty/guarantor | Initial notional amount | Counterparty credit ratings (S&P/Moody's) | Fixed rate payable by Airport | Fair value to Airport |
|---|---|---|---|---|
| Lehman Brothers Special Financial Inc. | $ 73,570 | A/A1 | 3.393% | $ 2,715 |
| Bear Sterns Capital Markets, Inc. | 31,530 | A/A1 | 3.393% | 1,164 |
| Lehman Brothers Special Financial Inc. | 100,000 | A/A1 | 3.379% | 3,816 |
| (Aggregate notional amount) | $ 205,100 | | | $ 7,695 |





**Risks Disclosure**

The aggregate market fair value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Airport will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any one counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the fair market value of the swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. There is limited basis risk with respect to the interest rate swaps, as the Airport has chosen a variable rate index designed to closely approximate the variable rates payable on the Issue 32 and 33 Bonds. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for its payments, including termination payments, due under each interest rate swap from insurers currently rated AAA/Aaa.

Additional Termination Events under the swap documents in respect of the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional Termination Events under the swap documents in respect of counterparty include a ratings downgrade below investment grade followed by failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

<u>San Francisco Water Department</u>

During fiscal year 2005-2006, the San Francisco Water Department (Water Department) issued 2006 Water Revenue Bonds, Series A (the 2006 Series A Bonds) in the amount of $507.8 million. The purpose of the bonds is to finance improvements to the City's water system and to retire commercial paper outstanding. The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's respectively. The 2006 Series A Bonds include current interest and serial and term bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2027 and the current interest term bonds mature on November 1, 2031, 2033 and 2036.

During fiscal year 2005-2006, the Water Department issued 2006 Water Revenue Refunding Bonds, Series B (the 2006 B Refunding Bonds) in the amount of $110.1 million. The purpose of these bonds is to refund a portion of the 1996A Series A Bonds and the 2001 Series A Bonds. These bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's respectively. The 2006 B Refunding Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2026.

<u>San Francisco Wastewater Enterprise</u>

The San Francisco Wastewater Enterprise (Wastewater) has entered into several contracts (State Revolving Fund Loans) with the State Water Resources Control Board (SWRCB) under which Wastewater borrowed up to prescribed maximum amounts to finance the construction of certain facilities. The amount of loans outstanding as of June 30, 2006 is $118.9 million, with interest rates ranging from 2.8% to 3.5%, and matures from April 2007 through January 2021.

***Component Unit Debt – San Francisco Redevelopment Agency***

The current year debt activities of the San Francisco 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, 2006 was approximately $2,155 billion. 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 Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2005 the date of the latest actuarial valuation is:

| | Police | Fire | Others | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits....... | 2,079 | 1,900 | 16,114 | 20,093 |
| Active members: | | | | |
| Vested................................ | 1,841 | 1,371 | 19,271 | 22,483 |
| Nonvested........................... | 252 | 261 | 6,168 | 6,681 |
| Subtotal.......................... | 2,093 | 1,632 | 25,439 | 29,164 |
| Total....................................... | 4,172 | 3,532 | 41,553 | 49,257 |

As of July 1, 2005 there were 2,833 terminated members entitled to, but not yet receiving benefits.

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 2005-2006 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2005 actuarial report, the required employer contribution for fiscal year 2005-06 was 6.58 percent. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary.





For fiscal year ended June 30, 2006, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

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, 2005. 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%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. 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 |
|---|---|---|---|
| 6/30/2004 | $ - | N/A | $ - |
| 6/30/2005 | 83,664 | 100% | - |
| 6/30/2006 | 126,533 | 100% | - |

***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 contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 199 active members. 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. A separate report for the City's plan within PERS is not available.

***Miscellaneous Plan***

Funding Policy - Miscellaneous plan - Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2005-2006 contribution rate is 0% of annual covered payroll. 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 2005-2006 was equal to the City's required and actual contributions which was determined as part of the June 30, 2003 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows (amounts in thousands):

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2004 | $ - | N/A | $ - |
| 6/30/2005 | - | N/A | - |
| 6/30/2006 | - | N/A | - |

***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 20.850% because the City is funded at 96.7%. 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 2005-2006 was equal to the City's required and actual contributions which was determined as part of the June 30, 2003 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2003 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. 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 |
|---|---|---|---|
| 6/30/2004 | $ 5,606 | 100% | $ - |
| 6/30/2005 | 3,689 | 100% | - |
| 6/30/2006 | 6,736 | 100% | - |

## (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 $404.7 million in fiscal year 2005-2006. 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 $115.3 million to provide post-employment health care benefits for 20,798 retired employees. The City's liability for both current employee and post-employment 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, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

## (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.

During fiscal years 1989-1999, $6 million in Intermodal Surface Transportation Efficiency Act (ISTEA) Section 204 funds were granted to the California Department of Transportation (Caltrans) for environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project. The ISTEA grant was awarded to the Authority, which also manages the Doyle Drive Intermodal Study, which is funded by Caltrans. In April 1998, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study. The Doyle Drive Environmental Impact Statement/Report (DEIS/R) was completed and circulated for public comment in December 2005, and on September 26, 2006, through Resolution 07-17, the Authority selected Alternative 5 (Presidio Parkway) with specified design options, as the Preferred Alternative to be identified within the Final Environmental Impact Statement/Report for the Doyle Drive Replacement Project. On September 1, 2006, Caltrans gave the Authority an authorization to proceed with preliminary engineering for the Doyle Drive Replacement Project, allocating $4.8 million in Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) funding.

In November 2003, the City voters approved Proposition K amending the City Business and Tax Code to extend the sunset date to 2034 from 2010, continue the existing half-cent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Roads (including street resurfacing, and bicycle and pedestrian improvements); Paratransit services for seniors and disabled people; Transportation System Management/Strategic Initiatives, to fund neighborhood parking management, land use coordination, and beautification efforts; and Major Capital Projects. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive). The Authority may modify the Expenditure Plan with voter approval, and the half-cent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to $485.2 million per year and issue up to $1.88 billion in bonds, to be repaid from the half-cent sales tax.





## (11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

### (a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2006 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to SFO creates a convenient connection between SFO and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The revised Capital Plan was approved in March 2005 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In May 2006, SFO obtained a direct-pay letter of credit with a maximum stated principal amount of $200 million. The subordinate Lien Resolution authorizes a maximum principal amount of notes of $400 million. There were no commercial borrowings during the year ended June 30, 2006.

In addition to the long-term obligations discussed above, there is $112 million and $115 million in Special Facilities Lease Revenue Bonds outstanding at June 30, 2006 and June 30, 2005, respectively, for SFO Fuel. SFO Fuel is required to pay facilities rent to SFO in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to SFO. SFO assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither SFO nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

In July 2001, the Federal Aviation Administration (FAA) approved SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the charge expiration date of PFC #2 will be recorded as of November 1, 2005.

In November 2003, the FAA approved SFO's third PFC application (PFC#3) to impose and use a $4.50 PFC per enplaning passenger for approximately $539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million. In September 2006, the FAA notified the Airport that the revised date for the start of collections for PFC #3 is recorded as of November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

For the year ended June 30, 2006, SFO reported approximately $62.1 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. SFO designated $67.7 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2005-2006.

Due to SFO's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2006 was $21.5 million.

Purchase commitments for construction, material and services as of June 30, 2006 are as follows (in thousands):

| | |
|---|---|
| Construction | $ 40,690 |
| Operating | 16,700 |
| Total | $ 57,390 |

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2006, approximately $124.3 million has been disbursed under this program.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2006, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

| | |
|---|---|
| United Airlines | 20.4% |
| AMPCO Parking Systems | 8.8% |
| American Airlines | 4.1% |

### (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). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was owned and operated by the State of California. 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.





The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port is presently planning various development projects that involve a commitment to expend significant funds. 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, 2006, $16.7 million has been appropriated and $1.6 million has been expended for projects under the agreement. The $16.7 million appropriated includes $9 million received from the sale of a portion of a seawall lot to a developer. In accordance with a development agreement and the entitlement legislation, these land sale proceeds are restricted for the design and construction of a public plaza identified in the BCDC agreement. Other proceeds from the land sale, together with certain residual receipts from the sale of residential condominium units built on the land sold, are designated for the construction of a mixed use cruise terminal project.

As of June 30, 2006, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $6.3 million for capital projects and $2 million for general operations.

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 20 years, commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are to be based on actual ticket collections, net of administrative costs. Under the agreement, payments to the Port should adjust periodically as parking fines increase. The Port and DPT are discussing terms for the payment of certain incremental revenues derived from fine increases and expect resolution in fiscal year 2007.

### (c) San Francisco Water Department

The San Francisco Water Department (Water Department) was established in 1930. The Water Department, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Department delivers water, approximately 88,686 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 San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately $19 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2005-2006, water sales to suburban resale customers were $103 million. As of June 30, 2006, the suburban resale customers owed the Water Department approximately $10 million under the Water Rate Agreement.

As of June 30, 2006, the Water Department had outstanding commitments with third parties of $84.6 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. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2000-2001. At June 30, 2006, the outstanding estimated liability is $8 million.

### (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, San Francisco International Airport, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2006 include $58.3 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, 2006, Hetch Hetchy had outstanding commitments with third parties of $17 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2006, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2005-2006, Hetch Hetchy purchased $17.7 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.





To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2005-2006, power sales to the Districts totaled 1,002,916 MWhrs or $25.6 million.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $7.6 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $7.6 million. As of June 30, 2006, the City has requested and received a total of $6.3 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized $4.1 million of revenue from the Fund as of June 30, 2006.

## (e) Municipal Transportation Agency

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of $1 million interagency accounts payables and receivables.

| | MUNI | DPT | Parking Garages | Total |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | $ 192,405 | $ 29,317 | $ 3,214 | $ 224,936 |
| Noncurrent assets | 1,815,367 | 37,001 | 99,129 | 1,951,497 |
| Total assets | 2,007,772 | 66,318 | 102,343 | 2,176,433 |
| Liabilities | | | | |
| Current liabilities | 95,819 | 16,688 | 23,390 | 135,897 |
| Liabilities payable from restricted assets | 896 | - | - | 896 |
| Noncurrent liabilities | 149,761 | 54,713 | 33,464 | 237,938 |
| Total liabilities | 246,476 | 71,401 | 56,854 | 374,731 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 1,782,880 | (8,257) | (49) | 1,774,574 |
| Restricted net assets | 31,590 | 3,456 | 36,882 | 71,928 |
| Unrestricted net assets (deficit) | (53,174) | (282) | 8,656 | (44,800) |
| Total net assets (deficit) | $ 1,761,296 | $ (5,083) | $ 45,489 | $ 1,801,702 |

| | MUNI | DPT | Parking Garages | Total |
|---|---|---|---|---|
| Operating revenues | $ 141,135 | $ 29,900 | $ 39,657 | $ 210,692 |
| Operating expenses | 581,100 | 74,915 | 35,085 | 691,100 |
| Net operating income (loss) | (439,965) | (45,015) | 4,572 | (480,408) |
| Nonoperating income (loss) | 249,815 | 26,544 | (1,221) | 275,138 |
| Capital contributions | 58,399 | - | - | 58,399 |
| Transfers in | 172,537 | 38,585 | - | 211,122 |
| Transfers out | - | (11,272) | - | (11,272) |
| Change in net assets | 40,786 | 8,842 | 3,351 | 52,979 |
| Net assets (deficit) at beginning of year | 1,720,510 | (13,925) | 42,138 | 1,748,723 |
| Net assets (deficit) at end of year | $ 1,761,296 | $ (5,083) | $ 45,489 | $ 1,801,702 |

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $161 million ($118 million for MUNI and $38.6 million for DPT).





Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2006, MUNI had approved capital grants with unused balances amounting to $312 million. Capital grants receivable as of June 30, 2006 totaled $40 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, 2006, MUNI had various operating grants receivable of $37 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2006, the SFCTA approved $48 million in new capital grants and $15 million in new operating grants for MUNI. During the same period, MUNI received total payments of $46 million for capital grants and $10 million in operating grants from the Authority. As of June 30, 2006, MUNI had $17 million due from the SFCTA for capital grants and $8 million due from the SFCTA for operating grants reported in due from other funds.

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 $150 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 $9 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. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.6 million.

Given that the proposed Metro East light Rail Vehicle Maintenance and Operating Facility (Metro East) is an integral part of the Third Street Light Rail Project and is vital for relieving overcrowded conditions at MUNI's existing light rail facility, MUNI identified a 17-acre site of the Western Pacific Railroad under the jurisdiction of the Port of San Francisco (Port) as the best location for the Metro East Facility.

In March 2001, MUNI and the Port entered into 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. The MOU also required MUNI to pay the Port an additional $4 million to construct the Illinois Street Bridge over Islais Creek. Construction of this bridge will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. In the event the Port fails to expend the money toward construction of the bridge within three years after the effective date of the MOU, the Port shall return the $4 million to MUNI. Any such return of funds shall have no effect on the rights granted to MUNI as specified in the MOU. The Port started construction of the Illinois Street Bridge in May 2005 with substantial completion scheduled by the end of July 2006. The entire $4 million fund has been expended as of the previous year.

Leveraged Lease-Leaseback with BREDA Vehicles

***Tranche 1***

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction 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 an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2006.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2001-2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million for fiscal year 2005-2006.

As of June 30, 2006, the outstanding payments to be made on the sublease through 2027 are $284.2 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

***Tranche 2***

In September 2003, after obtaining final approval from the Municipal Transportation Agency's Board of Directors and the City's Board of Supervisors, MUNI entered into a second leveraged lease-leaseback transaction over 21 BREDA light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately $67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such





that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2005-2006 amounted to $168 thousand.

As of June 30, 2006, the outstanding payments to be made on the sublease through 2029 are $57.6 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2006 follows (in thousands), including $1 million accounts payable to MUNI:

| | Downtown Parking | Uptown Parking | Japan Center Garage | Ellis - O'Farrell Parking | Portsmouth Plaza Parking | Total |
|---|---|---|---|---|---|---|
| Operating revenues | $ 12,311 | $ 16,384 | $ 2,646 | $ 5,079 | $ 3,237 | $ 39,657 |
| Depreciation | 756 | 1,083 | 1,072 | 364 | 130 | 3,405 |
| Net Operating income | 757 | 1,111 | (775) | 3,403 | 76 | 4,572 |
| Interest and other nonoperating revenues (expenses) | (249) | (882) | - | (119) | 29 | (1,221) |
| Change in net assets | 508 | 229 | (775) | 3,284 | 105 | 3,351 |
| Capital assets, additions | - | - | - | - | - | - |
| Capital assets, deletions | (50) | (1,006) | (1,055) | 2,469 | (58) | 300 |
| Net working capital (deficit) | (8,101) | (11,146) | 189 | (2,072) | 955 | (20,175) |
| Total assets | 29,696 | 50,841 | 2,946 | 15,492 | 3,368 | 102,343 |
| Total liabilities | 19,169 | 29,926 | 492 | 6,753 | 514 | 56,854 |
| Net assets | 10,527 | 20,915 | 2,454 | 8,739 | 2,854 | 45,489 |
| Total debt outstanding | $ 10,968 | $ 18,774 | $ 203 | $ 4,966 | $ - | $ 34,911 |

## (f) Laguna Honda Hospital

***General Fund Subsidy***

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's General Fund. 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. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the fiscal year ended June 30, 2006, the subsidy for LHH was approximately $40 million.

***Third Party Payor Agreements***

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, 2006, Medicare and Medi-Cal charges for services amounted to approximately $6 million and $112 million, respectively. As of June 30, 2006, LHH had net patient receivables from Medicare of $22 million and net patient receivables from Medi-Cal of $20 million.

During fiscal year ended June 30, 2006, LHH received approximately $13 million in payments as a result of matching federal funds to local funds, which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

***Replacement Project***

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds 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 (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, 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 some construction of the Replacement Project, as well as to offset the cost to property owners of repaying the bonds. As of June 30, 2006, General Obligation Bonds in the amount of $299 million have been sold to fund the Replacement Project.

As of June 30, 2006, LHH has entered into various purchase contracts totaling approximately $8.6 million that are related to future construction for the Replacement Project.





***Environmental Remediation***

LHH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from approximately $0.8 million to $2.5 million. LHH and the San Francisco Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

## (g) San Francisco General Hospital Medical Center

***General Fund Subsidy***

San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. 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. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2006, the subsidy for SFGH was $91 million.

***Third Party Payor Agreements***

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, and the State of California through the Medi-cal Hospital/Uninsured Care Demonstration Project and Short-Doyle mental health programs.

During the year ended June 30, 2006, Medicare and Medi-Cal revenues accounted for $68 million and $84 million of net patient service revenue, respectively. As of June 30, 2006, SFGH had net patient receivables from Medicare of $8.7 million and net patient receivables from Medi-Cal of $19 million.

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is a new system for paying selected hospitals for hospital care provided to Medi-cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services last year, and covers the period from July 1, 2005 to June 30, 2010. Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool. The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated $96.5 million for the fiscal year ended June 30, 2006.

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, 2006, reimbursement under the Short-Doyle Program amounted to approximately $5.8 million and is included in other operating revenue.

***Charity Care***

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 $216 million and estimated costs and expenses to provide charity care were $107 million in fiscal year 2005-2006.

***Other Non-Operating Revenues***

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 $58.7 million as other operating revenue for the year ended June 30, 2006, for realignment funding.

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, 2006, amounted to $1.8 million and is included in other operating revenue.

***Contract with the University of California San Francisco***

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, 2006, was approximately $84.2 million.

***SFGH Rebuild***

In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department of Public Health to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In October 2005, the San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Portrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. More detailed design, engineering and geotechnical surveys are ongoing.

### (h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

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

As of June 30, 2006, Wastewater had outstanding commitments with third parties for capital projects and for materials and services totaling $39.1 million.





### (i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

## (12) SAN FRANCISCO REDEVELOPMENT AGENCY

The 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 areas are now underway. In addition, the Agency has completed a feasibility study on the Mid Market Survey Area and the redevelopment plan has been submitted to the Board of Supervisors for review. A feasibility study has just started on Visitation Valley Survey Area designated by the Board of Supervisors.

The Agency acts as the lead agency for the City in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. In June 2005, the Board of Supervisors approved ordinance to adopt the Transbay project area as a new redevelopment area which consists of 40 acres and is located south of the San Francisco financial district. The project area is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. The future development of a new transit terminal and a concept plan which includes high-density, transit-oriented residential development are the highlights of this project.

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 $65.8 million.

The Public Initiatives Development Corporation (PIDC) was formed in May 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XL Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2006, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

In July 2005, the Authority issued $20.4 million in Tax Allocation Refunding Revenue Bonds Series 2005 A (2005 Series A Refunding Bonds); $8.1 million in Taxable Tax Allocation Refunding Revenue Bonds 2005 Series B (2005 Series B Refunding Bonds); and $43.9 in Taxable Tax Allocation Revenue Bonds Series 2005 C (2005 Series C Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The net proceeds of the 2005 Series A Refunding Bonds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1998 A Bonds (1998 Series A Bonds), in the amount of $16.7

million; and a portion of the Tax Allocation Revenue Bonds Series 1998 C Bonds (1998 Series C Bonds), in the amount of $3.4 million.

The net proceeds of $20.8 million (including original issue discount of $15.7 thousand, and after depositing $1.7 million in a reserve fund and $26 thousand in an interest fund; and payment of $0.4 million in underwriting fees, and issuance costs) from the 2005 Series A Refunding Bonds, together with certain other moneys of the Agency were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. Defeased 1998 Series A Bonds in the amount of $4.1 million remain outstanding as of June 30, 2006.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $0.8 million, the Agency in effect reduced its aggregate debt service payments by approximately $2.7 million over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $1.3 million. The 2005 Series A Refunding Bonds mature through August 1, 2025 with interest rates ranging from 3.25% to 4.2%.

The net proceeds of the 2005 Series B Refunding Bonds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1998 B Bonds (1998 Series B Bonds), in the amount of $3.8 million and the Taxable Tax Allocation Revenue Bonds Series 2000 B Bonds (2000 Series B Bonds), in the amount of $5 million.

The net proceeds of $9.3 million (including original issue discount of $52.4 thousand, and after depositing $39.1 thousand in an interest fund and payment of $0.2 million in underwriting fees and issuances costs) from the 2005 Series B Bonds, together with certain other moneys of the Agency were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. The defeased 2005 Series B Bonds remain outstanding as of June 30, 2006.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $0.6 million, the Agency in effect reduced its aggregate debt service payment by approximately $0.6 million over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $0.8 million. The 2000 Series B Refunding Bonds mature through August 2015 with interest rates ranging from 4% to 4.5%.

The net proceeds of $42.6 million (including original issue discount of $0.4 million, and after depositing $10.6 thousand in an interest fund and payment of $1 million in underwriting fees and issuance costs) from the 2005 Series C Bonds will be used to finance the construction, rehabilitation, and preservation of low-income housing and for general redevelopment purposes. The 2005 Series C Bonds mature through August 2035 with interest rates ranging from 4.1% to 5.2%.

In July 2005, the Authority issued $16.2 million in Tax Allocation Revenue Bonds 2005 Series D (2005 Series D Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The net proceeds of $15 million (including original issue premium of $0.1 million, and after depositing $1 million in a reserve fund and $8.1 thousand in an interest fund; and payment of $0.3 million in underwriting fees, and issuance costs) from the 2005 Series D Bonds will be used to finance public infrastructure improvements and other redevelopment activities in the Mission Bay North Project Area. These bonds mature through August 2035 with interest rates ranging from 3.85% to 5%.





In order to facilitate construction and rehabilitation in the City, various construction loan notes, promissory notes, community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $664 million as of June 30, 2006 have been issued by the Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying 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 on these funds 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 $371 million for such expenditures since its inception. The Agency has expended $278 million for low- and moderate-income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $32.9 million as of June 30, 2006.

## (13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The Treasure Island Development Authority (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 2005-2006, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2002-2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer.

## (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, 2006, is as follows (in thousands):

**Due to/from other funds (in thousands):**

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Nonmajor Governmental Funds | $ 15,733 |
| | Laguna Honda Hospital | 15,126 |
| | | 30,859 |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 3,960 |
| | | 3,960 |
| San Francisco Water Department | Municipal Transportation Agency | 145 |
| | | 145 |
| Hetch Hetchy Water and Power | General Fund | 821 |
| | Nonmajor Governmental Funds | 12,496 |
| | Municipal Transportation Agency | 102 |
| | General Hospital Medical Center | 2,294 |
| | | 15,713 |
| Municipal Transportation Agency | Nonmajor Governmental Funds | 29,775 |
| | | 29,775 |
| Total | | $ 80,452 |

**Due to/from primary government and component units:**

| Receivable Entity | Payable Entity | Amount |
|---|---|---|
| Primary government - governmental | Component Unit - San Francisco Redevelopment Agency | $ 4,806 |





Transfers In (in thousands):

| Transfers Out: | Funds | | | | | | |
|---|---|---|---|---|---|---|---|
| Funds | General Fund | Nonmajor Governmental | Internal Service Funds | Municipal Transportation Agency | San Francisco General Hospital Medical Center | Laguna Honda Hospital | Total |
| General Fund | $ - | $ 124,053 | $ 535 | $ 161,803 | $ 93,803 | $ 39,892 | $ 420,086 |
| Nonmajor governmental funds | 9,919 | 26,707 | 101 | 48,777 | - | 49,565 | 135,069 |
| San Francisco International Airport | 21,513 | - | - | - | - | - | 21,513 |
| San Francisco Water Department | - | 60 | - | 542 | - | - | 602 |
| Municipal Transportation Agency | - | 11,272 | - | - | - | - | 11,272 |
| San Francisco General Hospital Medical Center | 30,949 | - | - | - | - | 1,303 | 32,252 |
| Laguna Honda Hospital | 50 | - | - | - | - | - | 50 |
| Total transfers out | $ 62,431 | $ 162,092 | $ 636 | $ 211,122 | $ 93,803 | $ 90,760 | $ 620,844 |

The $420.1 million General Fund transfer out includes a total of $295.5 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $124.1 million from the General Fund to the nonmajor governmental funds are to provide support to various City programs such as the Public Protection, Public Library, and the Children and Families Fund, as well as to provide resources for the payments of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of $30.9 million from San Francisco General Hospital Medical Center for the SB 855 matching program reimbursement (note 11(g)) and $21.5 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). Of the $48.8 million transferred from nonmajor governmental funds to the Municipal Transportation Agency, $47.7 million is for capital and operating transfers from San Francisco Transportation Authority. The $49.6 million transferred from nonmajor governmental funds to Laguna Honda Hospital is for capital transfers funded by the Laguna Honda Hospital General Obligation Bonds in the City Facilities Improvement Fund.

## (15) COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

### (b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

*Primary Government*

**Governmental Activities**

| Fiscal Years | |
|---|---|
| 2007 | $ 26,545 |
| 2008 | 23,200 |
| 2009 | 15,013 |
| 2010 | 13,551 |
| 2011 | 9,521 |
| 2012-2016 | 12,779 |
| 2017-2021 | 1,578 |
| Total | $ 102,187 |

Operating lease expense incurred for fiscal year 2005-2006 was approximately $27.7 million.

**Business-type Activities**

| Fiscal Years | San Francisco International Airport | Port of San Francisco | Municipal Transportation Agency (MTA) | San Francisco General Hospital Medical Center (SFGH) | Total Business-type Activities |
|---|---|---|---|---|---|
| 2007 | $ 5,574 | $ 3,013 | $ 5,310 | $ 7,070 | $ 20,967 |
| 2008 | 5,639 | 3,013 | 5,152 | 3,496 | 17,300 |
| 2009 | 4,559 | 3,013 | 5,647 | 2,797 | 16,016 |
| 2010 | 79 | 3,013 | 5,377 | 2,504 | 10,973 |
| 2011 | 75 | 3,013 | 837 | 1,182 | 5,107 |
| 2012-2016 | - | 14,905 | 4,417 | - | 19,322 |
| 2017-2021 | - | 14,269 | 4,867 | - | 19,136 |
| 2022-2026 | - | 14,269 | 5,349 | - | 19,618 |
| 2027-2031 | - | 14,269 | 5,992 | - | 20,261 |
| 2032-2036 | - | 14,269 | - | - | 14,269 |
| 2037-2041 | - | 14,269 | - | - | 14,269 |
| 2042-2046 | - | 14,269 | - | - | 14,269 |
| 2047-2051 | - | 8,800 | - | - | 8,800 |
| Total | $ 15,926 | $ 124,384 | $ 42,948 | $ 17,049 | $ 200,307 |

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2005-2006 was $4.4 million, $2.6 million, $5.8 million, and $4.5 million, respectively.





***Component Unit – San Francisco Redevelopment Agency***

The San Francisco Redevelopment Agency (The Agency) has noncancellable operating leases for its office sites, which require the following minimum annual payments (in thousands):

| Fiscal Years | |
|---|---|
| 2007 | $ 1,796 |
| 2008 | 1,797 |
| 2009 | 1,775 |
| 2010 | 1,775 |
| 2011 | 1,775 |
| 2012-2016 | 8,876 |
| 2017-2021 | 5,466 |
| 2022-2026 | 4,119 |
| 2027-2031 | 4,119 |
| 2032-2036 | 4,119 |
| 2037-2041 | 4,119 |
| 2042-2046 | 4,119 |
| 2047-2050 | 3,338 |
| Total | $ 47,193 |

Rent payments totaling $2.1 million are included in the Agency's financial statements for the year ended June 30, 2006.

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 | |
|---|---|
| 2007 | $ 1,685 |
| 2008 | 1,490 |
| 2009 | 1,431 |
| 2010 | 1,219 |
| 2011 | 818 |
| 2012-2016 | 2,106 |
| 2017-2021 | 1,061 |
| 2022-2026 | 270 |
| Total | $ 10,080 |

**Business-type Activities**

| Fiscal Years | San Francisco International Airport | Port of San Francisco | San Francisco General Hospital Medical Center | Municipal Transportation Agency | Market Corp | Total Business-type Activities |
|---|---|---|---|---|---|---|
| 2007 | $ 68,621 | $ 27,083 | $ 1,991 | $ 3,388 | $ 869 | $ 101,952 |
| 2008 | 65,033 | 25,088 | 2,033 | 3,096 | 497 | 95,747 |
| 2009 | 51,823 | 22,999 | 2,077 | 2,961 | 374 | 80,234 |
| 2010 | 37,718 | 20,244 | 2,123 | 2,361 | 405 | 62,851 |
| 2011 | 19,607 | 17,601 | 2,168 | 1,783 | 361 | 41,520 |
| 2012-2016 | 7,900 | 79,274 | 2,214 | 3,460 | 944 | 93,792 |
| 2017-2021 | - | 67,271 | - | - | - | 67,271 |
| 2022-2026 | - | 56,066 | - | - | - | 56,066 |
| 2027-2031 | - | 49,353 | - | - | - | 49,353 |
| 2032-2036 | - | 46,363 | - | - | - | 46,363 |
| 2037-2041 | - | 32,373 | - | - | - | 32,373 |
| 2042-2046 | - | 22,749 | - | - | - | 22,749 |
| 2047-2051 | - | 17,158 | - | - | - | 17,158 |
| 2052-2056 | - | 8,400 | - | - | - | 8,400 |
| 2057-2061 | - | 7,023 | - | - | - | 7,023 |
| 2062-2066 | - | 7,023 | - | - | - | 7,023 |
| 2067-2071 | - | 1,094 | - | - | - | 1,094 |
| Total | $ 250,702 | $ 507,162 | $ 12,606 | $ 17,049 | $ 3,450 | $ 790,969 |

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees were approximately $10.3 million in fiscal year 2005-2006.

