**NEW ISSUE – BOOK-ENTRY ONLY**

**RATINGS: Moody's: Aa3**
**S&P: AA-**
**Fitch: A+**
**(See "RATINGS" herein)**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Rosales Law Partners LLP, San Francisco, California, Co-Special Counsel to the City, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Co-Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

# $86,480,000
# CITY AND COUNTY OF SAN FRANCISCO
# REFUNDING CERTIFICATES OF PARTICIPATION

| $23,105,000 (MOSCONE CENTER SOUTH REFUNDING PROJECT) SERIES 2011A | $63,375,000 (MOSCONE CENTER NORTH REFUNDING PROJECT) SERIES 2011B |
|---|---|

**evidencing proportionate interests of the Owners thereof in a Project Lease, including the right to receive Base Rental payments to be made by the CITY AND COUNTY OF SAN FRANCISCO**

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

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

The Certificates captioned above (the "Certificates") will be sold to provide funds to: (i) refund certain outstanding bonds of the Redevelopment Agency of the City and County of San Francisco (the "Redevelopment Agency") as described herein, (ii) fund the 2011 Reserve Account of the Reserve Fund established under the Trust Agreement (as defined hereafter), and (iii) pay costs of execution and delivery of the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2011 (the "Trust Agreement"), between the City and County of San Francisco (the "City") and Deutsche Bank National Trust Company, as trustee (the "Trustee"), and in accordance with the Charter of the City. See "THE CERTIFICATES – Authority for Execution and Delivery." The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to a Project Lease dated as of November 1, 2011 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Project Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Covenant to Budget." The obligation of the City to pay Base Rental is in consideration for the use and occupancy of the land and facilities subject to the Project Lease (the "Leased Property"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement of Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement."

The Certificates will be delivered in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Certificates will be made in book entry form only, in the principal amount of $5,000 and integral multiples thereof. Principal and interest with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit such payments to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Form and Registration." Interest evidenced and represented by the Certificates is payable on March 1 and September 1 of each year, commencing March 1, 2012. Principal will be paid as shown on the inside cover hereof. See "THE CERTIFICATES – Payment of Principal and Interest."

**The Certificates are subject to prepayment prior to their scheduled payment of principal as described herein.** See "THE CERTIFICATES – Prepayment of the Certificates."

**THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE DOES NOT CONSTITUTE AN OBLIGATION TO LEVY OR PLEDGE, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY WILL BE OBLIGATED TO MAKE BASE RENTAL PAYMENTS SUBJECT TO THE TERMS OF THE PROJECT LEASE AND NEITHER THE CITY NOR ANY OF ITS OFFICERS WILL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES. SEE "CERTAIN RISK FACTORS."**

**CERTIFICATE PAYMENT SCHEDULE**
(See inside cover)

*The Certificates are offered when, as and if executed and received by the initial purchasers, subject to the approval of the validity of the Project Lease by Jones Hall, A Professional Law Corporation, San Francisco, California, and Rosales Law Partners LLP, San Francisco, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about November 17, 2011.*

Dated: November 2, 2011.

**CERTIFICATE PAYMENT SCHEDULE**

(Base CUSIP Number: 79765D[1])

**$23,105,000**
**Series 2011A Certificates**

| Certificate Payment Date (Sept.1,) | Principal Amount | Interest Rate | Yield[2] | CUSIP Suffix[1] |
|---|---|---|---|---|
| 2012 | $ 200,000 | 2.000% | 1.000% | YP9 |
| 2013 | 1,150,000 | 3.000 | 1.170 | YQ7 |
| 2014 | 1,280,000 | 3.000 | 1.400 | YR5 |
| 2015 | 1,415,000 | 4.000 | 1.700 | YS3 |
| 2016 | 1,565,000 | 4.000 | 1.960 | YT1 |
| 2017 | 1,735,000 | 5.000 | 2.170 | YU8 |
| 2018 | 1,935,000 | 5.000 | 2.420 | YV6 |
| 2019 | 2,135,000 | 5.000 | 2.650 | YW4 |
| 2020 | 2,270,000 | 5.000 | 2.950 | YX2 |
| 2021 | 2,380,000 | 5.000 | 3.090 | YY0 |
| 2022 | 2,500,000 | 5.000 | 3.270[C] | YZ7 |
| 2023 | 2,200,000 | 5.000 | 3.400[C] | ZA1 |
| 2024 | 2,340,000 | 5.000 | 3.540[C] | ZB9 |

**$63,375,000**
**Series 2011B Certificates**

| Certificate Payment Date (Sept.1,) | Principal Amount | Interest Rate | Yield[2] | CUSIP Suffix[1] |
|---|---|---|---|---|
| 2012 | $ 85,000 | 2.000% | 1.000% | ZC7 |
| 2013 | 4,460,000 | 4.000 | 1.170 | ZD5 |
| 2014 | 11,480,000 | 4.000 | 1.400 | ZE3 |
| 2015 | 11,955,000 | 4.000 | 1.700 | ZF0 |
| 2016 | 12,500,000 | 5.000 | 1.960 | ZG8 |
| 2017 | 13,140,000 | 5.000 | 2.170 | ZH6 |
| 2018 | 9,755,000 | 5.000 | 2.420 | ZJ2 |

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

The information set forth herein other than that provided by the City, although obtained from sources which are believed to be reliable, 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 will, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The City maintains a website. The information presented on such website is ***not*** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Certificates.

This Official Statement is not to be construed as a contract with the initial purchaser of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The execution and sale of the Certificates 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.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE INITIAL PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

1 CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the City nor the initial purchaser take any responsibility for the accuracy of such numbers.

2 Reoffering yields furnished by the initial purchaser. The City takes no responsibility for the accuracy thereof.

(c) Yield to the first optional call date of September 1, 2021 at par.

## CITY AND COUNTY OF SAN FRANCISCO

**MAYOR**

Edwin M. Lee

**BOARD OF SUPERVISORS**

David Chiu, *Board President*, *District 3*

| | |
|---|---|
| Eric Mar, *District 1* | Sean Elsbernd, *District 7* |
| Mark Farrell, *District 2* | Scott Wiener, *District 8* |
| Carmen Chu, *District 4* | David Campos, *District 9* |
| Ross Mirkarimi, *District 5* | Malia Cohen, *District 10* |
| Jane Kim, *District 6* | John Avalos, *District 11* |

**CITY ATTORNEY**

Dennis J. Herrera

**CITY TREASURER**

José Cisneros

**OTHER CITY AND COUNTY OFFICIALS**

Amy L. Brown, *Acting City Administrator*
Benjamin Rosenfield, *Controller*

**PROFESSIONAL SERVICES**

**Co-Special Counsel**

Jones Hall, A Professional Law Corporation
*San Francisco, California*

Rosales Law Partners LLP
*San Francisco, California*

**Co-Financial Advisor**

Public Financial Management, Inc.
*San Francisco, California*

Backstrom McCarley Berry & Co. LLC
*San Francisco, California*

**Disclosure Counsel**
Hawkins Delafield & Wood LLP
*San Francisco, California*

**Trustee**
Deutsche Bank National Trust Company
*San Francisco, California*

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

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| **(MOSCONE CENTER SOUTH REFUNDING PROJECT)** | **(MOSCONE CENTER NORTH REFUNDING PROJECT)** |
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**evidencing proportionate interests of the Owners thereof in a Project Lease, including the right to receive Base Rental payments to be made by the CITY AND COUNTY OF SAN FRANCISCO**

# INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its City and County of San Francisco Refunding Certificates of Participation (Moscone Center South Refunding Project), Series 2011A (the "Series 2011A Certificates") and the City and County of San Francisco Refunding Certificates of Participation (Moscone Center North Refunding Project), Series 2011B (the "Series 2011B Certificates," and together with the Series 2011A Certificates, the "Certificates"). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions."

This Introduction is designed to give an overview of the transactions and serve as a guide to the contents of this Official Statement.

*Overview of the Transactions:* The City, exercising its Charter powers to convey and lease property for City purposes, will convey certain real property to Deutsche Bank National Trust Company (the "Trustee") under that certain Property Lease, dated as of November 1, 2011 (the "Property Lease"), by and between the City as lessor and the Trustee as lessee, in exchange for the proceeds of the sale of the Certificates and other consideration. The Trustee will lease the Leased Property (as defined herein) back to the City for the City's use under that certain Project Lease, dated as of November 1, 2011 (the "Project Lease"), by and between the Trustee as lessor and the City as lessee. The City will be obligated under the Project Lease to pay Base Rental payments and other payments to the Trustee each year during the term of the Project Lease (subject to certain conditions under which obligation to pay Base Rental may be abated as discussed herein). Each payment of Base Rental consists of principal and interest components, and when received by the Trustee in each rental period, is deposited in trust for payment of the Certificates. The Trustee creates the "certificates of participation" in the Project Lease, representing proportional interests in the principal and interest components of Base Rental it receives from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to each Certificate when due according to the Trust Agreement, which governs the security and terms of payment of the Certificates. The money received from sale of the Certificates will be applied by the Trustee to refund certain outstanding bonds of the Redevelopment Agency of the City and County of San Francisco (the "Redevelopment Agency"). See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

*Guide to this Official Statement:* The Leased Property is described herein in the section "THE LEASED PROPERTY AND RELATED FACILITIES." The application of the proceeds of sale of the Certificates is described in the sections "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS." The terms of the Certificates and repayment thereof and security for the Certificates are described in the sections "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES," and other sections in the front portion of this Official Statement. Current information about the City, its finances and governance, are provided in APPENDIX A. The City's most recent comprehensive annual financial report appears in APPENDIX B. A summary of the Property Lease, the Project Lease, the Trust Agreement, and other basic legal documents are provided in APPENDIX C.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the City, the City has no obligation to update the information in this Official Statement. See "CONTINUING DISCLOSURE" herein.

Quotations from and summaries and explanations of the Certificates, the Trust Agreement, the Project Lease, the Property Lease, the resolutions providing for the execution and delivery of the Certificates, provisions of the constitution and statutes of the State of California (the "State"), the City's charter and ordinances, and other documents described herein, do not purport to be complete, and reference is made to said laws and documents for the complete provisions thereof. Copies of those documents and information concerning the Certificates are available from the City through the Office of Public Finance, City Hall Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102-4682. Reference is made herein to various other documents, reports, websites, etc., which were either prepared by parties other than the City, or were not prepared, reviewed and approved by the City with a view towards making an offering of public securities, and such materials are therefore not incorporated herein by such references nor deemed a part of this Official Statement.

## THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The corporate limits of 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 at the northern tip of the San Francisco 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. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's most recently completed Comprehensive Annual Financial Report (the "CAFR") for fiscal year 2009-10 estimated the City's 2010 population at 821,790.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, 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. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2010, approximately 15.9 million people visited the City and spent an estimated $8.3 billion during their stay. The City is also a leading center for financial activity in California and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The CAFR estimates that per-capita personal income of the City for 2010 was $71,519. The San Francisco Unified School District operates 71 elementary and K-8 school sites, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), and 36 state-funded preschool sites, and sponsors 9 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2010-11, SFO serviced approximately 39.7 million passengers and handled 398,393 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula), Caltrain (a conventional commuter rail line linking the City with the Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "Port"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of California, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom's term when Mayor Newsom was sworn in as the State's Lieutenant Governor. The City's fiscal year 2011-12 adopted budget includes $6.83 billion of expenditures and reserves, of which $3.26 billion was allocated to the General Fund of the City and $3.57 billion was allocated to all other funds, including enterprise fund departments, such as the San Francisco International Airport, San Francisco Municipal Transportation Authority, and the San Francisco Public Utilities Commission. The CAFR estimates that the City employed approximately 28,600 full-time-equivalent employees at the end of fiscal year 2009-10. According to the Controller of the City (the "Controller"), fiscal year 2011-12 total net assessed valuation of taxable property in the City is approximately $158.65 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES" and in APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2010."

## THE CERTIFICATES

### Authority for Execution and Delivery

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2011 (the "Trust Agreement"), by and between the City and the Trustee. Each Certificate represents a proportionate interest in the right of the Trustee to receive Base Rental payments (comprising principal and interest components) payable by the City pursuant to the Project Lease. The City is obligated under the Project Lease to pay the Base Rental in consideration for its use and occupancy of the land and facilities subject to the Project Lease (the "Leased Property"). The Leased Property will be originally conveyed to the Trustee pursuant to the Property Lease.

The Trust Agreement, the Property Lease, and the Project Lease were approved by the Board of Supervisors of the City by its Resolution No. 368-11, adopted on September 13, 2011, and signed by the Mayor on September 21, 2011 (the "Resolution"). The Resolution authorized the execution and delivery of up to $110 million in aggregate principal amount of the Certificates under the Trust Agreement and the payment of a maximum annual Base Rental payment under the Project Lease.

### Form and Registration

The Certificates are being executed and delivered in the aggregate principal amount shown on the cover hereof.

The Certificates will be delivered in fully registered form, without coupons, dated their date of delivery, and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only in the principal amount of $5,000 or any integral multiple thereof. Principal, premium, if any, and interest evidenced and represented by the Certificates will be paid by the Trustee to DTC which will in turn remit such amounts to the DTC participants for subsequent disbursement to the beneficial owners of the Certificates. Beneficial owners of the Certificates will not receive physical certificates representing their interests in the Certificates. For further information concerning the Book-Entry Only System, see APPENDIX E: "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

### Payment of Principal and Interest

The principal evidenced and represented by the Certificates will be payable on September 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and will evidence and represent the sum of the principal components of the Base Rental payments. Payment of the principal and premium, if any, of any Certificates upon their respective Certificate

Payment Dates or prepayment prior thereto, will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee. Principal and premium will be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates is payable on March 1 and September 1 of each year (each, an "Interest Payment Date"), commencing March 1, 2012, and continuing to and including their respective Certificate Payment Dates or until prepayment prior thereto, and will evidence and represent the sum of the interest components of the Base Rental payments. Interest with respect to the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest evidenced and represented by each Certificate will accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) the Certificate is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date; or (ii) the Certificate is executed prior to the close of business on the first Regular Record Date, in which event interest represented thereby will be payable from the date of delivery; provided, however, that if at the time of execution of any Certificate interest thereon is in default, such interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the date of delivery.

Interest evidenced and represented by the Certificates will be payable in lawful money of the United States of America. Payments of interest represented by the Certificates will be made on each Interest Payment Date by check of the Trustee sent by first-class mail, postage prepaid, or by wire transfer to any Owner of $1,000,000 or more of Certificates to the account in the United States of America specified by such Owner in a written request delivered to the Trustee on or prior to the Regular Record Date for such Interest Payment Date, to the Owner thereof on the Regular Record Date.

## Prepayment of the Certificates

*Optional Prepayment*

The Series 2011A Certificates with a Certificate Payment Date on or after September 1, 2022, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after September 1, 2021 at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

The Series 2011B Certificates are not subject to optional prepayment prior to their respective Certificate Payment Dates.

*Special Mandatory Prepayment*

The Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates, as a whole or in part on any date, at a Prepayment Price equal to the principal amount thereof plus accrued but unpaid interest to the prepayment date, without premium, from amounts deposited in the Prepayment Account of the Base Rental Fund following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or upon loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

*Selection of Certificates for Prepayment*

Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all of the Outstanding Certificates are to be prepaid, the City will direct the principal amount of each Series of the Certificates to be prepaid from among the Certificates scheduled to be paid on various Certificate Payment Dates. Among the Certificates scheduled to be paid on a particular Certificate Payment Date, the Trustee will select Certificates for prepayment by lot in any manner which the Trustee in its sole discretion deems fair and appropriate; provided, however, that the portion of any Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

*Notice of Prepayment*

Notice of prepayment will be given to the respective Owners of Certificates designated for prepayment by Electronic Notice or first-class mail, postage prepaid, at least 30 but not more than 45 days before any prepayment date, at their addresses appearing on the registration books maintained by the Trustee; provided, however, that so long as the DTC book-entry system is used for any Certificates, notice with respect thereto will be given solely to DTC, as nominee of the registered Owner, in accordance with its operational requirements. Notice will also be given as required by the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" herein.

Each notice of prepayment will specify: (i) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original delivery date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Each notice will further state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue and be payable. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such prepayment.

*Effect of Prepayment*

If, on the designated prepayment date, money for the prepayment of all of the Certificates to be prepaid, together with accrued interest to such prepayment date, is held by the Trustee so as to be available for the prepayment on the scheduled prepayment date, and if a prepayment notice has been given as described above, then from and after such prepayment date, no additional interest will become due with respect to the Certificates to be prepaid, and such Certificate or portion thereof will no longer be deemed Outstanding under the provisions of the Trust Agreement; however, all money held by or on behalf of the Trustee for the prepayment of such Certificates will be held in trust for the account of the Owners thereof.

If the City acquires any Certificate by purchase or otherwise, such Certificate will no longer be deemed Outstanding and will be surrendered to the Trustee for cancellation.

*Conditional Notice; Cancellation of Optional Prepayment*

The City may provide a conditional notice of prepayment and such notice will specify its conditional status.

If the Certificates are subject to optional prepayment, and the Trustee does not have on deposit moneys sufficient to prepay the principal, plus the applicable premium, if any, represented by the Certificates proposed to be prepaid on the date fixed for prepayment, and interest with respect thereto, the prepayment will be canceled, and in such case, the City, the Trustee and the Owners will be restored to their former positions and rights under the Trust Agreement, and the City will continue to pay the Base Rental payments as if no such notice were given. Such a cancellation of an optional prepayment at the election of the City will not constitute a default under the Trust Agreement, and the Trustee and the City will have no liability from such cancellation. In the event of such cancellation, the Trustee will send notice of such cancellation to the Owners in the same manner as the related notice of prepayment. Neither the failure to receive such cancellation notice nor any defect therein will affect the sufficiency of such cancellation.

In the event the City gives notice to the Trustee of its intention to exercise its prepayment option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, or fails to satisfy any condition to a conditional notice, the City will continue to pay the Base Rental payments as if no such notice were given.

*Purchase of Certificates*

Unless expressly provided otherwise in the Trust Agreement, money held in the Base Rental Fund under the Trust Agreement in respect of principal may be used to reimburse the City for the purchase of Certificates that would otherwise be subject to prepayment from such moneys upon the delivery of such Certificates to the Trustee for cancellation at least ten days prior to the date on which the Trustee is required to select Certificates for prepayment. The purchase price of any Certificates purchased by the City under the Trust Agreement will not exceed the applicable prepayment price of the Certificates that would be prepaid but for the operation of provisions of the Trust Agreement. Any such purchase must be completed prior to the time notice would otherwise be required to be given to prepay the related Certificates. All Certificates so purchased will be surrendered to the Trustee for cancellation and applied as a credit against the obligation to prepay such Certificates from such moneys.

## PLAN OF REFUNDING

The proceeds of the Certificates will be used to: (i) refund certain outstanding bonds of the Redevelopment Agency (collectively, the "Refunded Bonds"), (ii) fund the 2011 Reserve Account of the Reserve Fund for the Certificates established under the Trust Agreement, and (iii) pay costs of execution and delivery of the Certificates. The Refunded Bonds consist of the following bonds of the Redevelopment Agency:

| Series Name | Issue Date | Original Issue Amount | Amount Outstanding | Redemption Price |
|---|---|---|---|---|
| Lease Revenue Refunding Bonds, Series 2002 (George R. Moscone Convention Center) (the "Series 2002 Refunded Bonds") | 1/9/2003 | $67,670,000 | $65,105,000 | 101.0% |
| Lease Revenue Refunding Bonds, Series 2004 (George R. Moscone Convention Center) (the "Series 2004 Refunded Bonds") | 6/10/2004 | 33,565,000 | 28,970,000 | 102.0 |

The Series 2004 Refunded Bonds were issued to refund and redeem certain outstanding bonds of the Redevelopment Agency, the proceeds of which bonds were used in part to finance or refinance the construction of Moscone South (as defined herein). The Series 2002 Refunded Bonds were issued for the purpose of providing funds for the construction of Moscone West (as defined herein) and to refund and redeem certain outstanding bonds of the Redevelopment Agency, the proceeds of which bonds were used in part to finance or refinance the construction of Moscone North (as defined herein). See "THE LEASED PROPERTY AND RELATED FACILITIES" herein.

A portion of the proceeds of the Series 2011A Certificates will be used to redeem all of the outstanding principal amount of the Series 2004 Refunded Bonds on December 2, 2011 (the "Redemption Date"). Such moneys will be deposited into an escrow fund (the "2004 Escrow Fund") to be held by Deutsche Bank National Trust Company, as escrow agent (the "Escrow Agent") under an Escrow Agreement, dated as of November 1, 2011, by and between the City and the Escrow Agent. The amounts deposited in the 2004 Escrow Fund will be sufficient to pay the redemption price of the Series 2004 Refunded Bonds indicated in the table above, plus accrued and unpaid interest to the Redemption Date. All amounts in the 2004 Escrow Fund will be irrevocably pledged solely to pay principal, premium, if any, and interest with respect to the Series 2004 Refunded Bonds and will not be available to pay principal of or interest on the Series 2011A Certificates. Upon the deposit of such proceeds into the 2004 Escrow Fund, the Series 2004 Refunded Bonds will no longer be deemed outstanding.

A portion of the proceeds of the Series 2011B Certificates will be used to redeem all of the outstanding principal amount of the Series 2002 Refunded Bonds on the Redemption Date. Such moneys will be deposited into an escrow fund (the "2002 Escrow Fund") to be held by the Escrow Agent under an Escrow Agreement, dated as of November 1, 2011, by and between the City and the Escrow Agent. The amounts deposited in the 2002 Escrow Fund will be sufficient to pay the redemption price of the Series 2002 Refunded Bonds indicated in the table above, plus accrued and unpaid interest to the Redemption Date. All amounts in the 2002 Escrow Fund will be irrevocably pledged solely to pay principal, premium, if any, and interest with respect to the Series 2002 Refunded Bonds and will not be available to pay principal of or interest on the Series 2011B Certificates. Upon the deposit of such proceeds into the 2002 Escrow Fund, the Series 2002 Refunded Bonds will no longer be deemed outstanding.

The mathematical accuracy of the calculations of the sufficiency of the moneys on deposit in the 2002 Escrow Fund and the 2004 Escrow Fund will be verified by Causey Demgen & Moore, Inc. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

## ESTIMATED SOURCES AND USES OF FUNDS

Following is a table of estimated sources and uses of funds:

| Sources of Funds: | Series 2011A | Series 2011B |
|---|---|---|
| Certificate Par Amount | $23,105,000 | $63,375,000 |
| Original Issue Premium | 2,956,149 | 7,348,650 |
| Funds Related to Refunded Bonds | 5,870,195 | 561,695 |
| Total Sources | $31,931,344 | $71,285,345 |
| | | |
| Uses of Funds: | | |
| Deposit into the 2004 Escrow Fund | $30,143,148 | – |
| Deposit into the 2002 Escrow Fund | – | $67,049,201 |
| 2011 Reserve Account | 1,335,858 | 3,664,142 |
| Purchaser's Discount | 280,771 | 98,231 |
| Costs of Delivery[1] | 171,567 | 473,771 |
| Total Uses | $31,931,344 | $71,285,345 |

(1) Includes amounts for legal fees, Trustee's fees and expenses, financial advisory fees, rating agency fees, escrow and title insurance fees, printing costs and other delivery costs.

*[Remainder of Page Intentionally Left Blank.]*

## CERTIFICATE PAYMENT SCHEDULE

The Trust Agreement requires that Base Rental payments payable by the City pursuant to the Project Lease be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will apply amounts in the Base Rental Fund as necessary to make principal and interest payments with respect to the Certificates as the same will become due and payable, as shown in the following table.

| | Series 2011A Certificates | | | Series 2011B Certificates | | | |
|---|---|---|---|---|---|---|---|
| Payment Date | Principal | Interest | Total Principal and Interest | Principal | Interest | Total Principal and Interest | Fiscal Year Total[(1)] |
| 3/1/2012 | - | $309,356 | $309,356 | - | $834,094 | $834,094 | $1,143,451 |
| 9/1/2012 | $200,000 | 535,425 | 735,425 | $85,000 | 1,443,625 | 1,528,625 | - |
| 3/1/2013 | - | 533,425 | 533,425 | - | 1,442,775 | 1,442,775 | 4,240,250 |
| 9/1/2013 | 1,150,000 | 533,425 | 1,683,425 | 4,460,000 | 1,442,775 | 5,902,775 | - |
| 3/1/2014 | - | 516,175 | 516,175 | - | 1,353,575 | 1,353,575 | 9,455,950 |
| 9/1/2014 | 1,280,000 | 516,175 | 1,796,175 | 11,480,000 | 1,353,575 | 12,833,575 | - |
| 3/1/2015 | - | 496,975 | 496,975 | - | 1,123,975 | 1,123,975 | 16,250,700 |
| 9/1/2015 | 1,415,000 | 496,975 | 1,911,975 | 11,955,000 | 1,123,975 | 13,078,975 | - |
| 3/1/2016 | - | 468,675 | 468,675 | - | 884,875 | 884,875 | 16,344,500 |
| 9/1/2016 | 1,565,000 | 468,675 | 2,033,675 | 12,500,000 | 884,875 | 13,384,875 | - |
| 3/1/2017 | - | 437,375 | 437,375 | - | 572,375 | 572,375 | 16,428,300 |
| 9/1/2017 | 1,735,000 | 437,375 | 2,172,375 | 13,140,000 | 572,375 | 13,712,375 | - |
| 3/1/2018 | - | 394,000 | 394,000 | - | 243,875 | 243,875 | 16,522,625 |
| 9/1/2018 | 1,935,000 | 394,000 | 2,329,000 | 9,755,000 | 243,875 | 9,998,875 | - |
| 3/1/2019 | - | 345,625 | 345,625 | - | - | - | 12,673,500 |
| 9/1/2019 | 2,135,000 | 345,625 | 2,480,625 | - | - | - | - |
| 3/1/2020 | - | 292,250 | 292,250 | - | - | - | 2,772,875 |
| 9/1/2020 | 2,270,000 | 292,250 | 2,562,250 | - | - | - | - |
| 3/1/2021 | - | 235,500 | 235,500 | - | - | - | 2,797,750 |
| 9/1/2021 | 2,380,000 | 235,500 | 2,615,500 | - | - | - | - |
| 3/1/2022 | - | 176,000 | 176,000 | - | - | - | 2,791,500 |
| 9/1/2022 | 2,500,000 | 176,000 | 2,676,000 | - | - | - | - |
| 3/1/2023 | - | 113,500 | 113,500 | - | - | - | 2,789,500 |
| 9/1/2023 | 2,200,000 | 113,500 | 2,313,500 | - | - | - | - |
| 3/1/2024 | - | 58,500 | 58,500 | - | - | - | 2,372,000 |
| 9/1/2024 | 2,340,000 | 58,500 | 2,398,500 | - | - | - | - |
| 3/1/2025 | - | - | - | - | - | - | 2,398,500 |
| Total[(1)] | $23,105,000 | $8,980,781 | $32,085,781 | $63,375,000 | $13,520,619 | $76,895,619 | $108,981,401 |

(1) Totals may not add due to independent rounding.

## SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

### Source of Payment

The Certificates evidence and represent proportionate interests in the right to receive Base Rental payments required to be made by the City to the Trustee under the Project Lease so long as the City has use and occupancy of the Leased Property. The Project Lease terminates on September 1, 2024, or upon the earlier termination upon payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See "– Abatement of Base Rental Payments" below.

Pursuant to the Trust Agreement, the City has granted to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (excluding the Rebate Fund), including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award received by the Trustee and not required to be used for repair or replacement of the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property received by the Trustee; (iv) all amounts on hand from time to time in the 2011 Reserve Account of the Reserve Fund and the Base Rental Fund established under the Trust Agreement, including amounts transferred to the Base Rental Fund from other funds and accounts, as provided in the Trust Agreement (including proceeds of the Certificates no longer needed to pay costs of execution and delivery of the Certificates); and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf. The City will pay to the Trustee the Base Rental payments to the extent required under the Project Lease, which Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal and interest represented by the Certificates.

### Covenant to Budget

The City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental in its annual budget and to make the necessary annual appropriations for such rental payments. The Project Lease provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law.

If the City defaults on its covenant in the Project Lease to include all rental payments in the applicable annual budget and such default will have continued for 60 days or more, the Trustee may, subject to applicable laws regarding use of such property, either re-let the Leased Property for the account of the City or may retain the Project Lease and hold the City liable for all Rental Payments on an annual basis.

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 APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2010." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER – INVESTMENT POLICY."

### Base Rental Payments; Additional Rental

*Base Rental Payments.* The City has covenanted in the Project Lease that, so long as the City has the full use and occupancy of the Leased Property, it will make Base Rental payments to the Trustee from any legally available funds of the City. The Trustee is required by the Trust Agreement to deposit in the Base Rental Fund all Base Rental payments and certain other amounts received and required to be deposited therein, including investment earnings. The total Rental Payment due in any fiscal year will not be in excess of the total fair rental value of the Leased Property for such fiscal year.

The Base Rental payments are payable by the City on or before the fourth Business Day immediately preceding each Interest Payment Date, provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Leased Property. In the event that during any such period the City does not have use and occupancy of all or a portion of the Leased Property due to material damage to, destruction of or condemnation of the Leased Property, or defects in the title to the Leased Property, Base Rental payments are subject to abatement. See "– Abatement of Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Project Lease in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Project Lease.

*Additional Rental and the Working Capital Fund.* Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay any taxes and insurance premiums, and to pay all fees, costs and expenses of the Trustee in connection with the Trust Agreement, deposits required to be made to the Rebate Fund, if any, and all other fees, costs and expenses of the Trustee incurred from time to time in administering the Project Lease and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Project Lease. The City may, at its option, pay all or a portion of Additional Rental to the Trustee for deposit in the Working Capital Fund established under the Trust Agreement. Pursuant to the Trust Agreement, the Trustee will keep the Working Capital Fund separate and apart from all funds and moneys held by the Trustee. The Working Capital Fund is not pledged to the payment of the Certificates.

*Transient Occupancy Tax Limit.* The City is required under the Project Lease to make Base Rental payments from any source of legally available funds in each year the City has use and possession of the Leased Property, provided, however, that the amount of Base Rental to be paid on any particular Interest Payment Date with respect to the Series 2011A Certificates will be reduced if and to the extent necessary in order that the aggregate of Base Rental and Additional Rental with respect to the Series 2011A Certificates paid during any Fiscal Year do not exceed four percent of the rent for the occupancy of hotel rooms in San Francisco (the "4% Limitation") levied by the City pursuant to Section 502, Part III of the San Francisco Municipal Code, as directed by Proposition S, approved by the voters of the City on November 2, 1976. **The 4% Limitation only represents a dollar limitation on the combined Base Rental and Additional Rental payable with respect to the Series 2011A Certificates and does not represent an actual tax levied or collected, and the Series 2011A Certificates are not secured by any tax levied by the City, including any transient occupancy tax.** See "CERTAIN RISK FACTORS – Proposition S and the Limitation of Hotel Tax Receipts" herein. For additional information regarding the City's transient occupancy tax revenues, see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – OTHER CITY REVENUES – Transient Occupancy Tax."

The following table shows the amount of the 4% Limitation over the last five fiscal years, calculated based on the applicable actual transient occupancy tax payable to the City (amounts are shown for all funds and in thousands):

| Fiscal Year[(1)] | 4% Limitation | Maximum Annual Debt Service on the Series 2011A Certificates as a Percentage of the 4% Limitation[(2)] |
|---|---|---|
| 2007-08 | $64,232 | 4.36% |
| 2008-09 | 62,793 | 4.46 |
| 2009-10 | 54,881 | 5.10 |
| 2010-11 *Estimated* | 62,014 | 4.51 |
| 2011-12 *Budgeted* | 62,869 | 4.45 |

(1) Figures for fiscal years 2007-08 through 2009-10 are audited actuals. Figure for fiscal year 2010-11 is unaudited. Figure for fiscal year 2011-12 is from the 2011-12 Original Budget.

(2) Maximum annual debt service on the Series 2011A Certificates is approximately $2,797,750. See "CERTIFICATE PAYMENT SCHEDULE" herein.

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

Pursuant to the Trust Agreement, any insufficiency in the Base Rental Fund arising as a result of the 4% Limitation described above will be allocated proportionately among the Series 2011A Certificates based on the amount of interest and principal then due with respect to each Series 2011A Certificate and will not be allocated to any other series of Certificates. Under the Project Lease, in the event the Base Rental payments with respect to the Series 2011A Certificates has been reduced pursuant to the immediately preceding paragraph, the City will direct the Trustee to prepay the Series 2011A Certificates prior to prepaying any other series of Certificates.

If application of the 4% Limitation results in an insufficiency in the Base Rental Fund, the Trustee will draw on the Reserve Fund to make payments of principal and interest represented by the Series 2011A Certificates. See "Reserve Fund; 2011 Reserve Account" below.

### Limited Obligation

**The obligation of the City to make Base Rental payments under the Project Lease does not constitute an obligation to levy or pledge, or for which the City has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See "CERTAIN RISK FACTORS – Rental Payments Not a Debt of the City."**

### Abatement of Base Rental Payments

The Trustee will collect and receive all of the Base Rental payments, and all payments of Base Rental received by the Trustee under the Project Lease will be deposited into the Base Rental Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Project Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Project Lease regarding rental abatement. Any abatement of Base Rental payments could affect the City's ability to pay debt service on the Certificates. See "CERTAIN RISK FACTORS – Abatement."

The City's obligation under the Project Lease to make Rental Payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or due to non-completion of any portion thereof, except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the 2011 Reserve Account of the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for Rental Payments or to the Trustee for payments in respect of the Certificates. The amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference. Abatement of Base Rental payments will commence with such damage, destruction or condemnation and end when use and occupancy or possession is restored. In the event of abatement, the term of the Project Lease may be extended until all amounts due under the Project Lease and the Trust Agreement are fully paid, but in no event later than September 1, 2034. See "CERTAIN RISK FACTORS – Abatement."

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Project Lease requires the City to maintain rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months. See "– Insurance with Respect to the Leased Property" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest represented by the Certificates. The City is also required by the Project Lease to replace or repair Leased Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Project Lease and the Trust Agreement with respect to the Certificates remaining Outstanding. See "– Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased

Property, or portion thereof, pursuant to the substitution provisions of the Project Lease. See "– Addition, Release and Substitution of Leased Property" below. In addition, the Trust Agreement establishes a 2011 Reserve Account of the Reserve Fund and requires the Trustee to use any moneys on deposit in the Reserve Fund to make payments of principal and interest represented by the Certificates. See "Reserve Fund; 2011 Reserve Account" below.

## Reserve Fund; 2011 Reserve Account

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee, and within the Reserve Fund, there is created a 2011 Reserve Account to be held with the Trustee. The 2011 Reserve Account will only be available to support payments with respect to the Certificates. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the 2011 Reserve Account of the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount will be at least equal to the Reserve Requirement. The Reserve Requirement with respect to the Certificates, as of any date of calculation, is equal to the the least of (1) an amount equal to the maximum annual payments of principal and interest with respect to the Certificates, (2) 125% of average annual payments of principal and interest with respect to the Certificates, (3) 10% of the initial principal amount represented by the Certificates, or (4) $5,000,000. As of the date of delivery of the Certificates, the Reserve Requirement is $5,000,000. The 2011 Reserve Account will support payments with respect to the Series 2011A Certificates and the Series 2011B Certificates on a parity basis.

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

A Credit Facility in the amount of the Reserve Requirement may be substituted by the City at any time for all or a portion of the funds held by the Trustee in the Reserve Fund, provided that (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates at the time of such substitution (and the City will notify each Rating Agency prior to making any such substitution), and (ii) the Trustee will receive an opinion of Independent Counsel stating that such substitution will not, by itself, adversely affect the exclusion from gross income for federal income tax purposes of interest components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy, such Credit Facility will be for the term of the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be transferred as directed in writing by a City Representative.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest payments due with respect to the Certificates on such date, the Trustee will transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency (provided that if the amounts on deposit in a Reserve Account within the Reserve Fund are restricted to a series of Certificates, then such amounts will only be available for such series of Certificates). In the event of any such transfer, the Trustee will immediately provide written notice to the City of the amount and the date of such transfer.

Any moneys in the Reserve Fund in excess of the Reserve Requirement on each March 1 and September 1, commencing March 1, 2012, and at such other time or times as directed by the City, will be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date, or transferred to such other fund as the City may designate. The Reserve Fund may secure Additional Certificates on a parity basis or, alternatively, a separate account in the Reserve Fund may be established for one or more series of Additional Certificates.

## Replacement, Maintenance and Repairs

The Project Lease requires the City, at its own expense and as determined and specified by the Director of Real Estate of the City, to maintain or cause to be maintained the Leased Property in good order, condition and repair during the term of the Project Lease. The Trust Agreement requires that if the Leased Property or any portion thereof is damaged or destroyed, the City must elect to either prepay the Certificates or replace or repair the affected portion of the Leased Property in accordance with the Project Lease. Under the Project Lease, the City must replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with the City's right to the use and occupancy of the Leased Property or any portion thereof that would result in an abatement of Rental Payments or any portion thereof pursuant to the Project Lease; provided, however, that the City is not required to repair or replace any such portion of the Leased Property if there will be applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds are sufficient to prepay: (i) all of the Certificates Outstanding and to pay all other amounts due under the Project Lease and under the Trust Agreement or (ii) any portion of the Certificates such that the resulting Rental Payments payable in any Project Lease Year following such partial prepayment are sufficient to pay in the then current and any future Project Lease Year the principal and interest evidenced and represented by all Certificates to remain Outstanding and all other amounts due under the Project Lease and under the Trust Agreement to the extent they are due and payable in such Project Lease Year. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE PROJECT LEASE."

## Insurance with Respect to the Leased Property

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease (but during the period of construction of any Facilities financed with the proceeds of any Additional Certificates only the insurance described in clauses (i) and (v) below will be required with respect to such Facilities and Additional Certificates and may be provided by the contractor under the construction contract for such Facilities): (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates, 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; (iii) 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; (iv) rental interruption insurance, with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months (such amount to be adjusted annually on or prior to September 1 of each year, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above, with such insurance not subject to any deductible; and (v) in the case of construction of any Facilities financed with the proceeds of Additional Certificates, builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Additional Certificates, or the replacement cost of such Facilities, which insurance will be outstanding until Final Completion of such Facilities. Except as provided above, all policies of insurance required under the Project Lease may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

The Project Lease further requires the City to maintain earthquake insurance in an amount equal to the Outstanding principal amount of the Certificates (to the extent commercially available, in the judgment of the City's Risk Manager); 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 of the City, the City has determined not to obtain earthquake insurance as of the date of this Official Statement.

The City is also required under the Project Lease to deliver to the Trustee, on the date of execution and delivery of the Certificates, evidence of the commitment of a title insurance company to issue a policy of title insurance (with no survey required), in an amount at least equal to the initial aggregate principal amount of the Certificates, showing a leasehold interest in the Leased Property in the name of the Trustee, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates.

The City may self-insure against any of the risks required to be insured against in the Project Lease, except for self-insurance for rental interruption insurance and title insurance. Except for all risk property insurance on the

Leased Property, the City expects to self-insure for all other hazards for which the Project Lease permits self-insurance.

### Eminent Domain

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

### Addition, Release and Substitution of Leased Property

If no Project Lease Event of Default has occurred and is continuing, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, upon satisfaction of the conditions to such amendment and substitution in the Project Lease. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE PROJECT LEASE – Addition, Release and Substitution."

### Additional Certificates

The Trust Agreement and the Project Lease may be amended from time to time to authorize one or more series of Additional Certificates secured by Base Rental payments under the Project Lease on a parity with the Outstanding Certificates, provided that, among other requirements, the Base Rental payable under the amended Project Lease is sufficient to pay all principal of and interest with respect to the Outstanding Certificates and such Additional Certificates, and that the amended Base Rental is not in excess of the fair rental value of the Leased Premises.

## THE LEASED PROPERTY AND RELATED FACILITIES

The Leased Property consists of a portion of the Moscone Center called Moscone South, as further described below.

The George R. Moscone Convention Center (the "Moscone Center") is the principal convention center facility in the City. The facility as originally constructed consists of a three-level complex with 321,000 square feet of meeting and exhibition space within a 650,000 square foot structure located in one block. The street level contains a glass-enclosed 12,500 square foot lobby. The mezzanine level contains 31 meeting rooms, administrative offices, a security office and a building control system. The lowest level, which is 30 feet below street level, contains a 260,000 square foot column-free exhibit hall which has a ceiling height of 37 feet, a large meeting room which can hold up to 4,000 people, a kitchen capable of serving 6,000 meals at one time and a fully-equipped first aid station. These facilities are collectively known as "Moscone South" and were completed in December 1981.

The City embarked on a major expansion to these initial facilities, beginning construction in early 1989, and opening in two phases in 1991 and 1992.

The Esplanade Ballroom phase opened in February 1991, with a 126,000 square foot building envelope. The 42,675 square foot ballroom, divisible into 10 sections, plus a freestanding room of 2,878 square feet opening off the lobby areas, introduced a highly flexible complex of meeting and banquet space with access to Moscone South and Moscone North (as defined below).

***The Leased Property consists of Moscone South only. Moscone North and Moscone West are not a part of the Leased Property.*** The City owns the Leased Property, otherwise referred to as Moscone South, and uses this property as a convention center. The City's ownership interest includes the space in which the convention facilities are located and related rights of access. The Leased Property consists of space that is located partially underground. The Redevelopment Agency has ownership rights to recreational and other facilities located above Moscone South. The City and the Agency have entered into a reciprocal easement agreement to ensure appropriate access and support for both parties.

Moscone North opened in May 1992, adding 181,440 square feet of exhibition space in two halls, plus 53,415 square feet of meeting space ("Moscone North"). Of the meeting space, 37,355 is flexible space which is counted in totals for both meeting and exhibition uses. A below-grade concourse and escalator system connecting Moscone North and Moscone South, and a 15,300 square foot registration lobby provides prefunction space to complete the 520,000 square foot Moscone North building envelope.

Moscone West opened in June 2003, adding 300,000 square feet of convention space and exhibition hall on three levels ("Moscone West"). Pre-function lobbies on each floor add 84,000 square feet, with all service and freight functions on the basement level.

The Leased Property was subject to a project lease dated as of June 1, 2004 (the "2004 Project Lease"), securing the Series 2004 Refunded Bonds that are being defeased in full and refunded from a portion of the proceeds of the Series 2011A Certificates. Moscone North was subject to a project lease dated as of March 1, 1988 (as amended from time to time, the "1988 Project Lease"), securing the Series 2002 Refunded Bonds that are being defeased in full and refunded from a portion of the proceeds of the Series 2011B Certificates. See "PLAN OF REFUNDING" above. After the defeasance of the Series 2004 Refunded Bonds, the Leased Property will be released from the 2004 Project Lease and will be subject to the Project Lease. Moscone North will continue to be subject to the 1988 Project Lease after the defeasance of the Series 2002 Refunded Bonds, as it secures other outstanding obligations of the Redevelopment Agency.

## CERTAIN RISK FACTORS

*The following risk factors should be considered by potential investors, along with all other information in this Official Statement, in evaluating the risks inherent in the purchase of the Certificates. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Certificates. 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 Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

### Rental Payments Not a Debt of the City

**The obligation of the City to make Base Rental payments does not constitute an obligation of the City to levy or pledge, or for which the City has levied or pledged, any form of taxation. The obligation of the City to make Base Rental or Additional Rental payments does not constitute an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.**

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the 2011 Reserve Account of the Reserve Fund and the Base Rental Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. The City will be obligated to make Rental Payments subject to the terms of the Project Lease, and neither the City nor any of its officers will incur any liability or any other obligation with respect to the delivery of the Certificates.

## Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds Authorized but Unissued," "– Overlapping Debt," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2010."

## Abatement

The obligation of the City under the Project Lease to make Base Rental payments is in consideration for the use and right of occupancy of the Leased Property.

The Project Lease provides that if an event occurs which subjects the City's Base Rental payment obligation to abatement, the amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which substantial interference with the City's use of the Leased Property continues (excluding amounts held by the Trustee in the Base Rental Fund and the Reserve Fund, proceeds of rental interruption insurance, and other lawfully available moneys of the City) do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement will continue for the period commencing with the date of damage, destruction, condemnation or discovery of title defect, and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect; and the term of the Project Lease will be extended by the period during which the rental is abated under the Project Lease, but in no event beyond September 1, 2034.

It is not possible to predict the circumstances under which such an abatement of Base Rental payments may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Project Lease or at the time of the abatement or may be adjusted during an event of abatement. Upon abatement, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

In the event of abatement or default, the amounts on deposit in the 2011 Reserve Account may be significantly less than the amount of Base Rental due at the time of abatement or default. If moneys are drawn from the 2011 Reserve Account to make Base Rental payments during a period of rental abatement, moneys remaining in the 2011 Reserve Account of the Reserve Fund after such payments are likely to be less than the Reserve Requirement. The City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2011 Reserve Account of the Reserve Fund to the Reserve Requirement.

If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the 2011 Reserve Account of the Reserve Fund and any available insurance proceeds and other moneys available under the Trust Agreement, are insufficient to make all payments with respect to the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Project Lease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal, premium, if any, or interest with respect to the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Project Lease is not an event of default under the Trust Agreement or the Project Lease.

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

## Proposition S and the Limitation of Hotel Tax Receipts

The construction of the original portion of the Leased Property was financed from proceeds of the Redevelopment Agency's Lease Revenue Bonds, Series 1979 (George R. Moscone Center) (the "Series 1979 Bonds"). The Series 1979 Bonds were issued and secured in accordance with Proposition S, a declaration of policy adopted by the qualified electors of the City on November 2, 1976 ("Proposition S"), and Resolution No. 186-77, adopted by the Board of Supervisors of the City on March 14, 1977 ("Resolution No. 186-77"). Proposition S declared it is the policy of the City to construct a convention exhibit hall within the project area known as Yerba Buena Center to be financed with lease revenue bonds the debt service on which would not exceed amounts that would be paid or payable to the City from the 4% Limitation. Resolution No. 186-77 approved in principle the construction of such convention center to be financed by lease revenue bonds. In 1991, the Redevelopment Agency issued its Refunding Lease Revenue Bonds, Series 1991 (George R. Moscone Convention Center) (the "Series 1991 Bonds"), which refunded the Series 1979 Bonds, and were issued and secured under Proposition S and Resolution No. 186-77. The Redevelopment Agency's Lease Revenue Bonds, Series 1994 (George R. Moscone Convention Center) (the "Series 1994 Bonds"), refunded the Series 1991 Bonds and were issued and secured under Proposition S and Resolution No. 186-77. The Redevelopment Agency's Series 2004 Refunded Bonds refunded the Series 1994 Bonds, and were issued and secured under Proposition S and Resolution No. 186-77. A portion of the proceeds of the Series 2011A Certificates will be used to refund the Series 2004 Refunded Bonds. The Series 2011A Certificates will be issued and secured under Proposition S and Resolution No. 186-77.

The 4% Limitation is not pledged as a source of payment for the Series 2011A Certificates, but serves as a measure of rental to be paid by the City relating to the Series 2011A Certificates. The total amount of Base Rental and Additional Rental with respect to the Series 2011A Certificates in any lease year will in no event exceed the amount paid or payable to the City from the 4% Limitation in the preceding fiscal year. Base Rental payments relating to the Series 2011A Certificates are calculated to be at least sufficient to meet debt service requirements on the Series 2011A Certificates for the next succeeding year. Therefore, in the event receipts from the 4% Limitation are insufficient in any year to allow payment of the full Base Rental and Additional Rental relating to the Series 2011A Certificates, the City would be required to draw on amounts available in the Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Base Rental Payment; Additional Rental – Transient Occupancy Tax Limit" and "– Reserve Fund; 2011 Reserve Account" above. So long as the City pays Base Rental relating to the Series 2011A Certificates at the scheduled amount or such lesser amount as the 4% Limitation rate produces, no event of default under the Project Lease will occur with respect to the payment of Base Rental relating to the Series 2011A Certificates.

## Limited Recourse on Default; Re-letting of the Leased Property

The Project Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may, subject to applicable laws regarding use of such property, take possession of and re-let the Leased Property for the account of the City. The amounts received from any such re-letting may be insufficient to pay the scheduled principal and interest represented by the Certificates when due, and the City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2011 Reserve Account to the Reserve Fund Requirement. In addition, the Project Lease provides that no remedies such as re-letting may be exercised so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income taxes. The enforcement of any remedies provided for in the Project Lease and in the Trust Agreement could prove to be both expensive and time consuming.

The Project Lease provides that any remedies on default will be exercised by the Trustee. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental payments when due, or if the City breaches any other terms, covenants or conditions contained in the Project Lease, the Property Lease or in the Trust Agreement (and does not remedy such breach with all reasonable dispatch within 60 days after notice thereof or, if such breach cannot be remedied within such 60-day period, the City fails to take corrective action within such 60-day period and diligently pursue the same to completion), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Certificates then outstanding, will proceed), without any further notice: (i) to re-enter the Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, re-let the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due by pursuing any remedy available in law or in equity. The City owns only a portion of the space and facilities related to the site of Moscone South. See "THE LEASED PROPERTY AND RELATED FACILITIES" herein.

### Enforcement of Remedies

The enforcement of any remedies provided in the Project Lease and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Project Lease and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against municipal corporations in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Project Lease, the Property Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance 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 charter cities and counties in the State. See "CERTAIN RISK FACTORS – Bankruptcy" herein.

### No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the Base Rental payments. Certificate Owners would have to sue for payment of unpaid Base Rental in each rental period as and when it becomes due. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### Release and Substitution of the Leased Property

The Project Lease permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Project Lease – Addition, Release and Substitution." Although the Project Lease requires that the substitute property have an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property or portion thereof being replaced. In addition, such replacement property could be located anywhere within (or outside) the City's boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the Certificates.

## Seismic Risks

The City and the Leased Facility are located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about three miles to the southeast of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant recent seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and environs. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of about magnitude 6.7 or larger will occur in the Bay Area before the year 2038. Such earthquakes may be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost $100 billion of damage. In addition to the potential damage to City-owned buildings and facilities, including the Leased Property (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly longer-term harm to the City's economy, tax receipts, and residential and business real property values.

The Leased Facility is located near the geographic center of the City and is therefore in a seismically active region. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by natural hazard such as earthquake or flood. The City is not obligated under the Project Lease to maintain earthquake insurance on the Leased Property so long as the City's Risk Manager determines that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies, and the City does not expect to obtain earthquake insurance.

## Risk Management and Insurance

The Project Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months Base Rental payments. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Project Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest with respect to the Certificates when due.

The Project Lease allows the City to self-insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as its risk management retention program. The City expects to self insure for all hazards for which the Project Lease permits self-insurance. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

## State Law Limitations on Appropriations

Article XIII B of the State 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 City does not anticipate exceeding its appropriations limit in the foreseeable future. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution."

## Changes in Law

The City cannot provide any assurance that the State Legislature or the City's Board of Supervisors will not enact legislation that will result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, Appendix A: "City and County of San Francisco Organization and Finances – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Articles XIII C and XIII D of the California Constitution" herein. See also Appendix A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

The security for payment of the principal and interest evidenced by the Certificates also may be adversely affected by actions taken (or not taken) by voters. Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the City's Charter, the voters of the City can restrict or revise the powers of the City through the approval of a Charter amendment. The City is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the City.

## Bankruptcy

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

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Certificate Owners and the Trustee could be prohibited from or delayed in taking steps to enforce their rights under the Trust Agreement and the Project Lease and from taking steps to collect amounts due from the City under the Project Lease. In any event, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Certificates.

The Trust Agreement will state that the Trustee has entered into such agreement in its capacity as trustee and not in its individual corporate capacity. Were the Trustee to fail or become insolvent, federal regulatory authorities such as the Federal Deposit Insurance Corporation, the United States Comptroller of the Currency and the Federal Reserve Bank of the United States would have broad authority respecting the assets and liabilities of the Trustee. No opinion will be delivered in connection with the delivery of the Certificates to the effect that the Leased Property or payments by the City under the Project Lease do not constitute property of the Trustee or that the Trust Agreement or the Certificates do not constitute obligations of the Trustee. Were the Trustee to fail or become insolvent, the Project Lease, the Trust Agreement and/or the Certificates could be determined to be assets and/or liabilities of the Trustee. In such event, the holders of the Certificates could suffer a significant delay in payment and/or a loss of some portion or all of their investment.

## State of California Financial Condition

The State has for a number of years experienced, and continues to experience, significant financial and budgetary stress. The City receives a significant portion of its funding from the State. The City's fiscal year 2011-12 Original Budget projects that approximately 14.0% of the City's General Fund revenues will come from State sources.

***Fiscal Year 2011-12 State Budget Act***. On June 30, 2011, the Governor signed the 2011 State Budget Act for Fiscal Year 2011-12 (the "2011-12 State Budget Act") to address a then-projected $26.6 billion deficit through June 30, 2012. After accounting for budgetary actions adopted by the State Legislature, higher than expected revenues and updated expenditure projections, the 2011-12 State Budget Act projects that the State's structural deficit has been reduced to less than $5 billion annually. The 2011-12 State Budget Act estimates fiscal year 2011-12 revenues and transfers of $88.5 billion, total expenditures of $85.9 billion and a year-end surplus of $1.3 billion (net of the negative $1.2 billion prior-year State General Fund balance). The 2011-12 State Budget Act allocates the projected surplus to the reserve for the liquidation of encumbrances ($770 million) and the special fund for economic uncertainties ($543 million).

The 2011-12 State Budget Act authorizes approximately $601.0 million in funding reductions in the areas of higher education, health and human services and public safety, beginning in January 2012, if the State's Director of Finance estimates that the State's revenues for fiscal year 2011-12 will be less than $87,452,500,000, but will be at least $86,452,500,000. If the State's Director of Finance estimates that revenues for fiscal year 2011-12 will be less than $86,452,500,000, the 2011-12 State Budget Act authorizes an additional $1.86 billion in education reductions. The State's Director of Finance will make a determination whether the State's revenues meet or exceed such levels by December 15, 2011.

Certain of the features of the 2011-12 State Budget Act that could affect the City include the following:

- The 2011-12 State Budget Act funds the Governor's realignment proposal set forth in the proposed State budget for fiscal year 2011-12 (the "2011-12 Proposed State Budget") and the May Revision to the 2011-12 Proposed State Budget. The 2011-12 State Budget Act funds realignment by dedicating 1.0625 cents of the existing sales tax rate to generate a projected $5.1 billion for the 2011 Local Revenue Fund and by redirecting Vehicle License Fee ("VLF") revenues to generate $453.4 million. The Local Revenue Fund is expected to include accounts for Trial Court Security, Local Community Corrections, Local Law Enforcement Services, Mental Health, District Attorney and Public Defender, Juvenile Justice, and Health and Human Services, and a Reserve Account. The 2011-12 State Budget Act estimates $300 million in VLF revenues will be shifted from departmental support costs to local public safety programs.

- The 2011-12 State Budget Act provides $98.6 million from the Mental Health Services Fund to county mental health services on a one-time basis for mental health services to special education students. On-going responsibility for these services, including out-of-home residential services, is realigned to school districts. The Governor has stated that schools districts may contract with counties to provide services using Proposition 63 funds, but school districts would be responsible for any costs exceeding this amount.

- In connection with the Governor's realignment proposal, the State advanced funds to counties for administration and grants for certain health and human services programs expected to be realigned as of July 1, 2011. The 2011-12 State Budget Act authorizes the State to repay itself for such July 2011 advances with payments from the realignment fund.

- The 2011-12 State Budget Act realigns public safety to require local supervision of certain low-level offenders. The 2011-12 State Budget Act establishes a Community Corrections Grant Program in order to reduce overcrowding in State prisons. Pursuant to the 2011-12 State Budget Act certain lower-level offenders will begin to be sentenced, housed, supervised and treated locally. Such lower-level offenders will be supervised by local law enforcement upon release from State prison. The 2011-12 State Budget Act authorizes counties to contract with public community correctional facilities to house county jail inmates.

- In connection with the Governor's realignment plan, the 2011-12 State Budget Act approves a Voluntary Alternative Redevelopment Program ("VARP"), pursuant to which redevelopment agencies may continue operating provided that their respective establishing cities or counties agree to provide $1.7 billion in payments to K-12 schools. If the establishing cities or counties do not agree to make payments to K-12 schools, the related redevelopment agency will be required to cease operations pursuant to Assembly Bill X1 26 and any property tax revenues that remain after payment of such redevelopment agency's outstanding debt service obligations and allowable administrative costs will be distributed to cities, counties, special districts, and K-14 schools.

The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – City Budget – Adopted Fiscal Year 2011-12 Budget" and "– Impact of State Budget on City Budget."

## U.S. Government Finances

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. On August 5, 2011, Standard & Poor's Ratings Service downgraded the long-term sovereign credit rating on the United States of America from "AAA" to "AA+." The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending. See APPENDIX A – " CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Other City Revenue Sources" and "– Investment of City Funds."

## Taxability Risk

As discussed herein under the caption "TAX MATTERS," interest with respect to the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were executed and delivered as a result of future acts or omissions of the City in violation of its covenants contained in the Trust Agreement or the Project Lease. There is no provision in the Certificates, the Trust Agreement or the Project Lease for special prepayment or acceleration or for the payment of additional interest should such an event of taxability occur, and the Certificates would remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Trust Agreement.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Certificates are outstanding or that any such changes will not adversely affect the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes. If the exclusion of interest with respect to the Certificates from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Certificates would be adversely impacted.

## Other

There may be other risk factors inherent in ownership of the Certificates in addition to those described in this section.

# TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation and Rosales Law Partners LLP, Co-Special Counsel to the City, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Certificates. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Certificates under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Certificate premium is not deductible for federal income tax purposes. Owners of premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

In the further opinion of Co-Special Counsel, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Certificates other than as expressly described above.

## OTHER LEGAL MATTERS

The validity of the Certificates and certain other legal matters are addressed in the approving opinions of Jones Hall, A Professional Law Corporation, San Francisco, California, and Rosales Law Partners LLP, San Francisco, California, Co-Special Counsel. Complete copies of the proposed forms of Co-Special Counsel opinions are contained in Appendix F hereto, and will be made available to the initial purchasers of the Certificates at the time of the original delivery of the Certificates. Neither Co-Special Counsel nor Disclosure Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel.

Hawkins Delafield & Wood LLP, San Francisco, California has served as disclosure counsel to the City and in such capacity has advised the City with respect to applicable securities laws and participated with responsible Commission and City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the delivery of the Certificates, Disclosure Counsel will deliver a letter to the City which advises the City, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of the attorneys at such firm rendering legal services in connection with such firm's role as disclosure counsel which caused them to believe that this Official Statement as of its date and as of the date of delivery of the Certificates contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Certificates, or other person or party other than the City, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the City.

## PROFESSIONALS INVOLVED IN THE OFFERING

Public Financial Management, Inc. and Backstrom McCarley Berry & Co. LLC have served as Co-Financial Advisors to the City with respect to the sale of the Certificates. The Co-Financial Advisors have assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, and sale of the Certificates. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors, Co-Special Counsel and Disclosure Counsel will all receive compensation from the City contingent upon the sale and delivery of the Certificates.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") 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 fiscal year 2010-11, which is due not later than March 27, 2012, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchasers of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

The City may, from time to time, but is not obligated to, post its Comprehensive Annual Financial Report and other financial information on the City Controller's web site at www.sfgov.org/controller.

## ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Certificates, the Trust Agreement, the Property Lease, the Project Lease, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Certificates and other documents and certificates in connection therewith. The City will furnish to the initial purchasers of the Certificates a certificate of the City as to the foregoing as of the time of the original delivery of the Certificates.

## RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P"), and Fitch Ratings ("Fitch"), have assigned municipal bond ratings of "Aa3," "AA-" and "A+," respectively, to the Certificates. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Certificates. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moodys.com; S&P, at www.sandp.com; and Fitch, at www.fitchratings.com. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Certificates. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

## SALE OF THE CERTIFICATES

The Certificates were sold at competitive bid on November 2, 2011. The Certificates were awarded to U.S. Bancorp Investments, Inc. (the "Purchaser"), who submitted the lowest true interest cost bid, at a purchase price of $96,405,796.15. Under the terms of its bid, the Purchaser will be obligated to purchase all of the Certificates if any are purchased; the obligation to make such purchase is subject to the approval of certain legal matters by Co-Special Counsel and certain other conditions to be satisfied by the City.

The Purchaser has certified the reoffering prices or yields for the Certificates set forth on the inside cover of this Official Statement, and the City takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Certificates is $10,304,798.90, and the Purchaser's gross compensation (or "spread") is $379,002.75. The Purchaser may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Purchaser.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon the delivery of the Certificates, Causey Demgen & Moore, Inc. will deliver a report stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of funds deposited with the Escrow Agent to pay, when due, the principal or redemption price and interest on the Refunded Bonds on the Redemption Date.

*[Remainder of Page Intentionally Left Blank]*

## MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the Purchasers or Owners and beneficial owners of any of the Certificates.

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The preparation and distribution of this Official Statement have been duly authorized by the Board of Supervisors of the City.

**CITY AND COUNTY OF SAN FRANCISCO**

By: /s/ Benjamin Rosenfield
Controller

## APPENDIX A

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

**This Appendix contains information that is current as of September 12, 2011.**

This Appendix A to the Official Statement of the City and County of San Francisco (the "City" or "San Francisco") covers general information about the City's governance structure, budget processes, property taxation system and other tax and revenue sources, City expenditures, labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in 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 information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A. The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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## CITY GOVERNMENT AND ORGANIZATION

### City Charter

San Francisco is governed as 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"), and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally 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. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, the voters of the City approved the current charter, which went into effect in most respects on July 1, 1996 (the "Charter").

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (the "Board of Supervisors"), and a Mayor elected at large who serves as chief executive officer (the "Mayor"). Members of the Board of Supervisors and the Mayor each serve a four-year term. 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 the 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 and Tax Collector, Sheriff, and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. The Charter provides a civil service system for most City employees. School functions are carried out by the San Francisco Unified School District (grades K-12) ("SFUSD") and the San Francisco Community College District (post-secondary) ("SFCCD"). Each is a separate legal entity with a separately elected governing board.

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. In 1927, the City dedicated Mill's Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today's San Francisco International Airport (the "Airport"). 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 original acquisition. The Airport, the Port, the Public Utilities Commission ("Public Utilities Commission") (which now includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency ("MTA") (which operates the San Francisco Municipal Railway or "Muni" and the Department of Parking and Traffic ("DPT"), including the Parking Authority and its five public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the "enterprise fund departments," as they are not integrated into the City's General Fund operating budget. However, certain of the enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital and the MTA receive significant General Fund transfers on an annual basis.

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. Compared to the governance of the City prior to 1995, the Charter concentrates relatively more power in the Mayor and Board of Supervisors. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission, and may remove department heads.

### Mayor and Board of Supervisors

Edwin M. Lee is the 43$^{rd}$ and current Mayor of the City. The Mayor is the chief executive officer of the City, with responsibility for general administration and oversight of all departments in the executive branch of the City. Mayor Lee was appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom's term when Mayor Newsom was sworn in as the State's Lieutenant Governor. Prior to his appointment, Mayor Lee served as the City Administrator from 2005 up until his appointment to Mayor. He also was the City's

Director of Public Works. Mayor Lee previously worked as the City's Director of Purchasing and as the Director of the Human Rights Commission. Mayor Lee has also served as the Deputy Director of the Employee Relations Division and coordinator for the Mayor's Family Policy Task Force.

Table A-1 lists the current members of the Board of Supervisors.

*TABLE A-1*

**CITY AND COUNTY OF SAN FRANCISCO**
**Board of Supervisors**

| Name | First Elected or Appointed | Current Term Expires |
|---|---|---|
| David Chiu, *Board President, District 3* | 2008 | 2013 |
| Mark Farrell, *District 2* | 2010 | 2015 |
| John Avalos, *District 11* | 2008 | 2013 |
| David Campos, *District 9* | 2008 | 2013 |
| Carmen Chu, *District 4* | 2007 | 2015 |
| Jane Kim, *District 6* | 2010 | 2015 |
| Scot Wiener, *District 8* | 2010 | 2015 |
| Sean Elsbernd, *District 7* | 2004 | 2013 |
| Eric Mar, *District 1* | 2008 | 2013 |
| Malia Cohen, *District 10* | 2010 | 2015 |
| Ross Mirkarimi, *District 5* | 2004 | 2013 |

**Other Elected and Appointed City Officers**

Dennis J. Herrera was re-elected to his third four-year term as City Attorney in November 2009. The City Attorney represents the City in legal proceedings in which the City has an interest. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been 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.

Philip Y. Ting was elected to a four-year term as Assessor-Recorder of the City on November 7, 2006. The Assessor-Recorder administers the property tax assessment system of the City. Mr. Ting was first elected Assessor-Recorder at a special election held on November 8, 2005, after being appointed by then-Mayor Newsom in July 2005, upon the mid-term resignation of his predecessor. 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.

José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2009. The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom. Prior to being appointed Treasurer, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the MTA.

Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008, and was confirmed by the Board of Supervisors in accordance with the Charter. The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and as the Auditor for the City, directs performance and financial audits of City activities. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under former City Administrator Edwin Lee from 2005 to 2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a number of internal service offices under the City Administrator, and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

In his last act as City Administrator, Mayor Lee appointed Amy L. Brown as Acting City Administrator on January 11, 2011. The City Administrator bears responsibility for administrative services within the executive branch as assigned by the Mayor, and for administering policies and procedures regarding City bonds and contracts. Ms. Brown previously served as a Deputy City Administrator since 2008 and as Director of Real Estate since 2006, reporting to then City Administrator Edwin Lee where she assisted in overseeing the City's General Services Agency, an agency headed by the City Administrator, consisting of 20 departments, divisions, offices and programs, with a budget of $239 million and 656 full-time employees. From 1999 to 2006, Ms. Brown was a Deputy City Attorney.

## CITY BUDGET

### Overview

This section discusses the City's budget procedures, while following sections of this Appendix A describe the City's various sources of revenues and expenditure obligations.

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. The City's fiscal year 2011-12 adopted budget appropriated annual revenues, fund balance, transfers, and reserves of approximately $6.83 billion, of which the City's General Fund accounted for approximately $3.26 billion. For a further discussion of the fiscal year 2011-12 adopted budget, see "CITY BUDGET – Adopted Fiscal Year 2011-12 Budget" herein. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. Revenues consist largely of local property taxes, business taxes, sales taxes, other local taxes, and charges for services. A significant portion of the City's revenues comes in the form of intergovernmental transfers from the State and federal governments. Thus the City's fiscal well-being depends on the health of the local real estate market, the local business and tourist economy, and on budgetary decisions made by the State and federal governments which depend, in turn, on the health of the larger State and national economies. All of these factors are almost wholly outside the control of the Mayor, the Board of Supervisors, and other City officials. In addition, the State Constitution strictly limits the City's ability to raise taxes and property-based fees without a two-thirds popular vote. Also, the City's annual budget must be adopted before the State and federal budgets, which adds uncertainty to the budget process, and necessitates flexibility so that spending decisions can be adjusted during the course of the fiscal year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

### Budget Process

The City's fiscal year commences on July 1. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from 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. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit the complete budget, including all departments, to the Board of Supervisors.

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide 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's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City Controller's current

Revenue Letter can be viewed online at www.sfgov.org/controller. The Revenue Letter and other information from the said website are not incorporated herein by reference. The City's Capital Planning Committee also reviews the proposed budget and provides recommendations based on the budget's 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 FINANCING AND BONDS – Capital Plan" herein.

The City is required by the Charter to adopt a budget which is balanced in each fund. 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 in each fund is not greater than the total budgeted appropriation amount for such fund submitted by the Mayor. The Board of Supervisors must approve the budget by adoption of the Annual Appropriation Ordinance (also referred to herein as the "Original Budget") by no later than August 1 of each year.

The Annual Appropriation Ordinance becomes effective with or without the Mayor's signature after ten days; however, the Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any Annual Appropriation 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.

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 revenue and expenditure appropriations for that fiscal year.

**November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle**

On November 3, 2009, voters approved Proposition A amending the Charter to make changes to the City's budget and financial processes which are intended to stabilize spending by requiring multi-year budgeting and financial planning.

Proposition A requires three significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Two-year budgets have been prepared for the following four pilot departments in fiscal year 2010-11: the Airport, the Port, the Public Utilities Commission, and MTA. MTA already implemented a two-year budgeting process as a result of the passage of a previous measure, also known as Proposition A, in November 2007. Two-year budgets will be prepared for all departments beginning with fiscal year 2012-13.

- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The first five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was adopted by the Board of Supervisors on June 7, 2011. See "Five Year Financial Plan" below.

- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt, and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year. On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. These policies are described in further detail under "Budgetary Reserves and Economic Stabilization" below. The Controller's Office will propose additional financial policies by October 1, 2011.