***Component Unit – San Francisco 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 | |
|---|---|
| 2007 | $ 4,517 |
| 2008 | 4,548 |
| 2009 | 4,582 |
| 2010 | 4,634 |
| 2011 | 4,659 |
| 2012-2016 | 22,073 |
| 2017-2021 | 22,190 |
| 2022-2026 | 21,406 |
| 2027-2031 | 23,018 |
| 2032-2036 | 23,410 |
| 2037-2041 | 20,520 |
| 2042-2046 | 21,818 |
| 2047-2051 | 3,909 |
| 2052-2056 | 475 |
| 2057-2061 | 410 |
| 2062-2066 | 400 |
| 2067-2071 | 272 |
| 2072-2076 | 238 |
| 2077-2081 | 150 |
| 2082-2086 | 150 |
| 2087-2091 | 150 |
| 2092-2096 | 150 |
| 2097-2101 | 38 |
| Total | $ 183,717 |



CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

## (c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $18 million per year through July 1, 2024. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. Together with financing from the City through appropriation of a portion of the hotel tax and through the issuance of lease revenue bonds by the Finance Corporation, the total cost of approximately $371.4 million was included in the City's asset class of facilities and improvements.

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 for capital leases are as follows (in thousands):

| Fiscal Years | Moscone Convention Center | Other | Total |
|---|---|---|---|
| 2007 | $ 17,874 | $ 128 | $ 18,002 |
| 2008 | 18,571 | 63 | 18,634 |
| 2009 | 18,640 | - | 18,640 |
| 2010 | 18,717 | - | 18,717 |
| 2011 | 18,794 | - | 18,794 |
| 2012-2016 | 94,772 | - | 94,772 |
| 2017-2021 | 63,638 | - | 63,638 |
| 2022-2025 | 13,071 | - | 13,071 |
| Total minimum lease payments | 264,077 | 191 | 264,268 |
| Less amounts representing interest | (73,981) | (8) | (73,989) |
| Present value of maximum lease payments | $ 190,096 | $ 183 | $ 190,279 |

## (d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $842 million at June 30, 2006.

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, 2006, the City contributed approximately $6.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

## (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 Municipal Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of $20 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Redevelopment 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, 2006 has been actuarially determined and includes an estimate of incurred but not reported losses.

Changes in the reported estimated claims payable since June 30, 2004, resulted from the following activity (in thousands):

| | Beginning Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Ending Fiscal Year Liability |
|---|---|---|---|---|
| 2004-2005 | $ 127,436 | $ 63,684 | $ (38,865) | $ 152,255 |
| 2005-2006 | 152,255 | 38,053 | (43,048) | 147,260 |





Breakdown of the estimated claims payable at June 30, 2006 is as follows (in thousands):

| | |
|---|---|
| Governmental Activities: | |
| Current portion of estimated claims payables.......................... | $ 23,811 |
| Long-term portion of estimated claims payable........................ | 45,666 |
| Business-type activities: | |
| Current portion of estimated claims payables.......................... | 24,629 |
| Long-term portion of estimated claims payable........................ | 53,154 |
| Total.............................................................. | $ 147,260 |

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 and fire lawsuit has been resolved in favor of the Retirement System during the year ended June 30, 2006. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending both of these class action lawsuits in the trial court. The VPOA lawsuit is on appeal. The potential loss to the Retirement System, should there be a successful appeal, is estimated to be less than $100 million as of June 30, 2006.

The Retirement System is involved in two securities fraud cases. The first lawsuit is against Enron Corporation, its officers and its accountants. In the second case, the Retirement System joined a coalition of government pension funds in a securities fraud suit against various investment banks for losses relating to WorldCom bonds. As these cases are in the preliminary stage, it is premature to determine the amount recovery for the Retirement System in these matters.

***Workers' Compensation***

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2006 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, 2006 was $364.1 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, 2004, resulted from the following activity (in thousands):

| | Beginning Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Ending Fiscal Year Liability |
|---|---|---|---|---|
| 2004-2005 | $ 397,126 | $ 87,372 | $ (93,070) | $ 391,428 |
| 2005-2006 | 391,428 | 44,863 | (72,156) | 364,135 |

Breakdown of the accrued workers' compensation liability at June 30, 2006 is as follows (in thousands):

| | |
|---|---|
| Governmental Activities: | |
| Current portion of accrued workers' compensation liability......... | $ 41,803 |
| Long-term portion of accrued workers' compensation liability..... | 160,678 |
| Business-type activities: | |
| Current portion of accrued workers' compensation liability......... | 35,466 |
| Long-term portion of accrued worker's compensation liability..... | 126,188 |
| Total........................................................... | $ 364,135 |

## (17) SUBSEQUENT EVENTS

### Long-term Debt

In July 2006, the San Francisco Water Department issued 2006 Water Revenue Refunding Series C Bonds in the amount of $48.7 million. The purpose of the bonds is to refund the remaining portion of the 1996 Series A Water Revenue Refunding Bond. The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's, respectively. The Revenue Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest rate serial bonds mature through November 1, 2026.

In August 2006, the San Francisco Redevelopment Agency issued Taxable Tax Allocation Revenue Bonds Series A (2006 Series A Bonds) and Tax Allocation Revenue Bonds Series B (2006 Series B Bonds) in the amount of $50.7 million and $34.5 million, respectively. The proceeds from the 2006 Series A Bonds will be used to fund the construction of affordable housing, renovate a pier in the Rincon Point-South Beach project area, and provide financial assistance to a museum located in the Yerba Buena Center project area. The proceeds from the 2006 Series B Bonds will be used to fund the construction of streets, sidewalks, sewer/sewage facilities and open space in the Mission Bay North project areas.

The Agency loaned Community Housing Partnership (CHP), a California non-profit public benefit corporation, a construction bridge loan of $4.1 million for the rehabilitation of the Senator housing project. The loan funds were disbursed from November 2004 through February 2006. The loan was considered uncollectible as of June 30, 2006 because the permanent financing was dependent on receiving other sources of funding. On September 18, 2006, the principal amount of $4.1 million was paid when CHP received its permanent financing. The related accrued interest of $0.4 million was added to an existing permanent loan. As of June 30, 2006, the amount outstanding for the permanent loan to CHP is $1.3 million.

In March 2000, the voters of the City adopted Proposition C, amending the Charter by extending the term of the Open Space Fund and authorizing the issuance of revenue bonds for such purpose. A set aside of 2.5% of the City's general 1% property tax is required by the Charter to be deposited in the Open Space Fund. In November 2006, the Corporation issued Lease Revenue Bonds Series 2006 (Open Space Fund-Various Park Projects) in the amount of $27 million (the "Series 2006 Bonds"). The Series 2006 Bonds will finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.5%. The bonds begin to mature in July 2007 through July 2027.

In September 2006, the $5.4 million Fillmore Renaissance Center Project variable rate note with the Housing and Urban Department (HUD) was converted to a fixed rate financing and the amount of the loan was increased to $5.5 million. The new loan carries interest rates ranging from 4.9% to 5.74% and matures from August 2007 through August 2025.





In October 2006, the City issued the General Obligation Refunding Bonds, Series 2006 R-1 (Series 2006-R1 Bonds) in the amount of $90.7 million. The proceeds of the bonds were used to refund all or a portion of certain outstanding general obligations bonds of the City and to pay for certain costs related to the issuance of the bonds. The Series 2006-R1 Bonds were issued with interest rates ranging from 4% to 5% and mature from June 2007 through June 2020. The City in effect reduced its aggregate debt service payment by $7 million and obtained a net present value savings of $5.4 million.

In December 2006, the City issued the General Obligation Refunding Bonds, Series 2006-R2 (Series 2006-R2 Bonds) in the amount of $66.6 million. The proceeds of the bonds were used to refund all or a portion of certain outstanding general obligation bonds of the City and to pay for certain costs related to the issuance of the bonds. The Series 2006-R2 Bonds were issued with interest rates ranging from 3.5% to 4.15% and mature from June 2007 through June 2019. The City in effect reduced its aggregate debt service payment by $9.4 million and obtained a net present value savings of $4.7 million.

### Elections

On November 7, 2006, the San Francisco voters approved the following proposition that will have a fiscal impact on the City:

**Proposition F – Sick Leave Ordinance** This ordinance establishes minimum requirements for employers, as defined by state law, to provide paid sick leave to their employees. This includes full-time, part-time, and temporary employees working in San Francisco. Employees will earn paid sick leave at the rate of 1 hour for every 30 hours worked. New employees will begin to earn sick leave after 3 months on the job. Employees who work in businesses with fewer than 10 employees could accumulate up to 40 hours of paid sick leave. All other employees could accumulate up to 72 hours of paid sick leave.

The increase in the cost of government will be approximately $9.3 million annually for sick leave to groups of City workers who do not earn paid time off and for administration of the ordinance. This estimate does not address the potential impacts of a paid sick leave requirement on employers or the local economy.

# Required Supplementary Information


# CITY AND COUNTY OF SAN FRANCISCO
## Required Supplementary Information - Historical Pension Data (Unaudited)

**Employees' Retirement System - Analysis of Funding Progress**

Historical trend information is presented.

Schedule of funding progress for the Employees' Retirement System (In thousands):

| Actuarial Valuation Date | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | Over-funded AAL (OAAL) | Funded Ratio | Covered Payroll | OAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 7/1/2003 | $11,173,636 | $10,249,896 | $923,740 | 109.0% | $2,130,071 | 43.4% |
| 7/1/2004 | 11,299,997 | 10,885,455 | 414,542 | 103.8% | 2,155,252 | 19.2% |
| 7/1/2005 | 12,659,698 | 11,765,737 | 893,961 | 107.6% | 2,052,862 | 43.5% |

**California Public Employees' Retirement System - Analysis of Funding Progress**

Historical trend information is presented.

Schedule of funding progress for PERS (In thousands):

| Actuarial Valuation Date | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | Over (Under) funded AAL (OAAL) | Funded Ratio | Covered Payroll | OAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| **06/30/01:** | | | | | | |
| Misc. | $ 32,773 | $ 22,031 | $ 10,742 | 148.8% | $ 1,087 | 988.2% |
| Safety | 445,005 | 358,626 | 86,379 | 124.1% | 63,581 | 135.9% |
| Total | $ 477,778 | $ 380,657 | $ 97,121 | 125.5% | $ 64,668 | 150.2% |
| **06/30/02:** | | | | | | |
| Misc. | $ 31,897 | $ 21,889 | $ 10,008 | 145.7% | $ 1,150 | 870.3% |
| Safety | 430,019 | 417,394 | 12,625 | 103.0% | 71,716 | 17.6% |
| Total | $ 461,916 | $ 439,283 | $ 22,633 | 105.2% | $ 72,866 | 31.1% |
| **06/30/03:** [1] | | | | | | |
| Safety | $ 442,850 | $ 458,152 | $ (15,302) | 96.7% | $ 79,093 | -19.3% |

NOTES:

[1] There is a new pooled report format for the Miscellaneous First Tier Plan of the City and County of San Francisco for Miscellaneous 2% at 55 Risk Pool. Since this plan had less than 199 active members as of June 30, 2003, PERS changed the plan from an agent multiple employer plan to a cost-sharing multiple-employer plan. As such, funding status is no longer required to be disclosed. Mandated pooling is effective with this valuation which determined the contribution rate for fiscal year 2005-2006.

# Combining Financial Statements and Schedules

photo by: SF Convention & Visitors Bureau



## Nonmajor Governmental Funds

## SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Building Inspection Fund* -- Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings.

*Children and Families Fund* -- Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

*Community/Neighborhood Development Fund* -- Accounts for various grants primarily from the Department of Housing and Urban Development to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

*Community Health Services Fund* -- Accounts for state and federal grants used to promote public health and mental health programs.

*Convention Facilities Fund* -- Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

*Court's Fund* -- Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

*Culture and Recreation Fund* -- Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

*Environmental Protection Fund* – Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

(Continued)

## SPECIAL REVENUE FUNDS *(Continued)*

*Gasoline Tax Fund* -- Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

*General Services Fund* -- Accounts for the activities of several non-grant activities, generally established by administrative action.

*Gift Fund* -- Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

*Golf Fund* -- Accounts for the revenue and expenditures related to the City's six golf courses.

*Human Welfare Fund* -- Accounts for state and federal grants used to promote education and discourage domestic violence.

*Open Space and Park Fund* -- Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

*Public Library Fund* -- Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

*Public Protection Fund* -- Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

*Public Works, Transportation and Commerce Fund* -- Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

*Real Property Fund* -- Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

*(Continued)*



CITY AND COUNTY OF SAN FRANCISCO

## SPECIAL REVENUE FUNDS *(Continued)*

*San Francisco County Transportation Authority Fund* -- Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

*Senior Citizens' Program Fund* -- Accounts for revenues from the allocation of one-fifth of the parking tax receipts and for grants from the state to be used to promote the well-being of San Francisco senior citizens.

*War Memorial Fund* -- Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

## DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.

*General Obligation Bond Fund* -- Accounts for property taxes and other revenues for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

*Certificates of Participation (COP) Funds* -- Accounts for transfers of Base Rental payments from the various COP Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

*Other Bond Funds* -- Accounts for funds and debt service of two nonprofit corporations (Social Services Corporation and San Francisco Stadium, Inc.) and business tax settlement bonds.

## CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

*City Facilities Improvement Fund* -- Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

*(Continued)*

## CAPITAL PROJECTS FUNDS *(Continued)*

*Earthquake Safety Improvement Fund* -- Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

*Fire Protection Systems Improvement Fund* -- Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

*Moscone Convention Center Fund* -- Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

*Public Library Improvement Fund* -- Accounts for bond proceeds and private gifts which are designated for construction of public library facilities including a new main library. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

*Recreation and Park Projects Fund* -- Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

*Street Improvement Fund* -- Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

## PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

*Bequest Fund* -- Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.



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## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds
### June 30, 2006
### (In Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Fund Bequest Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Deposits and investments with City Treasury | $ 481,257 | $ 56,453 | $ 516,854 | $ 6,327 | $ 1,060,891 |
| Deposits and investments outside City Treasury | 8,916 | 9,325 | 3,992 | 54 | 22,287 |
| Receivables: | | | | | |
| Property taxes and penalties | 3,361 | 5,068 | - | - | 8,429 |
| Other local taxes | 13,952 | - | - | - | 13,952 |
| Federal and state grants and subventions | 74,428 | - | 15,815 | - | 90,243 |
| Charges for services | 4,988 | - | 89 | - | 5,077 |
| Interest and other | 5,854 | 771 | 2,376 | 34 | 9,035 |
| Due from other funds | 533 | - | 3,427 | - | 3,960 |
| Due from component unit | - | - | 958 | - | 958 |
| Loans receivable (net of allowance for uncollectibles) | 74,041 | - | - | - | 74,041 |
| Deferred charges and other assets | 1,693 | - | 36 | - | 1,729 |
| Total assets | $ 669,023 | $ 71,617 | $ 543,547 | $ 6,415 | $ 1,290,602 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 48,230 | $ 6 | $ 39,910 | $ 5 | $ 88,151 |
| Accrued payroll | 9,521 | - | 1,449 | 12 | 10,982 |
| Deferred tax, grant and subvention revenues | 21,089 | 4,632 | 4,721 | - | 30,442 |
| Due to other funds | 44,002 | - | 17,962 | - | 61,964 |
| Deferred credits and other liabilities | 82,356 | 10,662 | 1,737 | - | 94,755 |
| Bonds, loans, capital leases and other payables | 150,000 | - | - | - | 150,000 |
| Total liabilities | 355,198 | 15,300 | 65,779 | 17 | 436,294 |
| Fund balances: | | | | | |
| Reserved for assets not available for appropriation | 19,154 | - | 994 | 54 | 20,202 |
| Reserved for debt service | 1,112 | 56,317 | - | - | 57,429 |
| Reserved for encumbrances | 78,038 | - | 345,042 | 40 | 423,120 |
| Reserved for appropriation carryforward | 172,274 | - | 118,070 | 3,996 | 294,340 |
| Reserved for subsequent years' budgets | 8,004 | - | - | - | 8,004 |
| Unreserved (deficit) | 35,243 | - | 13,662 | 2,308 | 51,213 |
| Total fund balances | 313,825 | 56,317 | 477,768 | 6,398 | 854,308 |
| Total liabilities and fund balances | $ 669,023 | $ 71,617 | $ 543,547 | $ 6,415 | $ 1,290,602 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds
### Year ended June 30, 2006
### (In Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Fund Bequest Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Property taxes | $ 89,867 | $ 134,981 | $ - | $ - | $ 224,848 |
| Business taxes | 746 | - | - | - | 746 |
| Other local taxes | 115,163 | - | - | - | 115,163 |
| Licenses, permits and franchises | 6,786 | - | 51 | - | 6,837 |
| Fines, forfeitures and penalties | 4,254 | - | - | - | 4,254 |
| Interest and investment income | 22,120 | 3,881 | 21,301 | 248 | 47,550 |
| Rents and concessions | 30,089 | 802 | 666 | 862 | 32,419 |
| Intergovernmental: | | | | | |
| Federal | 157,953 | - | 10,584 | - | 168,537 |
| State | 65,665 | 821 | 9,316 | - | 75,802 |
| Other | 2,752 | - | 20,748 | - | 23,500 |
| Charges for services | 137,291 | - | 270 | - | 137,561 |
| Other | 44,170 | - | 1,854 | 504 | 46,528 |
| Total revenues | 676,856 | 140,485 | 64,790 | 1,614 | 883,745 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public protection | 47,928 | - | - | - | 47,928 |
| Public works, transportation and commerce | 228,221 | - | - | - | 228,221 |
| Human welfare and neighborhood development | 172,582 | - | - | 4 | 172,586 |
| Community health | 94,515 | - | - | - | 94,515 |
| Culture and recreation | 175,533 | - | - | 930 | 176,463 |
| General administration and finance | 14,628 | - | - | - | 14,628 |
| General City responsibilities | 698 | - | - | - | 698 |
| Debt service: | | | | | |
| Principal retirement | 10 | 86,960 | - | - | 86,970 |
| Interest and fiscal charges | 1 | 75,128 | 846 | - | 75,975 |
| Bond issuance costs | - | - | 1,933 | - | 1,933 |
| Capital outlay | - | - | 153,493 | - | 153,493 |
| Total expenditures | 734,116 | 162,088 | 156,272 | 934 | 1,053,410 |
| Excess (deficiency) of revenues over (under) expenditures | (57,260) | (21,603) | (91,482) | 680 | (169,665) |
| Other financing sources (uses): | | | | | |
| Transfers in | 106,746 | 33,834 | 21,512 | - | 162,092 |
| Transfers out | (75,809) | (523) | (58,697) | (40) | (135,069) |
| Issuance of bonds and loans | | | | | |
| Face value of bonds issued | - | - | 219,120 | - | 219,120 |
| Face value of loans issued | 5,359 | - | - | - | 5,359 |
| Premium on issuance of bonds | - | - | 10,233 | | 10,233 |
| Other financing sources-capital leases | 1,662 | - | - | - | 1,662 |
| Total other financing sources (uses) | 37,958 | 33,311 | 192,168 | (40) | 263,397 |
| Net change in fund balances | (19,302) | 11,708 | 100,686 | 640 | 93,732 |
| Fund balances at beginning of year | 333,127 | 44,609 | 377,082 | 5,758 | 760,576 |
| Fund balances at end of year | $ 313,825 | $ 56,317 | $ 477,768 | $ 6,398 | $ 854,308 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds - Special Revenue

**June 30, 2006**

**(In Thousands)**

| | Building Inspection Fund | Children and Families Fund | Community/ Neighborhood Development Fund | Community Health Services Fund | Convention Facilities Fund | Court's Fund | Cultural and Recreation Fund | Environmental Protection Fund |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Deposits and investments with City Treasury | $ 29,385 | $62,471 | $ 81,058 | $ 10,450 | $ 14,437 | $ 3,804 | $ - | $ 1,040 |
| Deposits and investments outside City Treasury | - | - | 2,335 | 2 | - | - | 1 | - |
| Receivables: | | | | | | | | |
| Property taxes and penalties | - | 1,292 | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Federal and state grants and subventions | - | 4,379 | 7,784 | 18,588 | - | - | 6,242 | 365 |
| Charges for services | - | - | - | 8 | 183 | 3 | 489 | - |
| Interest and other | 174 | 350 | 335 | 54 | - | 22 | 18 | 2 |
| Due from other funds | - | - | - | - | - | - | - | 109 |
| Loans receivable (net of allowance for uncollectibles) | 258 | - | 73,783 | - | - | - | - | - |
| Deferred charges and other assets | - | 85 | 446 | 14 | - | - | - | - |
| Total assets | $ 29,817 | $68,577 | $ 165,741 | $ 29,116 | $ 14,620 | $ 3,829 | $ 6,750 | $ 1,516 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | $ 601 | $20,585 | $ 2,640 | $ 8,463 | $ 881 | $ 305 | $ 859 | $ 140 |
| Accrued payroll | 1,090 | 619 | 403 | 1,125 | 16 | 6 | 111 | 25 |
| Deferred tax, grant and subvention revenues | - | 1,291 | 175 | 2,222 | - | - | 5,641 | 1,358 |
| Due to other funds | - | 614 | - | - | - | - | 596 | - |
| Deferred credits and other liabilities | 7,435 | 2,619 | 59,033 | 3,944 | 2,174 | - | - | - |
| Bonds, loans, capital leases and other payables | - | - | - | - | - | - | - | - |
| Total liabilities | 9,126 | 25,728 | 62,251 | 15,754 | 3,071 | 311 | 7,207 | 1,523 |
| Fund balances: | | | | | | | | |
| Reserved for assets not available for appropriation | - | 85 | 17,085 | 14 | 1,011 | - | - | - |
| Reserved for debt service | - | - | - | - | - | - | - | |
| Reserved for encumbrances | 1,984 | 10,408 | 17,953 | 14,371 | 558 | 225 | 209 | 271 |
| Reserved for appropriation carryforward | 1,016 | 23,633 | 61,399 | 6,637 | 4,321 | 767 | 2,027 | 237 |
| Reserved for subsequent years' budgets | - | 8,000 | - | - | - | - | 4 | - |
| Unreserved (deficit) | 17,691 | 723 | 7,053 | (7,660) | 5,659 | 2,526 | (2,697) | (515) |
| Total fund balances | 20,691 | 42,849 | 103,490 | 13,362 | 11,549 | 3,518 | (457) | (7) |
| Total liabilities and fund balances | $ 29,817 | $68,577 | $ 165,741 | $ 29,116 | $ 14,620 | $ 3,829 | $ 6,750 | $ 1,516 |

*(Continued)*



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds - Special Revenue *(Continued)*

**June 30, 2006**

**(In Thousands)**

| | Gasoline Tax Fund | General Services Fund | Gift Fund | Golf Fund | Human Welfare Fund | Open Space and Park Fund | Public Library Fund |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Deposits and investments with City Treasury | $ - | $ 208 | $ 6,463 | $ 1,077 | $ - | $ 24,231 | $25,170 |
| Deposits and investments outside City Treasury | - | 8 | 469 | - | - | - | - |
| Receivables: | | | | | | | |
| Property taxes and penalties | - | - | - | - | - | 1,072 | 997 |
| Other local taxes | - | - | - | - | - | - | - |
| Federal and state grants and subventions | 1,824 | 3,792 | 71 | - | 4,855 | - | - |
| Charges for services | 95 | 1,874 | - | 479 | - | - | - |
| Interest and other | 1,579 | 504 | 18 | - | - | 144 | 63 |
| Due from other funds | - | - | - | - | - | - | - |
| Loans receivable (net of allowance for uncollectibles) | - | - | - | - | - | - | - |
| Deferred charges and other assets | - | - | - | - | - | - | - |
| Total assets | $ 3,498 | $ 6,386 | $ 7,021 | $ 1,556 | $ 4,855 | $ 25,447 | $26,230 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 106 | $ 1,191 | $ 463 | $ 407 | $ 1,049 | $ 481 | $ 1,623 |
| Accrued payroll | 289 | 248 | 39 | 114 | 3 | 576 | 1,806 |
| Deferred tax, grant and subvention revenues | - | 3,792 | 101 | - | 98 | 943 | 943 |
| Due to other funds | 440 | 445 | - | - | 3,641 | - | - |
| Deferred credits and other liabilities | - | 125 | - | 149 | - | 2,236 | 2,197 |
| Bonds, loans, capital leases and other payables | - | - | - | - | - | - | - |
| Total liabilities | 835 | 5,801 | 603 | 670 | 4,791 | 4,236 | 6,569 |
| Fund balances: | | | | | | | |
| Reserved for assets not available for appropriation | - | - | 469 | - | - | - | - |
| Reserved for debt service | - | - | - | - | - | - | - |
| Reserved for encumbrances | 325 | 327 | 390 | 127 | 471 | 891 | 1,086 |
| Reserved for appropriation carryforward | 2,497 | 1,442 | 5,551 | 297 | 180 | 12,753 | 4,003 |
| Reserved for subsequent years' budgets | - | - | - | - | - | - | - |
| Unreserved (deficit) | (159) | (1,184) | 8 | 462 | (587) | 7,567 | 14,572 |
| Total fund balances | 2,663 | 585 | 6,418 | 886 | 64 | 21,211 | 19,661 |
| Total liabilities and fund balances | $ 3,498 | $ 6,386 | $ 7,021 | $ 1,556 | $ 4,855 | $ 25,447 | $26,230 |

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## Combining Balance Sheet
## Nonmajor Governmental Funds - Special Revenue *(Continued)*
## June 30, 2006
## (In Thousands)

| | Public Protection Fund | Public Works, Transportation and Commerce Fund | Real Property Fund | San Francisco County Transportation Authority Fund | Senior Citizens' Program Fund | War Memorial Fund | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Deposits and investments with City Treasury | $ 2,748 | $ 15,719 | $ 2,228 | $189,811 | $ - | $ 10,957 | $ 481,257 |
| Deposits and investments outside City Treasury | 751 | 1 | 223 | 5,126 | - | - | 8,916 |
| Receivables: | | | | | | | |
| Property taxes and penalties | - | - | - | - | - | - | 3,361 |
| Other local taxes | 205 | - | - | 13,747 | - | - | 13,952 |
| Federal and state grants and subventions | 25,025 | 8 | - | 661 | 834 | - | 74,428 |
| Charges for services | - | 1,847 | 10 | - | - | - | 4,988 |
| Interest and other | 114 | - | 5 | 2,472 | - | - | 5,854 |
| Due from other funds | - | 424 | - | - | - | - | 533 |
| Loans receivable (net of allowance for uncollectibles) | - | - | - | - | - | - | 74,041 |
| Deferred charges and other assets | 3 | 1,145 | - | - | - | - | 1,693 |
| Total assets | $28,846 | $ 19,144 | $ 2,466 | $211,817 | $ 834 | $ 10,957 | $ 669,023 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 3,070 | $ 2,053 | $ 201 | $ 2,542 | $ 276 | $ 294 | $ 48,230 |
| Accrued payroll | 2,147 | 470 | 69 | 61 | 3 | 301 | 9,521 |
| Deferred tax, grant and subvention revenues | 3,995 | - | - | 530 | - | - | 21,089 |
| Due to other funds | - | 3,975 | - | 33,736 | 555 | - | 44,002 |
| Deferred credits and other liabilities | 26 | 1,197 | - | 1,221 | - | - | 82,356 |
| Bonds, loans, capital leases and other payables | - | - | - | 150,000 | - | - | 150,000 |
| Total liabilities | 9,238 | 7,695 | 270 | 188,090 | 834 | 595 | 355,198 |
| Fund balances: | | | | | | | |
| Reserved for assets not available for appropriation | 418 | - | 72 | - | - | - | 19,154 |
| Reserved for debt service | - | - | - | 1,112 | - | - | 1,112 |
| Reserved for encumbrances | 23,582 | 3,453 | 90 | 1,131 | - | 186 | 78,038 |
| Reserved for appropriation carryforward | 5,835 | 5,558 | 3,425 | 21,484 | 11 | 9,201 | 172,274 |
| Reserved for subsequent years' budgets | - | - | - | - | - | - | 8,004 |
| Unreserved (deficit) | (10,227) | 2,438 | (1,391) | - | (11) | 975 | 35,243 |
| Total fund balances | 19,608 | 11,449 | 2,196 | 23,727 | - | 10,362 | 313,825 |
| Total liabilities and fund balances | $28,846 | $ 19,144 | $ 2,466 | $211,817 | $ 834 | $ 10,957 | $ 669,023 |