**Role of Controller; Budgetary Analysis and Projections**

As Chief Fiscal Officer and City Services Auditor, the City Controller monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds. Under the Charter, 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 to meet such obligation as it becomes due in the then-current fiscal year, which ends June 30. 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 appropriations 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 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 three-month, six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The City Controller issued the most recent of these reports, the fiscal year 2010-11 Nine-Month Report, on May 10, 2011. The City Controller, jointly with the Mayor's Budget Director and the Board of Supervisors' Budget Analyst, also publishes an annual three-year revenue and expenditure projection report, which provides a review of all major General Fund revenue and expenditure assumptions for the upcoming three fiscal years. See "Three-Year Budget Projection Report" below. In addition, under Proposition A of November 2009, the Mayor must submit a Five-Year Financial Plan to the Board of Supervisors which forecasts revenues and expenditures for the next five fiscal years and propose actions to balance them. The Board of Supervisors approved the City's first Five-Year Financial Plan on June 7, 2011. See "Five-Year Financial Plan" below. The reports are available from the City Controller's website: www.sfgov.org/controller. The information from the said website is not incorporated herein by reference.

**General Fund Results; Audited Financial Statements**

The General Fund portion of the fiscal year 2011-12 Original Budget totaled $3.26 billion in revenues. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port, and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2007-08 through 2009-10 and the Original Budget for fiscal years 2010-11 and 2011-12. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2009-10 was issued on January 28, 2011. The fiscal year 2009-10 CAFR reported that the audited General Fund balance unreserved and available for appropriation as of June 30, 2010 was $105.3 million, which was $25.4 million more than the $79.9 million assumed in the fiscal year 2010-11 Original Budget (see Table A-4). This $25.4 million resulted primarily from savings and greater-than-budgeted additional tax revenue, particularly property tax revenue, in fiscal year 2009-10. In addition to this available year-end General Fund balance, the City's Rainy Day Reserve Economic Stabilization Account totaled $39.6 million.

*TABLE A-2*

**CITY AND COUNTY OF SAN FRANCISCO**
**Budgeted General Fund Revenues and Appropriations for**
**Fiscal Years 2007-08 through 2011-12**
**(000s)**

| | FY 2007-08 Final Revised Budget | FY 2008-09 Final Revised Budget | FY 2009-10 Final Revised Budget | FY 2010-11 Original Budget[2][3] | FY 2011-12 Original Budget[2][3] |
|---|---|---|---|---|---|
| Prior-Year Budgetary Fund Balance & Reserves | $563,435 | $461,193 | $390,512 | $99,552 | $172,142 |
| Budgeted Revenues | | | | | |
| Property Taxes | $934,720 | $1,018,877 | $1,021,015 | $984,843 | $1,028,677 |
| Business Taxes | 359,718 | 394,556 | 371,848 | 342,350 | 389,878 |
| Other Local Taxes | 534,420 | 552,977 | 456,140 | 528,470 | 602,255 |
| Licenses, Permits and Franchises | 22,076 | 25,041 | 25,138 | 23,242 | 24,337 |
| Fines, Forfeitures and Penalties | 6,496 | 6,060 | 11,662 | 3,794 | 7,710 |
| Interest and Investment Earnings | 35,519 | 23,041 | 10,984 | 9,540 | 6,050 |
| Rents and Concessions | 19,805 | 21,107 | 19,884 | 22,346 | 22,895 |
| Grants and Subventions | 713,294 | 706,953 | 686,058 | 671,537 | 678,378 |
| Charges for Services | 137,103 | 150,839 | 146,680 | 146,081 | 153,546 |
| Other | 9,306 | 11,641 | 21,713 | 20,677 | 18,254 |
| Total Budgeted Revenues | $2,772,457 | $2,911,093 | $2,771,122 | $2,752,880 | $2,931,980 |
| Bond Proceeds & Repayment of Loans | 1,278 | 2,579 | 1,725 | 785 | 588 |
| Expenditure Appropriations | | | | | |
| Public Protection | $883,539 | $911,533 | $954,816 | $947,327 | $998,237 |
| Public Works, Transportation & Commerce | 72,033 | 68,967 | 44,276 | 26,989 | 51,588 |
| Human Welfare & Neighborhood Development | 647,787 | 653,694 | 657,274 | 655,026 | 672,834 |
| Community Health | 458,462 | 501,700 | 481,805 | 519,319 | 575,446 |
| Culture and Recreation | 102,254 | 96,776 | 93,755 | 97,510 | 100,740 |
| General Administration & Finance [1] | 213,433 | 195,192 | 174,907 | 169,526 | 199,011 |
| General City Responsibilities | 77,172 | 79,097 | 96,336 | 103,128 | 110,725 |
| Total Expenditure Appropriations | $2,454,680 | $2,506,959 | $2,503,169 | $2,518,825 | $2,708,581 |
| Budgetary reserves and designations, net | $20,013 | $28,028 | $16,653 | $25,000 | $25,000 |
| Transfers In | $68,847 | $133,771 | $94,678 | $114,157 | $157,199 |
| Transfers Out | (541,853) | (549,757) | (564,945) | (423,550) | (528,328) |
| Net Transfers In/Out | ($473,006) | ($415,986) | ($470,267) | ($309,393) | ($371,129) |
| Budgeted Excess (Deficiency) of Sources Over (Under) Uses | $389,471 | $423,892 | $173,270 | $0 | $0 |
| Variance of Actual vs. Budget | 71,722 | (33,379) | 138,770 | | |
| Total Actual Budgetary Fund Balance | $461,193 | $390,512 | $312,040 | $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 for the time periods shown.

[2] FY 2010-11 and FY 2011-12 Final Revised Budget available upon release of the FY 2010-11 and FY 2011-12 CAFR.

[3] FY 2010-11 and FY 2011-12 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget. Total Actual Budgetary Fund Balance available upon release of the FY 2010-11 and FY 2011-12 Final Revised Budget in the CAFR.

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, 2010 was $191.8 million (as shown in Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of $2.8 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2006 through June 30, 2010.

*TABLE A-3*

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

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Reserved for rainy day (Economic Stabilization account) | $97,910 | $117,556 | $117,556 | $98,297 | $39,582 |
| Reserved for rainy day (One-time Spending account) | 24,066 | 16,066 | 236 | - | - |
| Reserved for encumbrances | 38,159 | 60,948 | 63,068 | 65,902 | 69,562 |
| Reserved for appropriation carryforward | 124,009 | 161,128 | 99,959 | 91,075 | 60,935 |
| Reserved for subsequent years' budgets | | | | | |
| Reserved for baseline appropriation funding mandates | 5,232 | 2,891 | 1,491 | - | - |
| Reserved for budget savings incentive program (citywide) | 2,628 | 10,540 | 16,181 | - | - |
| Reserved for budget savings incentive program (Recreation & Park) | 3,366 | - | 3,266 | 6,575 | 4,677 |
| Reserved for salaries and benefits (MOU) | 13,349 | 11,806 | 12,777 | 316 | 4,198 |
| Reserved for litigation | 2,877 | 6,824 | 2,626 | - | - |
| Total Reserved Fund Balance | $311,596 | $387,759 | $317,160 | $262,165 | $178,954 |
| Unreserved - designated for litigation & contingency | $20,823 | $43,794 | $38,969 | $32,900 | $27,758 |
| Unreserved - available for appropriation | 145,582 | 131,882 | 105,064 | 95,447 | 105,328 |
| Total Unreserved Fund Balance | $166,405 | $175,676 | $144,033 | $128,347 | $133,086 |
| Total Fund Balance, Budget Basis | $478,001 | $563,435 | $461,193 | $390,512 | $312,040 |
| Budget Basis to GAAP Basis Reconciliation | | | | | |
| Total Fund Balance - Budget Basis | $478,001 | $563,435 | $461,193 | $390,512 | $312,040 |
| Unrealized gain or loss on investments | (562) | (376) | (2,629) | (1,148) | 1,851 |
| Reserved for Assets Not Available for Appropriation | 10,710 | 12,665 | 11,358 | 11,307 | 14,874 |
| Cumulative Excess Property Tax Revenues Recognized on Budget Basis | (23,806) | (30,940) | (34,629) | (56,426) | (71,967) |
| Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis | - | - | (26,071) | (37,940) | (55,938) |
| Deferred Amounts on Loan Receivables | (3,067) | (3,323) | (3,587) | (4,630) | (9,082) |
| Total Fund Balance, GAAP Basis | $461,276 | $541,461 | $405,635 | $301,675 | $191,778 |

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

Table A-4, 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 years. Audited financial statements for the fiscal year ended June 30, 2010 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2010." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this statement of General Fund revenues and expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

*TABLE A-4*

**CITY AND COUNTY OF SAN FRANCISCO**

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

**Fiscal Year Ended June 30**

**Audited**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Property Taxes | $783,303 | $887,690 | $939,812 | $999,528 | $1,044,740 |
| Business Taxes | 322,407 | 336,757 | 394,267 | 387,313 | 353,471 |
| Other Local Taxes | 480,501 | 540,695 | 519,867 | 479,194 | 520,733 |
| Licenses, Permits and Franchises | 20,825 | 19,639 | 23,212 | 24,750 | 24,249 |
| Fines, Forfeitures and Penalties | 10,195 | 4,720 | 8,398 | 5,618 | 17,279 |
| Interest and Investment Income | 22,496 | 30,089 | 15,779 | 9,193 | 7,900 |
| Rents and Concessions | 20,007 | 18,449 | 19,490 | 19,096 | 18,733 |
| Intergovernmental | 672,635 | 663,321 | 649,923 | 645,365 | 651,074 |
| Charges for Services | 126,433 | 125,682 | 135,473 | 135,926 | 138,615 |
| Other | 15,037 | 21,697 | 17,948 | 11,199 | 21,856 |
| Total Revenues | $2,473,839 | $2,648,739 | $2,724,169 | $2,717,182 | $2,798,650 |
| Expenditures: | | | | | |
| Public Protection | $739,470 | $800,383 | $881,009 | $889,594 | $948,772 |
| Public Works, Transportation & Commerce | 46,448 | 65,184 | 69,944 | 61,812 | 40,225 |
| Human Welfare and Neighborhood Development | 524,516 | 568,241 | 613,135 | 630,112 | 632,713 |
| Community Health | 377,226 | 410,169 | 454,935 | 487,638 | 473,280 |
| Culture and Recreation | 80,516 | 93,992 | 105,036 | 97,415 | 94,895 |
| General Administration & Finance | 146,567 | 166,673 | 196,430 | 170,109 | 169,980 |
| General City Responsibilities | 53,065 | 56,834 | 71,885 | 73,904 | 87,267 |
| Total Expenditures | $1,967,808 | $2,161,476 | $2,392,374 | $2,410,584 | $2,447,132 |
| Excess of Revenues over Expenditures | $506,031 | $487,263 | $331,795 | $306,598 | $351,518 |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | $62,431 | $71,277 | $70,969 | $136,195 | $94,115 |
| Transfers Out | (420,086) | (486,600) | (543,640) | (550,910) | (559,263) |
| Other Financing Sources | 5,220 | 8,245 | 5,050 | 4,157 | 3,733 |
| Other Financing Uses | - | - | - | - | - |
| Total Other Financing Sources (Uses) | ($352,435) | ($407,078) | ($467,621) | ($410,558) | ($461,415) |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | $153,596 | $80,185 | ($135,826) | ($103,960) | ($109,897) |
| Total Fund Balance at Beginning of Year | 307,680 | 461,276 | $541,461 | 405,635 | $301,675 |
| Total Fund Balance at End of Year -- GAAP Basis [1] | $461,276 | $541,461 | $405,635 | $301,675 | $191,778 |
| Unreserved & Undesignated Balance, Year End | | | | | |
| -- GAAP Basis | $138,971 | $141,037 | $77,117 | $28,203 | ($2,050) |
| -- Budget Basis | $145,582 | $131,882 | $105,064 | $95,447 | $105,328 |

[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).

Sources: Comprehensive Annual Financial Report. 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 revenue and expenditure projection report assuming status quo operations (the "Joint Report"). This summary includes a review of all major revenue and expenditure assumptions affecting the upcoming three fiscal years for the City's General Fund-supported operations, including the City's two hospitals, San Francisco General and Laguna Honda. The City's 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 April 11, 2011 and covered the projection period of fiscal years 2011-12 through 2013-14. The Joint Report projected a shortfall of $306 million for fiscal year 2011-12, followed by a shortfall of $480 million for fiscal year 2012-13, and a shortfall of $642 million for fiscal year 2013-14. The City Charter requires that the City adopt a balanced budget at the beginning of each fiscal year. See "CITY BUDGET – Budget Process." The projections in the Joint Report assume no changes to current policies and staffing levels, and therefore assume that deficits accumulate cumulatively over the projected period. Stated differently, the projections assume no ongoing solutions are implemented to balance the budgets. To the extent budgets are balanced with ongoing solutions, the shortfalls as projected would decrease.

Key expenditure factors affecting the fiscal year 2011-12 shortfall noted in the Joint Report include the following projected increases compared to fiscal year 2010-11 budgeted levels: $60 million in employer retirement contributions, $7.4 million in health benefits for active employees and $9.1 million in health benefits for retired employees. Inflation adjustments in materials, supplies and contracts were projected to add $17.7 million, voter-mandated revenue allocations were projected to grow $18.2 million, and capital and equipment costs were projected to grow $54.4 million. Net departmental consumer price index adjustments in materials, supplies and contracts were projected to add $19.4 million and other citywide operating budget costs were projected to increase a further $25.3 million. Departmental costs were expected to rise $114.3 million due to the expiration of a convention facilities subsidy, additional election-related costs, and approximately $51 million in net hospital expenditure and revenue changes. General Fund revenues are projected to grow $105.0 million, offset by the anticipated loss of $47.1 million in federal stimulus funds and a $20.5 million reduction in public health and human service revenues. The Joint Report provides projections of revenues and expenditures of "General Fund Supported" City operations, which operations differ in certain respects from the City operations reflected in the budget and financial statements for the General Fund. The Joint Report contains a number of economic, political and other assumptions which, if not realized, would affect the actual budgetary shortfalls for the three-fiscal year projection period. The latest Joint Report is posted on the City Controller's website at www.sfgov.org/controller. (The Joint Report is not incorporated by reference herein.)

## Five Year Financial Plan

The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the plan to forecast expenditures and revenues for the next five-fiscal years, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The first Five-Year Financial Plan, covering fiscal years 2011-12 through 2015-16, was prepared by the Mayor's Office and Controller's Office in collaboration with City departments and adopted by the Board of Supervisors on June 7, 2011.

Over the next five years, the City projected continued recovery in tax revenues, most of which bottomed out in fiscal year 2008-09 or fiscal year 2009-10 and are projected to return to pre-recessionary levels in fiscal year 2012-13 or later. Despite the fall-off and slow recovery, San Francisco's current budget and financial status is relatively stable compared to many municipalities in California and to other parts of the United States. However, the cost of City services is projected to steadily outpace revenue growth during the five-year period. If the City does not take corrective action, the gap between revenues and expenditures will rise from $283 million to approximately $829 million from fiscal year 2011-12 to fiscal year 2015-16.

Employee pension costs, wages and other benefit growth are the single largest driver of cost growth and the imbalance between revenues and expenditures, growing by $648 million, or 32%, during the five years of the plan. Benefit costs alone are projected to grow 62% by fiscal year 2015-16. In contrast, total General Fund revenues are projected to grow only $416 million over the same period, or 11%. Other costs projected to increase include: Professional & Contractual Services ($127 million, 19%); Aid Assistance and Grants ($56 million, 13%); Materials and Supplies ($49 million, 43%); and Capital and Debt Service ($100 million, 157%).

If the City takes proactive action to address the imbalance between revenues and expenditures, it can restore stability to its finances over the next five years and prepare for future economic downturns. The plan proposes the following strategies to restore fiscal stability: controlling capital spending and debt restructuring; controlling wage and benefit costs; additional tax and fee revenues; adjustments to baselines and revenue allocations; limiting growth in contract and materials costs; reduced reliance on non-recurring revenues and savings; and ongoing departmental revenues and savings initiatives.

**Adopted Fiscal Year 2011-12 Budget**

On July 26, 2011, the Board of Supervisors adopted and Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for fiscal year ending June 30, 2012 and fiscal year ending June 30, 2013. The fiscal year 2011-12 Original Budget is $6.83 billion, an increase of $270 million from the fiscal year 2010-11 Original Budget of $6.56 billion. The General Fund portion of the fiscal year 2011-12 Original Budget is $3.26 billion, an increase of $290 million from the fiscal year 2010-11 Original Budget of $2.97 billion. Funded positions in the fiscal year 2011-12 Original Budget total 26,182 positions, an increase of 74 from the fiscal year 2010-11 Original Budget.

The $306 million General Fund shortfall projected by the Joint Report for fiscal year 2011-12 was closed through a combination of expenditure savings and revenue increases, including $56 million in fiscal year 2010-11 savings and revenue improvements. Expenditure savings included $35 million in capital budget reductions, $19 million from debt service restructuring, $18 million from reductions to professional services contracts and eliminating inflationary increases assumed in the Joint Report for materials, supplies, contracts, and other items, $15 million from reducing transfers to SFUSD, and $106 million in departmental savings. General Fund revenues improved $32 million, offset by $10 million in baseline funding increases, and State funding reductions to specific programs totaled $9 million, offset by a reduction of $15 million in the City's assumption of unallocated State funding cuts, from $30 million to $15 million. A variety of smaller revenue and expenditure solutions provided the final $29 million needed to close the shortfall.

On May 10, 2011, the Controller's Office issued a Nine-Month General Fund Status report (the "Nine-Month Report") which projected the General Fund would end fiscal year 2010-11 with a fund balance of $136.0 million. This represents a $46.9 million improvement from the Six-Month General Fund Status report issued on February 9, 2011. The fund balance projection included an increase of $61.6 million in citywide revenues, offset by $6.4 million in required baseline revenue transfers, $4.1 million in use of the General Fund reserve, and $4.2 million in net departmental revenue and expenditure shortfalls. The general revenue improvements were driven primarily by a significant increase in property transfer tax revenues, as well as payroll tax and parking receipts and allocations of state sales tax that were higher than budgeted levels.

**Impact of State Budget on City Budget**

The State is slowly recovering from a severe economic recession. Revenues from the State represent approximately 14% of the General Fund revenues set forth in the fiscal year 2011-12 Original Budget, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

California Governor Brown signed the State's fiscal year 2011-12 budget on June 30, 2011. This budget contained two major initiatives with far-reaching implications for the City: public safety realignment of lower level offenders and parolees from State jurisdiction to counties, and a major transfer of funds from redevelopment agencies to school funding accounts (or elimination of those redevelopment agencies where sponsoring jurisdictions do not make the transfers). In addition, if State revenues come short of optimistic expectations in the State budget, the budget provides for "trigger" cuts which would primarily impact educational institutions, but also include potential human services program reductions, most notably a potential 20% reduction to in-home support services hours for the City Human Service Agency's elderly and disabled clients. In addition, State reductions to Medi-Cal reimbursement rates may reduce Laguna Honda Hospital's budgeted revenues by as much as $15 million.

As part of the first phase of public safety realignment in the State's fiscal year 2011-12 budget, starting in October 2011, the City expects to receive an increased caseload of approximately 700 additional offenders who will need to be supervised in County jails, in alternatives to incarceration, or on probation, for which the City expects to receive approximately $5.8 million in additional State funding in fiscal year 2011-12. The City's fiscal year 2011-12 Original Budget includes $4.8 million in additional local funding to help implement the transition. An implementation planning group comprised of local public safety departments and the Department of Public Health has been developing a comprehensive plan for how to serve this new population.

With respect to the State budget legislation regarding redevelopment, the Board of Supervisors has passed a resolution expressing the intent to find funds to make any required payments to the State to maintain the San Francisco Redevelopment Agency ("SFRA"). The City has appealed the State's calculated requirement of a $24.4 million payment in fiscal year 2011-12, arguing that the amount should instead be calculated at $20.4 million. The City is working with the SFRA to develop alternative sources of financing for either payment amount. Meanwhile, the California Redevelopment Association has filed suit claiming that the actions by the State to eliminate Redevelopment Agencies or require supplemental payments are unconstitutional. The State Supreme Court has agreed to hear the lawsuit directly and make a decision by January 2012.

The General Fund portion of the City's fiscal year 2011-12 Original Budget contains a $15 million General Fund allowance for potential future State cuts to City programs, and a separate $2.9 million reserve in the City's Children's Fund, which is available to offset potential State cuts to childcare programs.

**Budgetary Reserves and Economic Stabilization**

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the City's 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 has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be 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. The City has not issued tax and revenue anticipation notes to finance short-term cash flow needs since fiscal year 1996-97. See "INVESTMENT OF CITY FUNDS – Investment Policy" herein.

Additionally, in November 2003, City 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 into the following two accounts within the Rainy Day Reserve and for other lawful governmental purposes.

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

Deposits to the Rainy Day Reserve's Economic Stabilization account are 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. Moneys in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years when 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). Moneys in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Except for the transfer to SFUSD described below, no draw from the Rainy Day Reserve is budgeted in fiscal year 2011-12.

If the City Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Rainy Day Economic Stabilization account to the SFUSD. This appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. In fiscal year 2011-12, $8.4 million was appropriated to be transferred to the SFUSD to partially offset SFUSD's planned layoffs and declining per-pupil revenues.

On April 13, 2010, the Board of Supervisors unanimously approved the City Controller's proposed financial policies on reserves and the use of certain volatile revenues. The policies were approved by the Mayor on April 30, 2010, and can only be suspended for a given fiscal year by a two-thirds vote of the Board.

Specifically, the proposed financial policies (1) codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process and (2) created a new Budget Stabilization Reserve to help the City mitigate the impact of multi-year revenue downturns. Under the new General Reserve policy, the reserve will equal $25 million in fiscal year 2011-12, in line with the City's practice in recent years, and will increase to 2% of General Fund revenues by fiscal year 2016-17 ($59 million at currently budgeted levels). The new Budget Stabilization Reserve will augment the existing Rainy Day Reserve and will be funded through the dedication of 75% of certain volatile revenues to the new reserve, including Real Property Transfer Tax receipts in excess of the five-year annual average (controlling for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve; however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn. In the second year, the maximum withdrawal is 50%, and in the third year, the entire remaining balance may be drawn. Had the proposed policy been in place at the same time the Rainy Day Reserve went into effect (fiscal year 2003-04), approximately $210 million would have been deposited into the Budget Stabilization Reserve.

## PROPERTY TAXATION

### Property Taxation System - General

The City receives approximately one-third of its total General Fund operating revenues from local property taxes. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. The City levies property taxes for general operating purposes as well as for the payment of voter-approved bonds. As a county under State law, the City also levies property taxes on behalf of all local agencies with overlapping jurisdiction within the boundaries of the City.

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. The City Controller compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay City bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by resolution adopted no later than September 1. The Treasurer and Tax Collector prepares and mails tax bills to taxpayers and collects the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See "– Taxation of State-Assessed Utility Property" below.

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

Table A-5 provides a recent 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, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. The total tax rate shown in Table A-5 includes taxes assessed on behalf of the City as well as SFUSD, SFCCD, the Bay Area Air Quality Management District, and the San Francisco Bay Area Rapid Transit District ("BART"), all of which are legal entities separate from the City. See also, Table A-24: "Direct and Overlapping Debt and Long-Term Obligations" below. In addition to *ad valorem* taxes, the SFUSD levies a voter-approved tax at $208.47 per parcel, to be adjusted annually for inflation until its expiration in 2028.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the San Francisco Redevelopment Agency ("SFRA"). Upon formation of each "project area" of SFRA, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to SFRA, causing a loss of tax revenues from that time forward to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. SFRA is budgeted to receive $136.2 million in property tax increment in fiscal year 2011-12. As discussed in the "Impact of State Budget on City Budget" section above, the State's fiscal year 2011-12 budget included provisions to dissolve redevelopment agencies unless they make major additional transfers to school funding accounts.

The percent collected of property tax (current year levies excluding supplementals) has increased slightly from 97.54% for fiscal year 2009-10 to 97.96% for fiscal year 2010-11. Please note that this table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State of California. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, increased to 927 in fiscal year 2010-11 from 900 in fiscal year 2009-10, an increase of 3%; and from 630 in fiscal year 2008-09. This represents 0.32%, 0.45%, and 0.46% of total parcels in fiscal years 2008-09, 2009-10, and 2010-11, respectively.

*[Remainder of Page Intentionally Left Blank.]*

*TABLE A-5*

**CITY AND COUNTY OF SAN FRANCISCO**
**Assessed Valuation of Taxable Property**
**Fiscal Years 2007-08 through 2011-12**
**($000s)**

| Fiscal Year | Net Assessed Valuation (NAV)[1] | % Change from Prior Year | Total Tax Rate per $100[2] | Total Tax Levy (000s)[3] | Total Tax Collected (000s)[3] | % Collected June 30 |
|---|---|---|---|---|---|---|
| 2007-08 | 130,004,479 | 8.5% | 1.141 | 1,509,697 | 1,476,650 | 97.81% |
| 2008-09 | 141,274,628 | 8.7% | 1.163 | 1,702,533 | 1,661,717 | 97.60% |
| 2009-10 | 150,233,436 | 6.3% | 1.159 | 1,808,505 | 1,764,100 | 97.54% |
| 2010-11 | 157,865,981 | 5.1% | 1.164 | 1,888,048 | 1,849,460 | 97.96% |
| 2011-12 | 158,649,887 | 0.5% | 1.172 | 1,859,059 | n/a | n/a |

[1] Based on Certificate of Assessed Valuation, Total Assessed Values for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

[2] Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.

[3] The total tax levy through FY 2010-11 and Total Tax Collected is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported on Treasurer/Tax Collector Report 100 and reported to the State of California (available on the website of the California State Controller's Office). Tax Levy for FY 11-12 based on Certificate of Assessed Valuation.

Note: This table has been modifed from the corresponding table in previous bond disclosures to make levy and collection figures consistent with statistical reports provided to the State of California.
Source: Office of the Controller, City and County of San Francisco.

For fiscal year 2011-12, the total net assessed valuation of taxable property within the City is $158.65 billion. Of this total, $149.40 billion (94.2%) represents secured valuations and $9.25 billion (5.8%) represents unsecured valuations. (See "–Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

Proposition 13 limits to 2% per year any increase in the assessed value of property, unless it is sold or the structure is improved. The total net assessed valuation of taxable property therefore does not generally reflect the current market value of taxable property within the City and is in the aggregate substantially less than current market value. For this same reason, the total net assessed valuation of taxable property lags behind changes in market value and may continue to increase even without an increase in aggregate property values.

Under Article XIIIA of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Every year, some taxpayers appeal the Assessor's determination of their properties' assessed value, and some of the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments. With respect to the fiscal year 2010-11 levy, property owners representing approximately 25.9% of the total assessed valuation in the City filed appeals for a reduction of their assessed value.

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 30% 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. Other taxing agencies such as SFUSD, SFCCD and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated 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 of property tax revenues.

In fiscal year 2010-11, the Assessor granted 18,841 temporary reductions in residential property assessed value worth a total of $2.35 billion, compared to 18,110 temporary reductions with a value of $1.96 billion granted in fiscal year 2009-10. The fiscal year 2010-11 $2.35 billion temporary reduction total represents 1.5% of the fiscal year 2011-12 Net Assessed Valuation of $158.65 billion shown in Table A-5. The average temporary reduction granted increased from $108,171 in 2010 to $124,577 in 2011. All of the temporary reductions granted are subject to review in the following year.

As of June 30, 2011, the total number of open appeals before the Assessment Appeals Board (AAB) was 6,912, compared to 5,103 open AAB appeals as of June 30, 2010. The difference between the current assessed value and the taxpayer's opinion of value for the 6,912 open AAB appeals is $23.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayer's requests, this represents a potential property tax impact on all agencies of $270 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account a projected loss from pending and future assessment appeals.

**Tax Levy and Collection**

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District, and BART. The total tax levy for all taxing entities in fiscal year 2011-12 is estimated to produce $1.72 billion, not including supplemental and escape assessments that may be assessed during the year. Of this amount, the City projects to receive $0.81 billion for the General Fund (not including an estimated $11.5 million SFRA pass-through amounts). SFUSD and SFCCD are estimated to receive $112.9 million and $21.1 million, respectively, and the local ERAF is estimated to receive $371.4 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The SFRA is budgeted to receive $136.2 million, before deducting an estimated $13.1 million in pass-through obligations. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD, and BART may only be applied for that purpose.

The City's General Fund is allocated about 50% of total property tax revenue before adjusting for the State's Triple Flip (whereby Proposition 57 dedicated 0.25% 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.

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 as secured or unsecured on the assessment roll maintained by the Assessor-Recorder. The secured roll is that part of the assessment roll containing State-assessed property and property (real or personal) 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 City 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 Clerk of the Court 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 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% 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 and 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% 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 as shown on Table A-6.

*TABLE A-6*

**CITY AND COUNTY OF SAN FRANCISCO**
**Teeter Plan**
**Tax Loss Reserve Fund Balance**

| Year Ended | Amount Funded |
|---|---|
| June 30, 2007 | $13,180,000 |
| June 30, 2008 | $14,330,000 |
| June 30, 2009 | $16,220,000 |
| June 30, 2010 | $17,507,490 |
| June 30, 2011 | $17,302,279 |

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year ended June 30, 2011 are shown in Table A-7. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

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*TABLE A-7*

| CITY AND COUNTY OF SAN FRANCISCO<br>Top 10 Parcels Total Assessed Value<br>Fiscal Year Ending June 30, 2011 | | | | | |
|---|---|---|---|---|---|
| **Assessee** | **Location** | **Parcel Number** | **Type** | **Total Assessed Value[1]** | **% of Total Assessed Value** |
| HWA 555 Owners LLC | 555 California St | 0259 026 | Commercial Office | $904,969,084 | 0.57% |
| Paramount Group Real Estate Fund | 1 Market St | 3713 007 | Commercial Office | $740,957,712 | 0.47% |
| Emporium Mall LLC | 845 Market St | 3705 056 | Commercial Retail | $472,557,776 | 0.30% |
| 333 Market Street LLC | 333 Market St | 3710 020 | Commercial Office | $386,927,460 | 0.24% |
| Four Embarcadero Center Venture | 4 The Embarcadero | 0233 044 | Commercial Office | $383,331,224 | 0.24% |
| Post-Montgomery Associates | 165 Sutter St | 0292 015 | Commercial Retail | $372,228,997 | 0.23% |
| S F Hilton Inc | 1 Hilton Square | 0325 031 | Commercial Hotel | $369,887,393 | 0.23% |
| SHR St Francis LLC | 301-345 Powell St | 0307 001 | Commercial Hotel | $361,131,605 | 0.23% |
| PPF Off One Maritime Plaza LP | 300 Clay St | 0204 021 | Commercial Office | $353,118,366 | 0.22% |
| One Embarcadero Center Venture | 1 The Embarcadero | 0230 028 | Commercial Office | $330,565,869 | 0.21% |
| | | | | **$4,675,675,486** | **2.94%** |

1 - Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures.

Source: Office of the Assessor -Recorder, City and County of San Francisco.

### Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2011-12 valuation of property assessed by the State Board of Equalization is $2.44 billion, as recorded on the fiscal year 2011-12 certificate of assessed valuation.

## OTHER CITY TAX REVENUES

In addition to the 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 AND EXPENDITURES" herein.

The following section contains 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 taxes. 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. Recent changes to the tax exempted small businesses with annual payroll of less than $250,000 and subjected partnership profit distributions to the tax. The net effect of these provisions was estimated to be approximately $10.5 million in new revenues beginning in fiscal year 2009-10. The City also levies a registration tax on businesses, which varies from $25 to $500 per year per subject business based on the prior year computed payroll tax liability.

The fiscal year 2011-12 Original Budget included $8.4 million in business registration revenues and $381.5 million in payroll tax revenues accruing to the General Fund, a combined increase of $47.5 million or 13.9% over the fiscal year 2010-11 Original Budget. Fiscal year 2011-12 budgeted payroll tax revenues are slightly lower than fiscal year 2010-11 pre-audit estimated revenues of $383.0 million due to higher than expected fiscal year 2010-11 receipts than projected during budget preparation.

*TABLE A-8*

**CITY AND COUNTY OF SAN FRANCISCO**
**Business Tax Receipts ($000's)**
**Fiscal Years 2007-08 through 2011-12**
**All Funds**

| Fiscal Year | Revenue | Change | |
|---|---|---|---|
| 2007-08 | 396,025 | 58,433 | 17.3% |
| 2008-09 | 388,654 | (7,371) | -1.9% |
| 2009-10 | 354,020 | (34,634) | -8.9% |
| 2010-11 estimated | 391,057 | 37,038 | 10.5% |
| 2011-12 Budgeted | 390,613 | (444) | -0.1% |

Includes both Payroll Tax and Business Registration Tax. Figures for FY 2007-08 through FY 2009-10 are audited actuals. Figure for FY 2010-11 is unaudited. Figure for FY 2011-12 is from the Original Budget. Includes portion allocated to special revenue funds.

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

**Transient Occupancy Tax (Hotel 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 is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. The fiscal year 2011-12 Original Budget included a General Fund allocation of $165.9 million, an increase of $8.6 million or 5.5% from fiscal year 2010-11 Original Budget. The fiscal year 2010-11 Original Budget included $6 million in revenue for the estimated value of a measure on the November 2010 ballot that would clarify that online travel companies must remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms and clarify application of the permanent resident exemption granted for hotel stays longer than 30 days. The loss of revenue due to the failure of this measure was offset by stronger than expected growth daily room rates, resulting in a pre-audit estimated increase in total hotel tax revenue of $25.0 million, or 13%.

Because the allocation of hotel tax revenues is set by the Mayor and Board of Supervisors as described in the Administrative Provisions of the Annual Appropriation Ordinance, all of the gain or loss in revenue from budgeted levels falls to the General Fund, contributing to the large variances from prior periods. Table A-9 sets forth a history of transient occupancy tax receipts for fiscal years 2007-08 through 2011-12 budget.

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*TABLE A -9*

**CITY AND COUNTY OF SAN FRANCISCO**
**Transient Occupancy Tax Receipts ($000's)**
**Fiscal Years 2007-08 through 2011-12**
**All Funds**

| Fiscal Year | Tax Rate | Revenue | Change | |
|---|---|---|---|---|
| 2007-08 | 14.00% | 224,814 | 25,046 | 12.5% |
| 2008-09 | 14.00% | 219,777 | (5,037) | -2.2% |
| 2009-10 | 14.00% | 192,082 | (27,695) | -12.6% |
| 2010-11 estimated | 14.00% | 217,050 | 24,968 | 13.0% |
| 2011-12 budgeted | 14.00% | 220,040 | 2,990 | 1.4% |

Revenues reflect the underlying occupancy and room rate activity by fiscal year.

Figures for FY 2007-08 through FY 2009-10 are audited actuals. Figure for FY 2010-11 is unaudited. Figure for FY 2011-12 is from the Original Budget.

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. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Rates as of July 1, 2010 were $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; $7.50 per $1,000 for properties valued at $1.0 million to $5.0 million; and $15.00 per $1,000 for properties valued over $5.0 million or more. Budgeted revenue from the real property transfer tax for fiscal year 2010-11 is $70.9 million, a 26% increase from the fiscal year 2009-10 Original Budget.

On November 2, 2010, voters approved Proposition N, which increased the tax rate for properties valued at $5.0 million or more from $15.00 per $1,000 to $20 per $1,000, and increased the tax rate for properties valued at $10.0 million or more from $15.00 per $1,000 to $25 per $1,000. The pre-audit estimated revenue of $135.2 million is $47.9 million over budget, largely reflecting the rate increases approved in November 2010. Table A-10 sets forth a history of real property transfer tax receipts for fiscal years 2007-08 through 2009-10, pre-audit estimate for fiscal year 2010-11, and budgeted receipts for fiscal year 2011-12.

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*TABLE A-10*

**CITY AND COUNTY OF SAN FRANCISCO**
**Real Property Transfer Tax Receipts ($000's)**
**Fiscal Years 2007-08 through 2011-12**

| Fiscal Year | Revenue | Change | |
|---|---|---|---|
| 2007-08 | 86,219 | (57,757) | -40.1% |
| 2008-09 | 48,957 | (37,262) | -43.2% |
| 2009-10 | 83,694 | 34,737 | 71.0% |
| 2010-11 estimated | 135,184 | 51,489 | 61.5% |
| 2011-12 budgeted | 118,824 | (16,360) | -12.1% |

Figures for FY 2007-08 through FY 2009-10 are audited actuals. Figure for FY 2010-11 is unaudited. Figure for FY 2011-12 is from the Original Budget.

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 along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, the State takes one-quarter of this, and replaces the lost revenue with a shift of local property taxes to the City from local school district funding. The local sales tax revenue is deposited in the City's General Fund. The fiscal year 2011-12 Original Budget includes $106.6 million in local sales tax revenue, an increase of $8.5 million, or 8.7% from the fiscal year 2010-11 Original Budget of $ 98.0 million, and increase of $2.1 million or 2.0% from pre-audit estimated fiscal year 2010-11 revenues.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. Table A-11 reflects the City's actual sales and use tax receipts for fiscal years 2007-08 through 2009-10, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State. Figures in Table A-11 for fiscal year 2010-11 are pre-audit estimates, and fiscal year 2011-12 figures are from the fiscal year 2011-12 Original Budget.

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*TABLE A-11*

**CITY AND COUNTY OF SAN FRANCISCO**
**Sales and Use Tax Receipts ($000's)**
**Fiscal Years 2007-08 through 2011-12**

| Fiscal Year | Tax Rate | City Share | Revenue | Change | |
|---|---|---|---|---|---|
| 2007-08 | 8.50% | 0.75% | 111,410 | 3,597 | 3.3% |
| 2007-08 adj.* | 8.50% | 1.00% | 148,729 | 5,276 | 3.7% |
| 2008-09 ** | 9.50% | 0.75% | 101,662 | (9,749) | -8.8% |
| 2008-09 adj.* | 9.50% | 1.00% | 137,415 | (11,314) | -7.6% |
| 2009-10 | 9.50% | 0.75% | 96,605 | (5,057) | -5.0% |
| 2009-10 adj.* | 9.50% | 1.00% | 128,286 | (9,129) | -6.6% |
| 2010-11 *estimated* | 9.50% | 0.75% | 104,476 | 7,871 | 8.1% |
| 2010-11 adj.* *estimated* | 9.50% | 1.00% | 140,676 | 12,390 | 9.7% |
| 2011-12 *Budgeted* | 8.50% | 0.75% | 106,566 | 2,090 | 2.0% |
| 2011-12 adj.* *Budgeted* | 8.50% | 1.00% | 141,636 | 960 | 0.7% |

*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. This 0.25% reduction is backfilled by the State.

**Effective July 1, 2011, the State General Fund rate decreased from 6% to 5%. The City share did not change.

Figures for FY 2007-08 through FY 2009-10 are audited actuals. Figures for FY 2010-11 are unaudited. Figures for FY 2011-12 are from the Original Budget.

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 the utility users tax for fiscal year 2011-12 is $95.6 million, $1.9 million or 1.9% below fiscal year 2010-11 Original Budget figures and $3.9 million or 4.3% above fiscal year 2010-11 pre-audit estimates. Of the total $95.6 million, $43.2 million is related to energy, $49.8 million is related to telephone usage, and $2.6 million is related to water usage.

In May 2006, a change in the IRS interpretation of the federal excise tax created uncertainty regarding certain provisions of local telephone taxes modeled on the federal excise tax, including the City's telephone user tax. In August 2006, the City adopted an ordinance clarifying that the City levies its telephone tax under the City's inherent powers as a charter city, that federal law is not the basis or authority for the City's imposition of the telephone tax, and that the change in the IRS interpretation would not change the City's collection of the tax. Other cities in California also elected not to change their collection of their telephone taxes in response to the changed IRS interpretation, and legal challenges ensued in State court against some of those cities' telephone taxes.

On November 4, 2008, voters approved Proposition O, which modernized the Telephone Users Tax ("TUT"). Proposition O updated the definition of "telephone communications services" to apply to all current and future technologies used for telephone communications services, including voice over internet protocol (VoIP) service. Proposition O maintained the prior ordinance's exemptions, including the exemption for wireline residential telephone communications service. Proposition O removed the prior ordinance's reference to the federal excise tax ("FET"), but recited and continued the exemptions that had been incorporated from the FET. In addition, Proposition O ratified and approved the City's collection of the TUT to date. Suppliers of telephone communications services began implementing the updated TUT on April 1, 2009.

**Emergency Response Fee; Access Line Tax**

In addition to certain changes in the TUT described above, Proposition O repealed the City's emergency response fee and replaced it with a general tax (the "ALT") of an equivalent amount as of April 1, 2009. Like the fee, the ALT applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. The same exemptions that applied to the fee apply to the ALT. The initial ALT monthly rates were the same as those that previously applied to the fee. Beginning December 31, 2009, the rates may be increased annually by the increase in the consumer price index for the San Francisco area. Proposition O ratified and approved the City's collection of the fee to date.

The City budgeted $41.1 million in ALT revenue collections for fiscal year 2011-12, an increase of $3.8 million or 10.3% over fiscal year 2010-11 Original Budget figures and $0.2 million, or 0.4% over fiscal year 2010-11 pre-audit estimates. Although the fee has been repealed and its past collection has been ratified by the voters, there is a risk that the fee could be challenged under Proposition 218 or otherwise and, if a challenge succeeded, the City could be required to make refunds.

**Parking Tax**

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities. The City's budgeted General Fund revenue from the parking tax is $72.0 million in fiscal year 2011-12 which is $6.7 million or 10.3% above fiscal year 2010-11 Original Budget levels and $0.8 million or 1.1% less than pre-audit estimates for fiscal year 2010-11.

## OTHER CITY REVENUE SOURCES

**Intergovernmental Revenues, Grants and Subventions**

For fiscal year 2011-12, the City budgeted General Fund intergovernmental revenues, grants and subventions of $678.4 million, including $208.8 million from the federal government and $469.6 million from the State government. This is an overall increase of 1.0% from the fiscal year 2010-11 Original Budget of $671.5 million. The major categories of such funds are described below.

Budget assumptions for fiscal year 2011-12 include a $15.0 million unspecified cut in State revenues. This is a reduction from the fiscal year 2010-11 Original Budget, which included a $30 million unspecified cut. Actual revenue losses were only $7.0 million or $23.0 million less than expected.

**Health and Welfare Realignment**

In fiscal year 1991-92, the State transferred to counties the 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 share in the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees ("VLF"). These sources are budgeted to provide $193.8 million to the City's General Fund and its two General Fund-supported county hospitals for fiscal year 2011-12, which constitutes a $5.4 million or 2.9% increase from fiscal year 2010-11 Original Budget levels and $0.3 million or 0.1% increase over fiscal year 2010-11 pre-audit estimates.

**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. This revenue is a function of the City's proportionate share of statewide sales activity. Budgeted revenue from this source is $69.1 million for fiscal year 2011-12, $5.2 million or 8.2% more than fiscal year 2010-11 Original Budget and $0.7 million or 1% more than fiscal year 2010-11 pre-audit estimates.

**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, which 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 2011-12 Original Budget for vehicle license fee revenues is $1.7 million, which is no change from the fiscal year 2010-11 Original Budget. Fiscal year 2010-11 pre-audit estimates of $5.3 million include $3.2 million in excess revenue payments for fiscal years 2006-07 through 2009-10 that were finally paid by the State in fiscal year 2010-11.

### Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds in fiscal year 2010-11, the City budgeted approximately $841.1 million in subventions from the State and federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services, transportation and other projects. The fiscal year 2011-12 Original Budget reflects an expected decline of $55.8 million, or 6.2%, in these sources from fiscal year 2010-11 Original Budget. Health and welfare subventions are often based on State and federal funding formulas, which currently reimburse counties according to actual spending on these services.

### Charges for Services

Charges for services are budgeted at $153.5 million for fiscal year 2011-12 in the General Fund, which is $7.5 million, or 5.0%, more than the fiscal year 2010-11 Original Budget. This includes $36.3 million of general government service charges (including City planning fees), $22.2 million of public safety service charges (including boarding of prisoners and safety inspection fees), $12.1 million of recreation charges, $58.0 million of Medi-Cal, MediCare and health service charges, and $14.7 million of other miscellaneous service charges.

On July 14, 2009, the Board of Supervisors adopted an ordinance imposing a fee of $0.20 per pack of cigarettes sold in San Francisco. The ordinance was signed by the Mayor on July 21, 2009, and the fee it imposes became operative as of October 1, 2009. The ordinance provides that the fee revenues are to be used only to pay for the collection and removal of cigarette litter from San Francisco's sidewalks, gutters and public spaces; for public outreach and education to curb improper cigarette litter disposal; and for the costs of administering, collecting, and enforcing the fee. On December 18, 2009, Philip Morris USA and several cigarette retailers filed an action in San Francisco Superior Court, alleging that the fee is an unlawful special tax and is preempted by California statutes. On July 18, 2011, the San Francisco Superior Court granted the City's motion for summary judgment, which argued that the fee was a permissible regulatory fee.

## CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for upwards of 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding in fiscal year 2011-12 is $537.5 million.

### General Fund Expenditures by Major Service Area

San Francisco is a consolidated city and county, and budgets General Fund expenditures for both city and county functions in seven major service areas described in the following table:

*TABLE A-12*

| CITY AND COUNTY OF SAN FRANCISCO<br>Expenditures by Major Service Area ($000s)<br>Fiscal Years 2008-09 through 2011-12 | | | | |
|---|---|---|---|---|
| Major Service Areas | FY 2008-09<br>Original Budget | FY 2009-10<br>Original Budget | FY 2010-11<br>Original Budget | FY 2011-12<br>Original Budget |
| Public Protection | $899,378 | $955,519 | $947,327 | $998,237 |
| Human Welfare & Neighborhood Development | 654,162 | 642,810 | 655,026 | 672,834 |
| Community Health | 513,858 | 488,330 | 519,319 | 575,446 |
| General Administration & Finance | 182,139 | 177,892 | 169,526 | 199,011 |
| Culture and Recreation | 104,232 | 95,114 | 97,510 | 100,740 |
| General City Responsibilities | 78,524 | 104,476 | 103,128 | 110,725 |
| Public Works, Transportation & Commerce | 53,143 | 33,414 | 26,989 | 51,588 |
| Total | $2,485,436 | $2,497,555 | $2,518,824 | $2,708,581 |
| Source: Office of the Controller, City and County of San Francisco. | | | | |

Public Protection includes the Police Department, budgeted in fiscal year 2011-12 to receive $354.0 million of General Fund support, the Sheriff's Department, budgeted to receive $148.6 million of the General Fund support, and the Fire Department, budgeted to receive $204.9 million of General Fund support. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive $234.5 million of General Fund support in the fiscal year 2011-12 Original Budget, and the Public Health Department is budgeted to receive $363.2 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it is budgeted pursuant to a formula under the Charter to receive a $190.8 million General Fund transfer in the fiscal year 2011-12 Original Budget.

**Baselines**

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

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*TABLE A-13*

| CITY AND COUNTY OF SAN FRANCISCO<br>Baselines & Set-Asides ($ Millions)<br>Fiscal Year 2011-12 | | | | |
|---|---|---|---|---|
| **Baselines & Set-Asides** | | **FY 2011-12 Required Baseline** | | **FY 2011-12 Adopted Budget** |
| Municipal Transportation Authority | $ | 138.7 | $ | 138.7 |
| Parking and Traffic Commission | $ | 52.0 | $ | 52.0 |
| Children's Services | $ | 103.2 | $ | 107.7 |
| Library Preservation | $ | 47.4 | $ | 47.4 |
| Public Education Baseline Services | $ | 6.0 | $ | 6.0 |
| Unified School District | $ | 28.5 | $ | 28.5 |
| First Five Commission | $ | 15.5 | $ | 15.5 |
| City Services Auditor | $ | 12.1 | $ | 12.1 |
| Human Services Homeless Care Fund | $ | 13.7 | $ | 13.7 |
| **Property Tax Related Set-Asides** | | | | |
| Municipal Symphony | $ | 2.0 | $ | 2.0 |
| Children's Fund Set-Aside | $ | 42.7 | $ | 42.7 |
| Library Preservation Set-Aside | $ | 35.6 | $ | 35.6 |
| Open Space Set-Aside | $ | 35.6 | $ | 35.6 |
| **Staffing and Service-Driven** | | | | |
| Police Minimum Staffing | Requirement potentially not met during course of budget year | | | |
| Fire Neighborhood Firehouse Funding | Requirement met | | | |
| Treatment on Demand | Requirement met | | | |
| **Total Baseline Spending** | **$** | **533.0** | **$** | **537.5** |
| Source: Office of the Controller, City and County of San Francisco. | | | | |

With respect to Police Department staffing, the Charter mandates a police staffing baseline of not less than 1,971 full-duty officers. The Charter-mandated baseline staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work. The Charter also provides that the Mayor and Board of Supervisors may convert a position from a sworn officer to a civilian through the budget process. With respect to the Fire Department, the Charter mandates baseline 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than four ambulances, and four Rescue Captains (medical supervisors).

## Reserves

The City's budget includes reserves that are available for appropriation to City departments by action of the Board of Supervisors. These include the General Reserve ($25.0 million), the Salaries and Benefit Reserve ($13.5 million), and the Litigation Reserve ($11.0 million), all in the fiscal year 2011-12 Original Budget. These are the fiscal year 2011-12 appropriations to the reserves and do not include carry-forward of prior year balances.

The Charter requires some set-asides of departmental expenditure savings in the form of a Citywide Budget Savings Incentive Reserve and a Recreation and Park Budget Savings Incentive Reserve.

## EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries, wages, and benefits for City employees exceeds 50% of the City's total annual General Fund expenditures. In the fiscal year 2011-12 Original Budget, total personnel costs are budgeted at approximately $1.6 billion, compared to $1.5 billion in the fiscal year 2010-11 Original Budget. Across all funds, personnel costs are budgeted at $3.4 billion in fiscal year 2011-12, compared to $3.3 billion in the fiscal year 2010-11 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

### Labor Relations

The City's fiscal year 2011-12 Original Budget includes 30,905 budgeted City positions. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union ("SEIU"), Local 1021; the International Federation of Professional and Technical Engineers (the "IFPTE"), Local 21; and the 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, the "Meyers-Milias-Brown Act") and the Charter. Except for nurses and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. In addition, in November 2010, the voters in the City approved Proposition G, which requires that disputes regarding the wages, hours and working conditions of transit operators be resolved through a final and binding interest arbitration proceeding. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in 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.

Since the spring of 2008, the City has engaged labor organizations in negotiations to help address the City's respective projected budget shortfall for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12. In fiscal years 2008-09 and 2009-10, labor organizations made economic concessions that ranged from 1.5% to 7% of payroll.

In May 2010, the City negotiated two-year agreements (for fiscal years 2010-11 and 2011-12) with its labor unions. These economic concessions were in the form of unpaid furlough days, wage reductions or deferral of wage increases. In general, the concessions range from 4.0% to 4.62% of payroll in each fiscal year. As part of these negotiations, the parties agreed to two options to achieve health care savings, beginning in fiscal year 2011-12: all employees who enroll in the City's PPO dental plan will contribute monthly toward the premium cost or all medically single/employee-only employees enrolled in the City Plan will pay the difference between the second-highest cost plan and the cost of the City Plan's medically single/employee-only category. The majority of labor organizations agreed to contribute toward the dental PPO while a few labor organizations will contribute toward the City Plan option. Four labor groups are excluded from those participating in the health care savings: Nurses, Supervising Nurses, Interns & Residents and Deputy Sheriffs.

The City's labor agreement with the Deputy Sheriffs' Association, whose term is July 1, 2009 through June 30, 2012 already contains economic concessions for fiscal year 2010-11 in the form of one unpaid legal holiday and suspending employer-paid meals, uniform allowance and longevity pay during the term of the agreement.

In June 2011, the City negotiated contract extensions with the Police Officers' Association and Firefighters union that expire on June 30, 2015. Represented employees agreed to defer a portion of scheduled wage increases and to assume additional pension contributions. In total, the concessions from these labor unions will each save 5% of payroll over the life of the agreements.

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 MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year successor agreement that expires on June 30, 2014. The concessions are valued at $41.1 million dollars over the life of the agreement. Table A-14 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

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*TABLE A-14*

| CITY AND COUNTY OF SAN FRANCISCO (All Funds)<br>Employee Organizations as of July 1, 2011 | | |
|---|---|---|
| **Organization** | **Budgeted Positions** | **Expiration Date of MOU** |
| Automotive Machinists, Local 1414 | 399 | June 30, 2012 |
| Bricklayers, Local 3/Hod Carriers, Local 36 | 20 | June 30, 2012 |
| Building Inspectors Association | 70 | June 30, 2012 |
| Carpenters, Local 22 | 107 | June 30, 2012 |
| Carpet, Linoleum & Soft Tile | 2 | June 30, 2012 |
| CIR (Interns & Residents) | 230 | June 30, 2014 |
| Cement Masons, Local 580 | 32 | June 30, 2012 |
| Deputy Sheriffs Association | 850 | June 30, 2012 |
| District Attorney Investigators Association | 40 | June 30, 2012 |
| Electrical Workers, Local 6 | 844 | June 30, 2012 |
| Glaziers, Local 718 | 12 | June 30, 2012 |
| International Alliance of Theatrical Stage Employees, Local 16 | 15 | June 30, 2012 |
| Ironworkers, Local 377 | 17 | June 30, 2012 |
| Laborers International Union, Local 261 | 1,001 | June 30, 2012 |
| Municipal Attorneys' Association | 429 | June 30, 2012 |
| Municipal Executives Association | 1,050 | June 30, 2012 |
| MEA - Police Management | 2 | June 30, 2015 |
| MEA - Fire Management | 9 | June 30, 2015 |
| Operating Engineers, Local 3 | 58 | June 30, 2012 |
| Painters, Local 1176 | 120 | June 30, 2012 |
| Pile Drivers, Local 34 | 18 | June 30, 2012 |
| Plumbers, Local 38 | 343 | June 30, 2012 |
| Probation Officers Association | 145 | June 30, 2012 |
| Professional & Technical Engineers, Local 21 | 4,604 | June 30, 2012 |
| Roofers, Local 40 | 11 | June 30, 2012 |
| S.F. Institutional Police Officers Association | 3 | June 30, 2012 |
| S.F. Firefighters, Local 798 | 1,729 | June 30, 2015 |
| S.F. Police Officers Association | 2,340 | June 30, 2015 |
| SEIU, Local 1021 | 10,900 | June 30, 2012 |
| SEIU, Local 1021 Staff & Per Diem Nurses | 1,492 | June 30, 2012 |
| SEIU, Local 1021 H-1 Rescue Paramedics | 12 | June 30, 2013 |
| Sheet Metal Workers, Local 104 | 47 | June 30, 2012 |
| Stationary Engineers, Local 39 | 670 | June 30, 2012 |
| Supervising Probation Officers, Operating Engineers, Local 3 | 21 | June 30, 2012 |
| Teamsters, Local 853 | 159 | June 30, 2012 |
| Teamsters, Local 856 (Multi-Unit) | 102 | June 30, 2012 |
| Teamsters, Local 856 (Supervising Nurses) | 122 | June 30, 2012 |
| TWU, Local 200 (SEAM multi-unit & claims) | 329 | June 30, 2012 |
| TWU, Local 250-A Auto Service Workers | 205 | June 30, 2012 |
| TWU-250-A Miscellaneous | 93 | June 30, 2012 |
| TWU-250-A Transit Operators | 1,960 | June 30, 2014 |
| Union of American Physicians & Dentists | 187 | June 30, 2012 |
| Unrepresented Employees | 117 | June 30, 2012 |
| | **30,913** (1) | |

[1] Budgeted positions do <u>not</u> include SFUSD, SFCCD, or Superior Court Personnel.

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

**San Francisco Employees' Retirement System ("SFERS" or "Retirement System")**

*History and Administration*

SFERS is charged with administering both a defined-benefit pension plan (the "Fund") and an individual account deferred compensation plan ("SFDCP" or "457 Plan"). These two plans are separate and distinct legal entities, with trust funds independent of each other. The Fund was initially established November 4, 1924 and was constituted in its current form by the 1932 City Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public 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, at least two of whom must be actively employed 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 Executive Director and an Actuary. The Executive Director serves as chief executive officer, with responsibility extending to all divisions of the Retirement System including Administration, Investments, Member Services, Accounting, Information Technology, Communications, 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. The independent consulting actuary is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process. The 457 Plan is funded solely by its members on a voluntary basis and is unrelated to the City's funding obligation to the defined benefit plan. The 457 Plan bears responsibility for its own costs. The Actuary and consulting actuarial firm have no duties or responsibilities to the 457 Plan.

*Membership*

The Retirement System estimates that the total active membership of the Fund as of June 30, 2010 (the date of most recent valuation report) was 33,715, compared to 34,961 members a year earlier. Active membership includes 4,515 vested members and 978 reciprocal members. Vested members are individuals who (i) have separated from City service, (ii) have worked for the City for five or more years, and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are individuals 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 Fund were 1,822 in fiscal year 2008-09 and 1,559 in fiscal year 2009-10. Retirement allowances are paid to approximately 23,500 retired members and beneficiaries monthly. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors. The Fund had a Deferred Retirement Option Program (DROP) program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. At present, 262 police officers are currently enrolled in the program and all will retire over the next three fiscal years.

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Table A-15 shows total Retirement System participation for fiscal years 2005-06 through 2009-10.

*TABLE A-15*

**CITY AND COUNTY OF SAN FRANCISCO**
Employees' Retirement System
Fiscal Years 2005 - 06 through 2009 - 10

| Fiscal Year | Active Members | Vested Members | Reciprocal Members | Total Non-retired | Retirees/ Continuants | Active to Retiree Ratio |
|---|---|---|---|---|---|---|
| 2005-06 | 29,426 | 2,901 | 734 | 33,061 | 20,489 | 1.614 |
| 2006-07 | 30,190 | 3,096 | 774 | 34,060 | 21,116 | 1.613 |
| 2007-08 | 30,650 | 3,877 | 869 | 35,396 | 21,514 | 1.645 |
| 2008-09 | 29,975 | 4,096 | 890 | 34,961 | 22,294 | 1.568 |
| 2009-10 | 28,222 | 4,515 | 978 | 33,715 | 23,500 | 1.435 |

Sources: SFERS' Actuarial Valuation reports as of July 1, 2010, July 1, 2009, July 1, 2008, July 1, 2007, and July 1, 2006.

*Funding Practices*

Actuarial valuation of the Fund is prepared annually by the Fund's consulting actuarial firm and adopted by the Retirement Board. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions based on the experience of the Fund. These economic assumptions include a long-term investment earnings assumption, a long-term wage/inflation assumption and a long-term consumer price index assumption.

At its November 2008 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board reduced the Fund's long-term investment earnings assumption from 8.00% to 7.75%. At its November 2010 meeting, the Retirement Board reduced the long-term wage/inflation assumption from 4.5% to 4.0% per annum based on the results of the demographic experience analysis for fiscal year 2004 through 2009 prepared and presented to the Retirement Board by its consulting actuary. The Retirement Board did not change the other long-term economic assumption, leaving the consumer price index assumption at 3.25% per year. These economic assumptions together with periodic demographic studies are utilized to prepare the actuarial valuation of the Fund each year. The latest report as of June 30, 2010 included other changes in demographic assumptions as recommended by the consulting actuary based on the 2004-09 demographic experience analysis and was issued in January 2011. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as detailed in the report.

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

*First*, the normal cost is established for the Fund. The normal cost of the Fund represents the portion of the actuarial present value of benefits that SFERS will be expected to fund that is attributable to a current year's employment. The Fund 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 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 Fund liabilities exceeds the actuarial value of Fund 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. Such a situation is known colloquially as a "negative UAAL."

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Fund 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 Fund's results are better or worse than the estimated UAAL, 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 estimated 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 consulting actuary amortizes supplemental costs for the various member benefit plans. Supplemental costs are additional costs resulting from the past service component of SFERS 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 consulting actuary combines the three calculations described above to arrive at a total contribution requirement for funding the Fund 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.

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Fund. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

*Recent Voter Approved Changes to the Retirement Plan*

The levels of SFERS retirement benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. For example, on June 8, 2010, the voters of San Francisco approved Proposition D, which changes the SFERS benefit formula for City safety and miscellaneous employees hired on or after July 1, 2010 from highest one-year average compensation to highest two-year average compensation, increases the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost, the amount saved would be deposited into the Retiree Health Care Trust Fund. The impact of Proposition D will be incorporated in the actuarial valuations beginning with the July 1, 2011 Actuarial Valuation report.

Since 2007, the voters of San Francisco have approved three other retirement plan amendments:

- The enactment of DROP, a Deferred Retirement Option Plan available to certain police members effective July 1, 2008, authorized by the February 2008 election by initiative proposition. In June 2011, the Board of Supervisors voted to allow the program to sunset on June 30, 2011.

- The enactment of Proposition B in June 2008 which increases the years of service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, establishes a separate Retiree Health Care Trust Fund to fund retiree health costs, and increases retirement benefits and retirement cost-of-living adjustments for "miscellaneous" employees (i.e., those covered under Charter Section A8.409).

- A limited cost transfer of 33 Airport police officers' historical service from CalPERS to SFERS effective July 1, 2009, authorized by the November 2007 election.

*SFERS Recent Funding Performance and City Employer Contribution History*

From fiscal year 1996-97 through fiscal year 2003-04, the City's contribution to the Fund was zero 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 was 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 2009-10, total City employer contributions to the Retirement System were $208.6 million, which was 9.49% of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount includes $91.4 million from the City General Fund. For the fiscal year 2010-11, total City employer contributions to the Retirement System were budgeted at $276.6 million, which was 13.56% of Pensionable Salary. This amount included $128.7 million from the General Fund. The contribution rate effective July 1, 2011 is 18.09% of Pensionable Salary, which is estimated to include $177.4 million in employer contributions from the General Fund. The latest actuarial report provides that future employer contribution rates are projected to increase to 24% in 2014 as the Fund recognizes the losses incurred by the Fund in fiscal years 2007-2008 and 2008-2009, as well as increased costs of City pensions due to the 2008 passage of Proposition B.

Table A-16 shows Fund contributions for fiscal years 2005-06 through 2009-10. "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 Fund's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Fund. The "Market Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligations. The "Actuarial Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2005-06 through 2009-10.

*TABLE A-16*

**CITY AND COUNTY OF SAN FRANCISCO**
**Employee Retirement System ( in $000s)**
**Fiscal Years 2005-06 through 2009-10**

| Fiscal Year | Market Value of Assets | Actuarial Value of Assets | Pension Benefit Obligation | Market Percent Funded | Actuarial Percent Funded | Employee & Employer Contribution | Employer Contribution Rates[1] |
|---|---|---|---|---|---|---|---|
| 2005-06 | $ 14,497,022 | $ 13,597,646 | $ 12,515,463 | 115.8 | 109.0 | $289,226 | 6.58% |
| 2006-07 | 16,952,044 | 14,929,287 | 13,541,388 | 125.1 | 110.0 | 308,348 | 6.24% |
| 2007-08 | 15,832,521 | 15,941,390 | 15,358,824 | 103.0 | 103.8 | 319,183 | 5.91% |
| 2008-09 | 11,886,729 | 16,004,730 | 16,498,649 | 72.3 | 97.0 | 312,715 | 4.99% |
| 2009-10 | 13,136,786 | 16,069,100 | 17,643,400 | 74.5 | 91.1 | 413,562 | 9.49% |

[1] Employer contribution rates for fiscal years 2010-2011 and 2011-2012 are 13.56% and 18.09% respectively.

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2010, 2009, 2008, 2007, and 2006.
SFERS' Actuarial Valuation report as of July 1, 2010, July 1, 2009, July 1, 2008, July 1, 2007, and July 1, 2006.

Table A-16 reflects that the Percent Funded ratio (that is, the Actuarial Value of Assets divided by the Pension Benefit Obligation) decreased to 91.1%, corresponding to an unfunded actuarial liability (UAAL) of approximately $1.5 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2010, for every dollar of pension benefits the City is obligated to pay, it had approximately $0.91 in assets available for payment.

*Asset Management and Actuarial Valuation*

The assets of the Fund 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. See page 68 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2010. The Fund does not hold hedge funds. The investments, their allocation, transactions and proxy votes 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 are 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) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. The information available on the Retirement System's website is not incorporated herein by reference.

*Recent Changes in the Economic Environment and the Impact on the Retirement System*

As shown in Table A-16, the market value of the Retirement System was approximately $13.1 billion as of June 30, 2010, and approximately $11.9 billion as of June 30, 2009. The $1.2 billion difference reflects, among other things, participant and employer contributions, benefit payments and an increase on a time-weighted basis of approximately 14% in the market value of assets held by the Retirement System.

As of June 30, 2011, SFERS estimated that the market value of its assets had increased to approximately $15.4 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. SFERS cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are not subject to audit (other than at year end).

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy, including a pension fund and the value of the Retirement System investment portfolio changes periodically.

A decline in the actuarial value of assets over time, without a commensurate decline in the actuarial value of liabilities, will result in an increase in the contribution rate for the City. No assurance can be provided by the City that contribution rates will not increase in the future, and that the impact of such increases will not have a material impact on City finances.

*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, at rates determined by the CalPERS board. Such payment from the General Fund equaled $16.7 million in fiscal year 2008-09 and $18.3 million in fiscal year 2009-10. For fiscal year 2010-11, the City prepaid its annual CalPERS obligation at a level of $16.9 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2010, attached to this Official Statement as Appendix B. 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 and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (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 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 seven member Health Service Board is composed of members including a seated 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 members.

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. Audited annual financial statements for several years are also posted in the Health Service System website: www.myhss.org/finance. The information available on such website is not incorporated in this Official Statement by reference.

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 trust fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45"), which applies to OPEB trust funds.

*Determination of Employer and Employee Contributions for Medical Benefits*

Contributions by the participating employers and HSS Beneficiaries to HSS Medical Plans 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) 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 surviving domestic partners of City retirees) ("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 'monthly contributions required for the retired city participant and the first dependent.

The Health Service System recently performed an audit of pre-age 65 Medicare eligible retirees and implemented coordination of benefits for over 600 members. A process for identification of all Medicare eligible members has been implemented.

*Health Care Reform*

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the "Health Care Reform Law"). The Health Care Reform Law is intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City. Due to the complexity of the Health Care Reform Law it is likely that additional legislation will be considered and enacted in future years.

The Health Care Reform Law is designed to be implemented in phases with only certain eligibility and other changes taking place in 2010. Other provisions of the Health Care Reform Law will be implemented for the most part in future years, including, among other things, the expansion of Medicaid, subsidies for health insurance for certain individuals, mandates that require most Americans obtain health insurance, and incentives for employers with over 50 employees to provide health insurance for their employees or pay a fine. Many aspects of the law have yet to be clarified and will require substantial regulation or subsequent legislative action. Several states have challenged the constitutionality of the Health Care Reform Law but that litigation is in its early stages and no prediction can be made about its outcome.

As of January 2, 2011, the Health Service System deleted eligibility for non-prescription drugs reimbursement through FSAs. As of July 1, 2011, the Health Service System eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to 26 years of age per requirements in the Health Care Reform Law. Before July 1, 2011, dependent children up to 25 years of age were covered. No additional changes are required at this time.

*Employer Contributions for Health Service System Benefits*

For fiscal year 2009-10, the Health Service System received approximately $548.2 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately $455.7 million; approximately $125.4 million of this $455.7 million amount was for health care benefits for approximately 17,900 retired City employees and their eligible dependents and approximately $330.3 million was for benefits for approximately 27,300 active City employees and their eligible dependents.

*Post-Employment Health Care Benefits and GASB 45*

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by the City and these employees equal to three percent of salary into a new retiree health trust fund.

*GASB 45 Reporting Requirements.* The City was required to begin reporting the liability and related information for unfunded post-retirement medical and other benefits ("OPEBs") in the City's financial statements for the fiscal year ending June 30, 2008. This reporting requirement is defined under Governmental Accounting Standards Board Statement 45 ("GASB 45"). 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, GASB 45 requires government agencies to determine on an actuarial basis the amount of its total OPEB liability and the annual contributions estimated to fund such liability over 30 years. Any underfunding in a year is recognized as a liability on the government agency's balance sheet. The City has not established an OPEB trust fund.