# CITY AND COUNTY OF SAN FRANCISCO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
## Nonmajor Governmental Funds - Special Revenue
## Year ended June 30, 2006
## (In Thousands)

| | Building Inspection Fund | Children and Families Fund | Community/ Neighborhood Development Fund | Community Health Services Fund | Convention Facilities Fund | Court's Fund | Cultural and Recreation Fund | Environmental Protection Fund |
|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | |
| Property taxes | $ - | $33,664 | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | 746 | - | - | - | - | - |
| Other local taxes | - | - | - | - | 34,743 | - | - | - |
| Licenses, permits and franchises | 3,552 | - | - | - | - | - | 171 | - |
| Fines, forfeitures and penalties | - | - | 1,020 | 1,657 | - | 27 | - | - |
| Interest and investment income | 1,155 | 1,862 | 6,181 | 239 | 654 | 166 | 107 | 57 |
| Rents and concessions | - | - | - | - | 17,613 | - | 178 | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | 10,876 | 28,766 | 72,740 | - | - | - | 47 |
| State | - | 13,819 | 652 | 14,890 | - | 98 | 617 | 1,562 |
| Other | - | - | - | - | - | - | - | 451 |
| Charges for services | 36,324 | 871 | 3,845 | 1,951 | 3,594 | 3,834 | 6,592 | - |
| Other | 17 | 5 | 36,269 | 234 | - | - | 403 | 13 |
| Total revenues | 41,048 | 61,097 | 77,479 | 91,711 | 56,604 | 4,125 | 8,068 | 2,130 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public protection | - | - | - | 20 | - | 840 | - | - |
| Public works, transportation and commerce | 39,580 | - | 641 | - | - | 1,348 | - | - |
| Human welfare and neighborhood development | - | 85,101 | 55,311 | - | 835 | - | - | 1,677 |
| Community health | - | - | - | 89,578 | - | - | - | - |
| Culture and recreation | - | - | 40 | - | 62,120 | - | 7,562 | - |
| General administration and finance | - | - | 1,794 | - | - | - | - | - |
| General City responsibilities | - | - | - | - | 186 | - | - | - |
| Debt service: | | | | | | | | |
| Principal retirement | - | - | - | - | - | - | 10 | - |
| Interest and fiscal charges | - | - | - | - | - | - | 1 | - |
| Total expenditures | 39,580 | 85,101 | 57,786 | 89,598 | 63,141 | 2,188 | 7,573 | 1,677 |
| Excess (deficiency) of revenues over (under) expenditures | 1,468 | (24,004) | 19,693 | 2,113 | (6,537) | 1,937 | 495 | 453 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 26,763 | 45 | - | 10,019 | - | 226 | - |
| Transfers out | (2,843) | - | (2,645) | (85) | (652) | (1,500) | (801) | (841) |
| Issuance of bonds and loans | | | | | | | | |
| Face value of loans issued | - | - | 5,359 | - | - | - | - | - |
| Other financing sources-capital leases | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (2,843) | 26,763 | 2,759 | (85) | 9,367 | (1,500) | (575) | (841) |
| Net change in fund balances | (1,375) | 2,759 | 22,452 | 2,028 | 2,830 | 437 | (80) | (388) |
| Fund balances at beginning of year | 22,066 | 40,090 | 81,038 | 11,334 | 8,719 | 3,081 | (377) | 381 |
| Fund balances at end of year | $ 20,691 | $42,849 | $ 103,490 | $ 13,362 | $11,549 | $3,518 | $ (457) | $ (7) |

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
## Nonmajor Governmental Funds - Special Revenue *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Gasoline Tax Fund | General Services Fund | Gift Fund | Golf Fund | Human Welfare Fund | Open Space and Park Fund | Public Library Fund |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ 28,101 | $ 28,102 |
| Business taxes | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - |
| Licenses, permits and franchises | 2 | 1,255 | - | - | 214 | - | - |
| Fines, forfeitures and penalties | - | - | - | - | - | - | 10 |
| Interest and investment income | 66 | 43 | 321 | 14 | - | 713 | 319 |
| Rents and concessions | - | 640 | - | 2,603 | - | - | 39 |
| Intergovernmental: | | | | | | | |
| Federal | - | - | - | - | 13,489 | - | 14 |
| State | 23,336 | 105 | - | - | 363 | 171 | 639 |
| Other | - | - | - | - | 41 | - | - |
| Charges for services | 272 | 1,685 | 74 | 6,236 | 193 | - | 719 |
| Other | 3 | - | 5,154 | - | 64 | - | 116 |
| Total revenues | 23,679 | 3,728 | 5,549 | 8,853 | 14,364 | 28,985 | 29,958 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Public protection | - | 373 | 130 | - | - | - | - |
| Public works, transportation and commerce | 31,943 | 886 | 449 | 180 | - | 532 | 26 |
| Human welfare and neighborhood development | - | - | 2,070 | - | 14,838 | - | - |
| Community health | - | - | 1,098 | - | - | - | - |
| Culture and recreation | - | 641 | 842 | 9,285 | - | 25,725 | 59,403 |
| General administration and finance | - | 5,670 | 2,159 | - | - | - | - |
| General City responsibilities | - | 466 | 46 | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement | - | - | - | - | - | - | - |
| Interest and fiscal charges | - | - | - | - | - | - | - |
| Total expenditures | 31,943 | 8,036 | 6,794 | 9,465 | 14,838 | 26,257 | 59,429 |
| Excess (deficiency) of revenues over (under) expenditures | (8,264) | (4,308) | (1,245) | (612) | (474) | 2,728 | (29,471) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | 8,796 | 457 | 1,562 | 1,568 | 331 | 935 | 39,195 |
| Transfers out | (1,051) | (667) | (1,539) | (935) | (16) | (70) | (89) |
| Issuance of bonds and loans | | | | | | | |
| Face value of loans issued | | | | | | | |
| Other financing sources-capital leases | 1,325 | - | - | - | - | - | - |
| Total other financing sources (uses) | 9,070 | (210) | 23 | 633 | 315 | 865 | 39,106 |
| Net change in fund balances | 806 | (4,518) | (1,222) | 21 | (159) | 3,593 | 9,635 |
| Fund balances at beginning of year | 1,857 | 5,103 | 7,640 | 865 | 223 | 17,618 | 10,026 |
| Fund balances at end of year | $ 2,663 | $ 585 | $ 6,418 | $ 886 | $ 64 | $ 21,211 | $ 19,661 |

*(Continued)*



# CITY AND COUNTY OF SAN FRANCISCO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
## Nonmajor Governmental Funds - Special Revenue *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Public Protection Fund | Public Works, Transportation and Commerce Fund | Real Property Fund | San Francisco County Transportation Authority Fund | Senior Citizens' Program Fund | War Memorial Fund | Total |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ 89,867 |
| Business taxes | - | - | - | - | - | - | 746 |
| Other local taxes | - | - | - | 72,064 | - | 8,356 | 115,163 |
| Licenses, permits and franchises | 1,592 | - | - | - | - | - | 6,786 |
| Fines, forfeitures and penalties | 1,530 | 4 | - | - | - | 6 | 4,254 |
| Interest and investment income | 686 | 673 | 43 | 8,410 | 19 | 392 | 22,120 |
| Rents and concessions | - | 158 | 7,024 | - | - | 1,834 | 30,089 |
| Intergovernmental: | | | | | | | |
| Federal | 26,850 | 1,059 | - | - | 4,112 | - | 157,953 |
| State | 7,653 | 118 | - | 1,382 | 260 | - | 65,665 |
| Other | - | 2,260 | - | - | - | - | 2,752 |
| Charges for services | 54,103 | 16,027 | 714 | - | - | 257 | 137,291 |
| Other | 87 | 1,721 | 14 | 70 | - | - | 44,170 |
| Total revenues | 92,501 | 22,020 | 7,795 | 81,926 | 4,391 | 10,845 | 676,856 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Public protection | 46,515 | 50 | - | - | - | - | 47,928 |
| Public works, transportation and commerce | 55,591 | 11,466 | 20 | 85,070 | - | 489 | 228,221 |
| Human welfare and neighborhood development | 66 | 6,668 | 17 | - | 5,999 | - | 172,582 |
| Community health | 3,839 | - | - | - | - | - | 94,515 |
| Culture and recreation | 5 | 44 | - | - | - | 9,866 | 175,533 |
| General administration and finance | 58 | 75 | 4,872 | - | - | - | 14,628 |
| General City responsibilities | - | - | - | - | - | - | 698 |
| Debt service: | | | | | | | |
| Principal retirement | - | - | - | - | - | - | 10 |
| Interest and fiscal charges | - | - | - | - | - | - | 1 |
| Total expenditures | 106,074 | 18,303 | 4,909 | 85,070 | 5,999 | 10,355 | 734,116 |
| Excess (deficiency) of revenues over (under) expenditures | (13,573) | 3,717 | 2,886 | (3,144) | (1,608) | 490 | (57,260) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | 16,714 | 135 | - | - | - | - | 106,746 |
| Transfers out | (4,464) | (3,197) | (6,278) | (47,726) | (19) | (391) | (75,809) |
| Issuance of bonds and loans | | | | | | | |
| Face value of loans issued | - | - | - | - | - | - | 5,359 |
| Other financing sources-capital leases | - | 337 | - | - | - | - | 1,662 |
| Total other financing sources (uses) | 12,250 | (2,725) | (6,278) | (47,726) | (19) | (391) | 37,958 |
| Net change in fund balances | (1,323) | 992 | (3,392) | (50,870) | (1,627) | 99 | (19,302) |
| Fund balances at beginning of year | 20,931 | 10,457 | 5,588 | 74,597 | 1,627 | 10,263 | 333,127 |
| Fund balances at end of year | $ 19,608 | $ 11,449 | $ 2,196 | $ 23,727 | $ - | $ 10,362 | $ 313,825 |

# CITY AND COUNTY OF SAN FRANCISCO

## SPECIAL REVENUE FUNDS

### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis

Year ended June 30, 2006

(In Thousands)

| | Building Inspection Fund | | | | Children and Families Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ 30,376 | $ 30,676 | $ 33,664 | $ 2,988 |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 4,000 | 4,000 | 3,552 | (448) | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 400 | 400 | 1,008 | 608 | 758 | 2,055 | 1,933 | (122) |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 8 | 8 | - | (8) | 10,266 | 11,093 | 10,876 | (217) |
| State | - | - | - | - | 12,877 | 13,933 | 13,819 | (114) |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 33,035 | 33,035 | 36,342 | 3,307 | 108 | 1,041 | 871 | (170) |
| Other revenues | - | - | - | - | - | 4 | 4 | - |
| Total revenues | 37,443 | 37,443 | 40,902 | 3,459 | 54,385 | 58,802 | 61,167 | 2,365 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 41,603 | 42,168 | 39,580 | 2,588 | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | 83,043 | 85,884 | 85,081 | 803 |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 41,603 | 42,168 | 39,580 | 2,588 | 83,043 | 85,884 | 85,081 | 803 |
| Excess (deficiency) of revenues over (under) expenditures | (4,160) | (4,725) | 1,322 | 6,047 | (28,658) | (27,082) | (23,914) | 3,168 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | 26,082 | 26,744 | 26,744 | - |
| Transfers out | (2,365) | (2,665) | (2,665) | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (2,365) | (2,665) | (2,665) | - | 26,082 | 26,744 | 26,744 | - |
| Net change in fund balances | (6,525) | (7,390) | (1,343) | 6,047 | (2,576) | (338) | 2,830 | 3,168 |
| Budgetary fund balance (deficit), July 1 | 6,525 | 22,059 | 22,059 | - | 2,576 | 40,066 | 40,066 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 14,669 | $ 20,716 | $ 6,047 | $ - | $ 39,728 | $ 42,896 | $ 3,168 |

(Continued)



# CITY AND COUNTY OF SAN FRANCISCO

## SPECIAL REVENUE FUNDS

### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

| | Community/Neighborhood Development Fund | | | | Community Health Services Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | 550 | 550 | 746 | 196 | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | 1,020 | 1,020 | - | 1,761 | 1,691 | 1,656 | (35) |
| Interest and investment income | - | 5,061 | 5,648 | 587 | 50 | 60 | 159 | 99 |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | 28,766 | 28,766 | - | 72,049 | 72,740 | 72,740 | - |
| State | - | 652 | 652 | - | 14,339 | 14,890 | 14,890 | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 3,357 | 3,547 | 3,845 | 298 | 123 | 1,917 | 1,951 | 34 |
| Other revenues | - | 21,927 | 36,269 | 14,342 | 119 | 234 | 234 | - |
| Total revenues | 3,907 | 61,523 | 76,946 | 15,423 | 88,441 | 91,532 | 91,630 | 98 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | 20 | 20 | - |
| Public works, transportation and commerce | 429 | 642 | 642 | - | - | - | - | - |
| Human welfare and neighborhood development | 5,485 | 56,431 | 55,934 | 497 | - | - | - | - |
| Community health | - | - | - | - | 88,441 | 89,592 | 89,592 | - |
| Culture and recreation | 555 | 40 | 40 | - | - | - | - | - |
| General administration and finance | - | 1,794 | 1,794 | - | - | - | - | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 6,469 | 58,907 | 58,410 | 497 | 88,441 | 89,612 | 89,612 | - |
| Excess (deficiency) of revenues over (under) expenditures | (2,562) | 2,616 | 18,536 | 15,920 | - | 1,920 | 2,018 | 98 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 11 | 11 | - | - | - | - | - |
| Transfers out | (121) | (2,036) | (2,036) | - | - | - | - | - |
| Issuance of loans | - | 5,359 | 5,359 | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (121) | 3,334 | 3,334 | - | - | - | - | - |
| Net change in fund balances | (2,683) | 5,950 | 21,870 | 15,920 | - | 1,920 | 2,018 | 98 |
| Budgetary fund balance (deficit), July 1 | 2,683 | 71,998 | 71,998 | - | - | 11,334 | 11,334 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 77,948 | $ 93,868 | $ 15,920 | $ - | $ 13,254 | $ 13,352 | $ 98 |

(Continued)

# CITY AND COUNTY OF SAN FRANCISCO
## SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Convention Facilities Fund | | | | Court's Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | 34,743 | 34,743 | 34,743 | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | 23 | 23 | 27 | 4 |
| Interest and investment income | - | 2 | 2 | - | 78 | 78 | 171 | 93 |
| Rents and concessions | 20,135 | 20,134 | 17,613 | (2,521) | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - |
| State | - | - | - | - | 251 | 98 | 98 | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 493 | 493 | 3,594 | 3,101 | 3,720 | 3,720 | 3,834 | 114 |
| Other revenues | - | - | - | - | - | - | - | - |
| Total revenues | 55,371 | 55,372 | 55,952 | 580 | 4,072 | 3,919 | 4,130 | 211 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 2,072 | 787 | 840 | (53) |
| Public works, transportation and commerce | - | - | - | - | 1,000 | 2,348 | 1,348 | 1,000 |
| Human welfare and neighborhood development | 600 | 835 | 835 | - | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | 65,283 | 65,603 | 62,120 | 3,483 | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| General City responsibilities | - | 186 | 186 | - | - | - | - | - |
| Total expenditures | 65,883 | 66,624 | 63,141 | 3,483 | 3,072 | 3,135 | 2,188 | 947 |
| Excess (deficiency) of revenues over (under) expenditures | (10,512) | (11,252) | (7,189) | 4,063 | 1,000 | 784 | 1,942 | 1,158 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 10,512 | 10,019 | 10,019 | - | - | - | - | - |
| Transfers out | - | - | - | - | - | (1,500) | (1,500) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 10,512 | 10,019 | 10,019 | - | - | (1,500) | (1,500) | - |
| Net change in fund balances | - | (1,233) | 2,830 | 4,063 | 1,000 | (716) | 442 | 1,158 |
| Budgetary fund balance (deficit), July 1 | - | 11,966 | 11,966 | - | - | 3,079 | 3,079 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 10,733 | $ 14,796 | $ 4,063 | $ 1,000 | $ 2,363 | $ 3,521 | $ 1,158 |

*(Continued)*



# CITY AND COUNTY OF SAN FRANCISCO
## SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Culture and Recreation Fund | | | | Environmental Protection Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 168 | 168 | 171 | 3 | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 52 | 52 | 110 | 58 | - | 6 | 14 | 8 |
| Rents and concessions | 158 | 158 | 178 | 20 | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | 46 | 46 | - |
| State | - | 617 | 617 | - | 1,375 | 1,562 | 1,562 | - |
| Other | - | - | - | - | - | 451 | 451 | - |
| Charges for services | 6,790 | 6,859 | 6,592 | (267) | - | - | - | - |
| Other revenues | 661 | 538 | 402 | (136) | - | 260 | 13 | (247) |
| Total revenues | 7,829 | 8,392 | 8,070 | (322) | 1,375 | 2,325 | 2,086 | (239) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 85 | - | - | - | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | 917 | 1,677 | 1,677 | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | 8,003 | 7,438 | 7,438 | - | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 8,088 | 7,438 | 7,438 | - | 917 | 1,677 | 1,677 | - |
| Excess (deficiency) of revenues over (under) expenditures | (259) | 954 | 632 | (322) | 458 | 648 | 409 | (239) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 102 | 102 | - | - | - | - | - |
| Transfers out | - | (801) | (801) | - | (458) | (798) | (798) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | (12) | (12) | (12) | - | - | - | - | - |
| Total other financing sources (uses) | (12) | (711) | (711) | - | (458) | (798) | (798) | - |
| Net change in fund balances | (271) | 243 | (79) | (322) | - | (150) | (389) | (239) |
| Budgetary fund balance (deficit), July 1 | 288 | 4,505 | 4,505 | - | - | 381 | 381 | - |
| Budgetary fund balance (deficit), June 30 | $ 17 | $ 4,748 | $ 4,426 | $ (322) | $ - | $ 231 | $ (8) | $ (239) |

*(Continued)*

## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2006

(In Thousands)

| | Gasoline Tax Fund | | | | General Services Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | 1 | 1 | - | 2,168 | 2,168 | 1,256 | (912) |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 255 | 255 | 67 | (188) | 15 | 15 | 44 | 29 |
| Rents and concessions | 700 | - | - | - | - | 1,280 | 640 | (640) |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - |
| State | 18,819 | 24,036 | 23,337 | (699) | - | - | 105 | 105 |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 518 | 450 | 272 | (178) | 1,595 | 1,756 | 1,685 | (71) |
| Other revenues | - | - | 3 | 3 | - | - | - | - |
| Total revenues | 20,292 | 24,742 | 23,680 | (1,062) | 3,778 | 5,219 | 3,730 | (1,489) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 354 | 374 | 374 | - |
| Public works, transportation and commerce | 27,902 | 32,208 | 31,438 | 770 | 1,612 | 886 | 886 | - |
| Human welfare and neighborhood development | - | - | - | - | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | 641 | 641 | - |
| General administration and finance | - | - | - | - | 2,641 | 5,729 | 5,670 | 59 |
| General City responsibilities | - | - | - | - | - | 22 | 22 | - |
| Total expenditures | 27,902 | 32,208 | 31,438 | 770 | 4,607 | 7,652 | 7,593 | 59 |
| Excess (deficiency) of revenues over (under) expenditures | (7,610) | (7,466) | (7,758) | (292) | (829) | (2,433) | (3,863) | (1,430) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 7,610 | 8,796 | 8,796 | - | - | 12 | 12 | - |
| Transfers out | - | (1,051) | (1,051) | - | (667) | (667) | (667) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 7,610 | 7,745 | 7,745 | - | (667) | (655) | (655) | - |
| Net change in fund balances | - | 279 | (13) | (292) | (1,496) | (3,088) | (4,518) | (1,430) |
| Budgetary fund balance (deficit), July 1 | - | 2,677 | 2,677 | - | 1,496 | 5,109 | 5,109 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 2,956 | $ 2,664 | $ (292) | $ - | $ 2,021 | $ 591 | $ (1,430) |

*(Continued)*



## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2006

(In Thousands)

| | Gift Fund | | | | Golf Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | - | 41 | 172 | 131 | 10 | 10 | 15 | 5 |
| Rents and concessions | - | - | - | - | 3,015 | 3,015 | 2,604 | (411) |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - |
| State | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | - | 113 | 74 | (39) | 7,732 | 7,732 | 6,236 | (1,496) |
| Other revenues | 1,418 | 4,691 | 5,154 | 463 | - | - | - | - |
| Total revenues | 1,418 | 4,845 | 5,400 | 555 | 10,757 | 10,757 | 8,855 | (1,902) |
| **Expenditures:** | | | | | | | | |
| Public protection | 80 | 130 | 130 | - | - | - | - | - |
| Public works, transportation and commerce | - | 450 | 450 | - | - | 180 | 180 | - |
| Human welfare and neighborhood development | 342 | 2,071 | 2,071 | - | - | - | - | - |
| Community health | 873 | 1,098 | 1,098 | - | - | - | - | - |
| Culture and recreation | 123 | 842 | 842 | - | 10,333 | 11,508 | 9,285 | 2,223 |
| General administration and finance | - | 2,160 | 2,160 | - | - | - | - | - |
| General City responsibilities | - | 45 | 45 | - | - | - | - | - |
| Total expenditures | 1,418 | 6,796 | 6,796 | - | 10,333 | 11,688 | 9,465 | 2,223 |
| Excess (deficiency) of revenues over (under) expenditures | - | (1,951) | (1,396) | 555 | 424 | (931) | (610) | 321 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 1,562 | 1,562 | - | - | 1,568 | 1,568 | - |
| Transfers out | - | (1,387) | (1,387) | - | (544) | (935) | (935) | - |
| Issuance of bonds | | | | | | | | |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Issuance of commercial paper | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | 175 | 175 | - | (544) | 633 | 633 | - |
| Net change in fund balances | - | (1,776) | (1,221) | 555 | (120) | (298) | 23 | 321 |
| Budgetary fund balance (deficit), July 1 | - | 7,631 | 7,631 | - | 120 | 865 | 865 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 5,855 | $ 6,410 | $ 555 | $ - | $ 567 | $ 888 | $ 321 |

*(Continued)*

## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Human Welfare Fund | | | | Open Space and Park Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ 25,403 | $ 25,403 | $ 28,101 | $ 2,698 |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 210 | 210 | 214 | 4 | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | - | - | - | - | 300 | 300 | 741 | 441 |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 14,440 | 13,489 | 13,489 | - | - | - | - | - |
| State | - | 363 | 363 | - | 152 | 152 | 171 | 19 |
| Other | - | 41 | 41 | - | - | - | - | - |
| Charges for services | 180 | 180 | 193 | 13 | - | - | - | - |
| Other revenues | - | - | 64 | 64 | - | - | - | - |
| Total revenues | 14,830 | 14,283 | 14,364 | 81 | 25,855 | 25,855 | 29,013 | 3,158 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | - | - | - | - | - | 532 | 532 | - |
| Human welfare and neighborhood development | 14,814 | 14,623 | 14,623 | - | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | 27,746 | 27,952 | 25,724 | 2,228 |
| General administration and finance | - | - | - | - | - | - | - | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 14,814 | 14,623 | 14,623 | - | 27,746 | 28,484 | 26,256 | 2,228 |
| Excess (deficiency) of revenues over (under) expenditures | 16 | (340) | (259) | 81 | (1,891) | (2,629) | 2,757 | 5,386 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 116 | 116 | - | 544 | 935 | 935 | - |
| Transfers out | (16) | (16) | (16) | - | - | (70) | (70) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (16) | 100 | 100 | - | 544 | 865 | 865 | - |
| Net change in fund balances | - | (240) | (159) | 81 | (1,347) | (1,764) | 3,622 | 5,386 |
| Budgetary fund balance (deficit), July 1 | - | 223 | 223 | - | 1,347 | 17,607 | 17,607 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ (17) | $ 64 | $ 81 | $ - | $ 15,843 | $ 21,229 | $ 5,386 |

*(Continued)*



## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Public Library Fund | | | | Public Protection Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ 25,403 | $ 25,403 | $ 28,101 | $ 2,698 | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | 1,185 | 1,673 | 1,592 | (81) |
| Fines, forfeitures, and penalties | - | - | 10 | 10 | 1,819 | 1,819 | 1,529 | (290) |
| Interest and investment income | 50 | 50 | 250 | 200 | 77 | 86 | 816 | 730 |
| Rents and concessions | 28 | 28 | 39 | 11 | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | 15 | 15 | - | 34,639 | 26,850 | 26,850 | - |
| State | 651 | 648 | 639 | (9) | 7,089 | 7,653 | 7,653 | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 763 | 763 | 719 | (44) | 41,372 | 50,579 | 54,103 | 3,524 |
| Other revenues | - | 153 | 116 | (37) | - | 88 | 87 | (1) |
| Total revenues | 26,895 | 27,060 | 29,889 | 2,829 | 86,181 | 88,748 | 92,630 | 3,882 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 37,576 | 46,276 | 46,163 | 113 |
| Public works, transportation and commerce | - | 26 | 26 | - | 54,077 | 55,727 | 55,591 | 136 |
| Human welfare and neighborhood development | - | - | - | - | - | 66 | 66 | - |
| Community health | - | - | - | - | 1,637 | 3,839 | 3,839 | - |
| Culture and recreation | 61,622 | 59,723 | 59,404 | 319 | - | 5 | 5 | - |
| General administration and finance | - | - | - | - | - | 58 | 58 | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 61,622 | 59,749 | 59,430 | 319 | 93,290 | 105,971 | 105,722 | 249 |
| Excess (deficiency) of revenues over (under) expenditures | (34,727) | (32,689) | (29,541) | 3,148 | (7,109) | (17,223) | (13,092) | 4,131 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 33,791 | 39,419 | 39,195 | (224) | 16,289 | 16,355 | 16,355 | - |
| Transfers out | - | - | - | - | (1,500) | (4,464) | (4,464) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | (110) | (110) | - | 110 | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | (9,597) | - | - | - |
| Total other financing sources (uses) | 33,681 | 39,309 | 39,195 | (114) | 5,192 | 11,891 | 11,891 | - |
| Net change in fund balances | (1,046) | 6,620 | 9,654 | 3,034 | (1,917) | (5,332) | (1,201) | 4,131 |
| Budgetary fund balance (deficit), July 1 | 1,046 | 10,018 | 10,018 | - | 1,917 | 20,971 | 20,971 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 16,638 | $ 19,672 | $ 3,034 | $ - | $ 15,639 | $ 19,770 | $ 4,131 |

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## SPECIAL REVENUE FUNDS

### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

| | Public Works, Transportation and Commerce Fund | | | | Real Property Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | 4 | 4 | - | - | - | - |
| Interest and investment income | - | - | - | - | - | 1 | 36 | 35 |
| Rents and concessions | - | - | 158 | 158 | 7,564 | 7,564 | 7,024 | (540) |
| Intergovernmental: | | | | | | | | |
| Federal | 253 | 507 | 253 | (254) | - | - | - | - |
| State | 178 | 118 | 118 | - | - | - | - | - |
| Other | - | 2,260 | 2,260 | - | - | - | - | - |
| Charges for services | 6,271 | 13,176 | 16,027 | 2,851 | - | - | 714 | 714 |
| Other revenues | - | 976 | 1,721 | 745 | - | 15 | 14 | (1) |
| Total revenues | 6,702 | 17,037 | 20,541 | 3,504 | 7,564 | 7,580 | 7,788 | 208 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | 50 | 50 | - | - | - | - | - |
| Public works, transportation and commerce | 431 | 10,869 | 10,205 | 664 | - | 20 | 20 | - |
| Human welfare and neighborhood development | 6,305 | 6,785 | 6,668 | 117 | - | 17 | 17 | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | 44 | 44 | - | - | - | - | - |
| General administration and finance | - | 75 | 75 | - | 10,393 | 4,872 | 4,872 | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 6,736 | 17,823 | 17,042 | 781 | 10,393 | 4,909 | 4,909 | - |
| Excess (deficiency) of revenues over (under) expenditures | (34) | (786) | 3,499 | 4,285 | (2,829) | 2,671 | 2,879 | 208 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | - |
| Transfers out | - | (2,523) | (2,523) | - | - | (6,271) | (6,271) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | (2,523) | (2,523) | - | - | (6,271) | (6,271) | - |
| Net change in fund balances | (34) | (3,309) | 976 | 4,285 | (2,829) | (3,600) | (3,392) | 208 |
| Budgetary fund balance (deficit), July 1 | 34 | 10,519 | 10,519 | - | 2,829 | 5,593 | 5,593 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 7,210 | $ 11,495 | $ 4,285 | $ - | $ 1,993 | $ 2,201 | $ 208 |

*(Continued)*



# CITY AND COUNTY OF SAN FRANCISCO

## SPECIAL REVENUE FUNDS

### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

| | San Francisco County Transportation Authority Fund | | | | Senior Citizens' Program Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Other local taxes | 70,500 | 70,500 | 72,064 | 1,564 | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 887 | 887 | 8,410 | 7,523 | - | - | - | - |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | 5,062 | 4,124 | 4,112 | (12) |
| State | 3,546 | 3,545 | 1,382 | (2,163) | 1,845 | 1,755 | 259 | (1,496) |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - | - |
| Other revenues | 2,000 | 2,000 | 70 | (1,930) | - | - | - | - |
| Total revenues | 76,933 | 76,932 | 81,926 | 4,994 | 6,907 | 5,879 | 4,371 | (1,508) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 183,552 | 182,595 | 132,797 | 49,798 | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | 6,907 | 5,986 | 5,999 | (13) |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| General City responsibilities | - | - | - | - | - | - | - | - |
| Total expenditures | 183,552 | 182,595 | 132,797 | 49,798 | 6,907 | 5,986 | 5,999 | (13) |
| Excess (deficiency) of revenues over (under) expenditures | (106,619) | (105,663) | (50,871) | 54,792 | - | (107) | (1,628) | (1,521) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - | - | - | - |
| Net change in fund balances | (106,619) | (105,663) | (50,871) | 54,792 | - | (107) | (1,628) | (1,521) |
| Budgetary fund balance (deficit), July 1 | 106,619 | 217,275 | 217,275 | - | - | 1,631 | 1,631 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $111,612 | $166,404 | $ 54,792 | $ - | $ 1,524 | $ 3 | $ (1,521) |