*City's Estimated Liability.* To help plan for the implementation of GASB 45, the City engaged an actuary to prepare a preliminary actuarial valuation of this liability. In its November 1, 2007 report on GASB 45 Valuation Results and Plan Design, Mercer Consulting estimated that if the City were to have an irrevocable, retiree-dedicated trust (a "Funded Plan") to cover post-employment medical benefits, the projected liability would be $4.0 billion (as of July 1, 2006) and have an annual required contribution (or "ARC" as defined below) for fiscal year 2007-08 of $409.1 million, assuming a 4.5% return on investments. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. In its December 13, 2010 report, Mercer Consulting estimated that the City's unfunded liability had increased 4% on an annualized, non-inflation adjusted basis to approximately $4.36 billion (as of July 1, 2008). This estimate assumed a 4.25% return on investments and had an ARC for fiscal year 2009-10 of $369 million and an ARC for fiscal year 2010-11 of approximately $384 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2008 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was $2.3 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 191.3%.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2009-10 annual OPEB cost was $374.2 million, of which the City funded $126.8 million which cause, among other factors, the City's long-term liability to increase by $311 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost is recorded as an increase or decrease in the net OPEB obligation. See Note 9(c) and (d) to the City's CAFR, as of June 30, 2010, included as Appendix B to this Official Statement. Three-year trend information is as follows (dollars in thousands):

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2008 | $409,080 | 28.0% | $294,440 |
| 6/30/2009 | $430,924 | 27.8% | $605,397 |
| 6/30/2010 | $374,214 | 33.9% | $852,782 |

The December 2010 Mercer report estimates that the total long-term actuarial liability will reach $9.7 billion by 2033. The calculations in the Mercer Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – *Recent Voter Approved Changes to the Retirement Plan*" above. As of June 30, 2011, the fund balance in the Retiree Health Care Trust Fund established by Proposition B stood at $8.5 million.

**Total City Employee Benefits Costs**

The City continued to budget only for current-year benefits expenditures, without any set-aside for accrued or future liabilities, in the fiscal year 2010-11 Original Budget. To begin to address the issue of accrued liabilities for future retiree health costs, the City created a new Post Employment Benefits Fund in fiscal year 2007-08. The estimated fiscal year 2009-10 fund balance is approximately $3.0 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-17 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

**Total City Benefit Costs**

Table A-17 below provides a summary of the City's employee benefit costs from fiscal years 2007-08 to 2011-12.

*TABLE A-17*

**CITY AND COUNTY OF SAN FRANCISCO**
**Employee Benefit Costs**
**Fiscal Years 2007-08 through 2011-12**
(FY 2007-08 through FY 2009-10 figures are audited actuals; FY 2010-11 is revised budget. FY 2011-12 is original budget.

| | FY 2007-08 actual | FY 2008-09 actual | FY 2009-10 actual | FY 2010-11 revised budget | FY 2011-12 budget |
|---|---|---|---|---|---|
| SFERS and PERS Retirement Contributions | $ 206,559,701 | $ 197,604,241 | $ 294,070,090 | $ 379,313,409 | $ 416,590,567 |
| Social Security & Medicare | $ 143,648,215 | $ 147,562,922 | $ 145,955,993 | $ 149,527,046 | $ 142,203,875 |
| Health - Medical + Dental, active employees[1] | $ 277,932,699 | $ 300,621,859 | $ 310,419,752 | $ 309,161,926 | $ 322,517,621 |
| Health - Retiree Medical[1] | $ 110,634,137 | $ 116,893,684 | $ 126,829,433 | $ 149,648,709 | $ 160,597,829 |
| Other Benefits [2] | $ 25,057,636 | $ 22,943,799 | $ 21,214,874 | $ 32,025,734 | $ 25,721,075 |
| **Total Benefit Costs** | **$ 763,832,388** | **$ 785,626,505** | **$ 898,490,142** | **$ 1,019,676,824** | **$ 1,067,630,967** |

[1] Does not include Health Service System administrative costs
[2] "Other Benefits" includes unemployment insurance premiums, life insurance, and other miscellaneous employee benefits
Source: Office of the Controller, City and County of San Francisco.

## INVESTMENT OF CITY FUNDS

**Investment Pool**

The Treasurer of the City and County of San Francisco (the "Treasurer") is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4, and Article 6.0. In addition to the funds of the City, the funds of various City departments and local agencies located within the boundaries of the City, including the school and community college districts, airport and local hospitals, are deposited into the City and County's Pooled Investment Fund (the "Pool"). The funds are commingles for investment purposes.

**Investment Policy**

The management of the Pool is governed by the Investment Policy administered by the Office of the Treasurer and Tax Collector in accordance with California Government Code Sections 27000, 53601, 53635, et. al. In order of priority, the objectives of this Investment Policy are safety, liquidity, and return on investments. Safety of principal is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to meet all expected expenditures for at least the next six months. The Treasurer is required by State law and the Investment Policy to certify each month to the City Controller, the Mayor, and the Board of Supervisors that the City's investment portfolio meets this liquidity requirement. The Office of the Treasurer and Tax Collector also attempts to generate a market rate of return, without undue compromise of the first two objectives.

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. The Investment Policy is also posted at the Treasurer's website: www.sftreasurer.org. The information available on such website is not incorporated herein by reference.

**Investment Portfolio**

As of August 31, 2011, the City's surplus investment fund consisted of the investments classified in Table A-18, and had the investment maturity distribution presented in Table A-19.

*TABLE A-18*

**City and County of San Francisco**
**Investment Portfolio**
**Pooled Funds**
**As of August 31, 2011**

| Type of Investment | Par Value | Book Value | Market Value |
|---|---|---|---|
| Agency | $ 2,906,770,000 | $ 2,913,755,660 | $ 2,954,154,891 |
| Treasury Liquidity Guarantee Program | 671,000,000 | 682,602,350 | 679,482,813 |
| Treasury | 350,000,000 | 350,955,078 | 358,297,500 |
| Negotiable Certificates of Deposit | 150,000,000 | 150,000,000 | 150,019,589 |
| Commercial Paper | 50,000,000 | 49,877,500 | 49,994,750 |
| State and Local Obligations | - | - | - |
| Medium Term Notes | 65,750,000 | 67,559,768 | 67,390,195 |
| Banker's Acceptances | - | - | - |
| Public Time Deposits | 350,000 | 350,000 | 350,000 |
| Money Market Funds | - | - | - |
| Total | $ 4,193,870,000 | $ 4,215,100,356 | $ 4,259,689,738 |

August 2011 Earned Income Yield: 1.28%

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

*TABLE A-19*

**City and County of San Francisco**
**Investment Maturity Distribution**
**Pooled Funds**
**As of August 31, 2011**

| Maturity in Months | Par Value | Percentage |
|---|---|---|
| 0 to 1 | $ 225,000,000 | 5.36% |
| 1 to 2 | - | 0.00% |
| 2 to 3 | - | 0.00% |
| 3 to 4 | 150,000,000 | 3.58% |
| 4 to 5 | 20,000,000 | 0.48% |
| 5 to 6 | - | 0.00% |
| 6 to 12 | 632,650,000 | 15.09% |
| 12 to 24 | 572,000,000 | 13.64% |
| 24 to 36 | 546,950,000 | 13.04% |
| 36 to 48 | 767,535,000 | 18.30% |
| 48 to 60 | 1,279,735,000 | 30.51% |
| | $ 4,193,870,000 | 100.00% |

Weighted Average Maturity: 971 Days

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

**Further Information**

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. The monthly reports and annual reports are available on the Treasurer's web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2010 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2010," Notes 2(d) and 5.

**CAPITAL FINANCING AND BONDS**

**Capital Plan**

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which 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 fiscal 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 advance of 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 each March 1 and adopted by the Board of Supervisors and the Mayor on or before each May 1. The fiscal year 2012-2021 Capital

Plan (the "Plan") was approved by the Capital Planning Committee on March 7, 2011 and adopted by the Board of Supervisors on March 29, 2011. The Plan contains $24.8 billion in capital investments over the coming decade for all City departments, including $4.9 billion in projects for General Fund-supported departments. The Plan proposes $77.0 million for General Fund pay-as-you-go capital projects in fiscal year 2011-12. The amount for General Fund pay-as-you-go capital projects is assumed to grow to $123 million in fiscal year 2020-21. The Plan is not incorporated by reference herein but may be found at www.sfgov.org/cpp.

Capital projects for General Fund-supported departments included in the Plan consist of upgrades to public health, police, fire and park facilities; replacement of the Hall of Justice; seismic upgrades the Veteran's Memorial Building, repairs to the high-pressure fire hydrant system; repaving of streets; and removal of barriers to accessibility, among other capital projects. Approximately $2.4 billion of the capital projects of General Fund supported departments are financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Plan recommends $11.4 billion in enterprise fund department projects to continue major transit, water and wastewater projects such as the Central Subway, Wastewater Master Plan and the Water System Improvement Program (WSIP), among others. Approximately $5.53 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund, and other sources.

Failure to make the capital improvements and repairs recommended in the Plan may have the following impacts: (i) failing to meet federal, state, or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of use of the asset; (iv) impairing the value of the City's assets; and (v) increasing future repair and replacement costs.

**Tax-Supported Debt Service**

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of September 1, 2011, the City had $1.4 billion aggregate principal amount of general obligation bonds outstanding.

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Table A-20 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

*TABLE A-20*

**CITY AND COUNTY OF SAN FRANCISCO**

**Direct Tax-Supported Debt Service**

**As of September 1, 2011[1] [2]**

| Fiscal Year | Principal | Interest | Annual Debt Service |
|---|---|---|---|
| 2012 | $100,235,807 | $64,715,785 | $164,951,592 |
| 2013 | 91,090,596 | 60,632,744 | 151,723,340 |
| 2014 | 86,617,688 | 56,311,799 | 142,929,487 |
| 2015 | 80,577,205 | 52,320,485 | 132,897,690 |
| 2016 | 84,289,270 | 48,557,280 | 132,846,550 |
| 2017 | 75,169,017 | 44,727,328 | 119,896,345 |
| 2018 | 74,816,585 | 41,218,300 | 116,034,885 |
| 2019 | 72,127,118 | 37,934,517 | 110,061,635 |
| 2020 | 68,350,773 | 34,640,175 | 102,990,948 |
| 2021 | 62,282,709 | 31,527,380 | 93,810,089 |
| 2022 | 66,128,098 | 28,651,927 | 94,780,025 |
| 2023 | 66,872,118 | 25,481,593 | 92,353,711 |
| 2024 | 66,204,959 | 22,172,176 | 88,377,135 |
| 2025 | 63,301,819 | 18,880,386 | 82,182,205 |
| 2026 | 54,412,906 | 15,696,410 | 70,109,316 |
| 2027 | 56,688,437 | 12,892,652 | 69,581,089 |
| 2028 | 58,612,267 | 9,930,924 | 68,543,191 |
| 2029 | 55,550,280 | 6,833,749 | 62,384,029 |
| 2030 | 48,433,567 | 3,857,929 | 52,291,496 |
| 2031 | 4,385,000 | 1,211,500 | 5,596,500 |
| 2032 | 4,605,000 | 992,250 | 5,597,250 |
| 2033 | 4,835,000 | 762,000 | 5,597,000 |
| 2034 | 5,075,000 | 520,250 | 5,595,250 |
| 2035 | 5,330,000 | 266,500 | 5,596,500 |
| TOTAL[3] | $1,355,991,219 | $620,736,039 | $1,976,727,258 |

[1] The City's only outstanding direct tax-supported debt is general obligation bonded indebtedness. This table does <u>not</u> 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] 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 assessment district indebtedness or any redevelopment agency agency indebtedness.

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

**General Obligation Bonds Authorized but Unissued**

Certain bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

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 $35.0 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 to the City from time to time 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, and in October 2007, the City borrowed approximately $3.8 million from the Credit Bank. In January 2008, the City borrowed approximately $3.9 million and in November 2008, the City borrowed $1.3 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.

In February 2008, voters approved Proposition A, which authorized the issuance of up to $185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately $42.5 million in August 2008. The City issued the second series in the amount of approximately $60.4 million in March 2010.

In November 2008, voters approved Proposition A, which authorized the issuance of up to $887.4 million in general obligation bonds to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center. The City issued the first series of bonds under Proposition A in the amount of approximately $131.7 million in March 2009. The City issued the second series in the amount of approximately $294.6 million in March 2010.

In June 2010, voters approved Proposition B, which authorized the issuance of up to $412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement, and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of $79.5 million in December 2010.

Table A-21 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization 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 September 1, 2011, the City had authorized and unissued general obligation bond authority of $1.165 billion.

*TABLE A-21*

**CITY AND COUNTY OF SAN FRANCISCO**

**General Obligation Bonds (as of September 1, 2011)**

| Description of Issue (Date of Authorization) | Series | Issued | Outstanding [1] | Authorized & Unissued |
|---|---|---|---|---|
| Golden Gate Park Improvements (6/2/92) | 2001A | $17,060,000 | $0 | |
| Seismic Safety Loan Program (11/3/92) | 2007A | 25,995,228 | 24,106,219 | $289,004,772 [2] |
| Steinhart Aquarium Improvement (11/7/95) | 2005F | 29,245,000 | 22,840,000 | |
| Affordable Housing Bonds (11/5/96) | 2001D | 23,000,000 | 3,515,000 | |
| Educational Facilities - Unified School District (6/3/97) | 2003B | 29,480,000 | 19,970,000 | |
| Zoo Facilities Bonds (6/3/97) | 2002A | 6,210,000 | 3,935,000 | |
| | 2005H | 7,505,000 | 5,860,000 | |
| Laguna Honda Hospital (11/2/99) | 2005A | 110,000,000 | 83,645,000 | |
| | 2005I | 69,000,000 | 61,380,000 | |
| Neighborhood Recreation and Park (3/7/00) | 2001B | 14,060,000 | 0 | |
| | 2003A | 20,960,000 | 14,195,000 | |
| | 2004A | 68,800,000 | 51,010,000 | |
| California Academy of Sciences Improvement (3/7/00) | 2004B | 8,075,000 | 5,985,000 | |
| | 2005E | 79,370,000 | 61,995,000 | |
| Branch Library Facilities Improvement (11/7/00) | 2002B | 23,135,000 | 14,675,000 | |
| | 2005G | 34,000,000 | 26,565,000 | |
| | 2008A | 31,065,000 | 27,880,000 | |
| Clean & Safe Neighborhood Parks (2/5/08) | 2008B | 42,520,000 | 38,370,000 | |
| | 2010B | 24,785,000 | 17,870,000 | |
| | 2010D | 35,645,000 | 35,645,000 | 82,050,000 |
| San Francisco General Hospital and Trauma Center (11/4/08) | 2009A | 131,650,000 | 112,395,000 | |
| | 2010A | 120,890,000 | 87,145,000 | |
| | 2010C | 173,805,000 | 173,805,000 | 461,055,000 |
| Earthquake Safety and Emergency Response Bond (6/8/10) | 2010E | 79,520,000 | 77,845,000 | 332,780,000 |
| **SUB TOTALS** | | **$1,205,775,228** | **$970,631,219** | **$1,164,889,772** |
| General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02 | | 118,945,000 | 23,520,000 | |
| 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 10/31/06 | | 90,690,000 | 69,800,000 | |
| General Obligation Refunding Bonds Series 2006-R2 issued 12/18/06 | | 66,565,000 | 39,125,000 | |
| General Obligation Refunding Bonds Series 2008-R1 issued 5/29/08 | | 232,075,000 | 100,025,000 | |
| General Obligation Refunding Bonds Series 2008-R2 issued 5/29/08 | | 39,320,000 | 30,965,000 | |
| General Obligation Refunding Bonds Series 2008-R3 issued 7/30/08 | | 118,130,000 | 118,130,000 | |
| **TOTALS** | | **$1,893,430,228** | **$1,355,991,219** | **$1,164,889,772** |

[1] 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 assessment district indebtedness or any redevelopment agency indebtedness.

[2] Of the $35,000,000 authorized by the Board of Supervisors in February 2007, $24,939,429 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.

**Refunding General Obligation Bonds**

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 then outstanding General Obligation Bonds. The City has issued six series of refunding bonds under the Resolution as shown on Table A-22:

*TABLE A-22*

**CITY AND COUNTY OF SAN FRANCISCO**
**General Obligation Refunding Bonds**

| **Series Name** | **Date Issued** | **Principal Amount Issued (Millions)** |
|---|---|---|
| 2004-R1 | June 2004 | $21.9 |
| 2006-R1 | October 2006 | 90.7 |
| 2006-R2 | December 2006 | 66.6 |
| 2008-R1 | May 2008 | 232.1 |
| 2008-R2 | May 2008 | 39.3 |
| 2008-R3 | July 2008 | 118.1 |

**Lease Payments and Other Long-Term Obligations**

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financing expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-23 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 September 1, 2011. Note that the annual payment obligations reflected in Table A-23 include the fully accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

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*TABLE A-23*

**CITY AND COUNTY OF SAN FRANCISCO**
**Lease Revenue Bonds, Certificates of Participation,**
**and San Francisco Redevelopment Agency Bonds**
**As of September 1, 2011**

| Fiscal Year | Principal | Interest | Annual Payment Obligation |
|---|---|---|---|
| 2012 | $43,875,763 | $64,273,690 | $108,149,453 |
| 2013 | 45,181,157 | 63,015,311 | 108,196,468 |
| 2014 | 51,296,550 | 61,555,001 | 112,851,551 |
| 2015 | 55,560,751 | 54,925,759 | 110,486,510 |
| 2016 | 55,320,000 | 47,320,303 | 102,640,303 |
| 2017 | 53,390,000 | 44,745,965 | 98,135,965 |
| 2018 | 52,560,000 | 42,208,618 | 94,768,618 |
| 2019 | 38,780,000 | 39,629,234 | 78,409,234 |
| 2020 | 40,620,000 | 37,737,163 | 78,357,163 |
| 2021 | 41,615,000 | 35,731,459 | 77,346,459 |
| 2022 | 42,675,000 | 33,740,907 | 76,415,907 |
| 2023 | 39,280,000 | 31,665,276 | 70,945,276 |
| 2024 | 45,830,000 | 29,513,388 | 75,343,388 |
| 2025 | 42,340,000 | 27,202,739 | 69,542,739 |
| 2026 | 44,320,000 | 25,052,703 | 69,372,703 |
| 2027 | 46,420,000 | 22,739,994 | 69,159,994 |
| 2028 | 46,815,000 | 20,312,888 | 67,127,888 |
| 2029 | 48,975,000 | 17,847,286 | 66,822,286 |
| 2030 | 48,405,000 | 15,304,743 | 63,709,743 |
| 2031 | 39,600,000 | 12,769,453 | 52,369,453 |
| 2032 | 28,725,000 | 10,745,023 | 39,470,023 |
| 2033 | 27,645,000 | 9,301,268 | 36,946,268 |
| 2034 | 28,980,000 | 7,803,955 | 36,783,955 |
| 2035 | 16,305,000 | 6,467,599 | 22,772,599 |
| 2036 | 14,395,000 | 5,567,607 | 19,962,607 |
| 2037 | 15,030,000 | 4,752,794 | 19,782,794 |
| 2038 | 15,690,000 | 3,902,287 | 19,592,287 |
| 2039 | 16,375,000 | 3,014,711 | 19,389,711 |
| 2040 | 17,095,000 | 2,088,419 | 19,183,419 |
| 2041 | 17,845,000 | 1,121,651 | 18,966,651 |
| 2042 | 9,680,000 | 313,971 | 9,993,971 |
| TOTAL [1] | $1,130,624,221 | $782,371,165 [2][3] | $1,912,995,386 |

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest payments on the Lease Revenue Bonds, Series 2008-1, and 2008-2 (Moscone Center Expansion Project) are assumed to be 3.25%. These bonds are in variable rate mode.

[3] Does not include Redevelopment Agency Bonds sold in August, 2009.

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

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued $8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

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 $20.0 million, such amount increasing by five percent each fiscal year. As of September 1, 2011, the total authorized amount for such financings was $53.1 million. The total principal amount outstanding as of September 1, 2011 was $30.2 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to $60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued $22.6 million and $23.3 million of Proposition B lease revenue bonds, respectively, leaving $14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In June 1997, voters approved Proposition D, which authorized the issuance of up to $100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the home of the San Francisco 49ers football team. If issued, the $100.0 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 approximately $27.0 million and $42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continues the two and one half cent per $100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorizes the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately $34.3 million in March 2009.

**Commercial Paper Program**

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed $150.0 million Lease Revenue Commercial Paper Certificates of Participation Program (the "CP Program"). Under the proposed CP Program, Commercial Paper Notes (the "CP Notes") will be issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term financing to be issued when market conditions are favorable. Projects will be eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. In June 2010, the City obtained letters of credit securing the CP Notes issued by J.P. Morgan Chase Bank, N.A. with a maximum principal amount of $50 million and by U.S. Bank, N.A. with a maximum principal amount of $50 million.

As of September 12, 2011, the outstanding principal amount of CP Notes is $23.5 million. The weighted average interest rate for the CP Notes is 0.13%.

**Board Authorized and Unissued Long-Term Obligations**

The Board of Supervisors authorized on December 16, 2008 and the Mayor approved on December 19, 2008, the issuance of not to exceed $45.0 million of City and County of San Francisco Certificates of Participation (Moscone Center Improvement Project), Series 2010B ""to finance improvements to the Moscone Convention Center. The proceeds from the sale of the Certificates will be used to provide funding for various improvements to the City's convention facilities known as Moscone South, Moscone North, and Moscone West. The City anticipates issuing the certificates in the Spring of 2012.

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010, the issuance of not to exceed $48,000,000 in City and County of San Francisco certificates of participation to finance various capital improvements, including street and disability access improvement projects. The City anticipates issuing the certificates in the Spring of 2012.

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010, the issuance of not to exceed $38,000,000 in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Winter of 2012.

The Board of Supervisors authorized on July 26, 2011 and the Mayor approved on August 1, 2011, the issuance of not to exceed $170,000,000 in City and County of San Francisco certificates of participation to finance the construction and installation of certain improvements in connection with the renovation of the San Francisco War Memorial Veterans Building. The City anticipates issuing the certificates in the Winter of 2012.

The Board of Supervisors authorized on September 13, 2011 and the Mayor approved on September 21, 2011 the issuance of not to exceed $110,000,000 in City and County of San Francisco refunding certificates of participation to reduce the aggregate base rental payments by refinancing, in part and/or in whole, San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002 and San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004. The City anticipates issuing the refunding certificates in October 2011.

**Overlapping Debt**

Table A-24 shows bonded debt and long-term obligations sold in the public capital markets by the City and those 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 table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the 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.

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*TABLE A-24*

**CITY AND COUNTY OF SAN FRANCISCO**

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

| | | |
|---|---|---|
| **2011-2012 Assessed Valuation** (net of non-reimbursable & homeowner exemptions): | 158,649,887,998 | |
| | **Outstanding** | |
| **DIRECT GENERAL OBLIGATION BOND DEBT** | **9/1/2011** | |
| General City Purposes Carried on the Tax Roll | $1,355,991,219 | |
| **GROSS DIRECT DEBT** | $1,355,991,219 | |
| **DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS** | | |
| San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage) | 5,455,000 | |
| San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property) | 30,720,000 | |
| San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project) | 36,850,000 | |
| San Francisco Finance Corporation, Equipment LRBs Series 2006A, 2007A, 2008A, 2010A, and 2011A | 30,235,000 | |
| San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1 | 21,550,000 | |
| San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2 | 133,400,000 | |
| San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007 | 60,580,000 | |
| San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A | 32,615,000 | |
| San Francisco Redevelopment Agency Moscone Convention Center 1992 | 10,834,221 | [1] |
| San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002 | 65,105,000 | |
| San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004 | 28,970,000 | |
| San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project) | 25,105,000 | |
| San Francisco COPs, Series 2007A and Taxable Series 2007B (City Office Buildings - Multiple Properties) | 147,535,000 | |
| San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital) | 158,540,000 | |
| San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Gas Tax) | 37,015,000 | |
| San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt | 38,120,000 | |
| San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs | 129,550,000 | |
| San Francisco Refunding Certificates of Participation, Series 2010-R1 | 138,445,000 | |
| **LONG-TERM OBLIGATIONS** | $1,130,624,221 | |
| **GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS** | $2,486,615,440 | |
| **OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | | |
| Bayshore Hester Assessment District | $740,000 | |
| San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds | 103,613,000 | |
| San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B | 108,395,650 | |
| San Francisco Community College District General Obligation Bonds - Election of 2001, 2005 | 372,240,000 | |
| San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1 | 14,385,000 | |
| San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011 | 43,780,000 | |
| San Francisco Redevelopment Agency Obligations (Property Tax Increment) | 931,966,209 | |
| San Francisco Redevelopment Agency Obligations (Special Tax Bonds) | 228,256,885 | |
| Association of Bay Area Governments Obligations (Special Tax Bonds) | 44,765,938 | |
| San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006 | 436,510,000 | |
| San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999 | 12,020,000 | |
| **TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS** | $2,296,672,682 | |
| **GROSS COMBINED TOTAL OBLIGATIONS** | $4,783,288,122 | [2] |

| **Ratios to Assessed Valuation:** | **Actual Ratio** | **Charter Req.** | |
|---|---|---|---|
| Gross Direct Debt (General Obligation Bonds) | 0.85% | < 3.00% | [3] |
| Gross Direct Debt & Long-Term Obligations | 1.57% | n/a | |
| Gross Combined Total Obligations | 3.01% | n/a | |

[1] The accreted value as of July 1, 2011 is $42,403,326

[2] Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

[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.

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized 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 $58.0 million of such authorization in October 2004, $130.0 million in October 2005 and $92.0 million in October 2006, leaving $15.0 million authorized but unissued.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco 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. Of the $980.0 million, the portion payable from the levy of *ad valorem* taxes on property within the City is approximately 29.0% or $282.0 million. Of such authorization, BART issued $100.0 million in May 2005 and $400.0 million in July 2007, of which the allocable City portion is approximately $29.0 million and $116.0 million, respectively.

On November 8, 2005, voters approved the 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 $90.0 million of the November 2005 authorization in June 2006. In December 2007, SFCCD issued an additional $110.0 million of such authorization. SFCCD issued the remaining authorization of $46.3 million in spring 2010.

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. The SFUSD issued the second series in the aggregate principal amount of $150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of $185.0 million under the Proposition A authorization in May 2010.

## MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants, and others, as well as the financial health of such buyers, tenants, and others. Further, the recent legislation to end redevelopment agencies as part of the State's fiscal year 2011-12 budget, if adopted, is likely to have an adverse impact on the projects described below and many other development projects in the City. See "CITY BUDGET – Impact of State Budget on City Budget" above. Completion and success of each development will also likely depend on other factors unknown to the City.

Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point

The first phase of development on Parcel A, which was conveyed from the Navy in 2005, is currently underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of parks and open space. Nearly all of the horizontal construction for Phase 1 is complete and the developer is preparing to commence vertical development on the first four blocks of homes in 2011. In August 2010, the development of the balance of the Shipyard and Candlestick Point received its final approvals from the Board of Supervisors. This includes (i) approximately 10,500 residential housing units across the project site, approximately 32% of which will be offered at below-market rates in a mix of both rental and for-sale housing; (ii) the complete rebuilding of the Alice Griffith Public Housing Development, also known as Double Rock; (iii) approximately 2.5 million square feet of "green" office, research and development uses on the Shipyard; (iv) approximately 150,000 square feet of green office, research and development or other commercial space on Candlestick Point; (v) more than 300 acres of new and restored parks and open space, which includes neighborhood parks, new waterfront parks around the entire perimeter of the Shipyard, connecting to the region's Bay Trail, and a major renovation of the Candlestick Point State Recreation Area into a "Crissy Field" of the southeast, with restored habitat areas and public access to the water; (vi) approximately 635,000 square feet of regional and neighborhood retail on Candlestick Point; (vii) space for a 10,000-seat performance venue on Candlestick Point; and (viii) space for a new 69,000-seat, world-class football stadium for the San Francisco 49ers football team. The Project is estimated to create thousands of ongoing construction opportunities during the 20- to 30-year construction period, and 10,000 permanent jobs at full build-out. In August 2011, the U.S. Department of Housing and Urban Development (HUD) selected the Alice Griffith Public Housing Development and the surrounding Bayview neighborhood as a recipient of the $30.5 million Choice Neighborhoods Implementation Grant. The Alice Griffith Plan was one of six finalists submitted by communities nationwide competing for HUD Choice Neighborhoods funding.

Treasure Island

Former Naval Station Treasure Island, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island, located in San Francisco Bay, and connected to the City by the San Francisco-Oakland Bay Bridge. The development plans for Treasure Island include up to 8,000 new homes, up to 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400-slip marina; restaurants; retail and entertainment venues; and a brand-new, world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is clustered around a new ferry terminal and is designed to prioritize walking, biking and public transit. The development plans include cutting-edge green office building standards and best practices in low-impact development. In August 2010, then-Mayor Gavin Newsom, U.S. House of Representatives Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, representing another major step towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. In April 2011, the Treasure Island Development Authority (TIDA) Board of Directors and the Planning Commission certified the project's Environmental Impact Report, as well as approved numerous project documents. In June 2011, the Board of Supervisors unanimously upheld the certification of the Environmental Impact Report, as well as approved numerous project documents, including a Disposition and Development Agreement, Development Agreement, Interagency Cooperation Agreement and Treasure Island Homeless Development Initiative (TIHDI) Agreement. Together, these agreements form the comprehensive vision for the future of the former military base and represent a significant milestone in moving the project closer towards implementation. The first phase of construction could begin as early as Fall 2012 and would consist primarily of horizontal infrastructure improvements to enable subsequent phases of vertical construction. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Transbay

The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open in August 2017. Demolition of existing structures on the site was completed in August 2011. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub, extend the Caltrain commuter rail line underground 1.3 miles into the Financial District, and redevelop the area surrounding the Transbay Transit Center with 4,500 new homes 1,200 to be "affordable" below-market homes), a 1.6 million square-foot tower, parks and a retail main street. The Pelli Clarke Pelli Architects-designed Center will serve more than 100,000 people per day through nine transportation systems, including the proposed California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Center, "City Park," a 5.4-acre public park that will sit atop the facility, will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The $4.2 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others. The first phase of the program, which includes constructing the new transit center, is fully funded.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 2.65 million square feet of building space on 43 acres donated by Catellus and the City; UCSF's 289-bed women's, children's and cancer hospital; 4.4 million square feet of biotech, 'cleantech' and health care office space; 6,000 housing units, with 1,800 (30%) affordable to moderate-, low-, and very low-income households; 800,000 square feet of retail space; a 500-room hotel with up to 50,000 square feet of retail entertainment uses; 41 acres of public open space, including parks along Mission Creek and San Francisco Bay, plus eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station. Mission Bay is approximately 50% complete.

America's Cup

On December 31, 2010, the City was selected to host the 34th America's Cup World Series in the summer of 2012 and the America's Cup Challenger Series and Finals in the summer of 2013. To accommodate the events, the America's Cup Event Authority will invest in a series of Waterfront improvements along the central and northeast waterfront, primarily on Piers 27-29 for the America's Cup Village and at Piers 30-32 for team bases. In time for the Challenger Series and Match events, the City will complete the Brannan Street Wharf project and construct core and shell of the Pier 27 James R. Herman Cruise Terminal building. After the conclusion of the events, the City will complete the James R. Herman Cruise Ship Terminal and Northeast Wharf Plaza. The City cannot predict the precise economic effects of hosting the event, but the City expects that sales tax and transient occupancy tax revenues will be positively impacted.

Cruise Terminal

The Port of San Francisco intends to develop a primary cruise terminal at Pier 27 to replace the existing facility at Pier 35. Pier 35 has neither the sufficient capacity to allow for the increasing length and passenger capacity of new cruise ships nor the amenities needed for an international cruise terminal. Pier 27 is currently used as a back-up berth, but does not have any amenities within its maritime shed. The proposed plan calls for the demolition of the existing Pier 27 maritime shed which opens up the site for new construction of an approximately 88,000 square foot, two-level cruise terminal with an open space, including the 2.5 acre Northeast Wharf Plaza, and ground transportation area capability. The proposed size of the terminal was defined as optimal to serve current and anticipated ship berthing requirements and associated passenger flows. The level of improvements and equipment proposed in the Pier 27 cruise terminal would be designed to optimally to handle carrying 2,600 passengers and will have the capacity to serve vessels carrying up to 4,000 passengers, totalling 40-80 cruise calls a year. The facility would continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the design of the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events. It is conceivable that a user could rent the ground transportation area and the provisioning area either in conjunction with the rental of the interior terminal spaces or as a stand-alone event space.

Subject to completion and certification of a Final EIR for this project and other regulatory approvals, demolition of the Pier 27 maritime shed (and a portion of the Pier 29 shed) and new construction of a core and shell building would commence in early 2012 and be completed approximately in a one year period to allow Pier 27 to be used on a temporary basis to the America's Cup Event Authority commencing in early 2013, as stipulated in the Host and Venue Agreement for the 34th America's Cup. After the 2013 racing events, the Port would build-out the remaining portions of the cruise terminal building (e.g., the Customs and Border Protection area), install maritime equipment, complete an operations area within a portion of Pier 29, and complete improvements to the ground transportation area and Northeast Wharf Plaza. The goal is to substantially complete this project to allow for cruise terminal operations to commence late 2014.

Bay Area Economics was commissioned to provide an economic impact study for the Pier 27 project. The study projects that the project could create approximately $29.4 million annually in direct economic activity; $42.2 million in total impacts, and generate approximately 408 jobs within San Francisco. In addition, the Bay Area Economics study projects that the project could generate approximately $900,000 annually in direct tax revenues that accrue to the City's General Fund. Regionally, Bay Area Economics estimated $43.4 million in direct impacts and $66.9 million in total impacts, and approximately 470 jobs in the Bay Area.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limits the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

### Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 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 or decreased 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 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

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 persons with disabilities 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 was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B 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.

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

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either 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 disapprove initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See "OTHER CITY TAX REVENUES" herein, for a discussion of other City taxes that could be affected by Proposition 218.

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

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 has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. 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 things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

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 it should be applied retroactively. In *McBrearty v. City of Brawley,* 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, 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 Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles,* 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State 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. See "OTHER CITY TAX REVENUES" herein. 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 the requirements of 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.

**Proposition 1A**

Proposition 1A, a constitutional amendment proposed by the State Legislature and 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. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the 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 two-thirds of both houses 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.

The amended 2009-10 State Budget includes a Proposition 1A diversion of $1.9 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amended 2009-10 State Budget diverts another $1.7 billion in local property tax revenues from local redevelopment agencies, but this is not covered by Proposition 1A, and may be subject to lawsuits by such affected local agencies.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, 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 aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

**Proposition 22**

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

**Proposition 26**

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIIIA and XIIIC of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not "imposed by a local government" are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

### Future Initiatives

The laws and Constitutional provisions described above 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.

## LITIGATION AND RISK MANAGEMENT

### Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2010, attached as Appendix B 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 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, nor materially impair the City's ability to fund current operations.

### Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. 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 in certain circumstances, including 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, with certain minor exceptions.

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 a self-supporting enterprise fund department. 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, 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. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (the Airport, MTA, the SF Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

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

The City actuarially estimates future workers' compensation costs to the City 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. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in City budgetary savings in recent years. The City continues to develop and implement programs to lower or mitigate workers' compensation costs. These programs focus on accident prevention, transitional return to work for injured workers, improved efficiencies in claims handling and maximum utilization of medical cost containment strategies.

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

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

ORO EN PAZ FIERRO EN GUERRA

## APPENDIX B

## COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2010*

* The Comprehensive Annual Financial Report may be viewed online or downloaded from the City Controller's website at http://www.sfgov.org/controller.


SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO
ORO EN PAZ
FIERRO
EN GUERRA

# CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

## Comprehensive Annual Financial Report
## Year ended June 30, 2010

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

**Ben Rosenfield**
**Controller**

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**CITY AND COUNTY OF SAN FRANCISCO**

**Comprehensive Annual Financial Report**
**Year ended June 30, 2010**

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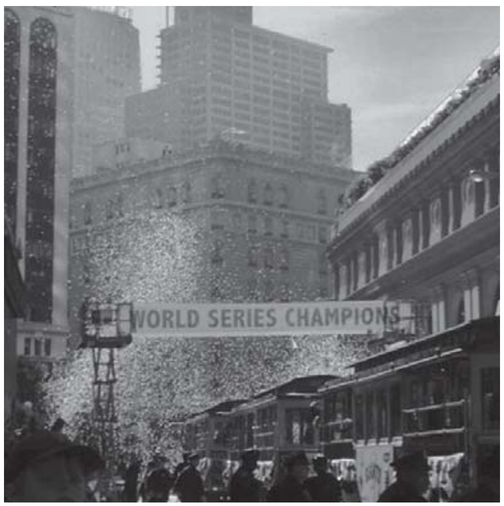
# Introductory Section

- Controller's Letter of Transmittal
- Certificate of Achievement – Government Finance Officers Association
- City and County of San Francisco Organization Chart
- List of Principal Officials






January 28, 2011

The Honorable Mayor Edwin Lee
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) for the fiscal year ended June 30, 2010 (FY 2009-2010), 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. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of 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 in 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, the San Francisco Water Enterprise, Hetch Hetchy Water and Power, the Municipal Transportation Agency, the San Francisco Wastewater Enterprise, the Port of San Francisco, the City of San Francisco Market Corporation, the City and County of San Francisco Finance Corporation, the San Francisco County Transportation Authority, the City and County of San Francisco Health Service System, the San Francisco City and County Employees' Retirement System, and the San Francisco Redevelopment 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.

## KEY FINANCIAL REPORT SECTIONS:

The **Introductory Section** includes information about the organizational structure of the City, the City's economy, major initiatives, status of City services, and cash management.

The **Financial Section** 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, and also include 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' financials are blended with the City's, such as: the San Francisco County Transportation Authority, the San Francisco 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 San Francisco Redevelopment Agency and the Treasure Island Development Authority, financial reporting is shown separately. Supplemental combining statements and schedules for non-major governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

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.

## SAN FRANCISCO'S ECONOMY:

### Overview of Recent Trends

San Francisco's economy continued to suffer in FY 2009-2010 from the effects of the recession, which struck the state and the nation in later 2007. While the previous fiscal year had been one of sharp economic decline for the City, FY 2009-2010 showed little worsening, but also no meaningful economic recovery. Unemployment began the fiscal year in July 2009 at 9.6%, and closed the fiscal year at the same rate.

Since the 1970s, San Francisco has shown a pattern of entering recessions later than the rest of the state and nation, and recovering later as well. This recession has been no exception. The national recession, which started in December 2007, did not notably affect the San Francisco job market until October 2008. Beginning in the latter half of FY 2009-2010, the U.S. economy began to see private sector job growth. However, the San Francisco Metropolitan Division, of which the City and County of San Francisco is the largest part, continued to see slow employment declines throughout the fiscal year.

With unemployment remaining at historically high levels, other local economic indicators also did not recover in FY 2009-2010. Despite growth in some areas, housing prices, residential and commercial rent, hotel revenues, industry employment, and retail sales all remained significantly below their pre-recession peaks.

Despite the length and severity of the recession, San Francisco has continued to fare better than the rest of California. Throughout FY 2009-2010, San Francisco's unemployment rate ranked between the 5th and 9th lowest of California's 58 counties. The state's unemployment rate was 12.3% in June 2010, while San Francisco's rate was 2.7 percentage points lower, at 9.6%. California was one of the handful of states that has been hit hardest by the recession, largely because of the breadth of its housing bubble, and subsequent high level of home foreclosures. San Francisco's recovery will be largely conditioned by improvements in the broader regional and state economies.

In the past, San Francisco has been slow to add employment after recessions. In the recession of the early 1990s, the City lost private sector employment for four consecutive years. During the early 2000s, employment also declined for four consecutive years. Nevertheless, San Francisco's long-term economic fundamentals—the education and creativity of its workforce; its environment, technological base, and cultural amenities—remain among the strongest of any city in the United States. These competitive advantages are likely to secure the City's continued prosperity after the current recession ends.





### Significant Economic Outcomes

Several aspects of San Francisco's recent economic performance over the past several years are discussed in more detail in the following section.

***Population: Rising Despite the Recession***

Since 2000, the California Department of Finance and the U.S. Census Bureau have released different estimates of San Francisco's population. For both calendar years 2008 and 2009, both sources indicated a relatively sizable rise in San Francisco's population over the prior years' levels. According to the Census Bureau, San Francisco had 815,358 residents as of July 1, 2009, a 0.8% increase over July 1, 2008. The Department of Finance reported San Francisco's population as 846,610 as of January 1, 2009, a 1.3% increase over the same date in 2008.

In addition, the Department of Finance has estimated San Francisco's population to be 856,095 as of January 1, 2010, a 1.1% increase over the same date in 2009. The fact that San Francisco is increasing its population—largely through migration—during the worst recession in several decades is likely due to comparatively worse economic conditions elsewhere in the state. Over the past decade, many residents of San Francisco have left the City for other, more rapidly-growing locations of California. During the recession, those areas have become less attractive to potential migrants.

***Employment Base: Job Losses Have Slowed, But No Employment Growth***

The wage and salaried employment base of San Francisco fell by 2,800 jobs between June 2009 and June 2010, a decline of 0.5%. This decline compares with a 4.9% drop in employment during FY 2008-2009, and suggests that San Francisco's employment picture has stabilized, but not recovered, in the past year. Since the City increased employment through 2008, if employment grows during 2010-2011, it will mean that this recession will actually have been comparatively mild in San Francisco. The City lost over 15% of its employment during the 2000-2004 recession, and over 7% of its employment during the 1990-1994 recession. The very high levels of unemployment witnessed in San Francisco, which exceed the unemployment in either past recession, may again have more to do with the lack of opportunities elsewhere in the state.

***Taxable Sales: Stabilization and Slow Growth***

Unlike the job market, San Francisco's taxable sales have returned to growth, with 4th quarter FY 2009-2010 sales tax revenue up 3.4% over the last quarter of FY 2008-2009. That total was still below the total for the same quarter of FY 2006-2007, however, indicating how much sales tax revenue has declined during the recession.

As San Francisco entered the recession after most of California, the City's taxable sales base grew through most of 2008. However, as of the second quarter of FY2008-2009, the City saw annual declines in taxable sales and its associated sales tax revenue. Actual taxable sales declined by double digits until the 3rd quarter of 2009-2010, before stabilizing and finally returning to growth in the last quarter.

### San Francisco's Major Industries

During both periods of expansion and recession, San Francisco's economy is driven by the global competitiveness of two primary sets of industry clusters: knowledge-based businesses centered around professional, financial, and information services, and experience-based businesses centered on tourism. San Francisco's continued economic growth will continue to hinge on the competitiveness of these key elements of its economy. In addition, a new set of emerging technology-based industries has helped diversify San Francisco's economy in recent years. Every major sector of the City's economy suffered employment declines during the recession. However, in FY 2009-2010, some sectors showed signs of recovery.

***Financial, Professional, and Business Services***

The core of San Francisco's knowledge-based economy is its large downtown concentration of corporate headquarters, banks and financial services companies, and professional services such as law firms and consultants. The competitiveness of these industry clusters is important to San Francisco's long-term economic outlook.

In June 2010, San Francisco held over 170,000 private sector jobs in financial activities and business and professional services, according to the Bureau of Labor Statistics. As a group, employment in these industries declined by approximately 2,500 jobs between June 2009 and June 2010, a 1.5% overall reduction. In California, employment in these sectors declined by 0.1% during the same period, highlighting San Francisco's later recovery. Nationally these industries grew by 0.5%.

***Tourism and Hospitality***

The other major segment of San Francisco's economic base is the tourism and hospitality industry. Like the downtown office sector, tourism experienced a strong recovery after the recession of the early 2000s, but experienced declines during the recession. Unlike the downtown office sectors, and the overall economy, the leisure and hospitality sector added jobs in San Francisco in FY 2009-2010.

There were approximately 78,250 people working in the leisure and hospitality sector in San Francisco in June 2010, according to the Bureau of Labor Statistics. This represents a gain of 1,500 jobs, or a 1.8% increase for the year. San Francisco's performance closely matched the state's 1.8% growth in the same sector, versus national growth in this sector of only 0.2%.

However, job growth in leisure and hospitality did not translate into growth for the hotel sector, which is a key barometer of San Francisco tourism. Hotel room average occupancy did rise 78.2% for the fiscal year, a growth of nearly 3 percentage points over FY 2008-2009. However, revenue per available hotel room night declined significantly during FY 2009-2010, to $155 per room-night, down from $172 per room-night in FY 2008-2009.

***Emerging Industries: Biotechnology, Digital Media, and Clean Technology***

Recombinant genetic engineering, the central innovation that created the biotechnology industry, was co-invented by a researcher at the University of California, San Francisco (UCSF) in the 1970s. Between UCSF, Stanford University, the University of California at Berkeley, and other local research institutions, the Bay Area is the leading biomedical research region in the world.

Until recently, however, few biotechnology companies were located in San Francisco itself. This has begun to change with the growth of the Mission Bay redevelopment area. Mission Bay now houses a new UCSF campus, and growing amounts of lab and incubator space for researchers and start-up companies. By FY 2009-2010, San Francisco was home to 52 life sciences companies and has 6% of the Bay Area's occupied space for biotechnology, up from just 1% in 2003. As Mission Bay continues to develop, it is expected that San Francisco's biotechnology industry will continue to grow.

These emerging technology industries, and the educational services that support San Francisco's knowledge economy, have continued to add jobs during the recession. For the eighteen months from July 2008 to December 2009, San Francisco added over 1,300 net jobs in software and internet publishing, 200 net jobs in biotechnology, 80 net jobs in environmental consulting, and over 800 net jobs in higher education.





**SAN FRANCISCO GOVERNMENT:**

**Profile of San Francisco 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. Key public services provided by the City include public safety and protection, public transportation, water and sewer, parks and recreation, public health, social services and land-use and planning regulation. 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 and fund 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.

The voters adopted Proposition A in November 2009, which institutes a series of changes designed to improve the City's long-term financial management. The measure requires the City to prepare and regularly update a five-year financial plan by July 1$^{st}$, 2011, adopt a two-year budget by August 1$^{st}$, 2012, and provides a mechanism for the Controller to propose and the Board to adopt a set of binding financial policies. The Board approved the first set of these policies, governing the City's budget reserve practices, early in 2010.

**Key Government Initiatives**

San Francisco's economy depends on investments in infrastructure that benefit City residents, workers, visitors, and businesses. These economic foundations range from housing and commercial development, to transportation infrastructure, investments in health and human services, and the City's quality of life. The City is taking steps to strengthen this infrastructure, to support San Francisco's economic recovery and long-term prosperity. Some important initiatives are described below.

**Key Initiatives: Housing and Commercial Development**

San Francisco's recovery and future economic growth depends on meeting the demand for new residential and commercial space. Despite the recession, the City continued to make significant progress on these objectives.

***Treasure Island Redevelopment***

On August 17, 2010, the City and the Navy signed the terms for the conveyance of former Naval Station Treasure Island (NSTI) from the Navy to the City. The terms of the agreement include a guaranteed payment to the Navy of $55 million followed by an interim payment of another $50 million, plus an additional share of potential further profits. The City, acting by and through the Treasure Island Development Authority (TIDA) as the local reuse authority, is responsible for the long-term redevelopment of Treasure Island. Over the past decade, the City has crafted redevelopment plans for what has been widely heralded as one of the most environmentally sustainable developments in U.S. history.

These plans include a mixed-use development containing a new commercial town center and residential neighborhood with up to 8,000 new homes (30% of which will be below market rate homes including for hundreds of formerly homeless through the nationally-recognized Treasure Island Homeless Development Initiative), two hotels, and hundreds of acres of parks and open space. The project will generate thousands of construction jobs annually for the 10-20 year life of the project. Once realized, Treasure Island will generate over 3,000 permanent jobs. The project is on track to complete its environmental review and to have final approvals in the first half of 2011, with construction beginning as early as the end of 2011.

***Hunters Point Shipyard Redevelopment***

The redevelopment project for the Hunters Point Shipyard, a former naval base, includes plans for a master-planned community totaling approximately 500 acres, located along the southeastern waterfront of San Francisco. The redevelopment plan amendments for the Shipyard and Bayview Hunters Point were approved by the Board in August 2010 along with other necessary land use, financing and land transfer legislation to provide for the integrated planning and development of the Shipyard and the Candlestick Point (approximately 280 acres) consistent with Proposition G approved by the voters in 2008. Development of the Shipyard is a public-private partnership between the City, the Redevelopment Agency and a private development team.

The first phase of the Shipyard's development is already underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of open space. The balance of the Shipyard development will be built in conjunction with Candlestick Point as one development project. This second phase of the program provides for an additional 10,500 new housing units, 32% of which will be affordable, including the rebuilding of the Alice Griffith public housing development. The second phase also includes up to three million square feet of research and development space centered around a clean tech business incubator and the headquarters for the United Nations Global Compact Sustainability Center, which will be located in the project area. The redevelopment plan also includes over 300 acres of parks and open space, including a complete renovation of the Candlestick Point State Recreation area, and a potential stadium site.

**Key Initiatives: Transportation Infrastructure**

San Francisco's economic recovery and future development will raise demand for transportation and create a need for increased infrastructure investment. The City is planning for this growth across all modes, including bus, rail, and air.

***The Transbay Transit Center***

Rising freeway congestion in the Bay Area make it critical for the region to have the ability to rapidly bring large numbers of workers into a transit-accessible employment center. Downtown San Francisco can serve this function better than any other area in the region, and the Transbay Center will significantly strengthen this capacity. Plans for a multi-modal hub located in the City's core – the Transbay Transit Center – are targeted to meet this need.

The Transbay Transit Center will initially provide expanded bus service to and from surrounding counties at the site of the former Transbay Terminal in downtown San Francisco. The Transbay Transit Center Program also includes a below-grade extension of Caltrain to the new Transit Center building and pedestrian connections to the City's MUNI Metro and the Bay Area Rapid Transit (BART) subways. The new Transit Center will eventually accommodate not only buses and commuter trains, but also a California High-Speed Rail Line. The Program was environmentally cleared in 2005 and demolition of the Transbay Terminal began in 2010. The new Center will open in 2017.





Adjacent to the Transbay Transit Center will be a mixed use Transit Tower, the development of which will fund much of the transit infrastructure. The project's design and development competition resulted in three teams responding, including some of the world's most prominent architects and developers. In May 2008, the Transbay Joint Powers Authority (TJPA) Board of Directors officially agreed to hire Pelli Clarke Pelli Architects to design the proposed Transbay Transit Center, and its partner Hines to develop the Transit Tower.

The Transbay Transit Center is a singular expression of transit-oriented development. It includes plans for very tall nearby buildings that will effectively shift the heart of downtown, and create the "Grand Central of the West". The Center will be critical for the future of the local and regional economy. Rising freeway congestion in the Bay Area makes it critical for the region to have the ability to rapidly bring large numbers of workers into a transit-accessible employment center. Downtown San Francisco can serve this function better than any other area in California, and the Transbay Transit Center will significantly strengthen this capacity.

The Program is overseen by the TJPA, a six-member Board on which the City has three members. The TJPA is legally separate and financially independent and is not a component unit of the City.

***Expanded Capacity at San Francisco International Airport***

In 2008, to accommodate growth in passenger traffic and airline demand for gates, SFO embarked on a $383 million project to renovate Terminal 2 into a state-of-the-art domestic terminal. The terminal, which formerly housed international flights, closed when SFO's current International Terminal opened in December 2000. The overhaul and re-opening of Terminal 2 is a significant stimulus for the City and the Bay Area, generating an estimated 2,750 jobs. When completed in mid-April 2011, Terminal 2 will be home to American Airlines and Virgin America.

***Subway System Expansion***

The Central Subway is Phase 2 of the San Francisco Municipal Transportation Agency's Third Street Light Rail Program, one of the most significant capital investments for the nation's seventh largest transit system. Phase 1 of the 6.8-mile project, the T Third Line, began operating in April 2007 and restored light rail service to the low auto ownership population along the Third Street corridor of San Francisco for the first time in 50 years.

The Central Subway will provide rail service into Chinatown, the most densely populated area of the country not currently served by modern rail transportation. The new, 1.7-mile light rail line will serve regional destinations including Chinatown, Union Square, Moscone Convention Center, Yerba Buena, SoMa and AT&T Park, as well as connect to BART and Caltrain, the Bay Area's two largest regional commuter rail services.

The majority of funding for the Central Subway will be provided by the Federal Transit Administration's (FTA) New Starts program, with a total commitment over the life of the project of $948.4 million. Environmental clearance of the project was granted by the FTA in November 2008 and obtained FTA approval to enter Final Design on January 7, 2010. Utility relocation for the future Moscone Station and Subway Portal began in January 2010. The Central Subway is slated to open to the public in 2018.

**Key Initiatives: Health and Human Services**

Public health and human services are important to the long-run productivity of the workforce. The City offers a host of health and safety net services, including operation of two public hospitals, the administration of federal, state, and local entitlement programs, and a vast array of community-based health and human services.

***Access to Healthcare***

The City launched the Healthy San Francisco program in 2007 with the goal of increasing access to healthcare for San Francisco residents. The program creates a mandate for many businesses in San Francisco to either provide employer-paid health insurance for their employees or to pay into an expansion of the City's public health network. The program is funded with a mix of grants, employer-paid fees, and through a redirection of local funds allocated for public health services.

During this past fiscal year, the City's Department of Public Health has focused on expanding enrollment and broadening the medical provider network participating in the program. The provider network now includes a number of private and nonprofit community health care associations and hospitals. By the end of FY 2009-2010, over 53,400 uninsured adult residents had enrolled in the program, or approximately 89% of the City's estimated adult uninsured population.

***Rebuilding the City's Public Hospitals***

The City is in the process of replacing and modernizing both of its public hospitals, Laguna Honda Rehabilitation Center and San Francisco General Hospital.

The replacement of Laguna Honda Hospital was largely completed in FY 2009-2010. The $585 million project has been funded with a mix of General Obligation bonds, tobacco settlement revenues, and certificates of participation. Three new seismically-safe buildings, which will be home to 780 residents, began occupancy in December 2010.

The voters approved a General Obligation bond measure to fund the replacement of San Francisco General Hospital in November 2008. This $887 million project is required given changes to state law governing seismic requirements for hospitals. It will replace the existing facility with a new nine-story building on the existing hospital campus. The hospital is the only trauma center in San Francisco, and also acts as the safety net hospital for our residents. Preliminary excavation and utility work on the site has already commenced, with completion expected in 2015.

**Key Initiatives: Quality of Life**

In recent years, the City has completed renovation and expansion of a number of recreational and cultural facilities that serve those that live, work, and visit the City. The experiences generated by these institutions is one of the keys to maintaining the high quality of life that, in turn, serves to attract and retain the City's many visitors and residents.

***America's Cup and San Francisco's Waterfront***

On December 31, 2010, the BMW Oracle Racing team selected San Francisco to host the 34th America's Cup in 2013. The event will provide an unparalleled opportunity to showcase San Francisco and boost the City's economy by creating nearly 9,000 jobs and generating an estimated $1.4 billion in economic impact to the City and the region. The infrastructure improvements necessary to host the event will remain in place after the completion of the event, and will represent a significant physical investment in the City's northern waterfront.

***San Francisco Museum of Modern Art (SFMOMA) Expansion***

In the fall of 2009, Doris and Donald Fisher announced that their extraordinary collection of 1,100 contemporary artworks will be housed at SFMOMA – an unparalleled opportunity for San Francisco. In respect to expansion plans, the City recently approved terms for the exchange of the City's existing fire station on Howard Street in return for a newly constructed, replacement fire station on Folsom Street. The agreement, which was approved by the Board in the summer of 2010, allows for SFMOMA to proceed with a $480 million campaign and expansion on Howard Street, while providing the City with a modern replacement for its outdated fire station. The agreement translates to a gift from museum leadership to the City of over $10 million and construction of the new fire station is expected to begin in 2011.





SFMOMA recently announced that they have raised $250 million for their plan to add 100,000 square feet of new gallery and public space to the museum. Completion of fire station is expected by the end of 2012 and completion of the museum expansion is expected by the end of 2016.

***Parks and Libraries***

San Francisco voters have approved a number of bond measures to fund capital improvements to the City's parks and libraries during the past decade, most recently with the approval of a $185 million general obligation bond for improvements to neighborhood parks in February 2008. This most-recent parks improvement measure includes funds for seismic improvement, disability access, and facility renovation at key facilities and parks throughout the City, and is scheduled for completion by FY 2013-2014.

A comprehensive capital improvement program intended to renovate the City's branch library system is proceeding, with planned improvements at over half of the City's branches now complete. The $187 million program, funded with a mix of general obligation and lease-revenue bonds, focuses on seismic safety, accessibility, and modernization of facilities for current uses. The program is scheduled for completion in FY 2010-2011.

**SUMMARY:**

**Poised for Recovery**

The economic recession that had begun earlier elsewhere in the State continued to have significant impacts on San Francisco's economy throughout FY 2009-2010. Unemployment rates remained high, retail sales began a slow recovery, while housing and commercial real estate remained well below peak levels.

Corresponding tax revenue declines forced reductions in general government services and resulted in the need for mid-year budget corrections to maintain a Charter-required balanced budget. These pressures on the City's General Fund budget are expected to continue into FY 2010-2011.

As discussed above, however, San Francisco is investing in the foundations of economic development and is poised for recovery after the current recession ends. Significant investments in infrastructure and land-use projects will provide needed jobs and economic stimulus in the short-term, with long-term benefits resulting to the City and region's economic competitiveness. These investments are complemented by a number of initiatives aimed at improving the quality of life of those who live in and visit the City. In the longer term, the City and region's longstanding advantages in workforce educational attainment, research and development, entrepreneurial talent, venture capital financing, and quality of life are likely to ensure it remains among the most competitive regional economies in the world.

**Certificate of Achievement Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. This was the 28th consecutive year (fiscal years ended June 30, 1982 – 2009) 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.

**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 in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City's financial operations.

Respectfully submitted,

Ben Rosenfield
Controller



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City & County of San Francisco
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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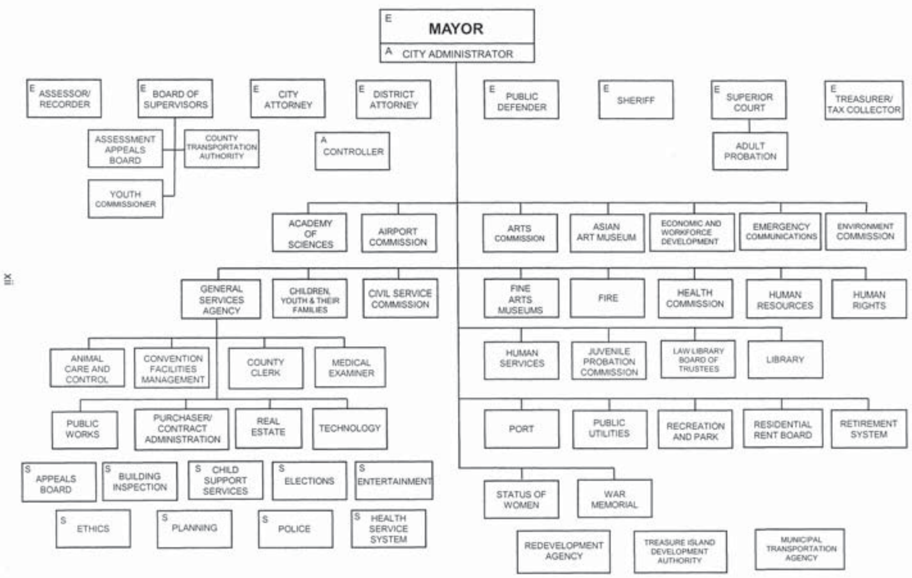
# City and County of San Francisco Organization Chart

(As of June 30, 2010)




**A** = Appointed by Mayor and confirmed by Board of Supervisors / **E** = Elected / **S** = Shared – appointed by various elected officials.

## CITY AND COUNTY OF SAN FRANCISCO

**List of Principal Officials**
As of June 30, 2010

### ELECTED OFFICIALS

| | |
|---|---|
| Mayor | Gavin Newsom |
| Board of Supervisors: | |
| President | David Chiu |
| Supervisor | Michela Alioto-Pier |
| Supervisor | Eric L. Mar |
| Supervisor | Chris Daly |
| Supervisor | Bevan Dufty |
| Supervisor | Sean Elsbernd |
| Supervisor | Carmen Chu |
| Supervisor | Sophie Maxwell |
| Supervisor | David Campos |
| Supervisor | Ross Mirkarimi |
| Supervisor | John Avalos |
| 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 | Judge James J. McBride |
| Treasurer/Tax Collector | José Cisneros |

### APPOINTED OFFICIALS

| | |
|---|---|
| City Administrator | Edwin M. Lee |
| Controller | Benjamin Rosenfield |

### DEPARTMENT DIRECTORS/ADMINISTRATORS

| | |
|---|---|
| Airport | John L. Martin |
| Appeals Board | Cynthia Goldstein |
| Arts Commission | Luis Cancel |
| Asian Art Museum | Jay Xu |
| Board of Supervisors | Angela Calvillo |
| Assessment Appeals Board | Dawn Duran |
| County Transportation Authority | José Luis Moscovich |
| Building Inspection | Vivian Day |
| California Academy of Sciences | Gregory C. Farrington, Ph.D. |
| Child Support Services | Karen M. Roye |
| Children, Youth and Their Families | Maria Su |
| Civil Service | Anita Sanchez |
| Economic and Workforce Development | Michael Cohen |
| Elections | John Arntz |
| Emergency Management | Vicki Hennessy (acting) |
| Entertainment | Robert Davis |
| Environment | David Assmann (acting) |
| Ethics | John St. Croix |
| Fine Arts Museums | John E. Buchanan, Jr. |
| Fire | Joanne Hayes-White |



CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials
As of June 30, 2010

### DEPARTMENT DIRECTORS/ADMINISTRATORS (Continued)

| | |
|---|---|
| General Services Agency | |
| Animal Care and Control | Rebecca Katz |
| Convention Facilities Management | John Noguchi |
| County Clerk | Karen Hong Yee |
| Medical Examiner | Amy P. Hart, M.D. |
| Public Works | Ed Reiskin |
| Purchaser/Contract Administration | Naomi Kelly |
| Real Estate | Amy L. Brown |
| Department of Technology | Chris Vein |
| Health Service System | Catherine Dodd |
| Human Resources | Micki Callahan |
| Human Rights | Theresa Sparks |
| Human Services | Trent Rhorer |
| Aging and Adult Services | Anne Hinton |
| Juvenile Probation | William P. Siffermann |
| Law Library Board of Trustees | Marcia Bell |
| Library | Luis Herrera |
| Municipal Transportation Agency | Nathaniel P. Ford, Sr. |
| Planning | John Rahaim |
| Police | George Gascon |
| Office of Citizen Complaints | Joyce M. Hicks |
| Port | Monique Moyer |
| Public Health | Mitchell H. Katz, M.D. |
| Public Utilities | Edward Harrington |
| Recreation and Park | Phil Ginsburg |
| Residential Rent Board | Delene Wolf |
| Retirement System | Gary A. Amelio |
| Small Business | Regina Dick-Endrizzi |
| Status of Women | Emily Murase |
| Superior Court | Claire A. WIlliams |
| Adult Probation | Wendy S. Still |
| War Memorial | Elizabeth Murray |

### DISCRETELY PRESENTED COMPONENT UNITS

| | |
|---|---|
| Redevelopment Agency | Fred Blackwell |
| Treasure Island Development Authority | Mirian Saez |

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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

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

**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 City and County of San Francisco, California (City), as of and for the year ended June 30, 2010, 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, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, which collectively represent the following percentages of assets and deferred outflows, net assets/fund balances and revenues/additions as of and for the year ended June 30, 2010.

| Opinion Unit | Assets and Deferred Outflows | Net Assets/ Fund Balances | Revenues/ Additions |
|---|---|---|---|
| Business-type activities | 91% | 84% | 72% |
| Aggregate remaining fund information | 1% | 0% | 10% |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2009 basic financial statements and, in our report dated December 23, 2009, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.



In our opinion, based on our audit and the reports of the 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, 2010, 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.

As discussed in Note 2(r) to the basic financial statements, effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

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, 2009, 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 of inquiries of management regarding the methods of measurement and the 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 statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
January 28, 2011

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, 2010. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2008-2009 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2009-2010 basic financial statements.

## FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately $5.97 billion (net assets). Of this balance, $5.70 billion represents the City's investment in capital assets net of related debt and $647.5 million represents restricted net assets. This is offset by a deficit in unrestricted net assets of $377.6 million. The City's total net assets decreased by $96.5 million or 1.6 percent over the previous fiscal year. Of this amount, total capital assets net of related debt and restricted assets increased by $113.0 million and were offset by a $209.5 million decrease in unrestricted net assets. The decrease in unrestricted net assets is primarily due to recognition of $239.5 million other postemployment benefit expense in the fiscal year.

The City's governmental funds reported total revenues of $3.79 billion, a $109.9 million or 3.0 percent increase over the prior year. Within this, revenues from property taxes, other local taxes, and intergovernmental grants grew by approximately $59.6 million, $68.1 million and $55.4 million respectively. At the same time, there was a decline in revenues from charges for services, business taxes and hotel room taxes. Governmental funds expenditures totaled $3.77 billion for this period, a $121.4 million or 3.3 percent increase, reflecting increases in demand for governmental services of $51.0 million, debt service payments of $40.4 million and capital outlay of $30.0 million.

At the end of the fiscal year, the City's General Fund unreserved fund balance decreased from the prior year's $28.2 million by $30.2 million to a deficit of $2.0 million. The primary cause of this decrease was the increasing unavailable amounts from delays in cash receipts of state intergovernmental reimbursements.

The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by $2.06 billion during this fiscal year. The City issued a total of $3.90 billion in debt this year. Of this amount, a total of $355.1 million in general obligation bonds were issued for improvements for the San Francisco General Hospital and neighborhood parks. In addition, $37.9 million in certificates of participation were issued for multiple street improvement projects. The San Francisco International Airport issued a total of $1.72 billion Revenue Bonds. Of this, $485.8 million was for renovation and other capital plans and $1.23 billion was for bond refunding and restructuring of long-term debt to take advantage of lower interest rates. The San Francisco Water Enterprise issued $1.31 billion in revenue bonds to retire commercial paper notes and certain outstanding revenue bonds, and to provide new money for capital projects of the massive Water System Improvement Program. The San Francisco Wastewater Enterprise issued $239.6 million in revenue bonds to retire commercial paper notes and provide funding for Wastewater Enterprise capital improvement projects. The City issued $167.7 million in Certificates of Participation to fund the construction of the future headquarters of the San Francisco Public Utilities Commission at 525 Golden Gate Avenue.



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Continued)
Year ended June 30, 2010

## 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**

| | | | | | |
|---|---|---|---|---|---|
| CAFR | Introductory Section | ***INTRODUCTORY SECTION*** | | | |
| | | + | | | |
| | Financial Section | **Management's Discussion and Analysis** | | | |
| | | **Government-wide Financial Statements** | **Fund Financial Statements** | | |
| | | | **Governmental Funds** | **Proprietary Funds** | **Fiduciary Funds** |
| | | Statement of net assets | Balance Sheet | Statement of net assets | Statement of fiduciary net assets |
| | | Statement of activities | Statement of revenues, expenditures, and changes in fund balances | Statement of revenues, expenses, and changes in fund net assets | Statement of changes in fiduciary net assets |
| | | | Budgetary comparison statement | Statement of cash flows | |
| | | Notes to the Financial Statements | | | |
| | | **Required Supplementary Information Other Than MD&A** | | | |
| | | Information on individual non-major funds and other supplementary information that is not required | | | |
| | | + | | | |
| | Statistical Section | ***STATISTICAL SECTION*** | | | |

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 funds balance sheet and the governmental funds 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 funds balance sheet and in the governmental funds 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 Enterprise (Water), 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 and other postemployment 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 and other postemployment benefits.





## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net Assets**
**June 30, 2010**
(in thousands)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Assets and deferred outflows:** | | | | | | |
| Current and other assets | $ 2,165,396 | $ 1,982,121 | $ 3,638,011 | $ 2,106,943 | $ 5,803,407 | $ 4,089,064 |
| Capital assets | 3,177,822 | 3,028,915 | 10,056,170 | 9,460,894 | 13,233,992 | 12,489,809 |
| Deferred outflows | - | - | 89,505 | 57,157 | 89,505 | 57,157 |
| Total assets and deferred outflows | 5,343,218 | 5,011,036 | 13,783,686 | 11,624,994 | 19,126,904 | 16,636,030 |
| **Liabilities:** | | | | | | |
| Current liabilities | 1,087,991 | 955,509 | 1,139,045 | 1,248,969 | 2,227,036 | 2,204,478 |
| Noncurrent liabilities | 3,102,242 | 2,750,324 | 7,828,747 | 5,615,879 | 10,930,989 | 8,366,203 |
| Total liabilities | 4,190,233 | 3,705,833 | 8,967,792 | 6,864,848 | 13,158,025 | 10,570,681 |
| **Net assets:** | | | | | | |
| Invested in capital assets, net of related debt * | 1,833,733 | 1,725,203 | 4,240,971 | 4,204,644 | 5,699,016 | 5,630,550 |
| Restricted * | 382,070 | 371,831 | 278,084 | 231,107 | 647,460 | 602,938 |
| Unrestricted (deficit) * | (1,062,818) | (791,831) | 296,839 | 324,395 | (377,597) | (168,139) |
| Total net assets | $ 1,152,985 | $ 1,305,203 | $ 4,815,894 | $ 4,760,146 | $ 5,968,879 | $ 6,065,349 |

* See note 2(k)

**Analysis of Net Assets**

Net assets may serve as a useful indicator of the government's financial position. As noted earlier, at the end of fiscal year 2009-2010, the City's total net assets exceeded liabilities by $5.97 billion.