*(Continued)*

## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | War Memorial Fund | | | | TOTAL | | | |
|---|---|---|---|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | | | |
| Property taxes | $ - | $ - | $ - | $ - | $ 81,182 | $ 81,482 | $ 89,866 | $ 8,384 |
| Business taxes | - | - | - | - | 550 | 550 | 746 | 196 |
| Other local taxes | 8,356 | 8,356 | 8,356 | - | 113,599 | 113,599 | 115,163 | 1,564 |
| Licenses, permits, and franchises | - | - | - | - | 7,731 | 8,220 | 6,786 | (1,434) |
| Fines, forfeitures, and penalties | - | - | 6 | 6 | 3,603 | 4,553 | 4,252 | (301) |
| Interest and investment income | - | - | - | - | 2,932 | 9,359 | 19,596 | 10,237 |
| Rents and concessions | 1,356 | 1,632 | 1,834 | 202 | 32,956 | 33,811 | 30,090 | (3,721) |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | 136,717 | 157,638 | 157,147 | (491) |
| State | - | - | - | - | 61,122 | 70,022 | 65,665 | (4,357) |
| Other | - | - | - | - | - | 2,752 | 2,752 | - |
| Charges for services | 251 | 290 | 257 | (33) | 106,308 | 125,651 | 137,309 | 11,658 |
| Other revenues | - | - | - | - | 4,198 | 30,886 | 44,151 | 13,265 |
| Total revenues | 9,963 | 10,278 | 10,453 | 175 | 550,898 | 638,523 | 673,523 | 35,000 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 40,082 | 47,637 | 47,577 | 60 |
| Public works, transportation and commerce | - | 490 | 490 | - | 310,691 | 329,141 | 274,185 | 54,956 |
| Human welfare and neighborhood development | - | - | - | - | 118,413 | 174,375 | 172,971 | 1,404 |
| Community health | - | - | - | - | 90,951 | 94,529 | 94,529 | - |
| Culture and recreation | 10,558 | 9,989 | 9,866 | 123 | 184,223 | 183,785 | 175,409 | 8,376 |
| General administration and finance | - | - | - | - | 13,034 | 14,688 | 14,629 | 59 |
| General City responsibilities | - | - | - | - | - | 253 | 253 | - |
| Total expenditures | 10,558 | 10,479 | 10,356 | 123 | 757,394 | 844,408 | 779,553 | 64,855 |
| Excess (deficiency) of revenues over (under) expenditures | (595) | (201) | 97 | 298 | (206,496) | (205,885) | (106,030) | 99,855 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | 94,828 | 105,639 | 105,415 | (224) |
| Transfers out | - | (1) | (1) | - | (5,671) | (25,185) | (25,185) | - |
| Issuance of loans | - | - | - | - | - | 5,359 | 5,359 | - |
| Budget reserves and designations | - | - | - | - | (110) | (110) | - | 110 |
| Loan repayments and other financing sources | - | - | - | - | (9,609) | (12) | (12) | - |
| Total other financing sources (uses) | - | (1) | (1) | - | 79,438 | 85,691 | 85,577 | (114) |
| Net change in fund balances | (595) | (202) | 96 | 298 | (127,058) | (120,194) | (20,453) | 99,741 |
| Budgetary fund balance (deficit), July 1 | 595 | 10,230 | 10,230 | - | 128,075 | 475,737 | 475,737 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 10,028 | $ 10,326 | $ 298 | $ 1,017 | $ 355,543 | $ 455,284 | $ 99,741 |



## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Schedule of Expenditures by Department Budget and Actual - Budget Basis
### Year ended June 30, 2006
### (In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| BUILDING INSPECTION FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Building Inspection | $ 41,603 | $ 42,168 | $ 39,580 | $ 2,588 |
| Total Building Inspection Fund | 41,603 | 42,168 | 39,580 | 2,588 |
| CHILDREN AND FAMILIES FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Child Support Services | 14,853 | 14,985 | 14,535 | 450 |
| Children and Families Commission | 11,518 | 13,408 | 13,408 | - |
| Mayor's Office | 56,672 | 57,491 | 57,138 | 353 |
| Total Children and Families Fund | 83,043 | 85,884 | 85,081 | 803 |
| COMMUNITY/NEIGHBORHOOD DEVELOPMENT FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Business and Economic Development | - | 71 | 71 | - |
| Public Works | 429 | 392 | 392 | - |
| Dept of Building Inspection | - | 179 | 179 | - |
| | 429 | 642 | 642 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Controller | - | 7,497 | 7,497 | - |
| Mayor's Office | 875 | 44,123 | 44,123 | - |
| Rent Arbitration Board | 4,610 | 4,811 | 4,314 | 497 |
| | 5,485 | 56,431 | 55,934 | 497 |
| **Culture and Recreation** | | | | |
| Recreation and Park Commission | 555 | 40 | 40 | - |
| **General Administration and Finance** | | | | |
| City Attorney | - | 1,020 | 1,020 | - |
| City Planning | - | 774 | 774 | - |
| Total Community/Neighborhood Development Fund | 6,469 | 58,907 | 58,410 | 497 |
| COMMUNITY HEALTH SERVICES FUND | | | | |
| **Public Protection** | | | | |
| Trial Courts | - | 20 | 20 | - |
| **Community Health** | | | | |
| Community Health Network | 88,441 | 89,592 | 89,592 | - |
| Total Community Health Services Fund | 88,441 | 89,612 | 89,612 | - |
| CONVENTION FACILITIES FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 600 | 836 | 836 | - |
| **Culture and Recreation** | | | | |
| Administrative Services - Convention Facilities | 65,283 | 65,569 | 62,086 | 3,483 |
| Arts Commission | - | 34 | 34 | - |
| | 65,283 | 65,603 | 62,120 | 3,483 |
| **General City Responsibilities** | | | | |
| Controller | - | 185 | 185 | - |
| Total Convention Facilities Fund | 65,883 | 66,624 | 63,141 | 3,483 |

*(Continued)*

## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Schedule of Expenditures by Department
### Budget and Actual - Budget Basis (*Continued*)
### Year ended June 30, 2006
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| COURT'S FUND | | | | |
| **Public Protection** | | | | |
| Police Department | 74 | 74 | 74 | - |
| Trial Courts | 1,998 | 714 | 766 | (52) |
| | 2,072 | 788 | 840 | (52) |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | 1,000 | 2,347 | 1,348 | 999 |
| Total Court's Fund | 3,072 | 3,135 | 2,188 | 947 |
| CULTURE AND RECREATION FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Mayor's Office | 85 | - | - | - |
| **Culture and Recreation** | | | | |
| Arts Commission | 940 | 1,264 | 1,264 | - |
| Asian Art Museum | 982 | 694 | 694 | - |
| Fine Arts Museums | 4,281 | 3,793 | 3,793 | - |
| Recreation and Park Commission | 1,800 | 1,687 | 1,687 | - |
| | 8,003 | 7,438 | 7,438 | - |
| Total Culture and Recreation Fund | 8,088 | 7,438 | 7,438 | - |
| ENVIRONMENTAL PROTECTION FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 917 | 1,677 | 1,677 | - |
| Total Environmental Protection Fund | 917 | 1,677 | 1,677 | - |
| GASOLINE TAX FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Municipal Transportation Agency | - | 76 | 76 | - |
| Public Utilities Commission | - | 13 | 13 | - |
| Public Works | 27,902 | 32,119 | 31,349 | 770 |
| Total Gasoline Tax Fund | 27,902 | 32,208 | 31,438 | 770 |
| GENERAL SERVICES FUND | | | | |
| **Public Protection** | | | | |
| Mayor's Office | - | 93 | 93 | - |
| Trial Courts | 354 | 280 | 280 | - |
| | 354 | 373 | 373 | - |
| **Public Works, Transportation and Commerce** | | | | |
| Telecommunications and Information Services | 1,612 | 886 | 886 | - |
| **Culture and Recreation** | | | | |
| Fine Arts Museum | - | 641 | 641 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | - | 3,617 | 3,558 | 59 |
| Assessor/Recorder | 2,641 | 2,037 | 2,037 | - |
| Board of Supervisors | - | 76 | 76 | - |
| | 2,641 | 5,730 | 5,671 | 59 |
| **General City Responsibilities** | | | | |
| Controller | - | 22 | 22 | - |
| Total General Services Fund | 4,607 | 7,652 | 7,593 | 59 |

(Continued)



## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Schedule of Expenditures by Department
### Budget and Actual - Budget Basis (*Continued*)
### Year ended June 30, 2006
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| GIFT FUND | | | | |
| **Public Protection** | | | | |
| Fire Department | 20 | 75 | 75 | - |
| Public Defender | 60 | 21 | 21 | - |
| Sheriff | - | 19 | 19 | - |
| Trial Courts | - | 2 | 2 | - |
| | 80 | 117 | 117 | - |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 463 | 463 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | - | 57 | 57 | - |
| Social Services | 342 | 2,014 | 2,014 | - |
| | 342 | 2,071 | 2,071 | - |
| **Community Health** | | | | |
| Community Health Network | 873 | 1,098 | 1,098 | - |
| **Culture and Recreation** | | | | |
| Fine Arts Museums | - | 147 | 147 | - |
| Mayor's Office | - | 66 | 66 | - |
| Public Library | 43 | 197 | 197 | - |
| Recreation and Park Commission | 80 | 432 | 432 | - |
| | 123 | 842 | 842 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | - | 9 | 9 | - |
| Mayor's Office | - | 10 | 10 | - |
| Treasurer/Tax Collector | - | 2,140 | 2,140 | - |
| | - | 2,159 | 2,159 | - |
| **General City Responsibilities** | | | | |
| Controller | - | 46 | 46 | - |
| Total Gift Fund | 1,418 | 6,796 | 6,796 | - |
| GOLF FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 180 | 180 | - |
| | - | 180 | 180 | - |
| **Culture and Recreation** | | | | |
| Recreation and Park Commission | 10,333 | 11,508 | 9,285 | 2,223 |
| Total Golf Fund | 10,333 | 11,688 | 9,465 | 2,223 |
| HUMAN WELFARE FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Commission on Status of Women | 194 | 230 | 230 | - |
| Social Services | 14,620 | 14,393 | 14,393 | - |
| | 14,814 | 14,623 | 14,623 | - |
| Total Human Welfare Fund | 14,814 | 14,623 | 14,623 | - |

(Continued)

## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Schedule of Expenditures by Department
### Budget and Actual - Budget Basis (*Continued*)
### Year ended June 30, 2006
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| OPEN SPACE AND PARK FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 532 | 532 | - |
| **Culture and Recreation** | | | | |
| Arts Commission | - | 41 | 41 | - |
| Recreation and Park Commission | 27,746 | 27,911 | 25,683 | 2,228 |
| | 27,746 | 27,952 | 25,724 | 2,228 |
| Total Open Space and Park Fund | 27,746 | 28,484 | 26,256 | 2,228 |
| PUBLIC LIBRARY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 26 | 26 | - |
| **Culture and Recreation** | | | | |
| ART Commission | - | 12 | 12 | - |
| Public Library | 61,622 | 59,711 | 59,392 | 319 |
| | 61,622 | 59,723 | 59,404 | 319 |
| Total Public Library Fund | 61,622 | 59,749 | 59,430 | 319 |
| PUBLIC PROTECTION FUND | | | | |
| **Public Protection** | | | | |
| District Attorney | 5,249 | 5,162 | 5,162 | - |
| Fire Department | 383 | 4,165 | 4,165 | - |
| Mayor's Office | 2,537 | 2,795 | 2,795 | - |
| Police Commission | 26,143 | 28,436 | 28,322 | 114 |
| Public Defender | 169 | 213 | 213 | - |
| Sheriff | 2,472 | 4,916 | 4,916 | - |
| Trial Courts | 623 | 590 | 590 | - |
| | 37,576 | 46,277 | 46,163 | 114 |
| **Public Works, Transportation and Commerce** | | | | |
| Emergency Communications Department | 54,077 | 55,421 | 55,286 | 135 |
| Port | - | 34 | 34 | - |
| Public Works | - | 253 | 253 | - |
| Telecommunications and Information Services | - | 18 | 18 | - |
| | 54,077 | 55,726 | 55,591 | 135 |
| **Human Welfare and Neighborhood Development** | | | | |
| Commission on Status of Women | - | 66 | 66 | - |
| **Community Health** | | | | |
| Community Health | 1,637 | 3,839 | 3,839 | - |
| **Culture and Recreation** | | | | |
| Recreation and Park | - | 5 | 5 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | - | 58 | 58 | - |
| Total Public Protection Fund | 93,290 | 105,971 | 105,722 | 249 |

*(Continued)*



## CITY AND COUNTY OF SAN FRANCISCO
### SPECIAL REVENUE FUNDS
### Schedule of Expenditures by Department
### Budget and Actual - Budget Basis (*Continued*)
### Year ended June 30, 2006
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND | | | | |
| **Public Protection** | | | | |
| Mayor's Office | - | 50 | 50 | - |
| **Public Works, Transportation and Commerce** | | | | |
| Department of Building Inspection | - | 3 | 3 | - |
| Municipal Transportation Agency | - | 386 | 386 | - |
| Public Utilities Commission | - | 127 | 127 | - |
| Public Works | 431 | 10,353 | 9,689 | 664 |
| | 431 | 10,869 | 10,205 | 664 |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 6,305 | 6,785 | 6,668 | 117 |
| **Culture and Recreation** | | | | |
| Arts Commission | - | 39 | 39 | - |
| Public Library | - | 5 | 5 | - |
| | - | 44 | 44 | - |
| **General Administration and Finance** | | | | |
| City Planning | - | 75 | 75 | - |
| Total Public Works, Transportation and Commerce Fund | 6,736 | 17,823 | 17,042 | 781 |
| REAL PROPERTY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 20 | 20 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Rent Arbitration Board | - | 17 | 17 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | 10,393 | 4,872 | 4,872 | - |
| Total Real Property Fund | 10,393 | 4,909 | 4,909 | - |
| SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Board of Supervisors | 183,552 | 182,595 | 132,797 | 49,798 |
| Total SF County Transportation Authority Fund | 183,552 | 182,595 | 132,797 | 49,798 |
| SENIOR CITIZENS' PROGRAM FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Social Services Department | 6,907 | 5,986 | 5,999 | (13) |
| Total Senior Citizens' Program Fund | 6,907 | 5,986 | 5,999 | (13) |
| WAR MEMORIAL FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 490 | 490 | - |
| **Culture and Recreation** | | | | |
| War Memorial | 10,558 | 9,989 | 9,866 | 123 |
| Total War Memorial Fund | 10,558 | 10,479 | 10,356 | 123 |
| Total Special Revenue Funds With Legally Adopted Budgets | $ 757,394 | $ 844,408 | $ 779,553 | $ 64,855 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds - Debt Service
### June 30, 2006
### (In Thousands)

| | General Obligation Bond | Certificates of Participation | Other Bond Funds | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 56,412 | $ - | $ 41 | $ 56,453 |
| Deposits and investments outside City Treasury | - | 9,325 | - | 9,325 |
| Receivables: | | | | |
| Property taxes and penalties | 5,068 | - | - | 5,068 |
| Interest and other | 749 | 22 | - | 771 |
| Total assets | $ 62,229 | $ 9,347 | $ 41 | $ 71,617 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 6 | $ - | $ - | $ 6 |
| Deferred tax, grant and subvention revenues | 4,632 | - | - | 4,632 |
| Deferred credits and other liabilities | 10,662 | - | - | 10,662 |
| Total liabilities | 15,300 | - | - | 15,300 |
| Fund balances: | | | | |
| Reserved for debt service | 46,929 | 9,347 | 41 | 56,317 |
| Total fund balances | 46,929 | 9,347 | 41 | 56,317 |
| Total liabilities and fund balances | $ 62,229 | $ 9,347 | $ 41 | $ 71,617 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds - Debt Service
### Year ended June 30, 2006
### (In Thousands)

| | General Obligation Bond | Certificates of Participation | Other Bond Funds | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Property taxes | $ 134,981 | $ - | $ - | $ 134,981 |
| Interest and investment income | 3,501 | 380 | - | 3,881 |
| Rents and concessions | - | 802 | - | 802 |
| Intergovernmental: | | | | |
| State | 821 | - | - | 821 |
| Total revenues | 139,303 | 1,182 | - | 140,485 |
| Expenditures: | | | | |
| Current: | | | | |
| Debt service: | | | | |
| Principal retirement | 73,270 | 7,160 | 6,530 | 86,960 |
| Interest and fiscal charges | 60,273 | 13,291 | 1,564 | 75,128 |
| Total expenditures | 133,543 | 20,451 | 8,094 | 162,088 |
| Excess (deficiency) of revenues over (under) expenditures | 5,760 | (19,269) | (8,094) | (21,603) |
| Other financing sources (uses): | | | | |
| Transfers in | 7,464 | 18,276 | 8,094 | 33,834 |
| Transfers out | (69) | - | (454) | (523) |
| Total other financing sources, net | 7,395 | 18,276 | 7,640 | 33,311 |
| Net change in fund balances | 13,155 | (993) | (454) | 11,708 |
| Fund balances at beginning of year | 33,774 | 10,340 | 495 | 44,609 |
| Fund balances at end of year | $ 46,929 | $ 9,347 | $ 41 | $ 56,317 |

# CITY AND COUNTY OF SAN FRANCISCO

## DEBT SERVICE FUNDS

## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis

Year ended June 30, 2006

(In Thousands)

| | General Obligation Bond Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | |
| Property taxes | $ 136,216 | $ 136,216 | $ 134,981 | $ (1,235) |
| Interest and investment income | - | - | 1,779 | 1,779 |
| State | 750 | 750 | 821 | 71 |
| Total revenues | 136,966 | 136,966 | 137,581 | 615 |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Principal retirement | 136,966 | 73,270 | 73,270 | - |
| Interest and fiscal charges | - | 71,160 | 52,215 | 18,945 |
| Total expenditures | 136,966 | 144,430 | 125,485 | 18,945 |
| Excess (deficiency) of revenues over (under) expenditures | - | (7,464) | 12,096 | 19,560 |
| Other financing sources (uses): | | | | |
| Transfers in | - | 7,464 | 7,464 | - |
| Total other financing sources (uses) | - | 7,464 | 7,464 | - |
| Net change in fund balances | - | - | 19,560 | 19,560 |
| Budgetary fund balance, July 1 | - | 33,386 | 33,386 | - |
| Budgetary fund balance, June 30 | $ - | $ 33,386 | $ 52,946 | $ 19,560 |



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# CITY AND COUNTY OF SAN FRANCISCO

## Combining Balance Sheet
## Nonmajor Governmental Funds - Capital Projects

### June 30, 2006

### (In Thousands)

| | City Facilities Improvement | Earthquake Safety Improvement | Fire Protection Systems Improvement | Moscone Convention Center |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 383,589 | $ 3,605 | $ 11,604 | $ 7,543 |
| Deposits and investments outside City Treasury | 3,992 | - | - | - |
| Receivables: | | | | |
| Federal and state grants and subventions | - | 56 | - | - |
| Charges for services | - | - | - | - |
| Interest and other | 1,758 | 25 | 82 | 68 |
| Due from other funds | - | - | - | - |
| Due from component unit | - | - | - | - |
| Deferred charges and other assets | - | - | - | 36 |
| Total assets | $ 389,339 | $ 3,686 | $ 11,686 | $ 7,647 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 27,510 | $ 65 | $ 267 | $ - |
| Accrued payroll | 154 | 29 | 5 | - |
| Deferred tax, grant and subvention revenues | - | - | - | - |
| Due to other funds | 3 | - | - | 12,496 |
| Deferred credits and other liabilities | 134 | 24 | - | - |
| Total liabilities | 27,801 | 118 | 272 | 12,496 |
| Fund balances: | | | | |
| Reserved for assets not available for appropriation | - | - | - | 36 |
| Reserved for encumbrances | 298,075 | 254 | 349 | 93 |
| Reserved for appropriation carryforward | 47,698 | 2,928 | 1,109 | (84) |
| Unreserved | 15,765 | 386 | 9,956 | (4,894) |
| Total fund balances | 361,538 | 3,568 | 11,414 | (4,849) |
| Total liabilities and fund balances | $ 389,339 | $ 3,686 | $ 11,686 | $ 7,647 |

(Continued)



# CITY AND COUNTY OF SAN FRANCISCO

## Combining Balance Sheet
## Nonmajor Governmental Funds - Capital Projects *(Continued)*

### June 30, 2006

### (In Thousands)

| | Public Library Improvement | Recreation and Park Projects | Street Improvement | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 46,601 | $ 63,912 | $ - | $ 516,854 |
| Deposits and investments outside City Treasury | - | - | - | 3,992 |
| Receivables: | | | | |
| Federal and state grants and subventions | - | 6,119 | 9,640 | 15,815 |
| Charges for services | - | - | 89 | 89 |
| Interest and other | 264 | 179 | - | 2,376 |
| Due from other funds | - | - | 3,427 | 3,427 |
| Due from component unit | - | - | 958 | 958 |
| Deferred charges and other assets | - | - | - | 36 |
| Total assets | $ 46,865 | $ 70,210 | $ 14,114 | $ 543,547 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 1,341 | $ 6,766 | $ 3,961 | $ 39,910 |
| Accrued payroll | 88 | 337 | 836 | 1,449 |
| Deferred tax, grant and subvention revenues | - | 4,645 | 76 | 4,721 |
| Due to other funds | - | - | 5,463 | 17,962 |
| Deferred credits and other liabilities | 6 | 235 | 1,338 | 1,737 |
| Total liabilities | 1,435 | 11,983 | 11,674 | 65,779 |
| Fund balances: | | | | |
| Reserved for assets not available for appropriation | - | - | 958 | 994 |
| Reserved for encumbrances | 7,534 | 30,832 | 7,905 | 345,042 |
| Reserved for appropriation carryforward | 37,516 | 28,903 | - | 118,070 |
| Unreserved | 380 | (1,508) | (6,423) | 13,662 |
| Total fund balances | 45,430 | 58,227 | 2,440 | 477,768 |
| Total liabilities and fund balances | $ 46,865 | $ 70,210 | $ 14,114 | $ 543,547 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds - Capital Projects
### Year ended June 30, 2006
### (In Thousands)

| | City Facilities Improvement | Earthquake Safety Improvement | Fire Protection Systems Improvement | Moscone Convention Center |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Licenses, permits and franchises | $ - | $ - | $ - | $ - |
| Interest and investment income | 15,599 | 150 | 519 | 406 |
| Rents and concessions | - | - | - | - |
| Intergovernmental: | | | | |
| Federal | - | 859 | - | - |
| State | - | - | - | - |
| Other | - | - | - | - |
| Charges for services | 253 | - | - | - |
| Other | - | - | - | - |
| Total revenues | 15,852 | 1,009 | 519 | 406 |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Interest and fiscal charges | - | - | - | - |
| Bond issuance costs | 1,684 | - | - | - |
| Capital outlay | 63,160 | 166 | 3,330 | 100 |
| Total expenditures | 64,844 | 166 | 3,330 | 100 |
| Excess (deficiency) of revenues over (under) expenditures | (48,992) | 843 | (2,811) | 306 |
| Other financing sources (uses): | | | | |
| Transfers in | 7,292 | - | - | - |
| Transfers out | (55,106) | (1,900) | - | - |
| Issuance of bonds and loans | | | | |
| Face value of bonds issued | 185,120 | - | - | - |
| Premium on issuance of bonds | 8,347 | - | - | - |
| Total other financing sources, net | 145,653 | (1,900) | - | - |
| Net change in fund balances | 96,661 | (1,057) | (2,811) | 306 |
| Fund balances at beginning of year | 264,877 | 4,625 | 14,225 | (5,155) |
| Fund balances at end of year | $ 361,538 | $ 3,568 | $ 11,414 | $ (4,849) |

*(Continued)*



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds - Capital Projects *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Public Library Improvement | Recreation and Park Projects | Street Improvement | Total |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Licenses, permits and franchises | $ - | $ - | $ 51 | $ 51 |
| Interest and investment income | 1,906 | 2,516 | 205 | 21,301 |
| Rents and concessions | 55 | - | 611 | 666 |
| Intergovernmental: | | | | |
| Federal | - | - | 9,725 | 10,584 |
| State | - | 8,218 | 1,098 | 9,316 |
| Other | - | - | 20,748 | 20,748 |
| Charges for services | - | 17 | - | 270 |
| Other | - | 26 | 1,828 | 1,854 |
| Total revenues | 1,961 | 10,777 | 34,266 | 64,790 |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Interest and fiscal charges | 47 | - | 799 | 846 |
| Bond issuance costs | 249 | - | - | 1,933 |
| Capital outlay | 9,713 | 29,856 | 47,168 | 153,493 |
| Total expenditures | 10,009 | 29,856 | 47,967 | 156,272 |
| Excess (deficiency) of revenues over (under) expenditures | (8,048) | (19,079) | (13,701) | (91,482) |
| Other financing sources (uses): | | | | |
| Transfers in | - | 2,244 | 11,976 | 21,512 |
| Transfers out | (1,691) | - | - | (58,697) |
| Issuance of bonds and loans | | | | |
| Face value of bonds issued | 34,000 | - | - | 219,120 |
| Premium on issuance of bonds | 1,886 | - | - | 10,233 |
| Total other financing sources, net | 34,195 | 2,244 | 11,976 | 192,168 |
| Net change in fund balances | 26,147 | (16,835) | (1,725) | 100,686 |
| Fund balances at beginning of year | 19,283 | 75,062 | 4,165 | 377,082 |
| Fund balances at end of year | $ 45,430 | $ 58,227 | $ 2,440 | $ 477,768 |

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## INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

*Central Shops Fund* -- Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

*Finance Corporation* -- Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

*Reproduction Fund* -- Accounts for printing, design and mail services required by various City departments and agencies.

*Telecommunications and Information Fund* -- Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city personnel. It also accounts for the related billings to various departments for specific services performed and operating support from the General Fund.

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Net Assets
### Internal Service Funds
### June 30, 2006
### (In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecom-munications & Information Fund | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Deposits and investments with City Treasury | $ 854 | $ 277 | $ 980 | $ 5,832 | $ 7,943 |
| Deposits and investments outside City Treasury | - | 25,133 | - | - | 25,133 |
| Receivables: | | | | | |
| Charges for services | 78 | - | - | - | 78 |
| Interest and other | - | 60 | - | 775 | 835 |
| Due from other funds | - | 268 | - | - | 268 (1) |
| Capital leases receivable | - | 21,855 | - | - | 21,855 |
| Deferred charges and other assets | - | - | - | 149 | 149 |
| Total current assets | 932 | 47,593 | 980 | 6,756 | 56,261 |
| Noncurrent assets: | | | | | |
| Capital leases receivable | - | 210,947 | - | - | 210,947 |
| Capital assets: | | | | | |
| Facilities and equipment, net of depreciation | 1,949 | - | 149 | 2,377 | 4,475 |
| Deferred charges and other assets | - | 2,549 | - | 2 | 2,551 |
| Total noncurrent assets | 1,949 | 213,496 | 149 | 2,379 | 217,973 |
| Total assets | $ 2,881 | $ 261,089 | $ 1,129 | $ 9,135 | $ 274,234 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 1,225 | $ - | $ 246 | $ 4,433 | $ 5,904 |
| Accrued payroll | 371 | - | 71 | 1,161 | 1,603 |
| Accrued vacation and sick leave pay | 433 | - | - | 1,436 | 1,869 |
| Accrued workers' compensation | - | - | - | 216 | 216 |
| Bonds, loans, capital leases, and other payables | - | 20,550 | - | 122 | 20,672 |
| Accrued interest payable | - | 1,305 | - | - | 1,305 |
| Due to other funds | 195 | - | - | 73 | 268 (1) |
| Deferred credits and other liabilities | - | 28,287 | 22 | 1,366 | 29,675 |
| Total current liabilities | 2,224 | 50,142 | 339 | 8,807 | 61,512 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation and sick leave pay | 390 | - | - | 1,671 | 2,061 |
| Accrued workers' compensation | - | - | - | 889 | 889 |
| Bonds, loans, capital leases, and other payables | - | 210,947 | - | 61 | 211,008 |
| Total noncurrent liabilities | 390 | 210,947 | - | 2,621 | 213,958 |
| Total liabilities | 2,614 | 261,089 | 339 | 11,428 | 275,470 |
| **Net Assets** | | | | | |
| Invested in capital assets, net of related debt | 1,949 | - | 149 | 2,194 | 4,292 |
| Unrestricted (deficit) | (1,682) | - | 641 | (4,487) | (5,528) |
| Total net assets (deficit) | $ 267 | $ - | $ 790 | $ (2,293) | $ (1,236) |

Notes:
(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Assets - Proprietary Funds on page 34.