The largest portion of the net assets reflects the City's $5.70 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 95.5 percent of the City's total net assets, a 1.2 percent increase over the prior year, and is largely due to growth in net capital assets in the governmental activities as well as at Laguna Honda Hospital, MTA and Port which are business-type activities of the City. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the debt related to these assets must come from other sources since the capital assets themselves cannot be liquated to pay that liability.

Another portion of the City's net assets, $647.5 million (10.9 percent) represents restricted resources that are subject to external limitations regarding their use. The governmental activities have a $1.06 billion deficit in the unrestricted net assets component, due largely to an increase in transfers to business-type activities and the continual recognition of other postemployment benefit expense, in conformance with GASB Statement No. 45 requirements. Another contribution to the governmental activities deficit unrestricted net assets is a total of $388.4 million of long-term bonds used for the rebuilding and improving Laguna Honda Hospital and to fund certain park facilities projects at the Port (see Note 2(k)). The business-type activities reported positive balances in all categories of net assets at the end of this fiscal year.

**Changes in Net Assets**
**Year Ended June 30, 2010**
(in thousands)

| | Governmental activities 2010 | Governmental activities 2009 | Business-type activities 2010 | Business-type activities 2009 | Total 2010 | Total 2009 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 376,688 | $ 392,411 | $ 2,158,042 | $ 2,034,269 | $ 2,534,730 | $ 2,426,680 |
| Operating grants and contributions | 997,091 | 909,695 | 182,572 | 186,805 | 1,179,663 | 1,096,500 |
| Capital grants and contributions | 50,349 | 44,048 | 180,253 | 107,118 | 230,602 | 151,166 |
| General revenues: | | | | | | |
| Property taxes | 1,345,040 | 1,302,071 | - | - | 1,345,040 | 1,302,071 |
| Business taxes | 354,019 | 388,653 | - | - | 354,019 | 388,653 |
| Sales and use tax | 164,769 | 172,794 | - | - | 164,769 | 172,794 |
| Hotel room tax | 186,849 | 214,460 | - | - | 186,849 | 214,460 |
| Utility users tax | 94,537 | 89,801 | - | - | 94,537 | 89,801 |
| Other local taxes | 194,070 | 126,017 | - | - | 194,070 | 126,017 |
| Interest and investment income | 27,877 | 35,434 | 44,471 | 49,691 | 72,348 | 85,125 |
| Other | 54,410 | 44,086 | 176,064 | 181,759 | 230,474 | 225,845 |
| Total revenues | 3,845,699 | 3,719,470 | 2,741,402 | 2,559,642 | 6,587,101 | 6,279,112 |
| **Expenses** | | | | | | |
| Public protection | 1,089,309 | 1,109,311 | - | - | 1,089,309 | 1,109,311 |
| Public works, transportation and commerce | 225,589 | 254,955 | - | - | 225,589 | 254,955 |
| Human welfare and neighborhood development | 933,039 | 908,449 | - | - | 933,039 | 908,449 |
| Community health | 599,741 | 608,733 | - | - | 599,741 | 608,733 |
| Culture and recreation | 310,063 | 319,994 | - | - | 310,063 | 319,994 |
| General administration and finance | 221,471 | 238,601 | - | - | 221,471 | 238,601 |
| General City responsibilities | 80,246 | 72,634 | - | - | 80,246 | 72,634 |
| Unallocated Interest on long-term debt | 102,635 | 93,387 | - | - | 102,635 | 93,387 |
| Airport | - | - | 661,044 | 683,335 | 661,044 | 683,335 |
| Transportation | - | - | 897,500 | 863,218 | 897,500 | 863,218 |
| Port | - | - | 73,573 | 71,778 | 73,573 | 71,778 |
| Water | - | - | 325,242 | 277,162 | 325,242 | 277,162 |
| Power | - | - | 119,109 | 96,228 | 119,109 | 96,228 |
| Hospitals | - | - | 842,488 | 820,236 | 842,488 | 820,236 |
| Sewer | - | - | 201,403 | 184,977 | 201,403 | 184,977 |
| Market | - | - | 1,119 | 1,144 | 1,119 | 1,144 |
| Total expenses | 3,562,093 | 3,606,064 | 3,121,478 | 2,998,078 | 6,683,571 | 6,604,142 |
| Increase/(decrease) in net assets before transfers | 283,606 | 113,406 | (380,076) | (438,436) | (96,470) | (325,030) |
| Transfers | (435,824) | (393,259) | 435,824 | 393,259 | - | - |
| Change in net assets | (152,218) | (279,853) | 55,748 | (45,177) | (96,470) | (325,030) |
| Net assets at beginning of year | 1,305,203 | 1,585,056 | 4,760,146 | 4,805,323 | 6,065,349 | 6,390,379 |
| Net assets at end of year | $ 1,152,985 | $ 1,305,203 | $ 4,815,894 | $ 4,760,146 | $ 5,968,879 | $ 6,065,349 |

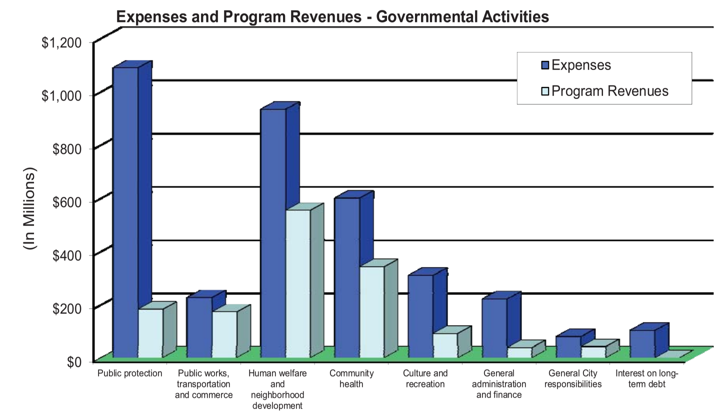
## Analysis of Changes in Net Assets

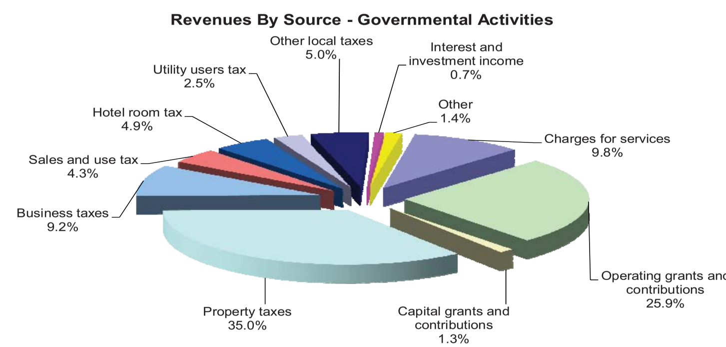
The City's total net assets decreased by $96.5 million during fiscal year 2009-2010. The governmental activities had a net assets decrease of $152.2 million whereas the business-type activities realized an increase of $55.7 million. With the exception of San Francisco Water Enterprise and General Hospital, all of the City's business type activities contributed to this growth. The former enterprises had decreases in net assets totaling $72.4 million while the others, including Airport, Hetch Hetchy, Laguna Honda, MTA, Wastewater Enterprise and Port reported a total growth of $128.1 million in net assets. Laguna Honda, with a $66.5 million increase in net assets accounted for 51.9% of this improvement.





The City's governmental activities experienced a $126.2 million or 3.4 percent growth in total revenues. This included a $87.4 million growth in operating grants and contributions, a $68.1 million rise in other local tax and a $43.0 million increase in property tax with a slight growth in capital grants, utility user taxes, and other revenues. These improvements were partly offset by a decline in other revenue sources including a $34.6 million decrease in business taxes, a $27.6 million drop in hotel room tax and a $15.7 million reduction in charges for services. The City's governmental activities expenses reported a moderate reduction of $44.0 million or 1.2 percent this fiscal year. The combined net revenue growth and expenditure reduction were largely offset by the increase of $42.6 million in net transfer to business-type activities. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.



**Governmental activities.** Governmental activities decreased the City's total net assets by approximately $152.2 million. Key factors contributing to this year's change are discussed below.

Overall, total revenues from governmental activities were $3.85 billion, a $126.2 million or 3.4 percent increase over the prior year. For the same period, expenses totaled $3.56 billion before transfers of $435.8 million, resulting in a total net assets decrease of $152.2 million by June 30, 2010.

Property taxes revenue grew moderately, by $43.0 million or 3.3 percent. Other local taxes revenue grew by $68.1 million, of which $34.7 million were from Property Transfer Tax due to the passage of Proposition N in November 2008. Proposition N increased the transfer tax rate from 0.75% to 1.5% for all transactions valued over $5 million. That, coupled with an increase in very large commercial transactions during the fiscal year, significantly contributed to the revenue growth. There was also a $31.1 million revenue increase from the Access Line Tax, due, in part, to fiscal 2009-2010 being the first full year for this revenue source. Proposition O was passed by voters in November 2008 with an effective date of April 2009. This Proposition eliminated the 911 Emergency Response Fee and replaced it with a per-line Access Line Tax of the same amount.

The operating and capital grants and contributions reported a growth of $93.7 million. This was largely due to the increases from federal sources, including $66.9 million for human welfare programs, $23.1 million for public protection and $25.3 million for public works. These were partly reduced by a combined decrease of $21.6 million in other governmental activities.

Revenues from business, hotel, and sale taxes totaled approximately $705.6 million, which represents a $70.3 million decrease over the prior year. This was due primarily to the decrease in business taxes by $34.6 million, 8.9 percent, and the decrease in sales and use taxes by $8.0 million, 4.6 percent. The continued recession was a significant factor in both cases. In addition, hotel room taxes decreased by $27.6 million, 12.9 percent, reflecting a drop in hotel room charges per night from $172 per room-night to $155 per room-night.

Total charges for services revenues dropped this year by $15.7 million, or 4.0 percent. Within this, there was an increase of $11.6 million in litigation settlements and about $7.8 million in rents and concessions and parking revenues. These increases were partially offset by a drop of $37.0 million from 911 fees because that revenue source was replaced by the Access Line Tax in this fiscal year.

Interest and investment income revenue decreased by $7.6 million, or 21.3 percent, primarily due to declining interest rates on the City's pooled investments. Those dropped from an estimated 2.56 percent to 1.38 percent over the year. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other government agencies short-term investments. As interest rates fell and stayed low for short term investments, the City added investments with longer maturities that had higher interest yields. As of June 30, 2010, 80.5% of the pooled investments will mature within 1 to 5 years compared to 54.4% last fiscal year. At the end of this fiscal year, deposits and investments with the City Treasury grew by $1.25 billion, or 41.8%, of which $203.0 million was for unspent general obligation bond proceeds issued in the fiscal year to fund the General Hospital rebuild project and $1.05 billion represented the unspent proceeds from revenue bonds issued by business-type activities in the fiscal year to fund various major capital improvement projects.

Net transfers to business-type activities were $435.8 million, a 10.8 percent or $42.6 million increase over the prior fiscal year. The net increase was mainly due to a decrease of transfers to the General Fund by the City's hospitals. In this fiscal year, Laguna Honda Hospital reimbursed the General Fund for $2.1 million capital expenditures compared to its $50.9 million expenditure reimbursement in the prior year. The General Fund's operating subsidies to MTA, General Hospital and Laguna Honda Hospital were about $402.9 million this fiscal year, substantially the same as last year's total of $401.2 million.

The decrease in total governmental expenses of $44.0 million or 1.2 percent was primarily due to a reduction in net other postemployment benefits (OPEB) costs as discussed in Note 9(d).

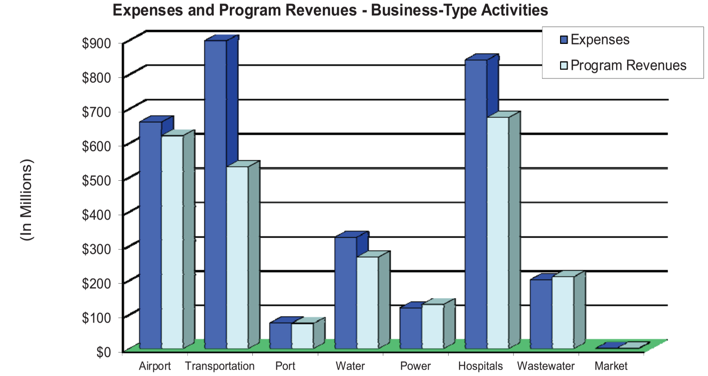




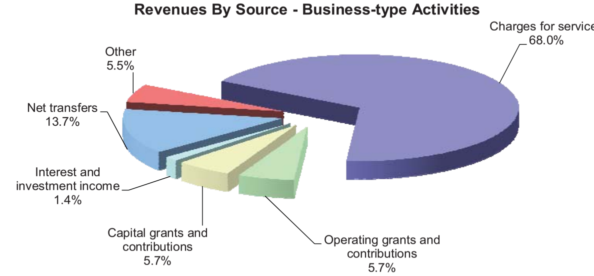
There was a total decrease of $85.4 million in expenses for public protection, public works, community health, culture and recreation and general administration and finance reflecting a reduction in personnel costs. These decreases were partly offset by an increase of $24.6 million in the human welfare and neighborhood services functions due to growth in social services and community-based programs. In addition, interest expense increased $9.2 million correlating with increases in debt obligations.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As shown, public protection is the largest function (30.6 percent), followed by human welfare and neighborhood development (26.2 percent) and community health (16.8 percent). General revenues are not shown by program or function because they are used to support activities citywide. The distribution of these revenues shows property tax (35.0 percent) as the single largest funding source, followed by operating grants and contributions (25.9 percent), charges for services (9.8 percent), and business taxes (9.2 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences.

**Expenses and Program Revenues - Business-Type Activities**




**Revenues By Source - Business-type Activities**



Business-type activities increased the City's net assets by $55.7 million. Key factors contributing to this increase are:

- The Municipal Transportation Agency (MTA) had net assets of $1.83 billion at the end of this fiscal year, essentially unchanged from the prior year, reflecting only a modest increase in assets of $4.1 million. The increase is attributable to growth in operating revenues, capital contributions and net transfers, offset by a rise in operating expenses and a decrease in nonoperating revenues. The largest portion of the MTA's net assets reflects its investment in capital assets, which totaled $3.12 billion, offset by accumulated depreciation of $1.16 billion and related debt of $50.1 million which nets to $1.92 billion reported as net assets invested in capital assets, net of related debt. The remainder of the MTA's net assets is composed of restricted net assets including deposits and investments with the City and receivables. Finally, the MTA has an unrestricted deficit net asset balance of $105.6 million, which is slightly improved over the prior year's deficit balance of $106.5 million.

- Laguna Honda Hospital, the City's skilled nursing care hospital, increased net assets by $66.5 million or 14.4 percent this year, reflecting continued progress on construction of the new hospital complex. This increase is primarily related to $68.7 million of transfers from the non-major governmental funds for the hospital's capital activities, which are supported by general obligation bonds and certificates of participation. The increase is partially offset by a transfer of $2.1 million from Laguna Honda Hospital to the General Fund to reimburse the General Fund for certain hospital capital outlay. Laguna Honda Hospital also received $16.4 million of capital contributions from Tobacco Settlement Funds to fund construction, and a $37.1 million subsidy transfer from the General Fund offset by $61.4 million in losses this year as compared to $47.9 million in losses in the prior year. The other transfers that it received came from San Francisco General Hospital for $6.1 million to fund its budgetary cost overruns and from Hetch Hetchy Water and Power for $1.7 million for energy savings reimbursements.

- General Hospital, the City's acute care hospital, ended the fiscal year with a net asset deficit of $41.9 million. Contributing to the General Hospital's change in net assets is the following: (1) An overall increase in operating revenues of approximately 8 percent primarily attributable to a 10 percent increase in Medicare billing rate in FY2010; (2) offset by rising operating expenses due primarily to escalating personnel retirement and benefit costs; and (3) increases in net transfers. Transfers in and out will vary from year to year based upon the City's budget.

- Hetch Hetchy Water and Power is composed of two segments: 1) Hetch Hetchy Water upcountry operations and water system and 2) Hetch Hetchy Power, also referred to as the Power Enterprise. A number of the facilities are joint assets and are used for both water and power operations. Hetch Hetchy Water's net assets decreased by $0.1 million from the prior year, while Hetch Hetchy Power's net assets increased by $12.1 million or 3.7 percent during the year. Contributing to this combined net increase of $12.0 million was an increase in Hetch Hetchy Power's total revenue by $9.2 million or 9.6 percent over the prior year primarily due to increased electricity sales of $5.2 million and third party sales to other municipalities and governmental agencies under Western System Power Pool agreements. Additionally, other nonoperating revenues increased by $3.8 million or 140.1 percent, which is mostly due to a $2.9 million settlement with the State Department of Water Resources (DWR) related to the Combustion Turbine project. The increased revenues were offset by increases in expenses due to increases in general liability expenses of $1.8 million and write-off of development costs of $10.2 million related to the DWR settlement mentioned above. Also, there was $11.7 million of non-capitalizable construction related activities and $2.9 million of solar incentive program expenses.

- The City's Water Enterprise is the third largest municipal water agency in California. For the fiscal year 2009-2010, it reported net assets of $415.7 million, a decrease of $46.6 million or 10.1 percent from the prior year. The primary reason for the decrease was an increase in expenses of $49.1 million or 17.7 percent, offset by an increase in revenue of $3.4 million or 3.2 percent. The latter was due to an average 15 percent increase in retail rates partially offset by a reduction in consumption. Operating expenses increased by $29.7 million due to a combination of increases in judgments and claims for$23.0 million, increased services provided by other departments for $7.5 million, and depreciation of $3.5 million. These were offset by a reduction in other operating expenses of





$5.0 million for non-capitalized project expenses and capital project write-offs. In addition, interest expense increased by $18.4 million attributable to an increase of $1.31 billion of revenue bonds.

- The City's Wastewater Enterprise had total net assets of $1.03 billion at the end of fiscal year 2009-2010. This total increased from the prior year by $14.7 million or 1.5 percent. This was primarily due to an increase in revenues of $4.5 million or 2.1 percent, $3.0 million of which was due to a rate increase offset by a reduction of other operating revenues of $1.8 and a $0.1 million reduction in interest and investment earnings due to falling interest rates and reduced cash balances. Total expenses also increased by $16.4 million or 8.9 percent due to an increase in operating expenses of $9.8 million of non-capitalized project expenses and capital project write-offs, $4.1 million of materials and supplies, $1.9 million of additional depreciation, $1.9 million increase in personal services, mainly related to retirement costs, and $0.7 million in services provided by other departments. These increased operating costs were partially offset by decreases in other operating costs of $1.8 million of contractual services for engineering and inspection services. During fiscal year 2009-2010, revenues exceeded expenses by $14.7 million. While net assets did increase, this change in net assets was less than the previous year's increase in net assets by $12.0 million or 44.8 percent.

- The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. The Port's net assets increased by $11.1 million in the 2009-2010 fiscal year. This was mainly due to $10.6 million in capital contributions from the City's general obligation bond proceeds for park and open space improvements.

- The Airport's net assets increased by $19.1 million or 7.1 percent during the current year. This is an increase of $63.1 million over the prior year's loss of $44.0 million. The increase is primarily the result of $25.5 million or 4.6 percent of additional aviation revenues, concession revenues, parking revenues, and net sales and service revenues due to increased passenger traffic. The Airport also realized decreases in the operating expenses of $4.4 million, 0.9 percent, and decreases in nonoperating expenses of $19.3 million mostly due to a decrease of $17.9 million in interest expense because the Airport refunded and restructured a large portion of its long-term debt. Also, as of June 30, 2010, the Airport's net assets invested in capital assets, net of related debt were a negative $71.2 million because of the residual effect of the Airport depreciating its assets faster than the repayment of its bonded debt.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of resources available for future spending. Such information is useful in assessing the City's financing requirements. The 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.

At the end of the current fiscal year, the City reported combined ending governmental fund balances of $999.1 million, an increase of $14.1 million or 1.4 percent over the prior year. The City realized a growth in total governmental funds revenues, including growth in property tax revenues, other local taxes and the combined federal and state revenues for a total of $190.8 million. These increases were partly offset by a decline in other taxes, including business, hotel room tax, sale and use taxes, as well as interest and investment income as discussed earlier, leaving a net increase of $109.9 million in revenues at the end of the fiscal year. In addition, charges for services decreased by $37.3 million primarily due to Proposition O replacing the 911 Emergency Response Fee, a charge for services, with a new Access Line local tax.

Within the governmental funds, the Special Revenue and Capital Projects funds had unreserved deficits of $134.2 million and $43.8 million, respectively, while the General Fund had a slight deficit of $2.0 million, offset by the Permanent Funds positive balance of $2.0 million. Combined the governmental funds total unreserved fund balance had a deficit of $178.0 million. The remainder of the fund balances in governmental funds is reserved, a measure of the fund resources already committed and not available for new spending. These commitments include support for (1) a General Fund "rainy day" reserve ($39.6 million), (2) encumbrances for existing contracts and purchase orders ($279.6 million), (3) funds continued for programs or projects in future fiscal years ($745.5 million), (4) debt service ($68.5 million) and (5) assets not available for appropriation ($43.9 million).

The General Fund is the chief operating fund of the City and had a total fund balance of $191.8 million at the end of the fiscal year. This included a reserved fund balance of $193.8 million and an unreserved deficit of $2.0 million, which reflects, in part, the delays in cash receipts for intergovernmental revenue sources. For the year, the General Fund's total revenues exceeded expenditures by $351.5 million, before transfers and other items of $461.4 million. In the aggregate, the resulting total fund balance decreased by $109.9 million for the fiscal year ended June 30, 2010. Overall, the slightly better than projected revenues, particularly in real estate property transfer taxes and hotel room taxes were offset by an increased rate of expenditure growth due to growing demand for services and personnel costs across City functions and a reduction of reimbursement of prior year capital project costs paid for the two hospital rebuild projects. The decline in total fund balance includes the effects of drawing upon the City's Rainy Day Reserves consistent with Charter provisions, with $34.2 million provided to the General Fund and $24.5 million provided to the San Francisco Unified School District.

## Proprietary Funds

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

At the end of the current fiscal year, the unrestricted net assets for the Airport were $224.1 million, the Water Enterprise $80.2 million, the Hetch Hetchy Water and Power were $173.7 million, the Wastewater Enterprise Program were $30.5 million, the Port were $32.0 million and the Market Corporation were $4.8 million. In addition, the MTA, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of $105.6 million, $92.0 million and $50.8 million, respectively.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands). As seen here, the total net assets for these funds increased by approximately $55.7 million due to current year operations. Reasons for this change are discussed in the previous section on the City's business-type activities.

| | Operating Revenues | Operating Expenses | Operating Income (Loss) | Non-Operating Revenues (Expense) | Capital Contributions and Others | Interfund Transfers, Net | Change In Net Assets |
|---|---|---|---|---|---|---|---|
| Airport | $ 576,738 | $ 474,206 | $ 102,532 | $ (99,490) | $ 44,204 | $ (28,100) | 19,146 |
| Water | 265,218 | 277,970 | (12,752) | (33,371) | - | (493) | (46,616) |
| Hetch Hetchy | 128,590 | 118,387 | 10,203 | 3,190 | - | (1,400) | 11,993 |
| Municipal Transportation Agency | 303,117 | 894,931 | (591,814) | 219,120 | 114,133 | 262,704 | 4,143 |
| General Hospital | 482,448 | 653,864 | (171,416) | 64,622 | - | 80,993 | (25,801) |
| Wastewater Enterprise | 209,843 | 185,512 | 24,331 | (9,599) | - | - | 14,732 |
| Port | 66,579 | 72,517 | (5,938) | 876 | 5,518 | 10,616 | 11,072 |
| Laguna Honda Hospital | 123,828 | 188,181 | (64,353) | 2,957 | 16,398 | 111,504 | 66,506 |
| Market Corporation | 1,681 | 1,119 | 562 | 11 | - | - | 573 |
| Total | $ 2,158,042 | $ 2,866,687 | $ (708,645) | $ 148,316 | $ 180,253 | $ 435,824 | $ 55,748 |





## 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 service employees. At the end of the current fiscal year, the net assets of the Retirement System and Health Services System combined totaled $13.2 billion, representing a $1.25 billion increase over the prior year, a 10.5 percent change. This increase is primarily a result of market increases and the net difference between contributions received by the funds and benefit payments made from the funds. The Investment Trust Fund's net assets were $582.6 million at year's end, compared to $565.4 million at the end of the previous fiscal year. This 3.0 percent increase represents the increase in additions over withdrawals or distributions to external participants of the funds in the current year.

### *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.

During the year, actual revenues and other resources were $55.3 million more than budgeted. The City realized $39.3 million, $37.3 million, $19.0 million, $7.6 million and $5.6 million more revenue than budgeted in property taxes, real property transfer tax, hotel room tax, utility users tax and fines, forfeitures, and penalties, respectively. These increases were partly offset by $53.5 million shortfall of actual revenue compared to budgeted revenue in other categories, namely, business taxes, federal grants and subventions, charges for services and other resources.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $83.5 million in expenditure savings. Major factors include:

- $24.2 million savings in the Human Services Agency, due largely to lower than budgeted client assistance and aid as well as other operating costs.
- $13.4 million in savings on general administration and finance and other general city responsibilities from salary-related expenditures and non-personnel service.
- $16.7 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2009-2010.
- $7.8 million savings mainly in Police, Emergency Communication and Fire departments from salary and benefit related expenditures.
- $8.5 million in savings due to non-personnel services costs in the Department of Public Health. In addition, the General Services Agency – Department of Public Works and Business and Economic Development had a combined savings of $4.2 million primarily from capital projects.

The net effect of moderate revenue increases, savings in expenditures and reduction in reserve balances was a positive unreserved budgetary fund balance available for subsequent year appropriation of $105.3 million at the end of fiscal year 2009-2010. The City's fiscal year 2010-2011 Adopted Original Budget assumed an available balance of $79.9 million, so an additional $25.4 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details).

**Capital Assets and Debt Administration**

**Capital Assets**

The City's capital assets for its governmental and business-type activities as of June 30, 2010, increased by $744.2 million, 6.0 percent, to $13.23 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges and intangible assets. Governmental activities contributed $148.9 million or 1.2 percent to this total while $595.3 million or 4.8 percent was from business-type activities. Details are shown in the table below.

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 155,512 | $ 155,512 | $ 179,652 | $ 180,919 | $ 335,164 | $ 336,431 |
| Construction in progress | 313,127 | 187,133 | 1,953,226 | 1,328,692 | 2,266,353 | 1,515,825 |
| Facilities and Improvement | 2,324,634 | 2,337,478 | 6,249,690 | 6,306,617 | 8,574,324 | 8,644,095 |
| Machinery and equipment | 52,504 | 58,648 | 809,949 | 785,888 | 862,453 | 844,536 |
| Infrastructure | 315,906 | 290,144 | 770,195 | 793,866 | 1,086,101 | 1,084,010 |
| Property held under lease | - | - | 24 | 2,218 | 24 | 2,218 |
| Intangible assets | 16,139 | - | 93,434 | 62,694 | 109,573 | 62,694 |
| Total | $ 3,177,822 | $ 3,028,915 | $ 10,056,170 | $ 9,460,894 | $ 13,233,992 | $ 12,489,809 |

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

- Under governmental activities, net capital assets increased by $148.9 million mainly due to the increase in construction in progress and completed assets at various park and recreational sites, branch libraries, various street improvement and traffic signal upgrades. Among the various city-wide parks, libraries, public works and traffic signal projects and building improvement projects, the General Hospital Rebuild Project which is funded with General Obligations Bonds proceeds and recorded in governmental activities grew by $86.1 million during the fiscal year. About $83.9 million worth of construction-in-progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, about $10.5 million in public library improvements and approximately $36.7 million is for various parks and recreation centers such as Hamilton Pool, Sunnyside Clubhouse, and various park improvement projects including the Golden Gate Park. The remaining completed projects include public works and traffic signal projects.

- The Water Enterprise's net capital assets increased by $363.1 million or 24.2 percent. Close to $240.1 million, or 66.1 percent, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year capital plan, including the Water System Improvement Program. Major additions to construction work included Tesla Treatment Facility, New Crystal Springs Bypass Tunnel, Bay Division Pipeline Reliability Upgrade, Irvington Tunnel alternatives, and other Water System Improvement Program (WSIP). The total estimated cost for the WSIP is $4.6 billion, including $4.1 billion for capital projects and $0.5 billion for net financing costs. The program is on target to meet an overall completion date of December 2015. During the fiscal year, there is an increase of $123.7 million or 8.7 percent in structures, buildings, equipment and intangible assets, and a decrease of $0.7 million in land and rights-of-way due to reclassification to intangible assets. The Water Enterprise has incurred 73 percent share or $28.2 million in development costs for an office building located at 525 Golden Gate Avenue. Construction started in January 2010 with an expected completion date of February 2012, with an expected occupancy date of April 2012.

- MTA's net capital assets increased by $11.3 million or 0.6 percent, compared to the previous year, which was attributed to an increase in construction work for new and existing projects with a corresponding increase in depreciation expense for existing assets. Phase II of the Third Street Light Rail Project, the "Central Subway" Project proceeded with detail design. This project will link the





existing 5.2 mile Phase I T-Line, beginning at Caltrain and 4th Street and King Streets, to BART, Union Square and Chinatown to the north. The rail replacement project and reconstruction work on overhead replacement programs are part of the ongoing program to keep the system in good repair and to replace aging parts of the track network. MTA also incurred acquisition and design costs to refurbish and modernize the farebox collection system in the subway stations, to replace the radio communication system on the fleets, light rail wheel truing machines, an on-board camera project and the renovation and rehabilitation of streetcars. Construction costs of $17.5 million was also incurred for maintenance facility projects.

- Laguna Honda Hospital's net capital assets increased by $77.6 million or 18.0 percent due primarily to construction-in-progress on the capital project to rebuild the hospital. This work is principally funded by the Laguna Honda General Obligation Bonds and the Certificates of Participation issued by the City.

- General Hospital's net capital assets decreased by $1.5 million or 2.9 percent, primarily because the rate of depreciation expense is higher than the increase in minor improvement projects. The hospital rebuild project was managed and financed by governmental activities with the second and third series of general obligation bonds totaling $294.7 million issued in the current fiscal year. The total amount approved by the voters for the rebuilt project is $887.4 million and total issued amount as of June 30, 2010 was $426.3 million.

- The Wastewater Enterprise's net capital assets reported a slight increase of $2.7 million or 0.2 percent mainly in construction activities. These include the Channel Pump Station Improvements Phase 2, Southeast Water Pollution and Odor Control Improvements, Sewer Spot Replacements and other capital projects throughout the system. The Wastewater Enterprise has incurred 15 percent share or $5.8 million in development costs for the office building at 525 Golden Gate Avenue.

- Hetch Hetchy net capital assets increased by $12.1 million or 4.4 percent during the year. Contributing to this net increase was acquisition of machinery and equipment and facilities improvements. The enterprise has a reclassification of $30 million in intangible assets of water rights and emission reduction credits from facilities and improvements asset class during the year.

- The Airport's net capital assets increased $127.4 million or 3.6 percent largely due to major capital additions including Terminal 2 Boarding Area D Renovations, Building 575 Improvements, and various other capital improvements.

- The Port's net capital assets increased by $2.3 million or 0.9 percent mainly in construction activities that include the Pier 27 shoreside electrical power, Pier 80 security improvements and other improvement projects.

At the end of the year, the City's business-type activities had approximately $1.33 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $913.6 million, MTA had $175.8 million, Wastewater had $27.1 million, Airport had $109.5 million, Hetch Hetchy had $29.7 million, Port had $7.1 million, Laguna Honda Hospital had $61.3 million and the General Hospital had $1.9 million. In addition, there was approximately $80.3 million reserved for encumbrances in capital project funds for the general government projects.

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

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 and commercial paper debt outstanding of $10.10 billion. Of this amount, $1.39 billion is general obligation bonds backed by the full faith and credit of the City and $8.71 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 notes and capital leases increased by $2.06 billion during fiscal year 2009-2010, due to the issuance of new debt in the governmental and business-type activities. The net increase in obligations due to issuance of new debt in governmental activities was $117.5 million. For the business-type activities, the net increase in obligations was $1.94 billion primarily due to the issuance of revenue bonds by almost all enterprises, except MTA, Laguna Honda, and Market Corporation, to fund various capital projects and acquisition of equipment.

The business-type activities issued a combined total of $3.31 billion revenue bonds, of which $1.23 billion was for refunding and restructuring Airport's long term debt for debt service and cash flow saving through five refunding bond transactions during the fiscal year. A number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009, the economic stimulus package enacted by Congress. Several series of Airport's revenue bonds that were traded at distressed levels due to the credit rating downgrade of the liquidity facility provided by the financial institution because of the global financial crisis and those that were subject to the AMT tender were refunded during these transactions. The Airport also issued $485.8 million of revenue bonds to fund new capital projects for the first time in about a decade. The San Francisco Water enterprise also issued a total of $1.31 billion of revenue bonds, to refund $229.6 million commercial paper notes and $14.4 million outstanding revenue bonds as well as to provide new money for the WSIP capital projects and the Advanced Meter Infrastructure project. The San Francisco Wastewater enterprise issued a total of $239.6 million revenue bonds to redeem approximately $103.5 million commercial paper notes and to fund the Sewer System Improvement Program capital projects. In addition, the City's Public Utilities Commission issued $167.7 million certificates of participation to fund construction of the future headquarters building of the San Francisco Public Utilities Commission (PUC) at 525 Golden Gate Avenue. Each of the three enterprises has an ownership interest in the building equal to their projected usage of space and each is responsible for a portion of the annual debt service payments based on their ownership percentages less contributed equity which is as follows: Water Enterprise (71.4%), Wastewater Enterprise (18.9%), and Hetch Hetchy Water and Power Enterprise (9.7%). The Port Commission issued $36.5 million in revenue bonds to provide funds for the design, construction, reconstruction and improvements to various Port facilities during the fiscal year. The City also issued $22.5 million in certificates of participation to finance the replacement of the back-up generator for the San Francisco General Hospital.