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
### Internal Service Funds
### Year ended June 30, 2006
### (In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecom-munications & Information Fund | Total |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Charges for services | $ 20,495 | $ - | $ 6,762 | $ 71,686 | $ 98,943 |
| Rent and concessions | - | - | - | 61 | 61 |
| Total operating revenues | 20,495 | - | 6,762 | 71,747 | 99,004 |
| Operating expenses: | | | | | |
| Personal services | 9,831 | - | 1,848 | 30,969 | 42,648 |
| Contractual services | 1,609 | - | 4,013 | 25,326 | 30,948 |
| Materials and supplies | 7,028 | - | 388 | 9,262 | 16,678 |
| Depreciation and amortization | 365 | 168 | 54 | 598 | 1,185 |
| General and administrative | 82 | - | 33 | 370 | 485 |
| Services provided by other departments | 1,278 | - | 348 | 3,208 | 4,834 |
| Other | - | - | 131 | 2,284 | 2,415 |
| Total operating expenses | 20,193 | 168 | 6,815 | 72,017 | 99,193 |
| Operating income (loss) | 302 | (168) | (53) | (270) | (189) |
| Nonoperating revenues (expenses): | | | | | |
| Interest and investment income | - | 7,966 | - | - | 7,966 |
| Interest expense | (166) | (7,798) | (33) | (203) | (8,200) |
| Other, net | - | - | - | 28 | 28 |
| Total nonoperating revenues (expenses) | (166) | 168 | (33) | (175) | (206) |
| Income (loss) before transfers | 136 | - | (86) | (445) | (395) |
| Transfers in | 400 | - | 33 | 203 | 636 |
| Change in net assets | 536 | - | (53) | (242) | 241 |
| Total net assets (deficit) - beginning | (269) | - | 843 | (2,051) | (1,477) |
| Total net assets (deficit) - ending | $ 267 | $ - | $ 790 | $ (2,293) | $ (1,236) |

# CITY AND COUNTY OF SAN FRANCISCO

## Combining Statement of Cash Flows
## Internal Service Funds
## Year ended June 30, 2006
## (In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecommunications & Information Fund | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from customers | $ 20,417 | $ 18,910 | $ 6,763 | $ 72,223 | $ 118,313 |
| Cash paid to employees for services | (9,703) | - | (1,841) | (30,724) | (42,268) |
| Cash paid to suppliers for goods and services | (9,579) | (3,465) | (5,196) | (40,990) | (59,230) |
| Net cash provided by (used in) operating activities | 1,135 | 15,445 | (274) | 509 | 16,815 |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers in | 400 | - | 33 | 203 | 636 |
| Net cash provided by noncapital financing activities | 400 | - | 33 | 203 | 636 |
| Cash flows from capital and related financing activities: | | | | | |
| Bond sale proceeds | - | 19,671 | - | - | 19,671 |
| Acquisition of capital assets | (892) | - | (11) | (552) | (1,455) |
| Retirement of capital lease obligation | - | (18,910) | - | (411) | (19,321) |
| Bond issue costs paid | - | (319) | - | - | (319) |
| Interest paid on long term debt | - | (7,575) | - | - | (7,575) |
| Net cash used in capital financing activities | (892) | (7,133) | (11) | (963) | (8,999) |
| Cash flows from investing activities: | | | | | |
| Interest income received | - | 773 | - | - | 773 |
| Other investing activities | (166) | - | (33) | (203) | (402) |
| Net cash provided by (used in) investing activities | (166) | 773 | (33) | (203) | 371 |
| Increase (decrease) in cash and cash equivalents | 477 | 9,085 | (285) | (454) | 8,823 |
| Cash and cash equivalents - beginning of year | 377 | 16,325 | 1,265 | 6,286 | 24,253 |
| Cash and cash equivalents - end of year | $ 854 | $ 25,410 | $ 980 | $ 5,832 | $ 33,076 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | | |
| Operating income (loss) | $ 302 | $ (168) | $ (53) | $ (270) | $ (189) |
| Adjustments for non-cash activities: | | | | | |
| Depreciation and amortization | 365 | 168 | 54 | 598 | 1,185 |
| Other | - | - | - | 28 | 28 |
| Changes in assets/liabilities: | | | | | |
| Receivables, net | (78) | 18,910 | - | (319) | 18,513 |
| Due from other funds | - | - | - | 24 | 24 |
| Accounts payable | 418 | - | (283) | (564) | (429) |
| Accrued payroll | 62 | - | 7 | 149 | 218 |
| Accrued vacation and sick leave pay | 66 | - | - | 142 | 208 |
| Accrued workers' compensation | - | - | - | (46) | (46) |
| Deferred credits and other liabilities | - | (3,465) | 1 | 767 | (2,697) |
| Total adjustments | 833 | 15,613 | (221) | 779 | 17,004 |
| Net cash provided by (used in) operating activities | $ 1,135 | $ 15,445 | $ (274) | $ 509 | $ 16,815 |
| Reconciliation of cash and cash equivalents to the combining statement of net assets: | | | | | |
| Deposits and investments with City Treasury | $ 854 | $ 277 | $ 980 | $ 5,832 | $ 7,943 |
| Restricted deposits and investments outside City Treasury | - | 25,133 | - | - | 25,133 |
| Cash and cash equivalents at end of year on combining statement of cash flows | $ 854 | $ 25,410 | $ 980 | $ 5,832 | $ 33,076 |





## FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units.

### Trust Funds

*Employees' Retirement System* -- Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

*Health Service System* -- Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

### Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

*Assistance Program Fund* -- Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

*Deposits Fund* -- Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

*Payroll Deduction Fund* – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

*State Revenue Collection Fund* -- Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

*Tax Collection Fund* -- Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

*Transit Fund* -- Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

*Other Agency Funds* -- Accounts for monies held as agent for a variety of purposes.

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Fiduciary Net Assets

### Fiduciary Funds
### Pension and Other Employee Benefit Trust Funds

### June 30, 2006

### (In Thousands)

| | Pension Trust Fund<br>Employees' Retirement System | Other Employee Benefit Trust Fund<br>Health Service System | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments with City Treasury | $ 1,979 | $ 68,408 | $ 70,387 |
| Deposits and investments outside City Treasury: | | | |
| Cash and deposits | 22,749 | - | 22,749 |
| Short term bills and notes | 943,168 | - | 943,168 |
| Debt securities | 3,669,902 | - | 3,669,902 |
| Equity securities | 7,197,575 | - | 7,197,575 |
| Real estate | 1,316,852 | - | 1,316,852 |
| Venture capital | 1,492,752 | - | 1,492,752 |
| Receivables: | | | |
| Employer and employee contributions | 10,408 | 13,298 | 23,706 |
| Brokers, general partners and others | 133,277 | - | 133,277 |
| Interest and other | 40,998 | 382 | 41,380 |
| Invested securities lending collateral | 2,040,873 | - | 2,040,873 |
| Total assets | 16,870,533 | 82,088 | 16,952,621 |
| **Liabilities** | | | |
| Accounts payable | 11,250 | 1,866 | 13,116 |
| Estimated claims payable | - | 8,888 | 8,888 |
| Obligations under fixed coupon dollar reverse repurchase agreements | 99,141 | - | 99,141 |
| Payable to brokers | 209,422 | - | 209,422 |
| Securities lending collateral | 2,040,873 | - | 2,040,873 |
| Deferred credits and other liabilities | 12,825 | 28,794 | 41,619 |
| Total liabilities | 2,373,511 | 39,548 | 2,413,059 |
| **Net Assets** | | | |
| Held in trust for pension benefits and other purposes | $ 14,497,022 | $ 42,540 | $ 14,539,562 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Changes in Fiduciary Net Assets

### Fiduciary Funds
### Pension and Other Employee Benefit Trust Funds

### Year ended June 30, 2006

### (In Thousands)

| | Pension Trust Fund<br>Employees' Retirement System | Other Employee Benefit Trust Fund<br>Health Service System | Total |
|---|---|---|---|
| Additions: | | | |
| Employees' contributions | $ 162,693 | $ 70,535 | $ 233,228 |
| Employer contributions | 126,533 | 404,707 | 531,240 |
| Total contributions | 289,226 | 475,242 | 764,468 |
| Investment income: | | | |
| Interest | 227,637 | 2,368 | 230,005 |
| Dividends | 144,493 | - | 144,493 |
| Net increase/(decrease) in fair value of investments | 1,337,830 | (87) | 1,337,743 |
| Securities lending income | 77,358 | - | 77,358 |
| Fixed coupon dollar reverse repurchase agreement income | 5,467 | - | 5,467 |
| Total investment income | 1,792,785 | 2,281 | 1,795,066 |
| Less investment expenses: | | | |
| Securities lending borrower rebates and expenses | (67,909) | - | (67,909) |
| Fixed coupon dollar reverse repurchase finance charges and expenses | (5,372) | - | (5,372) |
| Other expenses | (40,785) | - | (40,785) |
| Total investment expenses | (114,066) | - | (114,066) |
| Total additions, net | 1,967,945 | 477,523 | 2,445,468 |
| Deductions: | | | |
| Benefit payments | 586,245 | 481,708 | 1,067,953 |
| Refunds of contributions | 8,719 | - | 8,719 |
| Administrative expenses | 11,222 | - | 11,222 |
| Total deductions | 606,186 | 481,708 | 1,087,894 |
| Change in net assets | 1,361,759 | (4,185) | 1,357,574 |
| Net assets at beginning of year | 13,135,263 | 46,725 | 13,181,988 |
| Net assets at end of year | $ 14,497,022 | $ 42,540 | $ 14,539,562 |

## CITY AND COUNTY OF SAN FRANCISCO

### FIDUCIARY FUNDS

### Combining Statement of Changes in Assets and Liabilities - Agency Funds

Year ended June 30, 2006

(In Thousands)

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---|---|---|---|---|
| **Assistance Program Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 1,464 | $ 31,989 | $ 32,207 | $ 1,246 |
| Receivables: | | | | |
| Interest and other | 65 | 1 | 66 | - |
| Total assets | $ 1,529 | $ 31,990 | $ 32,273 | $ 1,246 |
| LIABILITIES | | | | |
| Accounts payable | $ 958 | $ 5,777 | $ 6,685 | $ 50 |
| Agency obligations | 571 | 30,562 | 29,937 | 1,196 |
| Total liabilities | $ 1,529 | $ 36,339 | $ 36,622 | $ 1,246 |
| **Deposits Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 29,205 | $ 42,444 | $ 38,289 | $ 33,360 |
| Deposits and investments outside City Treasury | - | 87 | - | 87 |
| Receivables: | | | | |
| Interest and other | - | 43 | 19 | 24 |
| Deferred charges and other assets | 25,658 | 1,000 | - | 26,658 |
| Total assets | $ 54,863 | $ 43,574 | $ 38,308 | $ 60,129 |
| LIABILITIES | | | | |
| Accounts payable | $ 996 | $ 20,292 | $ 20,527 | $ 761 |
| Agency obligations | 53,867 | 42,414 | 36,913 | 59,368 |
| Total liabilities | $ 54,863 | $ 62,706 | $ 57,440 | $ 60,129 |
| **Payroll Deduction Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 10,248 | $ - | $ 4,232 | $ 6,016 |
| Receivables: | | | | |
| Employer and employee contributions | 29,925 | 5,226 | - | 35,151 |
| Total assets | $ 40,173 | $ 5,226 | $ 4,232 | $ 41,167 |
| LIABILITIES | | | | |
| Accounts payable | $ 33,768 | $ 7,051 | $ - | $ 40,819 |
| Agency obligations | 6,405 | 684 | 6,741 | 348 |
| Total liabilities | $ 40,173 | $ 7,735 | $ 6,741 | $ 41,167 |

(Continued)



## CITY AND COUNTY OF SAN FRANCISCO

### FIDUCIARY FUNDS

### Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*

Year ended June 30, 2006

(In Thousands)

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---|---|---|---|---|
| **State Revenue Collection Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 681 | $ 2,036 | $ 2,111 | $ 606 |
| Deposits and investments outside City Treasury | - | 10 | - | 10 |
| Total assets | $ 681 | $ 2,046 | $ 2,111 | $ 616 |
| LIABILITIES | | | | |
| Accounts payable | $ 318 | $ 2,021 | $ 2,066 | $ 273 |
| Agency obligations | 363 | 2,044 | 2,064 | 343 |
| Total liabilities | $ 681 | $ 4,065 | $ 4,130 | $ 616 |
| **Tax Collection Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 53,295 | $ 1,981,631 | $ 1,998,782 | $ 36,144 |
| Receivables: | | | | |
| Interest and other | 99,122 | 108,776 | 98,452 | 109,446 |
| Total assets | $ 152,417 | $ 2,090,407 | $ 2,097,234 | $ 145,590 |
| LIABILITIES | | | | |
| Accounts payable | $ 770 | $ 61,985 | $ 57,678 | $ 5,077 |
| Agency obligations | 151,647 | 1,447,706 | 1,458,840 | 140,513 |
| Total liabilities | $ 152,417 | $ 1,509,691 | $ 1,516,518 | $ 145,590 |
| **Transit Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 5,551 | $ 46,764 | $ 45,392 | $ 6,923 |
| Receivables: | | | | |
| Interest and other | 13 | 205 | 197 | 21 |
| Total assets | $ 5,564 | $ 46,969 | $ 45,589 | $ 6,944 |
| LIABILITIES | | | | |
| Accounts payable | $ 766 | $ 12,809 | $ 12,247 | $ 1,328 |
| Agency obligations | 4,798 | 34,713 | 33,895 | 5,616 |
| Total liabilities | $ 5,564 | $ 47,522 | $ 46,142 | $ 6,944 |

(Continued)

## CITY AND COUNTY OF SAN FRANCISCO
### FIDUCIARY FUNDS
### Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*
### Year ended June 30, 2006
### (In Thousands)

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 |
|---|---|---|---|---|
| **Other Agency Funds** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 10,022 | $ 110,824 | $ 105,016 | $ 15,830 |
| Deposits and investments outside City Treasury | - | 23 | - | 23 |
| Receivables: | | | | |
| Interest and other | 154 | 233 | 160 | 227 |
| Total assets | $ 10,176 | $ 111,080 | $ 105,176 | $ 16,080 |
| LIABILITIES | | | | |
| Accounts payable | $ 6,942 | $ 97,512 | $ 99,216 | $ 5,238 |
| Agency obligations | 3,234 | 101,048 | 93,440 | 10,842 |
| Total liabilities | $ 10,176 | $ 198,560 | $ 192,656 | $ 16,080 |
| **Total Agency Funds** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 110,466 | $ 2,215,688 | $ 2,226,029 | $ 100,125 |
| Deposits and investments outside City Treasury | - | 120 | - | 120 |
| Receivables: | | | | |
| Employer and employee contributions | 29,925 | 5,226 | - | 35,151 |
| Interest and other | 99,354 | 109,258 | 98,894 | 109,718 |
| Deferred charges and other assets | 25,658 | 1,000 | - | 26,658 |
| Total assets | $ 265,403 | $ 2,331,292 | $ 2,324,923 | $ 271,772 |
| LIABILITIES | | | | |
| Accounts payable | $ 44,518 | $ 207,447 | $ 198,419 | $ 53,546 |
| Agency obligations | 220,885 | 1,659,171 | 1,661,830 | 218,226 |
| Total liabilities | $ 265,403 | $ 1,866,618 | $ 1,860,249 | $ 271,772 |



# Statistical Section

photo by: SF Convention & Visitors Bureau

# Statistical Section

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

## Contents

### Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. (Pages 180-187)

### Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax. (Pages 188-191)

### Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. (Pages 192-197)

### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. (Pages 198-199)

### Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs. (Pages 200-202)

**Sources:**
Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in 2001; schedules presenting government-wide data include information beginning in that year.





## NET ASSETS BY COMPONENT

### Last Six Fiscal Years

### (accrual basis of accounting)

### (In Thousands)

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 2001 (1) | 2002 (2) | 2003 (3) | 2004 | 2005 | 2006 |
| **Governmental activities** | | | | | | |
| Invested in capital assets, net of related debt | $ 779,698 | $ 887,667 | $ 983,834 | $ 1,096,834 | $ 1,159,696 | $ 1,438,010 |
| Restricted for: | | | | | | |
| Cash and emergencies requirements by Charter (4) | 97,491 | 93,293 | 59,337 | 55,139 | - | - |
| Reserve for rainy day | - | - | - | - | 48,139 | 121,976 |
| Debt service | 10,855 | 12,135 | 7,795 | 9,996 | 46,575 | 53,076 |
| Capital projects | 118,549 | 115,052 | 86,912 | 48,313 | 25,101 | 10,589 |
| Community development | 181,264 | 135,308 | 158,591 | 163,875 | 208,532 | 71,207 |
| Transportation Authority activities | 162,037 | 142,740 | 149,070 | 135,466 | 75,282 | 23,727 |
| Other purposes | 153,838 | 219,351 | 133,233 | 122,265 | 138,224 | 148,071 |
| Unrestricted (deficit) | (45,402) | (130,525) | (265,950) | (325,147) | (200,467) | (72,038) |
| Total governmental activities net assets | $ 1,458,330 | $ 1,475,021 | $ 1,312,822 | $ 1,306,741 | $ 1,501,082 | $ 1,794,618 |
| **Business-type activities** | | | | | | |
| Invested in capital assets, net of related debt | $ 2,970,198 | $ 3,115,392 | $ 3,273,449 | $ 3,416,154 | $ 3,391,450 | $ 3,438,397 |
| Restricted for: | | | | | | |
| Debt service | 276,392 | 334,747 | 273,242 | 242,537 | 202,006 | 256,055 |
| Capital projects | 189,103 | 141,154 | 147,693 | 128,387 | 161,231 | 148,957 |
| Other purposes | 112,335 | 70,118 | 61,616 | 61,241 | 66,753 | 32,354 |
| Unrestricted | 578,675 | 568,599 | 542,813 | 464,658 | 446,039 | 536,670 |
| Total business-type activities net assets | $ 4,126,703 | $ 4,230,010 | $ 4,298,813 | $ 4,312,977 | $ 4,267,479 | $ 4,412,433 |
| **Primary government** | | | | | | |
| Invested in capital assets, net of related debt | $ 3,749,896 | $ 4,003,059 | $ 4,257,283 | $ 4,512,988 | $ 4,551,146 | $ 4,876,407 |
| Restricted for: | | | | | | |
| Cash and emergencies requirements by Charter | 97,491 | 93,293 | 59,337 | 55,139 | - | - |
| Reserve for rainy day | - | - | - | - | 48,139 | 121,976 |
| Debt service | 287,247 | 346,882 | 281,037 | 252,533 | 248,581 | 309,131 |
| Capital projects | 307,652 | 256,206 | 234,605 | 176,700 | 186,332 | 159,546 |
| Community development | 181,264 | 135,308 | 158,591 | 163,875 | 208,532 | 71,207 |
| Transportation Authority activities | 162,037 | 142,740 | 149,070 | 135,466 | 75,282 | 23,727 |
| Other purposes | 266,173 | 289,469 | 194,849 | 183,506 | 204,977 | 180,425 |
| Unrestricted | 533,273 | 438,074 | 276,863 | 139,511 | 245,572 | 464,632 |
| Total primary activities net assets | $ 5,585,033 | $ 5,705,031 | $ 5,611,635 | $ 5,619,718 | $ 5,768,561 | $ 6,207,051 |

Notes:

(1) Trend data is only available for the last six fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

(4) The City's Charter was amended in November 2003 and replaced the reserve for cash and emergencies requirements by Charter with the reserve for rainy day.

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# CITY AND COUNTY OF SAN FRANCISCO

## CHANGES IN NET ASSETS

### Last Six Fiscal Years

### (accrual basis of accounting)

### (In Thousands)

| | Fiscal Year 2001 [1] | 2002 [2] | 2003 [3] | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| **Expenses** | | | | | | |
| Governmental activities: | | | | | | |
| Public protection | $ 699,472 | $ 717,552 | $ 778,710 | $ 727,580 | $ 738,688 | $ 780,642 |
| Public works, transportation and commerce | 309,171 | 317,778 | 287,910 | 169,179 | 213,335 | 272,397 |
| Human welfare and neighborhood development | 523,827 | 586,188 | 626,306 | 651,250 | 619,753 | 858,396 |
| Community health | 457,500 | 493,856 | 542,480 | 517,066 | 503,259 | 478,844 |
| Culture and recreation | 229,721 | 246,620 | 242,398 | 232,187 | 256,336 | 244,423 |
| General administration and finance | 107,318 | 156,770 | 186,144 | 183,258 | 152,850 | 167,490 |
| General City responsibilities | 109,804 | 55,551 | 53,026 | 73,530 | 59,024 | 49,054 |
| Unallocated Interest on long-term debt | 73,588 | 77,335 | 77,827 | 86,131 | 89,690 | 94,923 |
| Total governmental activities expenses | 2,510,401 | 2,651,650 | 2,794,801 | 2,640,181 | 2,632,935 | 2,946,169 |
| Business-type activities: | | | | | | |
| Airport | 529,002 | 599,335 | 641,036 | 618,301 | 628,445 | 633,102 |
| Transportation | 468,753 | 528,725 | 628,180 | 660,650 | 711,733 | 695,593 |
| Port | 47,587 | 58,694 | 61,074 | 61,185 | 54,897 | 55,329 |
| Water | 145,858 | 165,362 | 186,579 | 206,211 | 197,848 | 213,584 |
| Power | 107,000 | 113,754 | 95,427 | 121,629 | 116,683 | 119,146 |
| Hospitals | 513,486 | 525,045 | 561,673 | 562,188 | 598,160 | 646,149 |
| Sewer | 149,687 | 159,896 | 153,845 | 150,586 | 160,650 | 160,701 |
| Garages | 34,155 | 32,274 | - | - | - | - |
| Market | - | - | 894 | 949 | 1,055 | 1,035 |
| Total business-type activities expenses | 1,995,528 | 2,183,085 | 2,328,708 | 2,381,699 | 2,469,471 | 2,524,639 |
| Total primary government expenses | $ 4,505,929 | $ 4,834,735 | $ 5,123,509 | $ 5,021,880 | $ 5,102,406 | $ 5,470,808 |
| **Program Revenues** | | | | | | |
| Governmental activities: | | | | | | |
| Charges for services: | | | | | | |
| Public protection | $ 43,051 | $ 42,254 | $ 44,291 | $ 40,349 | $ 54,805 | $ 51,874 |
| Public works, transportation and commerce | 97,432 | 102,576 | 84,057 | 83,176 | 95,081 | 113,861 |
| Human welfare and neighborhood development | 12,742 | 20,292 | 26,349 | 23,931 | 21,375 | 29,181 |
| Community health | 29,999 | 36,176 | 41,906 | 38,933 | 44,850 | 52,183 |
| Culture and recreation | 57,191 | 47,116 | 44,629 | 53,369 | 64,614 | 64,720 |
| General administration and finance | 49,977 | 53,434 | 36,525 | 43,585 | 41,348 | 55,799 |
| General City responsibilities | 54,329 | 47,050 | 41,123 | 59,609 | 28,956 | 31,647 |
| Operating Grants and Contributions | 763,863 | 781,767 | 809,670 | 823,784 | 834,607 | 859,919 |
| Capital Grants and Contributions | 22,619 | 58,394 | 46,029 | 39,209 | 55,435 | 248,329 |
| Total Governmental activities program revenues | 1,131,203 | 1,189,059 | 1,174,579 | 1,205,945 | 1,241,071 | 1,507,513 |
| Business-type activities: | | | | | | |
| Charges for services: | | | | | | |
| Airport | 414,880 | 465,176 | 500,116 | 486,132 | 477,314 | 455,342 |
| Transportation | 113,196 | 107,455 | 155,656 | 186,390 | 187,913 | 210,692 |
| Port | 50,345 | 50,494 | 54,467 | 56,702 | 57,519 | 58,588 |
| Water | 149,917 | 147,216 | 170,253 | 168,260 | 184,835 | 201,833 |
| Power | 101,963 | 125,777 | 132,190 | 124,474 | 132,303 | 149,500 |
| Hospitals | 398,461 | 412,874 | 429,128 | 453,607 | 493,596 | 472,327 |
| Sewer | 141,770 | 134,595 | 134,745 | 137,806 | 148,888 | 164,703 |
| Garages | 37,589 | 35,645 | - | - | - | - |
| Market | - | - | 1,296 | 1,413 | 1,462 | 1,503 |
| Operating Grants and Contributions | 260,520 | 282,059 | 164,257 | 169,767 | 180,807 | 188,672 |
| Capital Grants and Contributions | 335,520 | 251,747 | 204,751 | 94,818 | 93,724 | 110,403 |
| Total business-type activities program revenues | 2,004,161 | 2,013,038 | 1,946,859 | 1,879,369 | 1,958,361 | 2,013,563 |
| Total primary government program revenues | $ 3,135,364 | $ 3,202,097 | $ 3,121,438 | $ 3,085,314 | $ 3,199,432 | $ 3,521,076 |
| **Net (expenses)/revenue** | | | | | | |
| Governmental activities | $(1,379,198) | $(1,462,591) | $(1,620,222) | $(1,434,236) | $(1,391,864) | $(1,438,656) |
| Business-type activities | 8,633 | (170,047) | (381,849) | (502,330) | (511,110) | (511,076) |
| Total primary government net expenses | $(1,370,565) | $(1,632,638) | $(2,002,071) | $(1,936,566) | $(1,902,974) | $(1,949,732) |

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## FUND BALANCES OF GOVERNMENTAL FUNDS

### Last Ten Fiscal Years

**(modified accrual basis of accounting)**

**(In Thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 (1) | 2001 | 2002 (2) | 2003 (3) | 2004 (4) | 2005 (5) | 2006 |
| **General Fund** | | | | | | | | | | |
| Reserved by charter for cash and emergency requirements.... | $ 69,656 | $ 74,230 | $ 80,076 | $ 88,125 | $ 97,491 | $ 97,491 | $ 59,337 | $ - | $ - | $ - |
| Reserved for rainy day | - | - | - | - | - | - | - | 55,139 | 48,139 | 121,976 |
| Reserved for assets not available for appropriation | 4,399 | 4,978 | 5,163 | 5,576 | 6,089 | 6,406 | 6,768 | 7,142 | 9,031 | 10,710 |
| Reserved for encumbrances | 45,668 | 49,707 | 43,602 | 32,808 | 37,743 | 52,735 | 43,195 | 42,501 | 57,762 | 38,159 |
| Reserved for appropriation carryforward | 31,877 | 40,253 | 50,284 | 74,051 | 77,060 | 61,716 | 26,880 | 35,754 | 36,198 | 124,009 |
| Reserved for subsequent years' budgets | 8,950 | 7,121 | 26,013 | 29,990 | 53,337 | 25,379 | 15,414 | 6,242 | 22,351 | 27,451 |
| Unreserved | (11,900) | 44,261 | 35,725 | 45,090 | 207,467 | 136,664 | 44,718 | 63,657 | 134,199 | 138,971 |
| Total general fund | $ 148,650 | $ 220,550 | $ 240,863 | $ 275,640 | $ 479,187 | $ 380,391 | $ 196,312 | $ 210,435 | $ 307,680 | $ 461,276 |
| **All other governmental funds** | | | | | | | | | | |
| Reserved for assets not available for appropriation | $ 60,419 | $ 74,425 | $ 54,054 | $ 72,433 | $ 51,548 | $ 41,233 | $ 25,906 | $ 17,443 | $ 17,683 | $ 20,202 |
| Reserved for debt service | 24,734 | 28,676 | 34,785 | 27,694 | 63,308 | 36,548 | 33,866 | 18,800 | 45,540 | 57,429 |
| Reserved for encumbrances | 149,213 | 324,240 | 332,258 | 267,168 | 373,088 | 340,591 | 278,656 | 142,784 | 97,920 | 423,120 |
| Reserved for appropriation carryforward | 473,007 | 355,179 | 282,711 | 330,687 | 446,211 | 285,508 | 227,818 | 287,690 | 549,571 | 294,340 |
| Reserved for subsequent years' budgets | - | - | 1,660 | 3,520 | 9,664 | 18,604 | 8,004 | 8,005 | 8,004 | 8,004 |
| Unreserved reported in: | | | | | | | | | | |
| Special revenue funds | 71,945 | 58,731 | 48,119 | 40,790 | 54,018 | 97,167 | 67,988 | 19,043 | 30,809 | 35,243 |
| Capital projects funds | 28,358 | 17,730 | 32,658 | 44,729 | 11,629 | 44,487 | 40,561 | 10,048 | 7,193 | 13,662 |
| Permanent fund | - | - | - | - | 4,064 | 4,433 | 4,227 | 3,326 | 3,856 | 2,308 |
| Fiduciary funds | 3,891 | 3,755 | 3,576 | 5,083 | - | - | - | - | - | - |
| Total other governmental funds | $ 811,567 | $ 862,736 | $ 789,821 | $ 792,104 | $ 1,013,530 | $ 868,571 | $ 687,026 | $ 507,139 | $ 760,576 | $ 854,308 |

Notes:

(1) Through fiscal year 1999-2000, Expendable Trust Funds were reported as part of Fiduciary Fund Types. Due to the implementation of GASB Statement 34 in fiscal year 2000-2001, Expendable Trust Funds were reported as Special Revenue and Permanent Fund Types.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

(4) The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

(5) The change in reserved and unreserved fund balance in fiscal year 2005-2006 is explained in Management's Discussion and Analysis.



# CITY AND COUNTY OF SAN FRANCISCO

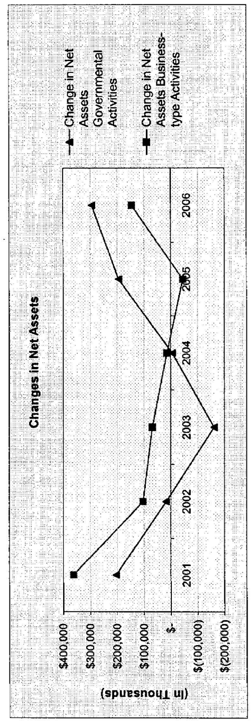
## CHANGES IN NET ASSETS (Continued)

### Last Six Fiscal Years

**(accrual basis of accounting)**

**(In Thousands)**

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | 2001 (1) | 2002 (2) | 2003 (3) | 2004 | 2005 | 2006 |
| **General Revenues and Other Changes in Net Assets** | | | | | | |
| Governmental activities: | | | | | | |
| Taxes | | | | | | |
| Property taxes | $ 628,846 | $ 697,703 | $ 686,858 | $ 723,786 | $ 920,314 | $ 1,016,220 |
| Business taxes | 277,822 | 274,848 | 276,651 | 264,832 | 292,763 | 323,153 |
| Other local taxes | 581,480 | 444,590 | 450,677 | 509,455 | 538,085 | 595,664 |
| Interest and investment income | 81,084 | 70,597 | 26,332 | 11,856 | 29,490 | 71,129 |
| Other | 115,695 | 115,943 | 196,496 | 170,163 | 47,153 | 56,022 |
| Transfers - internal activities of primary government.. | (102,154) | (124,399) | (178,991) | (251,937) | (241,600) | (329,996) |
| Total governmental activities | 1,582,773 | 1,479,282 | 1,458,023 | 1,428,155 | 1,586,205 | 1,732,192 |
| Business-type activities: | | | | | | |
| Interest and investment income | 96,493 | 63,530 | 50,215 | 17,620 | 33,268 | 53,161 |
| Other | 28,779 | 85,425 | 188,446 | 237,692 | 237,102 | 272,873 |
| Special item | 126,014 | - | 33,000 | 9,245 | (46,358) | - |
| Transfers - internal activities of primary government.. | 102,154 | 124,399 | 178,991 | 251,937 | 241,600 | 329,996 |
| Total business-type activities | 353,440 | 273,354 | 450,652 | 516,494 | 465,612 | 656,030 |
| Total primary government | $ 1,936,213 | $ 1,752,636 | $ 1,908,675 | $ 1,944,649 | $ 2,051,817 | $ 2,388,222 |
| **Change in Net Assets** | | | | | | |
| Governmental activities | $ 203,575 | $ 16,691 | $ (162,199) | $ (6,081) | $ 194,341 | $ 293,536 |
| Business-type activities | 362,073 | 103,307 | 68,803 | 14,164 | (45,498) | 144,954 |
| Total primary government | $ 565,648 | $ 119,998 | $ (93,396) | $ 8,083 | $ 148,843 | $ 438,490 |




Notes:

(1) Trend data is only available for the last six fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

# CITY AND COUNTY OF SAN FRANCISCO

## CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

### Last Ten Fiscal Years

**(modified accrual basis of accounting)**

**(In Thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 (1) | 2001 (2) | 2002 (3) | 2003 (4) | 2004 | 2005 (5) | 2006 |
| **Revenues:** | | | | | | | | | | |
| Property taxes | $ 438,250 | $ 479,912 | $ 527,176 | $ 544,210 | $ 627,654 | $ 687,150 | $ 686,154 | $ 721,437 | $ 918,645 | $ 1,008,151 |
| Business taxes | 201,210 | 223,647 | 229,905 | 267,918 | 277,822 | 274,848 | 276,651 | 264,832 | 292,763 | 323,153 |
| Other local taxes | 413,935 | 445,628 | 481,362 | 547,470 | 581,480 | 444,590 | 450,677 | 509,455 | 538,085 | 595,664 |
| Licenses, permits and franchises | 18,186 | 18,564 | 20,685 | 21,025 | 23,503 | 25,762 | 21,648 | 23,788 | 25,942 | 27,662 |
| Fines, forfeitures and penalties | 3,968 | 6,103 | 19,800 | 12,658 | 12,773 | 12,045 | 9,000 | 25,183 | 12,509 | 14,449 |
| Interest and investment income | 62,775 | 76,674 | 56,023 | 60,542 | 91,429 | 65,597 | 25,570 | 11,630 | 28,268 | 70,046 |
| Rent and concessions | 60,431 | 65,701 | 61,516 | 72,948 | 75,382 | 63,623 | 55,369 | 58,979 | 49,450 | 52,426 |
| Intergovernmental: | | | | | | | | | | |
| Federal | 232,953 | 249,860 | 260,696 | 288,537 | 296,758 | 307,943 | 320,254 | 344,155 | 348,764 | 350,985 |
| State | 450,158 | 479,001 | 468,968 | 555,750 | 575,361 | 608,804 | 690,271 | 630,953 | 522,937 | 565,989 |
| Other | 535 | 195 | 2,562 | 4,695 | 6,245 | 33,924 | 24,623 | 18,259 | 25,783 | 23,500 |
| Charges for services | 136,405 | 167,658 | 161,689 | 186,733 | 215,412 | 225,547 | 221,883 | 217,647 | 241,750 | 263,994 |
| Other | 21,874 | 15,384 | 22,577 | 18,834 | 31,119 | 26,405 | 27,092 | 57,144 | 57,487 | 61,565 |
| Total revenues | 2,040,680 | 2,228,327 | 2,312,959 | 2,581,320 | 2,814,938 | 2,776,238 | 2,809,192 | 2,883,462 | 3,062,383 | 3,357,584 |
| **Expenditures** | | | | | | | | | | |
| Public protection | 529,339 | 617,756 | 592,833 | 632,737 | 672,119 | 690,050 | 734,811 | 706,758 | 738,494 | 787,398 |
| Public works, transportation and commerce | 143,081 | 134,601 | 169,514 | 231,991 | 299,949 | 296,411 | 267,034 | 165,555 | 195,896 | 274,669 |
| Human welfare and neighborhood development | 384,962 | 415,636 | 522,487 | 515,007 | 557,242 | 613,133 | 670,670 | 662,948 | 644,899 | 697,102 |
| Community health | 390,649 | 430,501 | 455,162 | 434,386 | 454,975 | 484,826 | 524,771 | 512,914 | 501,050 | 471,741 |
| Culture and recreation | 184,377 | 189,743 | 266,879 | 204,081 | 233,863 | 238,326 | 252,477 | 273,163 | 239,022 | 256,979 |
| General administration and finance | 147,359 | 149,709 | 174,930 | 174,999 | 150,482 | 164,745 | 163,748 | 153,709 | 135,118 | 161,195 |
| General City responsibilities | - | - | - | 45,194 | 109,753 | 54,628 | 53,323 | 74,623 | 62,799 | 53,763 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 41,100 | 67,535 | 52,715 | 63,596 | 69,870 | 69,536 | 100,902 | 78,831 | 80,306 | 86,970 |
| Interest and fiscal charges | 57,916 | 48,017 | 56,823 | 60,650 | 68,367 | 68,111 | 64,243 | 61,886 | 61,524 | 75,975 |
| Bond issuance costs | - | - | - | - | 7,368 | 2,987 | 1,646 | 1,350 | 4,842 | 1,933 |
| Capital outlay | 220,331 | 218,401 | 244,070 | 188,793 | 170,472 | 276,662 | 248,928 | 165,872 | 130,224 | 153,493 |
| Total expenditures | 2,099,114 | 2,271,899 | 2,535,413 | 2,551,434 | 2,794,460 | 2,959,415 | 3,082,553 | 2,857,609 | 2,794,174 | 3,021,218 |
| Excess (deficiency) of revenues over expenditures | (58,434) | (43,572) | (222,454) | 29,886 | 20,478 | (183,177) | (273,361) | 25,853 | 268,209 | 336,366 |

*(Continued)*



SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

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## CITY AND COUNTY OF SAN FRANCISCO

### CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued)

**Last Ten Fiscal Years**

**(modified accrual basis of accounting)**

**(In Thousands)**

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 (1) | 2001 (2) | 2002 (3) | 2003 (4) | 2004 | 2005 (5) | 2006 |
| **Other financing sources (uses):** | | | | | | | | | | |
| Transfer in | 211,913 | 297,031 | 275,205 | 340,880 | 261,957 | 267,107 | 226,520 | 204,660 | 271,553 | 224,523 |
| Transfer out | (191,722) | (254,228) | (290,639) | (428,615) | (365,178) | (536,680) | (423,936) | (456,852) | (513,423) | (555,155) |
| Issuance of bonds and loans: | | | | | | | | | | |
| Face value of bonds issued | 112,108 | 574,542 | 200,450 | 94,909 | 394,040 | 249,995 | 71,310 | 116,645 | 346,225 | 219,120 |
| Face value of loans issued | - | - | - | - | 803 | 3,095 | 323 | 2,156 | 500 | 5,359 |
| Premium on issuance of bonds | - | - | - | - | (2,773) | (238) | - | 1,411 | 11,989 | 10,233 |
| Payment to refunded bond escrow agent | (42,300) | (450,941) | (28,229) | - | - | (136,230) | - | (65,802) | (38,913) | - |
| Other financing sources - capital leases | - | 237 | - | - | - | 92,373 | 33,520 | 6,165 | 4,542 | 6,882 |
| Total other financing sources (uses) | 89,999 | 166,641 | 156,787 | 7,174 | 288,849 | (60,578) | (92,263) | (191,617) | 82,473 | (89,038) |
| Net change in fund balances | $ 31,565 | $ 123,069 | $ (65,667) | $ 37,060 | $ 309,327 | $ (243,755) | $ (365,624) | $ (165,764) | $ 350,682 | $ 247,328 |
| Debt service as a percentage of noncapital expenditures | 5.27% | 5.63% | 4.78% | 5.26% | 5.55% | 5.24% | 5.89% | 5.28% | 5.51% | 5.75% |
| Debt service as a percentage of total expenditures | 4.72% | 5.09% | 4.32% | 4.87% | 5.21% | 4.75% | 5.41% | 4.97% | 5.25% | 5.46% |

Notes:

(1) Through fiscal year 1999-2000, Expendable Trust Funds were reported as part of Fiduciary Fund Types. Due to the implementation of GASB Statement 34 in fiscal year 2000-2001, Expendable Trust Funds were reported as Special Revenue and Permanent Fund Types.

(2) Prior to fiscal year 2000-2001, bond issuance discounts and premiums were included in the face values of bonds issued.

(3) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(4) For General Obligation Bonds authorized and issued prior to the passage of Proposition 39 in 2003, transfer of the proceeds to San Francisco Community College District and San Francisco Unified School District was included as Human Welfare & Neighborhood Development expenditures.

(5) Prior to fiscal year 2004-2005, transfers of base rental payments from various Certificate of Participation Special Revenue Funds which provide for debt service payments were recorded as current expenditures in paying departments/funds and rental income in debt service funds. Beginning fiscal year 2004-2005, they were recorded as transfers.



## CITY AND COUNTY OF SAN FRANCISCO

### ASSESSED VALUE OF TAXABLE PROPERTY (1)(3)(4)

**Last Ten Fiscal Years**

**(In Thousands)**

| | Assessed Value | | | Exemptions (2) | | | Total Taxable | Total |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Real Property | Personal Property | Total | Non-reim-bursable | Reim-bursable | Redevelopment Tax Increments | Assessed Value | Direct Tax Rate |
| 1997 (3).... | $56,956,168 | $2,680,912 | $59,637,080 | $2,260,394 | $663,199 | $3,126,655 | $53,586,832 | 1.00% |
| 1998 (3).... | 59,010,846 | 2,585,594 | 61,596,440 | 2,331,980 | 668,877 | 3,343,618 | 55,251,965 | 1.00% |
| 1999 (4).... | 61,700,799 | 4,010,092 | 65,710,891 | 2,663,293 | 668,010 | 2,672,017 | 59,707,571 | 1.00% |
| 2000 (4).... | 66,859,683 | 4,384,155 | 71,243,838 | 2,783,904 | 666,747 | 2,844,489 | 64,948,698 | 1.00% |
| 2001 (4).... | 73,712,384 | 7,807,032 | 81,519,416 | 2,800,943 | 670,468 | 3,175,792 | 74,872,213 | 1.00% |
| 2002 (4).... | 88,866,299 | 4,686,951 | 93,553,250 | 3,129,961 | 665,145 | 5,291,437 | 84,466,707 | 1.00% |
| 2003 (4).... | 93,467,166 | 4,639,579 | 98,106,745 | 3,407,736 | 671,640 | 3,777,328 | 90,250,041 | 1.00% |
| 2004 (4).... | 99,878,960 | 3,848,851 | 103,727,811 | 3,706,357 | 689,558 | 3,892,143 | 95,439,753 | 1.00% |
| 2005 (4).... | 106,805,910 | 3,736,998 | 110,542,908 | 4,017,052 | 678,120 | 5,199,856 | 100,647,880 | 1.00% |
| 2006 (4).... | 114,767,252 | 3,465,752 | 118,233,004 | 4,246,112 | 657,834 | 6,453,299 | 106,875,759 | 1.00% |

Source:
Controller, City and County of San Francisco

Notes:

(1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or $1/$100 of the assessed value, excluding the tax rate for debt service.

(2) Exemptions are summarized as follows:

(a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).

(b) Reimbursable exemptions arise from Article XII(25) which reimburses local governments for revenues lost through the homeowners' exemption in Article XIII(3) (k).

(c) Tax increments are allocations made to the San Francisco Redevelopment Agency under authority of California Constitution, Article XVI and Section 33675 of the California Health & Safety Code. Actual allocations are limited under an indebtedness agreement between the City and the Redevelopment Agency.

(3) Based on certified assessed values.

(4) Based on year end actual assessed values.

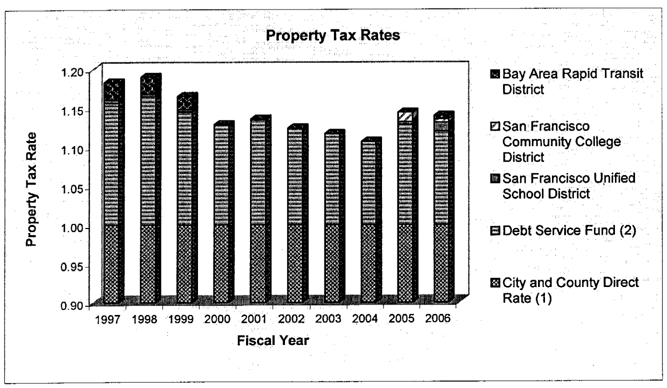
## CITY AND COUNTY OF SAN FRANCISCO

## DIRECT AND OVERLAPPING PROPERTY TAX RATES

### Last Ten Fiscal Years

### (Rate Per $1,000 of Assessed Value)

| | | Overlapping Rates | | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | City and County Direct Rate (1) | Debt Service Fund (2) | San Francisco Unified School District | San Francisco Community College District | Bay Area Rapid Transit District | Total |
| 1997 | $ 1.00000000 | $ 0.15637530 | $ 0.00412470 | $ - | $ 0.02250000 | $ 1.1830 |
| 1998 | 1.00000000 | 0.16430174 | 0.00369826 | - | 0.02200000 | 1.1900 |
| 1999 | 1.00000000 | 0.14493925 | 0.00338075 | - | 0.01668000 | 1.1650 |
| 2000 | 1.00000000 | 0.12766122 | 0.00133878 | - | - | 1.1290 |
| 2001 | 1.00000000 | 0.13481356 | 0.00118644 | - | - | 1.1360 |
| 2002 | 1.00000000 | 0.12359506 | 0.00040494 | - | - | 1.1240 |
| 2003 | 1.00000000 | 0.11671113 | 0.00028887 | - | - | 1.1170 |
| 2004 | 1.00000000 | 0.10682335 | 0.00017665 | - | - | 1.1070 |
| 2005 | 1.00000000 | 0.12838968 | 0.00393518 | 0.01167514 | - | 1.1440 |
| 2006 | 1.00000000 | 0.12012547 | 0.01092226 | 0.00415227 | 0.00480000 | 1.1400 |




Notes:
(1) Proposition 13 allows each county to levy a maximum tax of $1 per $100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.

(2) On June 6, 1978, California voters approved a constitutional amendment to Article XIIIA of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIIIA (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.



## CITY AND COUNTY OF SAN FRANCISCO

## PRINCIPAL PROPERTY ASSESSEES

### Current Fiscal Year and Nine Fiscal Years Ago

### (In Thousands)

| | | Fiscal Year 2006 | | | Fiscal Year 1997 | | |
|---|---|---|---|---|---|---|---|
| Assessee | Type of Business | Taxable Assessed Value (1) | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value (2)(3) |
| Embarcadero Center Venture | Office, Commercial | $ 1,224,728 | 1 | 1.15% | $ 494,773 | 4 | 0.92% |
| Pacific Gas & Electric Company | Utilities | 1,094,861 | 2 | 1.02 | 984,202 | 1 | 1.84 |
| 555 California Street Partners | Office, Commercial | 795,000 | 3 | 0.74 | 562,090 | 3 | 1.05 |
| EOP - One Market LLC | Office, Commercial | 424,443 | 4 | 0.40 | - | | - |
| Marriott Hotel | Hotel | 389,795 | 5 | 0.36 | 280,027 | 5 | 0.52 |
| Post-Montgomery Associates | Office, Commercial | 389,743 | 6 | 0.36 | - | | - |
| China Basin Ballpark Company LLC | Possessory Interest Stadium | 383,007 | 7 | 0.36 | - | | - |
| Olympic View Realty LLC (Park Merced) | Apartment | 342,426 | 8 | 0.32 | - | | - |
| SBC California (Formerly Pacific Bell) | Utilities | 337,477 | 9 | 0.32 | 860,711 | 2 | 1.61 |
| 101 California Venture | Office, Commercial | 281,980 | 10 | 0.26 | 234,000 | 7 | 0.44 |
| ZML One Market Ltd Partnership | Office, Commercial | | | | 238,619 | 6 | 0.45 |
| Viacom Cablevision | Cable TV, Possessory Interest, Personal Property | | | | 231,700 | 8 | 0.43 |
| San Francisco Hilton Joint Venture | Hotel | | | | 211,888 | 9 | 0.40 |
| L & B - 333 Bush Joint Venture | Office, Commercial | | | | 180,007 | 10 | 0.34 |
| Total | | $ 5,663,459 | | 5.29% | $4,278,017 | | 8.00% |

Source: Assessor, City and County of San Francisco

Notes:
(1) Data for fiscal year 2005-2006 updated as of June 5, 2006.
(2) Assessed values for fiscal years 2005-2006 and 1996-1997 are from the tax rolls of calendar years 2005 and 1996, respectively.
(3) Reflects revised calculations due to GASB 44 implementation.

# CITY AND COUNTY OF SAN FRANCISCO

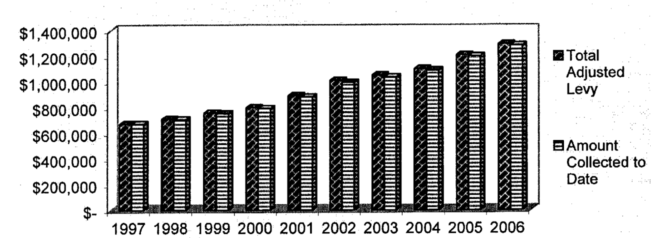
## PROPERTY TAX LEVIES AND COLLECTIONS (1)(2)

### Last Ten Fiscal Years

### (In Thousands)

| Fiscal Year | Total Adjusted Levy | Collected within the Fiscal Year of the Levy: Amount | Collected within the Fiscal Year of the Levy: Percentage of Original Levy | Collections in Subsequent Years (3) | Total Collections to Date: Amount | Total Collections to Date: Percentage of Adjusted Levy |
|---|---|---|---|---|---|---|
| 1997 | $ 671,657 | $ 658,300 | 98.01% | $ 13,556 | $ 671,856 | 100.03% |
| 1998 | 709,852 | 697,755 | 98.30 | 8,917 | 706,672 | 99.55 |
| 1999 | 757,899 | 742,774 | 98.00 | 8,719 | 751,493 | 99.15 |
| 2000 | 799,385 | 784,984 | 98.20 | 6,153 | 791,137 | 98.97 |
| 2001 | 892,675 | 877,170 | 98.26 | 3,526 | 880,696 | 98.66 |
| 2002 | 1,010,960 | 985,838 | 97.52 | 7,366 | 993,204 | 98.24 |
| 2003 | 1,051,921 | 1,028,649 | 97.79 | 5,766 | 1,034,415 | 98.34 |
| 2004 | 1,100,951 | 1,079,354 | 98.04 | 9,092 | 1,088,446 | 98.86 |
| 2005 | 1,208,044 | 1,179,959 | 97.68 | 18,010 | 1,197,969 | 99.17 |
| 2006 | 1,291,491 | 1,263,396 | 97.82 | 17,524 | 1,280,920 | 99.18 |

Property Tax Levies and Collections




Source: Controller, City and County of San Francisco

Notes:

(1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District and San Francisco Redevelopment Agency.

(2) Does not include SB-813 supplemental property taxes.

(3) Collections in subsequent years reflect assessment appeals reduction.



# CITY AND COUNTY OF SAN FRANCISCO

## RATIOS OF OUTSTANDING DEBT BY TYPE

### Last Ten Fiscal Years

### (In Thousands, except per capita amount)

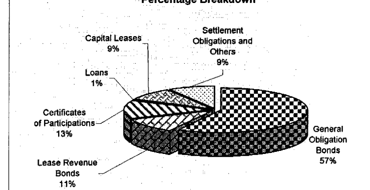
Governmental Activities

| Fiscal Year | General Obligation Bonds | Lease Revenue Bonds | Certificates of Participations | Loans | Capital Leases | Settlement Obligations and Others (1) (3) | Subtotal |
|---|---|---|---|---|---|---|---|
| 1997...... | $ 758,985 | $ 77,690 | $ 89,492 | $ 277 | $ 1,795 | $ - | $ 928,239 |
| 1998...... | 807,300 | 111,935 | 89,456 | 256 | 3,787 | - | 1,012,734 |
| 1999...... | 886,260 | 157,585 | 86,617 | 9,385 | 3,299 | - | 1,143,146 |
| 2000...... | 911,625 | 151,165 | 91,926 | 17,313 | 2,507 | - | 1,174,536 |
| 2001...... | 953,535 | 302,405 | 225,707 | 15,816 | 232,485 | - | 1,729,948 |
| 2002...... | 917,220 | 293,810 | 259,360 | 13,007 | 226,541 | 54,820 | 1,764,758 |
| 2003...... | 859,625 | 252,035 | 296,135 | 9,278 | 212,649 | 49,470 | 1,679,192 |
| 2004...... | 844,350 | 245,680 | 290,635 | 9,515 | 194,815 | 94,275 | 1,679,270 |
| 2005...... | 1,086,355 | 230,620 | 283,320 | 7,961 | 198,703 | 188,670 | 1,995,629 |
| 2006...... | 1,232,205 | 231,265 | 276,160 | 12,377 | 190,279 | 182,955 | 2,125,241 |

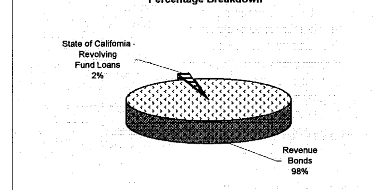
Business-Type Activities (1) (2)

| Fiscal Year | Revenue Bonds | General Obligation Bonds | State of California - Revolving Fund Loans | Commercial Paper | Notes, Loans and Other Payables | Capital Leases | Subtotal | Total Primary Government | Percentage of Personal Income (4) | Per Capita (4) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1997.... | $ 2,815,169 | $ 21,085 | $ 183,921 | $ - | $ 2,161 | $ 5,798 | $ 3,028,134 | $ 3,956,373 | 12.32% | $ 5,279 |
| 1998.... | 3,428,048 | 13,915 | 178,604 | 103,065 | 13,521 | 4,610 | 3,741,763 | 4,754,497 | 13.55 | 6,271 |
| 1999.... | 4,116,131 | 6,430 | 167,730 | 199,775 | 11,492 | 2,137 | 4,503,695 | 5,646,841 | 14.39 | 7,367 |
| 2000.... | 4,316,452 | 4,400 | 180,295 | 271,650 | 10,628 | 1,888 | 4,785,313 | 5,959,849 | 13.47 | 7,631 |
| 2001.... | 4,501,515 | 3,200 | 193,597 | 472,541 | 12,267 | 779 | 5,183,899 | 6,913,847 | 15.61 | 8,788 |
| 2002.... | 5,177,760 | 2,000 | 179,591 | 90,000 | 4,076 | 1,342 | 5,454,769 | 7,219,527 | 16.73 | 9,129 |
| 2003.... | 5,284,535 | 800 | 165,125 | - | 29,592 | 4,210 | 5,484,262 | 7,163,454 | 16.24 | 9,045 |
| 2004.... | 5,167,405 | 400 | 150,196 | 25,000 | 27,280 | 4,891 | 5,375,172 | 7,054,442 | 14.98 | 8,909 |
| 2005.... | 5,084,426 | - | 134,783 | 80,000 | 24,529 | 4,754 | 5,328,492 | 7,324,121 | 14.51 | 9,214 |
| 2006.... | 5,506,030 | - | 118,868 | - | 20,017 | 5,522 | 5,650,437 | 7,775,678 | 14.53 | 9,736 |

Fiscal Year 2006 Governmental Outstanding Debt Percentage Breakdown




Fiscal Year 2006 Business-Type Outstanding Debt Percentage Breakdown




Notes:

(1) Through fiscal year 1999-2000, business-type revenue bonds were reported net of deferred amount on discount and unamortized bond premium. Upon the implementation of GASB 34 in fiscal year 2000-2001, business type revenue bonds excluded deferred amount on refunding and unamortized bond premium.

(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

(3) Includes commercial paper issued in fiscal years 2003-2004 and 2004-2005 for San Francisco County Transportation Authority.

(4) See Demographic and Economic Statistics, page 198, for personal income and population data.

## CITY AND COUNTY OF SAN FRANCISCO

### RATIOS OF GENERAL BONDED DEBT OUTSTANDING

### Last Ten Fiscal Years

### (In Thousands, except per capita amount)

| Fiscal Year | General Obligation Bonds [1] | Less: Amounts Restricted for Debt Service [1] | Total | Per Capita [2] |
|---|---|---|---|---|
| 1997 | $ 758,985 | $ 520 | $ 758,465 | $ 1,012 |
| 1998 | 807,300 | 5,151 | 802,149 | 1,058 |
| 1999 | 886,260 | 10,323 | 875,937 | 1,143 |
| 2000 | 911,625 | 6,168 | 905,457 | 1,159 |
| 2001 | 953,535 | 14,809 | 938,726 | 1,193 |
| 2002 | 917,220 | 20,395 | 896,825 | 1,134 |
| 2003 | 859,625 | 13,304 | 846,321 | 1,069 |
| 2004 | 844,350 | 1,533 | 842,817 | 1,064 |
| 2005 | 1,086,355 | 33,774 | 1,052,581 | 1,324 |
| 2006 | 1,232,205 | 46,929 | 1,185,276 | 1,484 |

Notes:
(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(2) Population data can be found in Demographic and Economic Statistics, page 198.



## CITY AND COUNTY OF SAN FRANCISCO

### LEGAL DEBT MARGIN INFORMATION

### Last Ten Fiscal Years

### (In Thousands)

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Debt limit | $ 1,721,301 | $ 1,777,934 | $ 1,940,012 | $ 2,053,798 | $ 2,361,554 |
| Total net debt applicable to limit | 758,985 | 807,300 | 886,260 | 911,625 | 953,535 |
| Legal debt margin | $ 962,316 | $ 970,634 | $ 1,053,752 | $ 1,142,173 | $ 1,408,019 |
| Total net debt applicable to the limit as a percentage of debt limit | 44.09% | 45.41% | 45.68% | 44.39% | 40.38% |

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Debt limit | $ 2,712,699 | $ 2,840,970 | $ 3,000,644 | $ 3,195,776 | $ 3,419,607 |
| Total net debt applicable to limit | 917,220 | 859,625 | 844,350 | 1,086,355 | 1,232,205 |
| Legal debt margin | $ 1,795,479 | $ 1,981,345 | $ 2,156,294 | $ 2,109,421 | $ 2,187,402 |
| Total net debt applicable to the limit as a percentage of debt limit | 33.81% | 30.26% | 28.14% | 33.99% | 36.03% |

**Legal Debt Margin Calculation for Fiscal Year 2006**

| | |
|---|---|
| Total assessed value | $ 118,233,004 |
| Less: non-reimbursable exemptions [1] | 4,246,112 |
| Assessed value [1] | $ 113,986,892 |
| Debt limit (three percent of valuation subject to taxation [2]) | $ 3,419,607 |
| Debt applicable to limit: | |
| Less: general obligation bonds | 1,232,205 |
| Legal debt margin | $ 2,187,402 |

Source:
(1) Assessor, City and County of San Francisco

Note:
(2) City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.
"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

# CITY AND COUNTY OF SAN FRANCISCO

## DIRECT AND OVERLAPPING DEBT

### June 30, 2006

| District | Total General Debt Outstanding | Estimated Percentage Applicable to City and County (1) | Estimated Share of Overlapping Debt |
|---|---|---|---|
| Bay Area Rapid Transit District | $ 87,185,000 | 29.00% | $ 25,283,650 |
| San Francisco Unified School District | 180,445,000 | 100.00 | 180,445,000 |
| San Francisco Community College District | 272,480,000 | 100.00 | 272,480,000 |
| Subtotal, overlapping debt | | | 478,208,650 |
| City and County of San Francisco direct debt | | | 1,232,205,000 |
| Total net direct and overlapping debt | | | $ 1,710,413,650 |
| Population - 2006 (2) | | | 798,680 |
| | | | $ 2,141.55 |

Note: Overlapping districts are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping districts that is borne by the residents and businesses of the City. This process recognizes that, when considering the district's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the City's taxable assessed value that is within the district's boundaries and dividing it by the City's total taxable assessed value.

(2) Source: Department of Finance, State of California



# CITY AND COUNTY OF SAN FRANCISCO

## PLEDGED-REVENUE COVERAGE

### Last Ten Fiscal Years

### (In Thousands)

**San Francisco International Airport (1)**

| Fiscal Year | Operating Revenues (2) | Less: Operating Expenses (3) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 264,851 | $ 149,884 | $ 114,967 | $ 14,530 | $ 61,921 | $ 76,451 | 1.50 |
| 1998 | 295,150 | 165,929 | 129,221 | 15,520 | 68,956 | 84,476 | 1.53 |
| 1999 | 340,646 | 189,017 | 151,629 | 18,250 | 93,596 | 111,846 | 1.36 |
| 2000 | 403,281 | 197,175 | 206,106 | 19,835 | 136,413 | 156,248 | 1.32 |
| 2001 | 463,488 | 261,061 | 202,427 | 21,215 | 177,800 | 199,015 | 1.02 |
| 2002 | 496,688 | 266,299 | 230,389 | 27,290 | 213,663 | 240,953 | 0.96 |
| 2003 | 533,253 | 295,672 | 237,581 | 52,260 | 224,364 | 276,624 | 0.86 |
| 2004 | 493,682 | 235,765 | 257,917 | 70,630 | 221,208 | 291,838 | 0.88 |
| 2005 | 496,485 | 253,931 | 242,554 | 78,555 | 207,430 | 285,985 | 0.85 |
| 2006 | 480,673 | 267,387 | 213,286 | 79,125 | 199,419 | 278,544 | 0.77 |

(1) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the Airport Commission's 1991 Master Resolution which authorized the sale and issuance of these bonds.
(2) Operating revenues consist of Airport operating revenues and interest and investment income.
(3) In accordance with GASB Statement No. 44, Airport operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

**San Francisco Water Department (4)**

| Fiscal Year | Gross Revenues (5) | Less: Operating Expenses (6) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 130,973 | $ 91,477 | $ 39,496 | $ 9,225 | $ 10,928 | $ 20,153 | 1.96 |
| 1998 | 129,461 | 82,075 | 47,386 | 103,235 | 17,168 | 120,403 | 0.39 |
| 1999 | 138,576 | 105,494 | 33,082 | 6,440 | 13,918 | 20,358 | 1.63 |
| 2000 | 144,220 | 126,432 | 17,788 | 7,415 | 14,012 | 21,427 | 0.83 |
| 2001 | 149,917 | 127,707 | 22,210 | 6,956 | 14,411 | 21,367 | 1.04 |
| 2002 | 147,216 | 122,521 | 24,695 | 7,350 | 18,686 | 26,036 | 0.95 |
| 2003 | 170,253 | 136,093 | 34,160 | 11,789 | 21,655 | 33,444 | 1.02 |
| 2004 | 168,260 | 152,268 | 15,992 | 13,345 | 24,056 | 37,401 | 0.43 |
| 2005 | 184,835 | 136,341 | 48,494 | 14,055 | 23,658 | 37,713 | 1.29 |
| 2006 | 201,833 | 145,057 | 56,776 | 123,085 | 20,585 | 143,670 | 0.40 |

(4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(5) Gross revenue consists of charges for services, rental income and other income.
(6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

**Municipal Transportation Agency**

| Fiscal Year | Base Rental Payment and Gross Meter Revenue Charges (7) | Less: Operating Expenses (8)(9) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 13,670 | $ 4,060 | $ 9,610 | $ 455 | $ 1,699 | $ 2,154 | 4.46 |
| 1998 | 12,938 | 4,850 | 8,088 | 480 | 1,668 | 2,148 | 3.77 |
| 1999 | 13,217 | 3,131 | 10,086 | 505 | 1,635 | 2,140 | 4.71 |
| 2000 | 13,906 | 4,768 | 9,138 | 1,240 | 1,552 | 2,792 | 3.27 |
| 2001 | 13,759 | 4,642 | 9,117 | 1,390 | 1,459 | 2,849 | 3.20 |
| 2002 | 13,354 | 5,351 | 8,003 | 1,440 | 1,437 | 2,877 | 2.78 |
| 2003 | 15,633 | 6,227 | 9,406 | 3,274 | 2,312 | 5,586 | 1.68 |
| 2004 | 25,604 | 10,430 | 15,174 | 4,943 | 2,854 | 7,797 | 1.95 |
| 2005 | 25,623 | 14,071 | 11,552 | 5,193 | 2,582 | 7,775 | 1.49 |
| 2006 | 31,116 | 14,960 | 16,156 | 5,471 | 2,317 | 7,788 | 2.07 |

(7) The Parking Authority leased North Beach, Moscone, and San Francisco General Hospital garages to the City. In return, the City pledged to pay off the debt service with its base (lease) rental payment. Gross Meter Revenue consists of revenues from all meters in San Francisco except the meters on Port and Airport properties.
(8) The annual budget for the Parking Program includes the Parking Authority that manages garages and the Parking Meter Program that maintains meters. The operating expense is the year-end total expenditures net of all debt service payments.
(9) Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses related to the pledged revenue stream do not include interest, depreciation or amortization expenses.

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## PLEDGED-REVENUE COVERAGE (Continued)

### Last Ten Fiscal Years

### (In Thousands)

**San Francisco Wastewater Enterprise (10)**

| Fiscal Year | Gross Revenues (11) | Less: Operating Expenses (12) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 140,539 | $ 62,908 | $ 77,631 | $ 25,905 | $ 36,320 | $ 62,225 | 1.25 |
| 1998 | 140,898 | 71,943 | 68,955 | 32,027 | 35,262 | 67,289 | 1.02 |
| 1999 | 142,974 | 71,985 | 70,989 | 33,864 | 34,965 | 68,829 | 1.03 |
| 2000 | 145,495 | 77,104 | 68,391 | 31,845 | 32,395 | 64,240 | 1.06 |
| 2001 | 141,770 | 79,902 | 61,868 | 35,270 | 31,109 | 66,379 | 0.93 |
| 2002 | 134,595 | 90,642 | 43,953 | 66,006 | 30,604 | 96,610 | 0.45 |
| 2003 | 134,745 | 90,808 | 43,937 | 69,871 | 15,820 | 85,691 | 0.51 |
| 2004 | 137,806 | 91,822 | 45,984 | 14,929 | 23,709 | 38,638 | 1.19 |
| 2005 | 148,888 | 101,490 | 47,398 | 15,413 | 21,937 | 37,350 | 1.27 |
| 2006 | 164,703 | 103,726 | 60,977 | 15,915 | 21,438 | 37,353 | 1.63 |

(10) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(11) Gross revenue consists of charges for services, rental income and other income.
(12) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

**Port of San Francisco (13)**

| Fiscal Year | Total Operating Revenues (14) | Less: Operating Expenses (15) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 39,191 | $ 24,327 | $ 14,864 | $ 2,565 | $ 2,857 | $ 5,422 | 2.74 |
| 1998 | 40,947 | 24,431 | 16,516 | 2,675 | 2,740 | 5,415 | 3.05 |
| 1999 | 45,428 | 27,111 | 18,317 | 2,800 | 2,614 | 5,414 | 3.38 |
| 2000 | 49,127 | 29,052 | 20,075 | 2,930 | 2,472 | 5,402 | 3.72 |
| 2001 | 54,453 | 37,129 | 17,324 | 3,085 | 2,318 | 5,403 | 3.21 |
| 2002 | 53,740 | 47,759 | 5,981 | 3,235 | 2,156 | 5,391 | 1.11 |
| 2003 | 56,241 | 50,103 | 6,138 | 3,405 | 1,976 | 5,381 | 1.14 |
| 2004 | 57,782 | 49,707 | 8,075 | 3,595 | 1,719 | 5,314 | 1.52 |
| 2005 | 59,217 | 43,786 | 15,431 | 3,920 | 1,012 | 4,932 | 3.13 |
| 2006 | 61,581 | 44,893 | 16,688 | 3,390 | 554 | 3,944 | 4.23 |

(13) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(14) Total revenues consist of operating revenues and interest and investment income.
(15) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indenture, also excludes amortized dredging costs. For fiscal years 1996-1997, 1997-1998 and 1998-1999 operating expenses, as presented above, includes the debt service obligation of the State of California General Obligation Bonds of $314, $302, and $291, respectively. The State General Obligation Bonds were fully paid in fiscal year 1998-1999.

**Total Business-type Activities**

| Fiscal Year | Total Revenues | Less: Operating Expenses | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 1997 | $ 589,224 | $ 332,656 | $ 256,568 | $ 52,680 | $ 113,725 | $ 166,405 | 1.54 |
| 1998 | 619,394 | 349,228 | 270,166 | 153,937 | 125,794 | 279,731 | 0.97 |
| 1999 | 680,841 | 396,738 | 284,103 | 61,859 | 146,728 | 208,587 | 1.36 |
| 2000 | 756,029 | 434,531 | 321,498 | 63,265 | 186,844 | 250,109 | 1.29 |
| 2001 | 823,387 | 510,441 | 312,946 | 67,916 | 227,097 | 295,013 | 1.06 |
| 2002 | 845,593 | 532,572 | 313,021 | 105,321 | 266,546 | 371,867 | 0.84 |
| 2003 | 910,125 | 578,903 | 331,222 | 140,599 | 266,127 | 406,726 | 0.81 |
| 2004 | 883,134 | 539,992 | 343,142 | 107,442 | 273,546 | 380,988 | 0.90 |
| 2005 | 915,048 | 549,619 | 365,429 | 117,136 | 256,619 | 373,755 | 0.98 |
| 2006 | 939,906 | 576,023 | 363,883 | 226,986 | 244,313 | 471,299 | 0.77 |

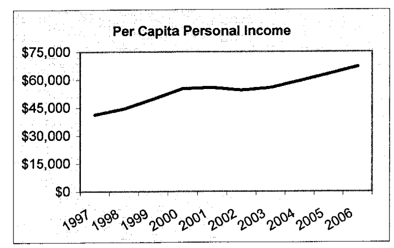


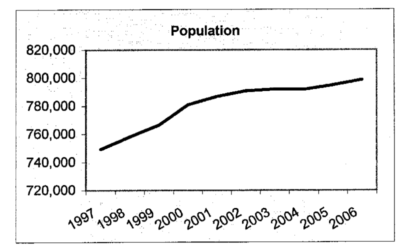
# CITY AND COUNTY OF SAN FRANCISCO

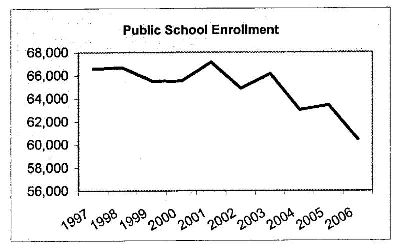
## DEMOGRAPHIC AND ECONOMIC STATISTICS

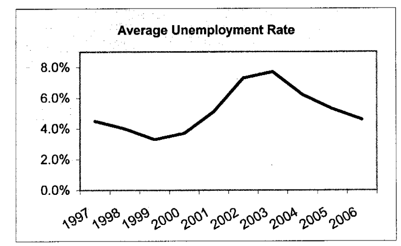
### Last Ten Fiscal Years

| Fiscal Year | Population (1) | Personal Income (In Thousands) | Per Capita Personal Income (2) | Median Age (3) | Public School Enrollment (4) | Average Unemployment Rate (5) |
|---|---|---|---|---|---|---|
| 1997 | 749,406 | $ 32,119,739 | $ 41,290 | 37.8 | 66,604 | 4.5% |
| 1998 | 758,210 | 35,093,406 | 44,518 | 37.9 | 66,679 | 4.0% |
| 1999 | 766,471 | 39,232,364 | 49,695 | 38.7 | 65,540 | 3.3% |
| 2000 | 780,974 | 44,251,095 | 55,272 | 39.1 | 65,519 | 3.7% |
| 2001 | 786,719 | 44,287,708 | 55,816 | 37.3 | 67,152 | 5.1% |
| 2002 | 790,846 | 43,147,238 | 54,369 | 38.3 | 64,870 | 7.3% |
| 2003 | 791,977 | 44,107,952 | 55,720 | 38.3 | 66,141 | 7.7% |
| 2004 | 791,797 | 47,084,795 | 59,398 | 39.2 | 63,009 | 6.2% |
| 2005 | 794,850 | 50,465,466 | 63,140 | 39.4 | 63,421 | 5.3% |
| 2006 | 798,680 | 53,513,713 | 67,064 | N/A | 60,450 | 4.6% |




Sources:
(1) Data reflects the annual revisions by the State of California Department of Finance.
(2) State of California Employment Development Department.
(3) 2005 American Community Survey. N/A = Information is not available.
(4) San Francisco Unified School District (includes Child Center, Juvenile Center, etc.).
(5) Data reflects the annual revisions by the State of California Employment Development Department.

# CITY AND COUNTY OF SAN FRANCISCO

## PRINCIPAL EMPLOYERS

### Current Year and Four Years Ago

| | Year 2005 [1] | | | Year 2001 | | |
|---|---|---|---|---|---|---|
| Employer | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| City and County of San Francisco | 28,253 | 1 | 6.71% | 29,610 | 1 | 5.85% |
| University of California, San Francisco | 19,138 | 2 | 4.55 | 13,835 | 2 | 2.95 |
| Wells Fargo & Co. | 7,581 | 3 | 1.80 | 6,366 | 5 | 1.36 |
| San Francisco Unified School District | 7,241 | 4 | 1.72 | 11,296 | 3 | 2.41 |
| State of California | 6,115 | 5 | 1.45 | - | - | - |
| United States Postal Service | 5,234 | 6 | 1.24 | 5,579 | 6 | 1.19 |
| California Pacific Medical Center | 5,000 | 7 | 1.19 | 4,500 | 10 | 0.96 |
| PG&E Corporation | 4,629 | 8 | 1.10 | 5,000 | 8 | 1.07 |
| Gap, Inc. | 4,180 | 9 | 0.99 | - | - | - |
| Kaiser Permanente | 3,860 | 10 | 0.92 | - | - | - |
| AT&T | - | - | - | 5,200 | 7 | 1.11 |
| SBC Communications | - | - | - | 4,600 | 9 | 0.98 |
| Charles Schwab & Co. Inc. | - | - | - | 9,873 | 4 | 2.10 |
| Total | 91,231 | | 21.67% | 95,859 | | 19.98% |

Source: City and County of San Francisco employee count is obtained from the City's Controller's Office, based on fiscal year ending June 30, 2006 and June 30, 2001. All other data is obtained from San Francisco Business Times Book of Lists.

Note:
(1) The latest data as of calendar year 2005 is presented.



# CITY AND COUNTY OF SAN FRANCISCO

## FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION[1]

| | Fiscal Year | | | | | | |
|---|---|---|---|---|---|---|---|
| Function | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Public Protection | | | | | | | |
| Fire Department | 1,856 | 1,864 | 1,909 | 1,899 | 1,835 | 1,752 | 1,706 |
| Police | 2,742 | 2,785 | 2,748 | 2,688 | 2,669 | 2,616 | 2,664 |
| Sheriff | 896 | 892 | 921 | 920 | 937 | 929 | 944 |
| Other | 1,013 | 1,013 | 998 | 982 | 954 | 930 | 958 |
| Total Public Protection | 6,507 | 6,554 | 6,576 | 6,489 | 6,395 | 6,227 | 6,272 |
| Public Works, Transportation and Commerce | | | | | | | |
| Municipal Transportation Agency | 4,406 | 4,525 | 4,629 | 4,569 | 4,518 | 4,386 | 4,232 |
| Airport Commission | 1,517 | 1,578 | 1,537 | 1,306 | 1,214 | 1,203 | 1,248 |
| Department of Public Works | 1,004 | 1,065 | 1,081 | 1,077 | 1,053 | 1,059 | 1,035 |
| Public Utilities Commission | 1,376 | 1,404 | 1,411 | 1,513 | 1,589 | 1,513 | 1,573 |
| Other | 516 | 537 | 569 | 546 | 507 | 505 | 532 |
| Total Public Works, Transportation and Commerce | 8,819 | 9,109 | 9,227 | 9,011 | 8,881 | 8,666 | 8,620 |
| Community Health | | | | | | | |
| Public Health | 6,133 | 6,068 | 6,192 | 6,309 | 6,093 | 5,928 | 5,956 |
| Total Community Health | 6,133 | 6,068 | 6,192 | 6,309 | 6,093 | 5,928 | 5,956 |
| Human Welfare and Neighborhood Development | | | | | | | |
| Human Services | 1,706 | 1,807 | 1,724 | 1,744 | 1,735 | 1,697 | 1,663 |
| Other | 245 | 269 | 305 | 316 | 317 | 312 | 306 |
| Total Human Welfare and Neighborhood Development | 1,951 | 2,076 | 2,029 | 2,060 | 2,052 | 2,009 | 1,969 |
| Culture and Recreation | | | | | | | |
| Recreation and Park Commission | 1,010 | 998 | 1,014 | 976 | 1,001 | 954 | 916 |
| Public Library | 594 | 599 | 612 | 613 | 617 | 616 | 606 |
| War Memorial | 94 | 94 | 94 | 95 | 95 | 96 | 95 |
| Other | 124 | 120 | 130 | 149 | 156 | 149 | 200 |
| Total Culture and Recreation | 1,822 | 1,811 | 1,850 | 1,833 | 1,869 | 1,815 | 1,817 |
| General Administration and Finance | | | | | | | |
| Administrative Services | 417 | 426 | 420 | 401 | 405 | 383 | 378 |
| City Attorney | 316 | 334 | 329 | 321 | 319 | 308 | 321 |
| Telecommunications and Information Services | 314 | 352 | 333 | 324 | 313 | 276 | 261 |
| Controller | 161 | 165 | 156 | 155 | 141 | 170 | 179 |
| Human Resources | 209 | 211 | 215 | 213 | 188 | 172 | 151 |
| Treasurer/Tax Collector | 183 | 182 | 184 | 185 | 192 | 197 | 199 |
| Mayor | 145 | 77 | 75 | 72 | 56 | 51 | 48 |
| Other | 455 | 467 | 470 | 466 | 466 | 454 | 491 |
| Total General Administration and Finance | 2,200 | 2,214 | 2,182 | 2,137 | 2,080 | 2,011 | 2,028 |
| General City Responsibility | - | 2 | 3 | 4 | 4 | 4 | 3 |
| Subtotal annually funded positions | 27,432 | 27,834 | 28,059 | 27,843 | 27,374 | 26,660 | 26,665 |
| Capital project funded positions | 848 | 1,776 | 1,857 | 1,875 | 1,567 | 1,597 | 1,588 |
| Total annually funded positions | 28,280 | 29,610 | 29,916 | 29,718 | 28,941 | 28,257 | 28,253 |

Source: Controller, City and County of San Francisco

Note:
(1) Data represent budgeted and funded full-time equivalent positions.

## CITY AND COUNTY OF SAN FRANCISCO

### OPERATING INDICATORS BY FUNCTION

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| | Fiscal Year | | | | | |
| **Public Protection** | | | | | | |
| Fire and Emergency Communications | | | | | | |
| Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile | N/A | N/A | N/A | 8:09 | 7:59 | 8:01 |
| Police | | | | | | |
| Median time from dispatch to arrival on scene for highest priority calls | 2:34 | 2:36 | 2:45 | 2:58 | 3:07 | 3:09 |
| Number of homicides per 100,000 population | N/A | N/A | N/A | 10.8 | 9.8 | 12.8 |
| Percentage of San Franciscans who report feeling safe or very safe crossing the street | 34% | 42% | 45% | 45% | 50% | N/A |
| **Public Works, Transportation, and Commerce** | | | | | | |
| General Services Agency - Public Works | | | | | | |
| Percentage of San Franciscans who rate cleanliness of neighborhood streets as good or very good | 38% | 44% | N/A | 52% | 49% | N/A |
| Number of blocks of City streets repaved | 252 | 324 | 292 | 154 | 186 | 267 |
| Municipal Transportation Agency | | | | | | |
| Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good) | 2.70 | 2.92 | 3.21 | 3.20 | 3.09 | N/A |
| Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points | 55.4% | 71.9% | 70.9% | 68.3% | 70.7% | 69.2% |
| Percentage of scheduled service hours delivered | 94.4% | 97.8% | 96.5% | 97.2% | 95.3% | 92.7% |
| Airport | | | | | | |
| Percent change in air passenger volume | -3.6% | -20.1% | -5.9% | 5.3% | 5.5% | 1.5% |
| **Human Welfare and Neighborhood Development** | | | | | | |
| Environment | | | | | | |
| Percentage of total solid waste materials diverted in a calendar year | 42% | 46% | 52% | 63% | 67% | 67% |
| **Culture and Recreation** | | | | | | |
| Recreation and Park | | | | | | |
| Percentage of San Franciscans who rate the quality of the City's park grounds (landscaping) as good or very good | 65% | 64% | 67% | 67% | 62% | N/A |
| Citywide percentage of park maintenance standards met for all parks inspected | N/A | N/A | N/A | N/A | N/A | 83% |
| Public Library | | | | | | |
| Percentage of San Franciscans who rate the quality of library staff assistance as good or very good | 76% | 77% | 79% | 81% | 76% | N/A |
| Circulation of materials at San Francisco libraries | 5,409,585 | 6,259,092 | 6,793,335 | 6,755,843 | 7,279,926 | 7,459,821 |
| Asian and Fine Arts Museums | | | | | | |
| Number of visitors to City-owned art museums [(1)] | 962,090 | 453,117 | 727,437 | 763,242 | 696,271 | 1,546,617 |

Source: Controller, City and County of San Francisco

Notes:
(1) Construction was completed for the new de Young Museum by the end of fiscal year 2004-2005, and the museum opened in October 2005.
N/A = Information is not available



## CITY AND COUNTY OF SAN FRANCISCO

### CAPITAL ASSET STATISTICS BY FUNCTION

### Last Ten Fiscal Years

| Function | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fiscal Year | | | | | | | | | |
| Police protection (1) | | | | | | | | | | |
| Number of stations | 10 | 10 | 10 | 10 | 11 | 11 | 11 | 10 | 10 | 10 |
| Number of police officers | 2,002 | 2,167 | 2,180 | 2,229 | 2,321 | 2,449 | 2,388 | 2,170 | 2,180 | 2,070 |
| Fire protection (2) | | | | | | | | | | |
| Number of stations | 41 | 41 | 43 | 45 | 45 | 45 | 45 | 45 | 45 | 48 |
| Number of firefighters | 1,456 | 1,559 | 1,586 | 1,654 | 1,804 | 1,800 | 1,795 | 1,690 | 1,675 | 1,333 |
| Public works | | | | | | | | | | |
| Mile of street (3) | 851 | 945 | 945 | 989 | 989 | 1,044 | 1,252 | 1,050 | 1,050 | 1,051 |
| Number of streetlights (4) | 40,197 | 40,265 | 40,957 | 41,052 | 41,066 | 42,363 | 41,042 | 41,031 | 41,431 | 41,571 |
| Water (4) | | | | | | | | | | |
| Number of services | 173,179 | 164,211 | 164,495 | 171,978 | 174,427 | 174,873 | 175,278 | 165,122 | 175,000 | 176,351 |
| Average daily consumption (million gallons) | 251.0 | 237.9 | 248.7 | 253.2 | 255.3 | 249.4 | 247.0 | 273.9 | 247.0 | 239.4 |
| Mile of water mains | 1,483 | 1,483 | 1,483 | 1,440 | 1,520 | 1,520 | 1,503 | 1,455 | 1,475 | 1,485 |
| Sewers (4) | | | | | | | | | | |
| Mile of collecting sewers | 750 | 750 | 887.5 | 900 | 900 | 900 | 903 | 903 | 903 | 903 |
| Mile of transport/storage sewers | 150 | 150 | 16.5 | 16.5 | 16.5 | 15 | 15 | 15 | 15 | 15 |
| Recreation and cultures | | | | | | | | | | |
| Number of parks (5) | 227 | 227 | 227 | 227 | 228 | 230 | 230 | 209 | 210 | 220 |
| Number of libraries (6) | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| Number of library volumes (million) (6) | 2.4 | 2.4 | 2.1 | 2.1 | 2.2 | 2.2 | 2.3 | 2.1 | 2.4 | 2.6 |
| Public school education (7) | | | | | | | | | | |
| Attendance centers | 107 | 117 | 117 | 116 | 116 | 113 | 118 | 118 | 119 | 117 |
| Number of classrooms | 3,300 | 2,698 | 2,698 | 2,698 | 3,200 | 3,428 | 3,418 | 3,439 | 3,434 | 3,390 |
| Number of teachers, full-time equivalent | 4,065 | 3,242 | 2,094 | 2,671 | 3,260 | 3,272 | 3,362 | 3,138 | 3,171 | 3,103 |
| Number of students | 66,604 | 66,679 | 65,540 | 63,895 | 62,569 | 60,421 | 59,521 | 57,805 | 57,144 | 56,236 |

Sources:
(1) Police Commission, City and County of San Francisco
(2) Fire Commission, City and County of San Francisco
(3) Department of Public Works, City and County of San Francisco
(4) Public Utilities Commission, City and County of San Francisco
(5) Parks and Recreation Commission, City and County of San Francisco
(6) Library Commission, City and County of San Francisco
(7) San Francisco Unified School District

# APPENDIX D

## SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

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

## DEFINITIONS

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

"2007 Assignment Agreement" means that certain Assignment Agreement dated as of October 1, 2007, by and between the Corporation and the Trustee, as such 2007 Assignment Agreement may be amended from time to time.

"2007 Facilities" means the 2007 Site and the Improvements, as such 2007 Site and Improvements may be revised pursuant to the terms of the Lease.

"2007 Project" means the projects financed with the proceeds of the Series 2007 Bonds.

"2007 Site" means the real property described in the First Amendment to Lease as such may be amended or revised from time to time as provided in the Lease.

"Additional Rental" means the amounts specified in the Lease.

"Base Rental" means the amounts specified in the Lease (but excluding Additional Rental).

"Bonds" means the Series 2006 Bonds, the Series 2007 Bonds and all Parity Bonds issued in accordance with the Trust Agreement and the Lease.

"Bond Insurer" means, collectively, any municipal bond insurance company that has issued an unconditional guarantee of the principal of and interest on any series of Bonds.

"Business Day" means any day other than a Saturday, a Sunday, a day on which banking institutions are authorized or required by law or executive order 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.

"Credit Facility" means any letter of credit, line of credit, insurance policy, surety bond or other credit source deposited with the Trustee pursuant to the Trust Agreement. Any Credit Facility in the form of a letter of credit or line of credit will be provided by any entity which maintains a rating of at least equal to the rating on the applicable series of the Bonds from Moody's and S&P and any Credit Facility in the form of an insurance policy, surety bond or other credit source will be provided by an entity which maintains a rating of "Aaa" from Moody's, "AAA" from Fitch and "AAA" from S&P, such ratings to be in effect at the time of provision of such letter of credit, line of credit, insurance policy, surety bond or other credit source.

"Facilities" means the Facilities identified in the Master Lease and the 2007 Facilities as such Facilities may be revised pursuant to the terms of the Lease.

"First Amendment to Lease" means the First Amendment to Lease, dated as of October 1, 2007 and by and between the Corporation, as lessor, and the City, as lessee, providing for the lease of the 2007 Facilities from the Corporation to the City.

"First Amendment to Site Lease" means the First Amendment to Site Lease dated as of October 1, 2007 between the City, as lessee, and the Corporation, as lessor.

"First Supplemental Trust Agreement" means the First Supplemental Trust Agreement dated as of October 1, 2007, by and between the Corporation and the Trustee providing for the issuance of the Series 2007 Bonds.

"Improvements" means the currently existing and future facilities and other improvements located on the 2007 Site. A general description of such currently existing Improvements is provided in the Lease.

"Lease" means the Master Lease, made and entered into as of October 1, 2006, as amended by the First Amendment to Lease dated as of October 1, 2007, by and between the Corporation, as lessor, and the City, as lessee, providing for the lease of the Facilities from the Corporation to the City, as the same may be amended or supplemented, including as amended or supplemented in connection with the issuance of Parity Bonds.

"Master Lease" means the Master Lease, dated as of October 1, 2006, by and between the Corporation, as lessor, and the City, as lessee, providing for the lease of the Facilities from the Corporation to the City.

"Outstanding", when used as of any particular time with reference to the Bonds, means (subject to the Trust Agreement) all Bonds theretofore executed, issued and delivered by the Corporation under the Trust Agreement or any Parity Bond Instrument except:

(1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation or Bonds which have been discharged in accordance with the Trust Agreement in accordance with any Parity Bond Instrument;

(2) Bonds for the payment or redemption of which funds in the necessary amount will have been deposited theretofore with the Trustee or escrow agent (whether upon or prior to the maturity or redemption date of such Bonds), provided, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Trust Agreement or some other provision satisfactory to the Trustee will have been made for the giving of such notice; and

(3) Bonds in lieu of or in substitution for which other Bonds will have been executed, issued and delivered by the Corporation pursuant to the Trust Agreement.

"Parity Bonds" means Parity Bonds issued in accordance with the Trust Agreement and the Lease.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Assignment Agreement; (iii) the Lease; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of initial execution of the Lease or a related supplement thereto; and (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Corporation, the City and the Trustee consent in writing. In giving such consent, the Trustee may conclusively rely on a Certificate of the City to the effect that such encumbrance will not materially impair the beneficial use of the Facilities by the City.

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

(a) Government Obligations or Government Certificates;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FmHA) - Certificates of beneficial ownership;

(ii) Federal Housing Administration Debentures (FHA);

(iii) General Services Administration - Participation Certificates;

(iv) Government National Mortgage Association (GNMA or "Ginnie Mae") - guaranteed mortgage-backed bonds and GNMA guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration - Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds; and

(vii) any other agency or instrumentality of the United States of America;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States of America government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation certificates (mortgage-backed securities) and senior debt obligations;

(iii) Fannie Mae - mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae") - Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form;

(vi) Federal Farm Credit System - Consolidated systemwide bonds and notes; and

(vii) any other agency or instrumentality of the United States of America;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of "AAAm-G" or "AAAm" and by Moody's of "Aaa";

(e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan, provided that such certificates of deposit will 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 the FDIC;

(g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated in the highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates.

(h) Commercial paper of "prime" quality rated in the highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P, provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated "A" or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) herein, which, exclusive of accrued interest, will be maintained at least 100% of par. In addition, repurchase agreements will meet the following criteria: (i) the third party (who will 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 will require liquidation; and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities;

(l) 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 (i) rated in the highest rating category by Moody's and S&P, including "pre-funded" municipal obligations or (ii), if all Bonds are insured by one or more policies of municipal bond insurance, approved in writing by such Bond Insurer(s);

(m) The Local Agency Investment Fund administered by the State of California; and

(n) Any investment (i) with the consent of the Bond Insurer if any Bonds are insured by a policy of municipal bond insurance and/or (ii) with confirmation from the Rating Agencies that the ratings on the Bonds will not be lowered as a result of such investment if any Bonds are not insured by a policy of municipal bond insurance.

In connection with the purchase of Permitted Investments, the City and/or the Corporation and/or the Trustee may enter into agreements, including forward purchase agreements, for the purchase thereof.

"Project" means the projects financed with the proceeds of the Bonds, including the 2007 Project.

"Rebate Fund" means the Rebate Fund established pursuant to the Trust Agreement.

"Reserve Fund" means the fund by that name created pursuant to the Trust Agreement.

"Reserve Fund Requirement" means, as of any date of calculation, the Maximum Annual Debt Service; provided that the increase in the Reserve Fund Requirement will not, with respect to any individual series of the Bonds exceed the lesser of (i) 125% of average Annual Debt Service or (ii) 10% of the original principal amount of a series of Bonds.

"Series 2006 Bonds" means the $27,005,000 initial principal amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2006 (Open Space Fund - Various Park Projects).

"Series 2007 Bonds" means the $42,435,000 initial principal amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2007 (Open Space Fund - Various Park Projects).

"Site" means the real property, including the 2007 Site, described in the Lease as such may be amended or revised from time to time as provided in the Lease.

"Site Lease" means the Site Lease dated as of October 1, 2006, as amended by the First Amendment to Site Lease, between the City, as lessee, and the Corporation, as lessor.

"Trust Agreement" means the Master Trust Agreement dated as of October 1, 2006, as amended by the First Supplemental Trust Agreement by and between the Corporation and the Trustee providing for the issuance of Bonds, as it may from time to time be amended or supplemented by any supplemental trust agreement adopted or entered into pursuant to the provisions of the Trust Agreement.

## THE TRUST AGREEMENT

### Allocation of Revenues

Upon receipt thereof, the Trustee will deposit all Revenues in the Revenue Fund. The Trustee will apply all moneys in the Revenue Fund as set forth in the Trust Agreement either to pay debt service on the Bonds or to make a deposit in the Reserve Fund, which the Trustee will establish, maintain and hold in trust. Such Revenues will be so applied in the order of priority set forth below, each such requirement to be satisfied before any payment subsequent in priority.

The Trustee acknowledges that the City is entitled to receive credits against Base Rental payments under certain circumstances as provided in the Lease.

(a) Interest Payments. The Trustee, on each Interest Payment Date, will first apply amounts on deposit in the Revenue Fund to pay the aggregate amount of interest then due and payable on the Outstanding Bonds on such Interest Payment Date.

(b) Principal Payments. The Trustee, on each Principal Payment Date and on each Sinking Account Payment Date, after making the payments required on such date by subsection (a) above, will next apply amounts on deposit in the Revenue Fund to pay the principal of the Bonds then due or required to be paid on such Principal Payment Date or Sinking Account Payment Date with respect to the Bonds in accordance with the terms of the Trust Agreement.

(c) Reserve Fund. On each Interest Payment Date, after making all payments required by subsections (a) and (b) above, the Trustee will deposit in the Reserve Fund such amounts as may be necessary to maintain on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement; provided, however, that failure to so maintain such amounts on deposit in the Reserve Fund (because such amounts have been used for the purpose for which the Reserve Fund has been established) will not constitute an Event of Default, but only if and to the extent Revenues are not available for such purpose.

Moneys in (or available to) the Reserve Fund will be applied solely for the purpose of paying the interest on the Bonds as the same will become due and payable, including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Trust Agreement, or for the purpose of paying the principal of the Bonds as the same become due (in both instances, however, only to the extent that there are insufficient moneys available for such purposes in the Revenue Fund); provided that at the direction of the City separate accounts may be established in the Reserve Fund relating to an individual series of the Bonds or separate reserve funds may be held under Parity Bond Instruments so long as such account or fund is funded in an amount equal to the Reserve Requirement, as applied to the applicable series of the Bonds. Any moneys in excess of the Reserve Fund Requirement in the Reserve Fund will be transferred to the Revenue Fund or as otherwise directed in a Request of the City. To the extent that amounts are held in the Reserve Fund at the time of the final payment of debt service due on a series of the Bonds, amounts in excess of the Reserve Requirement (calculated assuming such payment) will be used to pay, in whole or in part, such final payment.

Notwithstanding anything to the contrary within the Trust Agreement, at the option of the City, amounts required to be held in the Reserve Fund may be substituted, in whole or in part, by the deposit of a Credit Facility with the Trustee; provided that with respect to any such substitution, (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Bonds (and the Corporation will notify each Rating Agency prior to making any such substitution), and (ii) the Trustee will receive prior to any such substitution becoming effective an Opinion of Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be released to or transferred to another fund under the Trust Agreement as directed by the City in a Written Request.

(d) Insurance and Eminent Domain Proceeds Fund. The net proceeds resulting from any insurance claim or eminent domain proceedings and payable to the Trustee pursuant to the 2007 Assignment Agreement or any assignment agreement with respect to Parity Bonds will be deposited in the Insurance and Eminent Domain Proceeds Fund and applied as set forth in the Trust Agreement, as applicable.

**Events of Default**

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

(i) a default occurs under the Lease; or

(ii) the Corporation 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 (i) above, for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the Corporation by the Trustee, or to the Corporation and the Trustee by the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding; *provided, however*, that failure to comply with the Continuing Disclosure Certificate will 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 period, then such period will be extended so long as corrective action is instituted by the Corporation within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner.

Remedies on Default. Upon the occurrence and continuance of any Event of Default specified in (i), above, the Trustee will 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 Bonds then Outstanding and upon being indemnified to its satisfaction by such Owners will proceed) to exercise the remedies set forth in the Lease to the extent an event of default has occurred under the Lease.

Notice of Events of Default. The Trustee will, unless an Event of Default is immediately remedied, promptly give notice, at the expense of the Corporation, of such Event of Default to the Owners. Such notice will state that a default has occurred and will provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interest of the Owners. The notice will be given by first-class mail, postage prepaid, to the Owners within 30 days of the occurrence of such Event of Default.

No Remedy Exclusive. No remedy conferred upon or reserved to the Trustee under the Trust Agreement is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it will not be necessary to give any notice other than such notice as may be required in the Trust Agreement or by law.

Waiver; No Additional Waiver Implied by One Waiver. The Trustee may in its discretion waive any Event of Default and its consequences and will also do so upon the written request of the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding; provided, however, that no default in the payment of the principal of, premium, if any, or interest on any Bond will be waived unless prior to such waiver, all arrears of such payments have been made and all fees and expenses of the Trustee have been paid. In case of any such waiver, the Trustee, the Corporation, the City and the Owners will be restored to their former positions and rights, respectively, but such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Trust Agreement.

Action by Owners. In the event the Trustee fails to take any action to eliminate an Event of Default, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding may institute a suit, action, mandamus, or other proceeding in equity or at law for the protection or enforcement of any right under the Trust Agreement, but only if such Owners will have first made written request of the Trustee after the right to exercise such powers or right of action will have arisen, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or herein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee will have been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will have refused or neglected to comply with such request within a reasonable time.

Notwithstanding any other provision in the Trust Agreement, the right of any Owner to receive principal and interest in accordance with the terms of his or her Bond or to institute suit for the enforcement of any such payment on or after such payments become due will not be impaired or affected without the consent of such Owner.

Application of Proceeds in Event of Default. Except to the extent necessary to compensate the Trustee for its reasonable fees and expenses (including reasonable attorneys' fees and expenses) and to pay all principal of and interest then due and unpaid on all Outstanding Bonds, all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Trust Agreement or the Lease will be deposited by the Trustee into the Revenue Fund and used first to pay interest on the Bonds and then to pay the principal of the Bonds. If the amount deposited into the Revenue Fund is not sufficient to pay all overdue interest payments, the amounts deposited will be distributed pro rata to Owners on the basis of the amount of interest due and unpaid to such Owners. If the amount deposited into the Revenue Fund is not sufficient to pay all overdue payments of principal, the amounts deposited will be distributed pro rata to Owners on the basis of the amount of principal due and unpaid to such Owners.

To the extent not required to be deposited into the Revenue Fund pursuant to the immediately preceding paragraph, all damages or other payments received by the Trustee from the enforcement of any rights and powers under the Trust Agreement will be applied as follows in the order of priority indicated:

(1) deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Fund Requirement; and

(2) any remaining amounts will be deposited into and retained in the Revenue Fund for application to the payments due with respect to the Bonds on the next succeeding payment dates thereof.

**Modification or Amendment**

Amendments Permitted. The Trust Agreement and the rights and obligations of the Corporation and of the Owners of the Bonds may be modified or amended at any time by a supplement or amendment which will become effective when the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided under the Trust Agreement (provided that for any series of Bonds insured by a policy of municipal bond insurance that is in full force and effect such consent may be given by the Bond Insurer and without written consent of the Owners of such Bonds), will have been filed with the Trustee. No such supplement or amendment will (1) extend the fixed maturity of any Bonds or reduce the interest rate thereon or extend the time of payment of interest, or reduce the amount of principal thereof or reduce any premium payable upon the redemption thereof, without the express consent of the Owner of such Bond, or (2) reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification of the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without the written assent thereto by the Trustee.

Certain Amendments Permitted Without Bondholder Consent. The Trust Agreement and the rights and obligations of the Corporation and of the Owners of the Bonds may also be modified or amended at any time, without the consent of any Bondowners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Corporation in the Trust Agreement contained, other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the Corporation which in either case will not adversely affect the interests of the Owners of the Bonds;

(ii) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement, as the Corporation may deem necessary or desirable and not inconsistent with the Trust Agreement , and which will not adversely affect the interests of the Owners of the Bonds;

(iii) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Bonds;

(iv) to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(v) to modify any of the provisions of the Trust Agreement in any other respect, including the substitution of a Credit Facility, and the modification of the Trustee's fee letter, provided that such modifications will not have a material adverse effect on the interests of the Owners of the Bonds; or

(vi) to provide for the issuance and delivery of Parity Bonds and Pre-Parity Bonds.

Disqualified Bonds. Bonds owned or held by or for the account of the Corporation or the City or by an obligor on the Bonds, or by any Person directly or indirectly controlled or controlled by, or under direct or indirect common control with the Corporation or the City (except any Bonds held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Bonds provided for in the Trust Agreement , and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement.

Effect of Supplement or Amendment. From and after the time any supplement or amendment to the Trust Agreement becomes effective will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under the Trust Agreement of the Corporation and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any such supplement or amendment will be deemed to be part of the terms and conditions of the Trust Agreement for any and all purposes.

Endorsement or Replacement of Bonds Issued After Amendments. The Corporation may determine that Bonds issued and delivered after the effective date of such action taken as provided in the Trust Agreement will bear a notation, by endorsement or otherwise, in form approved by the Corporation, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of this Bond for the purpose at the office of the Corporation or at such other office as the Corporation may select and designate for that purpose, a suitable notation will be made on such Bond. The Corporation may determine that new Bonds so modified as in the opinion of the Corporation necessary to conform to such Bondowners' action, will be prepared, executed and delivered. In that case, upon demand of the Owner of any Bond then Outstanding, such new Bond will be exchanged in the Principal Corporate Trust Office of the Trustee, without cost to such Owner and at the expense of the Corporation, for a Bond of the same character then outstanding, upon surrender of such Bond.

Amendatory Endorsement of Bonds. The provisions of the Trust Agreement will not prevent any Bondowner from accepting any amendment as to the particular Bonds held by him, provided that due notification thereof is made on such Bonds.

Reliance on Opinion. The Corporation and the Trustee may rely, in entering into any amendment or modification of, or supplement to, the Trust Agreement , on an Opinion of Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of the Trust Agreement have been met with respect to such amendment, modification or supplement.

**Discharge of Trust Agreement**

Discharge of Trust Agreement. If the Corporation will pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways:

- by paying or causing to be paid the principal of (including redemption premiums, if any) and interest on all Bonds Outstanding, as and when the same become due and payable;

- by depositing with the Trustee, or with an independent escrow agent for the benefit of the Trustee, in trust, at or before maturity, money in the necessary amount to pay or redeem all Bonds Outstanding;

- by delivering to the Trustee, for cancellation by it, all Bonds Outstanding; or

- by depositing with the Trustee, or with an independent escrow agent for the benefit of the Trustee, in trust, Government Obligations not subject to call prior to the date they would be used to pay the Bonds in such amount as will, together with the income or increment to accrue thereon, be fully sufficient, in the opinion of an Independent Certified Public Accountant, to pay and discharge the indebtedness on all Bonds at or before their respective maturity dates;

and if the Corporation will also pay or cause to be paid all other sums payable by the Corporation including, without limitation, all fees and expenses of the Trustee due under the Trust Agreement, including reasonable attorneys' fees, then and in that case, at the election of the Corporation (evidenced by a Certificate of the Corporation signifying its intention to pay and discharge all such indebtedness and that the Trust Agreement and all other obligations of the Corporation under the Trust Agreement will cease and terminate, which will be filed with the Trustee), and notwithstanding that any Bonds will not have been surrendered for payment, the pledge of the Revenues provided for in the Trust Agreement and all other obligations of the Corporation under the Trust Agreement will cease and terminate, except as otherwise provided and except for the obligation of the Corporation to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon. The discharge of the obligations of the Corporation under the Trust Agreement will be without prejudice to the rights of the Trustee to charge for and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection herewith.

The Corporation may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Corporation may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

**Discharge of Bonds**

Upon the deposit with the Trustee, in trust, at or before maturity, of money or Government Obligations in the necessary amount to pay or redeem Outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in provided in the Trust Agreement or provisions satisfactory to the Trustee will have been made for the giving of such notice, all liability of the Corporation in respect of such Bonds will cease, terminate and be completely discharged and the Owners thereof will thereafter be entitled only to payment out of the money or Government Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Trust Agreement.

In the event that debt service on the Bonds is not paid in full by June 30, 2031 due solely to abatement occurring under the Lease, the Bonds will be deemed discharged and no longer outstanding, and the Corporation will cease to have any liability thereunder.

Payment of Bonds After Discharge of Trust Agreement. Notwithstanding any provisions of the Trust Agreement, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest or premium on, any Bonds and remaining unclaimed for two (2) years after the principal of or interest on any of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Trust Agreement) will then be repaid to the Corporation upon a Request of the Corporation, and the Owners of such Bonds will thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee may cause to be mailed to the registered Owners of such Bonds at their addresses as they appear on the registration books of the Trustee, a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Corporation as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited will thereafter be deemed to be general creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

Amounts Remaining in Funds and Accounts. Notwithstanding any other provision of the Trust Agreement, it is agreed by the parties hereto that after payment in full of (i) the Bonds, or after provision for such payment will have been made as provided in the Trust Agreement, (ii) the fees, charges and expenses of the Trustee in accordance with the Trust Agreement and (iii) all other amounts required to be paid under the Trust Agreement, any amounts remaining in any fund or account held by the Trustee under the Trust Agreement (other than amounts held in the Rebate Fund) will belong to the City, and will be paid to the City by the Trustee.

## THE LEASE

**Fair Rental Value**

Base Rental and Additional Rental payments during the Lease term will constitute the total rental for the City's use and occupancy of the Facilities (including the 2007 Facilities) for the Fiscal Year in which such payments are scheduled to be made, and the parties to the Lease have agreed and determined that such total rental represents the fair rental value of the Facilities (including the 2007 Facilities). In making such determination, consideration has been given to the costs of financing of the Project by the Corporation, the uses and purposes which may be served by the Project, and the benefits which will accrue to the Corporation, the City and the general public.

**Defaults and Remedies**

(a) The City will be deemed to be in default under the Lease:

(i) if it will (A) fail to pay any rental payable under the Lease, within five (5) calendar days after the same becomes due and payable, time being expressly agreed to be of the essence in the Lease, or (B) fail to keep, observe or perform any other term, covenant or condition contained herein to be kept or performed by the City; or

(ii) upon the happening of any of the events specified in subsection (b), below.

The Corporation may exercise any and all remedies available pursuant to law (other than those specifically waived in the Lease) or granted pursuant to the Lease upon the occurrence of any default. The City will not be in default in the observance or performance of any covenant, condition or agreement in the Lease on its part to be observed or performed under clause (i)(B) of the preceding sentence, unless the City will have failed, for a period of thirty (30) days or such additional time as is reasonably required, to correct any such default after notice by the Corporation to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement.

Upon any such default, the Corporation, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(1) Without terminating the Lease, (i) to collect each installment of rent as it becomes due and enforce any other terms or provision of the Lease to be kept or performed by the City, and/or (ii) to exercise a right of entry or re-entry, and to re-let the Facilities (any such re-let of the Facilities will be for recreational purposes in accordance with the City's Charter). In the event the Corporation does not elect to terminate the Lease in the manner provided for in subparagraph (2), below, the City will remain liable under the Lease and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the City; provided, however, that for so long as the Facilities are not re-let, the Corporation will not prevent the City from using, occupying and enjoying the Facilities, subject only to entry or re-entry by the Corporation to perform maintenance, make repairs or alterations, or engage in such other activities as may be desirable in furtherance of an attempt to preserve or re-let the Facilities. If the Facilities are not re-let, the City will pay the full amount of the rent to the end of the term of the Lease as it becomes due, or, in the event that the Facilities are re-let, to pay any resulting deficiency in rent as such rent becomes due; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Lease for the payment of rent, notwithstanding the fact that the Corporation may have received in previous years or may receive in subsequent years rental in excess of the rental specified by the Lease, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Facilities. Should the Corporation elect to re-enter as provided by the Lease, the City hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the City to re-let the Facilities, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period (not to exceed one year, unless approved in writing by the City) as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Facilities and to place such personal property in storage in any warehouse or other suitable place in the City, for the account of and at the expense of the City, and the City hereby exempts and agrees to hold harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Facilities and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions of the Lease. The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Corporation to re-let the Facilities in the event of such re-entry without effecting a surrender of the Lease, and further agrees that no acts of the Corporation in effecting such

re-letting will constitute a surrender or termination of the Lease irrespective of the use or the term (subject to the preceding sentence) for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease will vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (2) below. The City further agrees to pay the Corporation the cost of any alterations or additions to the Facilities necessary to place the Facilities in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations, to the extent such liability does not constitute a debt or an indebtedness within the meaning of Section 18 of Article XVI of the California Constitution.

(2) To terminate the Lease in the manner provided in the Lease on account of default by the City, notwithstanding any re-entry or re-letting of the Facilities or any component thereof as provided in the Lease for in subparagraph (1) above, and to re-enter the Facilities and remove all persons in possession thereof and all personal property whatsoever situated upon the Facilities and place such personal property in storage in any warehouse or other suitable place in the City; *provided, however*, that before exercising such remedy, the Corporation will have received an Opinion of Bond Counsel to the effect that the exercise of such remedy will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. In the event of such termination, the City agrees to immediately surrender possession of the Facilities, without let or hindrance, and to pay the Corporation all damages recoverable at law (other than as specifically waived herein) that the Corporation may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Facilities and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions herein contained. Neither notice to pay rent or to deliver up possession of the Facilities given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Facilities nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Lease will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City will be or become effective by operation of law or acts of the parties hereto, or otherwise, unless and until the Corporation will have given written notice to the City of the election on the part of the Corporation to terminate the Lease. The City covenants and agrees that no surrender of the Facilities or of the remainder of the term hereof or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated by the Corporation by such written notice.

The City waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Facilities as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Facilities and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Facilities.

Notwithstanding anything to the contrary contained in the Lease, the Corporation will not re-enter or re-let the Facilities upon an event of default unless the Corporation or its sublessee agrees to perform the City's obligations under any then existing sublease, license, management contract or other agreement substantially relating to the Facilities, unless the other party to such sublease, license, management contract or other agreement is in default thereunder. Further, any re-letting of the Facilities will be for recreational purposes as provided in the City's Charter.

(b) The City will be deemed to be in default under the Lease with respect to that portion or portions of the Facilities to which the default relates if (1) the City's interest in the Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation as provided for by the Lease; or (2) the City or any assignee files any petition or institutes any proceeding under any act or acts, state or federal, dealing with or relating to the subject(s) of bankruptcy or insolvency, or under any amendment of such acts or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, where the City seeks to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or seeks for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City will be appointed by any court, except a receiver appointed at the instance or Request of the Corporation, or if the City will make a general or any assignment for the benefit of the City's creditors; or (3) the City will abandon or vacate any portion or portions of the Facilities.

(c) The City will in no event be in default in the performance of any of its obligations under the Lease or imposed by any statute or rule of law unless and until the City will have failed to perform such obligations within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the Corporation to the City properly specifying wherein the City has failed to perform any such obligation.

(d) In addition to the other remedies set forth in this section, upon the occurrence of an event of default as described in the Lease, the Corporation and its assignee will be entitled to proceed to protect and enforce the rights vested in the Corporation and its assignee by the Lease or by law except as specifically waived in the Lease. The provisions of the Lease and the duties of the City and of elected officials, officers or employees will be enforceable by the Corporation or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation and its assignee will have the right to bring the following actions:

*Accounting*. By action or suit in equity to require the City and its Board of Supervisors, officers and employees and its assigns to account as the trustee of an express trust.

*Injunction*. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation or its assignee.

*Mandamus*. By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation's or its assignee's rights against the City (and its Board of Supervisors, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and the Charter and its covenants and agreements with the City.

Each and all of the remedies given to the Corporation under the Lease or by any law now or hereafter enacted or the Charter are cumulative and the single or partial exercise of any right, power or privilege under the Lease will not impair the right of the Corporation to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in the Lease will include, but not be limited to, re-letting by means of the operation by the Corporation of the Facilities. If any statute or rule of law validly will limit the remedies given to the Corporation under the Lease, the Corporation nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law, except those specifically waived herein. Under no circumstances, will the Corporation or the Trustee have the remedy of acceleration.

In the event the Corporation will prevail in any action brought to enforce any of the terms and provisions of the Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Lease.

**Prohibition Against Encumbrance or Sale.**

The Corporation and the City will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Facilities, or upon any real or personal property essential to the operation of the Facilities, except Permitted Encumbrances. The Corporation and the City will not sell or otherwise dispose of the Facilities or any property essential to the proper operation of the Facilities.

## THE SITE LEASE

The City will lease to the Corporation the real property located in the City and County of San Francisco as set forth in the Site Lease (the "Site"), subject (i) to the terms of the Site Lease and (ii) to Permitted Encumbrances. The City also grants to the Corporation such rights of ingress and egress to the Site as the Corporation may require in order to fulfill its obligations under the Site Lease and under the Lease.

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

As long as the Lease is in effect and there has been no event of default under the Lease, the Corporation will not assign, mortgage, hypothecate or otherwise encumber this Site Lease or any rights under the Site Lease or the leasehold created hereby by trust agreement, indenture or deed of trust or otherwise or sublet the Site unless first approved by the City by written instrument executed and approved in the same manner as this Site Lease, except that the City expressly approves and consents to the Lease.

The Corporation agrees, upon the expiration of this Site Lease, to quit and surrender the Site together with the improvements thereon; it being the understanding of the parties hereto that upon termination of the Site Lease title to the Site and all improvements thereon will vest in the City free and clear of any interest of the Corporation or any assignee of the Corporation.

No elective or appointive board, commission, member, officer or other agent of the City will be personally liable to the Corporation, its successors and assigns, in the event of any default or breach by the City or for any amount which may become due to the Corporation, its successors and assigns, or for any obligation of the City under the Site Lease.

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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") on behalf of the City and County of San Francisco Finance Corporation (the "Corporation") in connection with the issuance by the Corporation of its Lease Revenue Bonds, Series 2007 (Open Space Fund – Various Park Projects) in the principal amount of $42,435,000 (the "Series 2007 Bonds"). The Series 2007 Bonds are being issued pursuant to a Master Trust Agreement, dated as of October 1, 2007 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of October 1, 2007 (the "Supplemental Trust Agreement" and together with the Master Trust Agreement, the "Trust Agreement"), each by and between the Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"). 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 Series 2007 Bonds 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 shall have the following meanings:

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

*"Beneficial Owner"* shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2007 Bonds (including persons holding Series 2007 Bonds through nominees, depositories or other intermediaries).

*"Central Post Office"* means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

*"City"* means the City and County of San Francisco, a charter city and county duly organized and existing under the laws of the State.

*"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 and the Corporation a written acceptance of such designation.

*"Holder"* or *"Bondholder"* shall mean the registered owner of any Series 2007 Bond.

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

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

"*Official Statement*" shall mean the Official Statement related to the Series 2007 Bonds, dated September 11, 2007.

*"Participating Underwriter"* shall mean any of the original purchasers of the Series 2007 Bonds required to comply with the Rule in connection with offering of the Series 2007 Bonds.

*"Repository"* shall mean each National Repository and the State Repository, if any.

*"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.

"*SEC*" shall mean the United States Securities and Exchange Commission.

"*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 shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (presently June 30), commencing with the report for the 2006-07 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).

(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.

(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.

(e) Notwithstanding any other provision of this Continuing Disclosure Certificate, the City and the Dissemination Agent reserve the right to make any of the aforementioned filings through the Central Post Office.

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 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 Bonds Outstanding under the Trust Agreement, and the balance of the Reserve Fund.

(c) Summaries of the following for the prior fiscal year:

1. budgeted general fund revenues and appropriations;

2. assessed valuation of taxable property in the City;

3. *ad valorem* property tax levy and delinquency rate; and

4. Open Space Fund Property Tax Revenues and Net Open Space Fund Property Tax Revenues.

(d) A schedule of the aggregate annual debt service on obligations of the City payable from the Net Open Space Fund Property Tax Revenues.

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 Corporation or 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 other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2007 Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled Bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2007 Bonds;

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 Series 2007 Bonds.

(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 Series 2007 Bonds pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2007 Bonds. If such termination occurs prior to the final maturity of the Series 2007 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such 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 this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2007 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2007 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2007 Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2007 Bonds.

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(c), 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 Series 2007 Bonds, shall), or any Holder or Beneficial Owner of the Series 2007 Bonds 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 State. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement or the Lease, 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 Corporation, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2007 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: October 4, 2007

CITY AND COUNTY OF SAN FRANCISCO

By:____________________________________

Controller

# EXHIBIT A

## NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

| | |
|---|---|
| Name of Issuer: | City and County of San Francisco Finance Corporation |
| Name of Bond Issue: | City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2007 (Open Space Fund – Various Park Projects) |
| Date of Issuance: | October 4, 2007 |

NOTICE IS HEREBY GIVEN that the City and County of San Francisco ("City") has not provided an Annual Report with respect to the above-named Bonds as required by Section __.08 of the Lease dated October 1, 2007, between the City and County of San Francisco Finance Corporation and the City. [The City anticipates that the Annual Report will be filed by ____________________.]

Dated: _______________

_____________________________________________,
as Dissemination Agent on behalf of the
City and County of San Francisco Finance Corporation

cc: [City]

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## APPENDIX F

## DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix F concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2007 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2007 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2007 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2007 Bonds, 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 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007

Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2007 Bonds 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 Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2007 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2007 Bonds by the City will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2007 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Series 2007 Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the City or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2007 Bonds 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.

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the City nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2007 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2007 Bonds 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, Bond 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, Bond certificates will be printed and delivered.

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

The City and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2007 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the City nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2007 Bonds or an error or delay relating thereto.

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**APPENDIX G**

**PROPOSED FORM OF CO-BOND COUNSEL OPINION**

[Closing Date]

City and County of
San Francisco Finance Corporation
San Francisco, California

City and County of San Francisco
San Francisco, California

City and County of San Francisco Finance Corporation
Lease Revenue Bonds, Series 2007
(Open Space Fund – Various Park Projects)

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the City and County of San Francisco Finance Corporation (the "Corporation") of $42,435,000 aggregate principal amount of the City and County of San Francisco Finance Corporation Lease Revenue Bonds, Series 2007 (Open Space Fund – Various Park Projects) (the "Bonds"), issued pursuant to the provisions of Section 16.107 of the Charter of the City and County of San Francisco (the "City") and other applicable provisions of law, Ordinance No. 199-07, passed by the Board of Supervisors of the City on July 31, 2007 and signed by the Mayor on August 10, 2007, Resolution No. 2007-03 adopted by the Board of Directors of the Corporation on August 17, 2007, and a Master Trust Agreement, dated as of October 1, 2006, as amended by the First Supplemental Trust Agreement dated as of October 1, 2007, (as amended, the "Trust Agreement") entered into by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds, which are dated the date of delivery thereof, and which mature, bear interest and are subject to redemption as provided in the Trust Agreement, are being issued to provide moneys (i) to finance a various park improvements to be located in the City, (ii) to fund a bond reserve fund, and (iii) to pay costs incurred in connection with the issuance, sale and delivery of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

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 Corporation and 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 second paragraph hereof.

We call attention to the fact that the rights and obligations under the Trust Agreement, the Lease and the Site Lease and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities 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.

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

1. The Bonds constitute the valid and binding limited obligations of the Corporation payable solely from Revenues and certain other sources as and to the extent specified in the Trust Agreement and the 2007 Assignment Agreement. The Bonds are not a lien or charge upon the funds or property of the Corporation except to the extent of the pledge set forth in the Trust Agreement. Neither the faith and credit nor the taxing power of the City or the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the City or the State of California, and said City and said State are not liable for the payment thereof.

2. The Trust Agreement and the 2007 Assignment Agreement have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Corporation. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and other amounts held by the Trustee in the funds or accounts established pursuant to the Trust Agreement (except the Rebate Fund), subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Lease and the Site Lease have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Corporation and the City.

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

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

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

The foregoing opinions are qualified to the extent that the enforceability of the Bonds, the Trust Agreement, the Lease, the Site Lease and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principals of equity (regardless of whether such enforceability is considered in equity or at law). The opinions expressed herein are based on an analysis of existing laws, regulations rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. 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 Corporation and 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 second paragraph hereof. 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 interest in any of the real or personal property described in or subject to the lien of the Lease, the Site Lease and the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any such property. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto. This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

Hawkins Delafield & Wood LLP

Respectfully submitted,

Lofton & Jennings

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## APPENDIX H

## SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation
## Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of 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

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