The City issued a total of $355.1 million in general obligation bonds, of which $294.7 million and $60.4 million are to fund the General Hospital rebuild project and for various park and neighborhood facilities improvement projects, respectively. Lease revenue bonds for $10.3 million were issued through the City and County of San Francisco Finance Corporation to finance equipment purchase. The City issued an additional $37.9 million in certificates of participation for the acquisition and construction of improvements to various City streets.

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 $161.79 billion in value as of the close of the fiscal year. As of June 30, 2010, the City had $1.39 billion in authorized, outstanding property tax-supported general obligation bonds at par, which is equal to approximately 0.82 percent of gross (0.86 percent of net) taxable assessed value of property. As of June 30, 2010, there were an additional $847.1 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, 2010 were:

| | |
|---|---|
| Moody's Investors Service, Inc. | Aa1 |
| Standard & Poor's | AA |
| Fitch Ratings | AA |

During the fiscal year, Moody's Investors Service (Moody's) and Fitch Ratings recalibrated the City's ratings to Aa1 and AA from Aa2 and AA-, respectively. Fitch Ratings assigned their negative rating outlook on all the City's outstanding bonds in February 2010. Moody's revised the rating outlook from stable to negative in June 30, 2010. Standard & Poor's affirmed their ratings with a stable outlook.

In November 2010, Moody's downgraded to Aa2 from Aa1 the rating on the City's general obligation bonds. Moody's also downgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds. The outlook on the City's ratings has been revised to stable.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. Fitch upgraded the Airport's long-term credit rating from "A" with a Positive Rating Outlook to "A+" with a Stable Rating Outlook. Moody's Investors Services and Standard & Poor's maintained their long-term rating of "A1" and "A" respectively. The San Francisco Water Enterprise carried underlying ratings of "Aa2" and "AA-" from Moody's and Standard & Poor's, respectively. The San Francisco Waste Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard & Poor's respectively.

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

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

The City, like the State, is expected to continue to face economic challenges over the next few years. The following economic factors were considered in the City's fiscal year 2010-2011 budget.

- San Francisco's economy has not yet recovered from the effects of the recession throughout fiscal year 2009-2010, and continues to experience high unemployment rates. In addition, housing prices, residential and commercial rent, hotel revenues, industry employment, and retail sales all remained significantly below their pre-recession peaks.
- Unemployment in San Francisco began the fiscal year in July 2009 at 9.6% and closed the fiscal year at the same rate.
- The wage and salary employment base of San Francisco fell by 2,800 jobs between June 2009 and June 2010, a decline of 0.5%. This decline compares with a 4.9% drop in employment during FY 2008-2009, and suggests that San Francisco's employment picture has stabilized, but not recovered, in the past year.
- Although there was a 1.8% increase in jobs in the leisure and hospitality sector in San Francisco and California in fiscal year 2009-2010, it did not translate into growth for the hotel sector, which is a key barometer of San Francisco tourism. Hotel room occupancy did rise, but revenue per available hotel room declined significantly.
- Tax revenue declines resulted in the need for mid-year budget corrections to maintain a Charter-required balanced budget. These pressures on the City's General Fund budget are expected to continue into FY 2010-2011.
- In June 2010, the Controller's Office estimated that the FY 2011-2012 budget year would face a shortfall approaching or exceeding $400 million to fund current service and staffing levels, due to the anticipated loss of one-time revenues included in the FY 2010-2011 budget coupled with likely increases in employee benefit and other costs.

## CITY AND COUNTY OF SAN FRANCISCO

### 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***
Public Information Officer
Pier 1, The Embarcadero
San Francisco, CA 94111

***San Francisco Water Enterprise***
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Chief Financial Officer
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***
SFMTA Finance and Information Technology Services
1 South Van Ness Avenue, 8th Floor
San Francisco, CA 94103

***Health Service System***
Executive Director
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***
Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

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**CITY AND COUNTY OF SAN FRANCISCO**

**Statement of Net Assets**
June 30, 2010
(In Thousands)

| | Primary Government | | | Component Units | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | San Francisco Redevelopment Agency | Treasure Island Development Authority |
| **ASSETS AND DEFERRED OUTFLOWS** | | | | | |
| Assets: | | | | | |
| Current assets: | | | | | |
| Deposits and investments with City Treasury | $ 1,187,714 | $ 1,042,117 | $ 2,229,831 | $ - | $ 1,452 |
| Deposits and investments outside City Treasury | 144,989 | 9,247 | 154,236 | 275,850 | - |
| Receivables (net of allowance for uncollectible amounts of $104,838 for the primary government): | | | | | |
| Property taxes and penalties | 66,324 | - | 66,324 | 4,813 | - |
| Other local taxes | 184,587 | - | 184,587 | - | - |
| Federal and state grants and subventions | 279,967 | 56,398 | 336,365 | - | - |
| Charges for services | 48,382 | 235,701 | 284,083 | - | 1,128 |
| Interest and other | 33,521 | 49,392 | 82,913 | 1,593 | 2 |
| Capital lease receivable from primary government | - | - | - | 22,023 | - |
| Due from component unit | 5,764 | - | 5,764 | - | - |
| Inventories | - | 65,522 | 65,522 | - | - |
| Deferred charges and other assets | 10,237 | 8,278 | 18,515 | 1,031 | - |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 170,352 | 170,352 | - | - |
| Deposits and investments outside City Treasury | - | 113,186 | 113,186 | 150,839 | - |
| Grants and other receivables | - | 9,175 | 9,175 | 1,698 | - |
| Total current assets | 1,961,485 | 1,759,368 | 3,720,853 | 457,847 | 2,582 |
| Noncurrent assets: | | | | | |
| Loans receivable (net of allowance for uncollectible amounts of $519,720 and $295,621 for the primary government and component unit, respectively) | 72,294 | - | 72,294 | 4,603 | - |
| Advance to component units | 17,923 | 4,227 | 22,150 | - | - |
| Capital lease receivable from primary government | - | - | - | 129,776 | - |
| Deferred charges and other assets | 24,141 | 63,389 | 87,530 | 13,418 | - |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 1,123,195 | 1,123,195 | - | - |
| Deposits and investments outside City Treasury | 89,553 | 661,888 | 751,441 | 4,141 | - |
| Grants and other receivables | - | 25,944 | 25,944 | - | - |
| Property held for resale | - | - | - | 3,633 | - |
| Capital assets: | | | | | |
| Land and other assets not being depreciated | 484,686 | 2,136,147 | 2,620,833 | 166,188 | - |
| Facilities, infrastructure, and equipment, net of depreciation | 2,693,136 | 7,920,023 | 10,613,159 | 132,341 | - |
| Total capital assets | 3,177,822 | 10,056,170 | 13,233,992 | 298,529 | - |
| Total noncurrent assets | 3,381,733 | 11,934,813 | 15,316,546 | 454,100 | - |
| Total assets | 5,343,218 | 13,694,181 | 19,037,399 | 911,947 | 2,582 |
| Deferred outflows on derivative instruments | - | 89,505 | 89,505 | - | - |
| Total assets and deferred outflows | $ 5,343,218 | $ 13,783,686 | $ 19,126,904 | $ 911,947 | $ 2,582 |

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, 2010
(In Thousands)

| | Primary Government | | | Component Units | |
|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | San Francisco Redevelopment Agency | Treasure Island Development Authority |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 260,269 | $ 167,718 | $ 427,987 | $ 8,390 | $ 383 |
| Accrued payroll | 95,946 | 75,003 | 170,949 | 127 | - |
| Accrued vacation and sick leave pay | 76,591 | 52,177 | 128,768 | 1,137 | - |
| Accrued workers' compensation | 39,582 | 25,533 | 65,115 | - | - |
| Estimated claims payable | 47,754 | 42,243 | 89,997 | - | - |
| Bonds, loans, capital leases, and other payables | 321,492 | 220,030 | 541,522 | 44,552 | - |
| Capital lease payable to component unit | 22,023 | - | 22,023 | - | - |
| Accrued interest payable | 12,680 | 22,982 | 35,662 | 36,004 | - |
| Unearned grant and subvention revenues | 13,346 | - | 13,346 | - | - |
| Due to primary government | - | - | - | 5,764 | - |
| Internal balances | 9,103 | (9,103) | - | - | - |
| Deferred credits and other liabilities | 189,205 | 214,922 | 404,127 | 1,469 | 544 |
| Liabilities payable from restricted assets: | | | | | |
| Bonds, loans, capital leases, and other payables | - | 159,877 | 159,877 | - | - |
| Accrued interest payable | - | 29,406 | 29,406 | - | - |
| Other | - | 138,257 | 138,257 | - | - |
| Total current liabilities | 1,087,991 | 1,139,045 | 2,227,036 | 97,443 | 927 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation and sick leave pay | 66,113 | 38,473 | 104,586 | 1,116 | - |
| Accrued workers' compensation | 177,117 | 122,747 | 299,864 | - | - |
| Other postemployment benefits obligation | 477,633 | 348,287 | 825,920 | 643 | - |
| Estimated claims payable | 92,091 | 58,491 | 150,582 | - | - |
| Bonds, loans, capital leases, and other payables | 2,157,736 | 7,088,228 | 9,245,964 | 992,928 | - |
| Advance from primary government | - | - | - | 10,856 | 11,294 |
| Capital lease payable to component unit | 129,776 | - | 129,776 | - | - |
| Accrued interest payable | - | - | - | 50,146 | - |
| Deferred credits and other liabilities | 1,776 | 77,683 | 79,459 | 2,988 | - |
| Derivative instruments liabilities | - | 94,838 | 94,838 | - | - |
| Total noncurrent liabilities | 3,102,242 | 7,828,747 | 10,930,989 | 1,058,677 | 11,294 |
| Total liabilities | 4,190,233 | 8,967,792 | 13,158,025 | 1,156,120 | 12,221 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt, Note 2(k) | 1,833,733 | 4,240,971 | 5,699,016 | 157,347 | - |
| Restricted for: | | | | | |
| Reserve for rainy day | 39,582 | - | 39,582 | - | - |
| Debt service | 34,308 | 71,128 | 105,436 | 61,205 | - |
| Capital projects, Note 2(k) | 63,323 | 188,102 | 238,731 | - | - |
| Community development | 66,251 | - | 66,251 | - | - |
| Transportation Authority activities | 1,966 | - | 1,966 | - | - |
| Building inspection programs | 21,837 | - | 21,837 | - | - |
| Children and families activities | 40,886 | - | 40,886 | - | - |
| Grants and other purposes | 113,917 | 18,854 | 132,771 | - | - |
| Unrestricted (deficit), Note 2(k) | (1,062,818) | 296,839 | (377,597) | (462,725) | (9,639) |
| Total net assets (deficit) | $ 1,152,985 | $ 4,815,894 | $ 5,968,879 | $ (244,173) | $ (9,639) |



## CITY AND COUNTY OF SAN FRANCISCO

### Statement of Activities
Year Ended June 30, 2010
(In Thousands)

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | | Component Units | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Govern-mental Activities | Business-Type Activities | Total | San Francisco Redevelop-ment Agency | Treasure Island Development Authority |
| **Primary government:** | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Public protection | $ 1,089,309 | $ 58,980 | $ 124,076 | $ - | $ (906,253) | $ - | $ (906,253) | $ - | $ - |
| Public works, transportation and commerce | 225,589 | 71,288 | 57,967 | 43,899 | (52,435) | - | (52,435) | - | - |
| Human welfare and neighborhood development | 933,039 | 25,813 | 528,289 | - | (378,937) | - | (378,937) | - | - |
| Community health | 599,741 | 65,756 | 276,106 | 163 | (257,716) | - | (257,716) | - | - |
| Culture and recreation | 310,063 | 81,855 | 3,301 | 6,287 | (218,620) | - | (218,620) | - | - |
| General administration and finance | 221,471 | 35,190 | 2,697 | - | (183,584) | - | (183,584) | - | - |
| General City responsibilities | 80,246 | 37,806 | 4,655 | - | (37,785) | - | (37,785) | - | - |
| Unallocated interest on long-term debt | 102,635 | - | - | - | (102,635) | - | (102,635) | - | - |
| Total governmental activities | 3,562,093 | 376,688 | 997,091 | 50,349 | (2,137,965) | - | (2,137,965) | - | - |
| Business-type activities: | | | | | | | | | |
| Airport | 661,044 | 576,738 | - | 44,204 | - | (40,102) | (40,102) | - | - |
| Transportation | 897,500 | 303,117 | 112,383 | 114,133 | - | (367,867) | (367,867) | - | - |
| Port | 73,573 | 66,579 | 898 | 5,518 | - | (578) | (578) | - | - |
| Water | 325,242 | 265,218 | 1,506 | - | - | (58,518) | (58,518) | - | - |
| Power | 119,109 | 128,590 | 197 | - | - | 9,678 | 9,678 | - | - |
| Hospitals | 842,488 | 606,276 | 67,403 | 16,398 | - | (152,411) | (152,411) | - | - |
| Sewer | 201,403 | 209,843 | 185 | - | - | 8,625 | 8,625 | - | - |
| Market | 1,119 | 1,681 | - | - | - | 562 | 562 | - | - |
| Total business-type activities | 3,121,478 | 2,158,042 | 182,572 | 180,253 | - | (600,611) | (600,611) | - | - |
| Total primary government | $ 6,683,571 | $ 2,534,730 | $ 1,179,663 | $ 230,602 | (2,137,965) | (600,611) | (2,738,576) | - | - |
| **Component units:** | | | | | | | | | |
| San Francisco Redevelopment Agency | $ 262,699 | $ 26,358 | $ 21,471 | $ - | | | | (214,870) | - |
| Treasure Island Development Authority | 15,903 | 8,663 | - | - | | | | - | (7,240) |
| Total component units | $ 278,602 | $ 35,021 | $ 21,471 | $ - | | | | (214,870) | (7,240) |
| General Revenues: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Property taxes | | | | | 1,345,040 | - | 1,345,040 | 86,443 | - |
| Business taxes | | | | | 354,019 | - | 354,019 | - | - |
| Sales and use tax | | | | | 164,769 | - | 164,769 | - | - |
| Hotel room tax | | | | | 186,849 | - | 186,849 | 5,896 | - |
| Utility users tax | | | | | 94,537 | - | 94,537 | - | - |
| Other local taxes | | | | | 194,070 | - | 194,070 | - | - |
| Interest and investment income | | | | | 27,877 | 44,471 | 72,348 | 1,885 | 49 |
| Other | | | | | 54,410 | 176,064 | 230,474 | 7,291 | 1,831 |
| Transfers - internal activities of primary government | | | | | (435,824) | 435,824 | - | - | - |
| Total general revenues and transfers | | | | | 1,985,747 | 656,359 | 2,642,106 | 101,515 | 1,880 |
| Change in net assets | | | | | (152,218) | 55,748 | (96,470) | (113,355) | (5,360) |
| Net assets (deficit) - beginning | | | | | 1,305,203 | 4,760,146 | 6,065,349 | (130,818) | (4,279) |
| Net assets (deficit) - ending | | | | | $ 1,152,985 | $ 4,815,894 | $ 5,968,879 | $ (244,173) | $ (9,639) |

**CITY AND COUNTY OF SAN FRANCISCO**

**Balance Sheet – Governmental Funds**
June 30, 2010
(with comparative total financial information as of June 30, 2009)
(In Thousands)

| | General Fund 2010 | General Fund 2009 | Other Governmental Funds 2010 | Other Governmental Funds 2009 | Total Governmental Funds 2010 | Total Governmental Funds 2009 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Deposits and investments with City Treasury | $ 237,888 | $ 264,893 | $ 920,171 | $ 703,064 | $ 1,158,059 | $ 967,957 |
| Deposits and investments outside City Treasury | 203 | 337 | 144,786 | 208,684 | 144,989 | 209,021 |
| Receivables (net of allowance for uncollectible amounts of $77,793 in 2010; $67,904 in 2009): | | | | | | |
| Property taxes and penalties | 57,785 | 62,351 | 8,539 | 11,364 | 66,324 | 73,715 |
| Other local taxes | 171,464 | 206,884 | 13,123 | 11,464 | 184,587 | 218,348 |
| Federal and state grants and subventions | 132,112 | 115,406 | 147,855 | 105,332 | 279,967 | 220,738 |
| Charges for services | 36,099 | 35,440 | 12,216 | 11,025 | 48,315 | 46,465 |
| Interest and other | 28,313 | 10,684 | 4,277 | 5,860 | 32,590 | 16,544 |
| Due from other funds | 36,930 | 24,387 | 11,410 | 4,174 | 48,340 | 28,561 |
| Due from / advance to component unit | 13,486 | 7,220 | 10,201 | 4,518 | 23,687 | 11,738 |
| Loans receivable (net of allowance for uncollectible amounts of $519,720 in 2010; $510,133 in 2009) | - | - | 72,294 | 69,413 | 72,294 | 69,413 |
| Deferred charges and other assets | 5,437 | 5,868 | 3,983 | 3,739 | 9,420 | 9,607 |
| Total assets | $ 719,717 | $ 733,470 | $ 1,348,855 | $ 1,138,637 | $ 2,068,572 | $ 1,872,107 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | $ 117,339 | $ 112,475 | $ 132,449 | $ 85,844 | $ 249,788 | $ 198,319 |
| Accrued payroll | 75,254 | 72,927 | 18,785 | 16,279 | 94,039 | 89,206 |
| Deferred tax, grant and subvention revenues | 117,925 | 106,811 | 70,043 | 41,179 | 187,968 | 147,990 |
| Due to other funds | 881 | 1,003 | 46,897 | 43,857 | 47,778 | 44,860 |
| Deferred credits and other liabilities | 216,540 | 138,579 | 118,339 | 118,141 | 334,879 | 256,720 |
| Bonds, loans, capital leases, and other payables | - | - | 155,035 | 150,000 | 155,035 | 150,000 |
| Total liabilities | 527,939 | 431,795 | 541,548 | 455,300 | 1,069,487 | 887,095 |
| Fund balances: | | | | | | |
| Reserved for rainy day | 39,582 | 98,297 | - | - | 39,582 | 98,297 |
| Reserved for assets not available for appropriation | 14,874 | 11,307 | 28,997 | 19,781 | 43,871 | 31,088 |
| Reserved for debt service | - | - | 68,466 | 75,886 | 68,466 | 75,886 |
| Reserved for encumbrances | 69,562 | 65,902 | 210,060 | 167,169 | 279,622 | 233,071 |
| Reserved for appropriation carryforward | 60,935 | 91,075 | 662,674 | 501,006 | 723,609 | 592,081 |
| Reserved for subsequent years' budgets | 8,875 | 6,891 | 13,041 | 11,245 | 21,916 | 18,136 |
| Unreserved (deficit), reported in: | | | | | | |
| General fund | (2,050) | 28,203 | - | - | (2,050) | 28,203 |
| Special revenue funds | - | - | (134,178) | (69,468) | (134,178) | (69,468) |
| Capital projects funds | - | - | (43,798) | (26,153) | (43,798) | (26,153) |
| Permanent fund | - | - | 2,045 | 3,871 | 2,045 | 3,871 |
| Total fund balances | 191,778 | 301,675 | 807,307 | 683,337 | 999,085 | 985,012 |
| Total liabilities and fund balances | $ 719,717 | $ 733,470 | $ 1,348,855 | $ 1,138,637 | $ 2,068,572 | $ 1,872,107 |

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, 2010
(In Thousands)

| | |
|---|---|
| Fund balances – total governmental funds | $ 999,085 |
| 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. | 3,172,297 |
| Bond issue costs are not financial resources and, therefore, are not reported in the funds. | 19,343 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (3,155,814) |
| Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due. | (10,745) |
| 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. | 322,840 |
| 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. | (194,021) |
| Net assets of governmental activities | $ 1,152,985 |

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, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

| | General Fund 2010 | General Fund 2009 | Other Governmental Funds 2010 | Other Governmental Funds 2009 | Total Governmental Funds 2010 | Total Governmental Funds 2009 |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Property taxes | $ 1,044,740 | $ 999,528 | $ 287,217 | $ 272,857 | $ 1,331,957 | $ 1,272,385 |
| Business taxes | 353,471 | 387,313 | 548 | 1,340 | 354,019 | 388,653 |
| Sales and use tax | 96,605 | 101,662 | 68,164 | 71,132 | 164,769 | 172,794 |
| Hotel room tax | 135,521 | 161,714 | 51,328 | 52,746 | 186,849 | 214,460 |
| Utility users tax | 94,537 | 89,801 | - | - | 94,537 | 89,801 |
| Other local taxes | 194,070 | 126,017 | - | - | 194,070 | 126,017 |
| Licenses, permits and franchises | 24,249 | 24,750 | 9,376 | 7,403 | 33,625 | 32,153 |
| Fines, forfeitures and penalties | 17,279 | 5,618 | 4,976 | 4,076 | 22,255 | 9,694 |
| Interest and investment income | 7,900 | 9,193 | 19,138 | 24,354 | 27,038 | 33,547 |
| Rents and concessions | 18,733 | 19,096 | 59,794 | 57,918 | 78,527 | 77,014 |
| Intergovernmental: | | | | | | |
| Federal | 211,017 | 172,162 | 237,873 | 190,420 | 448,890 | 362,582 |
| State | 440,021 | 473,187 | 112,620 | 102,587 | 552,641 | 575,774 |
| Other | 36 | 16 | 7,361 | 15,170 | 7,397 | 15,186 |
| Charges for services | 138,615 | 135,926 | 104,513 | 144,481 | 243,128 | 280,407 |
| Other | 21,856 | 11,199 | 29,167 | 19,119 | 51,023 | 30,318 |
| Total revenues | 2,798,650 | 2,717,182 | 992,075 | 963,603 | 3,790,725 | 3,680,785 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public protection | 948,772 | 889,594 | 72,733 | 109,924 | 1,021,505 | 999,518 |
| Public works, transportation and commerce | 40,225 | 61,812 | 203,229 | 186,349 | 243,454 | 248,161 |
| Human welfare and neighborhood development | 632,713 | 630,112 | 285,588 | 256,574 | 918,301 | 886,686 |
| Community health | 473,280 | 487,638 | 108,112 | 91,190 | 581,392 | 578,828 |
| Culture and recreation | 94,895 | 97,415 | 208,239 | 216,027 | 303,134 | 313,442 |
| General administration and finance | 169,980 | 170,109 | 17,241 | 20,571 | 187,221 | 190,680 |
| General City responsibilities | 86,256 | 72,893 | 242 | 254 | 86,498 | 73,147 |
| Debt service: | | | | | | |
| Principal retirement | 979 | 938 | 153,072 | 125,563 | 154,051 | 126,501 |
| Interest and fiscal charges | 32 | 73 | 89,914 | 74,393 | 89,946 | 74,466 |
| Bond issuance costs | - | - | 2,145 | 4,746 | 2,145 | 4,746 |
| Capital outlay | - | - | 182,448 | 152,473 | 182,448 | 152,473 |
| Total expenditures | 2,447,132 | 2,410,584 | 1,322,963 | 1,238,064 | 3,770,095 | 3,648,648 |
| Excess (deficiency) of revenues over (under) expenditures | 351,518 | 306,598 | (330,888) | (274,461) | 20,630 | 32,137 |
| Other financing sources (uses): | | | | | | |
| Transfers in | 94,115 | 136,195 | 208,675 | 216,498 | 302,790 | 352,693 |
| Transfers out | (559,263) | (550,910) | (181,086) | (195,268) | (740,349) | (746,178) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | - | - | 393,010 | 456,935 | 393,010 | 456,935 |
| Face value of loans issued | - | - | 599 | - | 599 | - |
| Premium on issuance of bonds | - | - | 16,647 | 12,875 | 16,647 | 12,875 |
| Payment to refunded bond escrow agent | - | - | - | (120,000) | - | (120,000) |
| Other financing sources-capital leases | 3,733 | 4,157 | 17,013 | 20,724 | 20,746 | 24,881 |
| Total other financing sources (uses) | (461,415) | (410,558) | 454,858 | 391,764 | (6,557) | (18,794) |
| Net change in fund balances | (109,897) | (103,960) | 123,970 | 117,303 | 14,073 | 13,343 |
| Fund balances at beginning of year | 301,675 | 405,635 | 683,337 | 566,034 | 985,012 | 971,669 |
| Fund balances at end of year | $ 191,778 | $ 301,675 | $ 807,307 | $ 683,337 | $ 999,085 | $ 985,012 |



## 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, 2010
(In Thousands)

| | |
|---|---|
| Net change in fund balances – total governmental funds | $ 14,073 |
| 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 and loss on disposal of capital assets in the current period. | 149,745 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources. | (134,155) |
| Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 13,083 |
| 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. | 41,382 |
| 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. | 2,871 |
| 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 serves 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. | 18,562 |
| 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. | 937 |
| 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. | (239,558) |
| Bond premiums are reported 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. | (16,647) |
| 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. | (5,851) |
| The net revenues of certain activities of internal service funds are reported with governmental activities. | 3,340 |
| Change in net assets of governmental activities | $ (152,218) |

## CITY AND COUNTY OF SAN FRANCISCO

### Budgetary Comparison Statement – General Fund
Year Ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Budgetary Fund Balance, July 1** | $ 173,747 | $ 390,512 | $ 390,512 | $ - |
| **Resources (Inflows):** | | | | |
| Property taxes | 1,058,060 | 1,021,015 | 1,060,281 | 39,266 |
| Business taxes | 371,848 | 371,848 | 353,471 | (18,377) |
| Other local taxes: | | | | |
| Sales tax | 98,233 | 98,233 | 96,605 | (1,628) |
| Hotel room tax | 117,546 | 116,503 | 135,521 | 19,018 |
| Utility users tax | 86,956 | 86,956 | 94,537 | 7,581 |
| Parking tax | 64,123 | 64,123 | 66,489 | 2,366 |
| Real property transfer tax | 90,325 | 90,325 | 127,581 | 37,256 |
| Licenses, permits, and franchises: | | | | |
| Licenses and permits | 8,818 | 8,818 | 9,155 | 337 |
| Franchise tax | 16,320 | 16,320 | 15,093 | (1,227) |
| Fines, forfeitures, and penalties | 3,761 | 11,662 | 17,279 | 5,617 |
| Interest and investment income | 11,582 | 10,984 | 8,387 | (2,597) |
| Rents and concessions: | | | | |
| Garages - Recreation and Park | 9,146 | 9,146 | 8,795 | (351) |
| Rents and concessions - Recreation and Park | 8,550 | 8,800 | 8,158 | (642) |
| Other rents and concessions | 1,738 | 1,938 | 1,781 | (157) |
| Intergovernmental: | | | | |
| Federal grants and subventions | 235,615 | 231,504 | 212,381 | (19,123) |
| State subventions: | | | | |
| Social service subventions | 97,370 | 96,857 | 108,431 | 11,574 |
| Health / mental health subventions | 127,325 | 124,114 | 110,647 | (13,467) |
| Health and welfare realignment | 147,270 | 147,270 | 139,319 | (7,951) |
| Public safety sales tax | 65,088 | 65,088 | 65,767 | 679 |
| Motor vehicle in-lieu - county | 1,412 | 1,412 | 2,339 | 927 |
| Other grants and subventions | 1,912 | 19,727 | 27,600 | 7,873 |
| Other | 86 | 86 | 36 | (50) |
| Charges for services: | | | | |
| General government service charges | 42,261 | 42,261 | 38,900 | (3,361) |
| Public safety service charges | 26,193 | 26,193 | 21,923 | (4,270) |
| Recreation charges - Recreation and Park | 9,587 | 9,759 | 11,373 | 1,614 |
| Medi-Cal, Medicare and health service charges | 68,973 | 68,467 | 68,970 | 503 |
| Other financing sources: | | | | |
| Transfers from other funds | 85,574 | 94,678 | 92,188 | (2,490) |
| Repayment of loan from Component Unit | 1,725 | 1,725 | 304 | (1,421) |
| Other resources (inflows) | 20,963 | 21,713 | 19,482 | (2,231) |
| Subtotal - Resources (Inflows) | 2,878,360 | 2,867,525 | 2,922,793 | 55,268 |
| Total amounts available for appropriation | 3,052,107 | 3,258,037 | 3,313,305 | 55,268 |

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, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **Charges to Appropriations (Outflows):** | | | | |
| **Public Protection** | | | | |
| Adult Probation | $ 12,213 | $ 11,495 | $ 11,076 | $ 419 |
| District Attorney | 32,097 | 32,597 | 32,597 | - |
| Emergency Communications | 41,056 | 43,122 | 40,910 | 2,212 |
| Fire Department | 253,081 | 251,754 | 250,870 | 884 |
| Juvenile Probation | 33,388 | 30,731 | 30,731 | - |
| Police Department | 381,414 | 388,211 | 384,497 | 3,714 |
| Public Defender | 23,328 | 24,362 | 24,260 | 102 |
| Sheriff | 144,200 | 136,262 | 136,117 | 145 |
| Superior Court | 30,188 | 36,282 | 35,931 | 351 |
| Subtotal - Public Protection | 950,965 | 954,816 | 946,989 | 7,827 |
| **Public Works, Transportation and Commerce** | | | | |
| Board of Appeals | 834 | 818 | 770 | 48 |
| Business and Economic Development | 7,279 | 8,158 | 7,600 | 558 |
| General Services Agency - Public Works | 25,300 | 35,150 | 31,582 | 3,568 |
| Hetch Hetchy | - | 35 | 34 | 1 |
| Municipal Transportation Agency | - | 105 | 91 | 14 |
| Water Department | - | 10 | 10 | - |
| Subtotal - Public Works, Transportation and Commerce | 33,413 | 44,276 | 40,087 | 4,189 |
| **Human Welfare and Neighborhood Development** | | | | |
| Children, Youth and Their Families | 23,785 | 25,024 | 25,021 | 3 |
| Commission on the Status of Women | 3,274 | 3,256 | 3,256 | - |
| County Education Office | 80 | 80 | 80 | - |
| Environment | 1,106 | 1,469 | 1,336 | 133 |
| Human Rights Commission | 776 | 871 | 869 | 2 |
| Human Services | 613,790 | 619,873 | 595,675 | 24,198 |
| Mayor - Housing/Neighborhoods | 1,260 | 6,701 | 6,475 | 226 |
| Subtotal - Human Welfare and Neighborhood Development | 644,071 | 657,274 | 632,712 | 24,562 |
| **Community Health** | | | | |
| Public Health | 488,330 | 481,805 | 473,280 | 8,525 |
| **Culture and Recreation** | | | | |
| Academy of Sciences | 4,288 | 4,169 | 4,065 | 104 |
| Art Commission | 7,673 | 7,398 | 7,345 | 53 |
| Asian Art Museum | 6,570 | 6,551 | 6,485 | 66 |
| Fine Arts Museum | 10,842 | 10,839 | 10,832 | 7 |
| Law Library | 706 | 706 | 563 | 143 |
| Recreation and Park Commission | 65,035 | 64,092 | 63,877 | 215 |
| Subtotal - Culture and Recreation | 95,114 | 93,755 | 93,167 | 588 |

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, 2010

(In Thousands)

| | Original Budget | Final Budget | Actual Budgetary Basis | Variance Positive (Negative) |
|---|---|---|---|---|
| **General Administration and Finance** | | | | |
| Assessor/Recorder | $ 14,765 | $ 14,187 | $ 13,647 | $ 540 |
| Board of Supervisors | 10,612 | 10,765 | 10,239 | 526 |
| City Attorney | 8,375 | 8,259 | 8,236 | 23 |
| City Planning | 19,651 | 19,102 | 18,298 | 804 |
| Civil Service | 496 | 501 | 501 | - |
| Controller | 13,223 | 16,092 | 15,662 | 430 |
| Elections | 12,170 | 11,539 | 11,200 | 339 |
| Ethics Commission | 5,454 | 2,636 | 2,592 | 44 |
| General Services Agency - Administrative Services | 50,231 | 48,137 | 47,686 | 451 |
| General Services Agency - Telecomm. and Info. Services | 1,264 | 2,625 | 2,508 | 117 |
| Human Resources | 12,501 | 12,111 | 11,424 | 687 |
| Mayor | 4,756 | 5,959 | 5,959 | - |
| Retirement Services | 565 | 476 | 476 | - |
| Treasurer/Tax Collector | 21,557 | 22,518 | 21,443 | 1,075 |
| Subtotal - General Administration and Finance | 175,620 | 174,907 | 169,871 | 5,036 |
| **General City Responsibilities** | | | | |
| General City Responsibilities | 90,244 | 94,081 | 85,699 | 8,382 |
| Other financing uses: | | | | |
| Debt Service | 5,567 | 2,255 | 1,011 | 1,244 |
| Transfers to other funds | 528,509 | 564,945 | 558,449 | 6,496 |
| Budgetary reserves and designations | 40,274 | 16,653 | - | 16,653 |
| Total charges to appropriations | 3,052,107 | 3,084,767 | 3,001,265 | 83,502 |
| Total Sources less Current Year Uses | $ - | $ 173,270 | $ 312,040 | $ 138,770 |
| **Budgetary fund balance, June 30 before reserves and designations** | | | $ 312,040 | |
| Reserves and designations made from budgetary fund balance, June 30 | | | 206,712 | |
| **Net Available Budgetary Fund Balance, June 30** | | | $ 105,328 | |

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

| | |
|---|---|
| Sources/inflows of resources | |
| Actual amounts (budgetary basis) "available for appropriation" | $ 3,313,305 |
| 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 | (390,512) |
| Property tax revenue - Teeter Plan | (15,540) |
| Change in unrealized gain/(loss) on investments | 2,999 |
| Interest earnings / charges from other funds assigned to General Fund as interest adjustment | (3,487) |
| Interest earnings from other funds assigned to General Fund as other revenues | 2,374 |
| Grants, subventions and other receivables received after 120-day recognition period | (17,997) |
| Loan repayment from component unit | (304) |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (92,188) |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund | $ 2,798,650 |
| Uses/outflows of resources | |
| Actual amounts (budgetary basis) "total charges to appropriations" | $ 3,001,265 |
| Difference - budget to GAAP: | |
| Capital asset purchases funded under capital leases with Finance Corporation and other vendors | 3,733 |
| Recognition of expenditures for advances and imprest cash | 583 |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (558,449) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund | $ 2,447,132 |

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, 2010

(with comparative total financial information as of June 30, 2009)

(In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | Total | | Governmental Activities-Internal Service Funds | |
| | San Francisco Interna-tional Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Waste-water Enterprise | Port of San Francisco | Laguna Honda Hospital | San Francisco Market Corporation | 2010 | 2009 | 2010 | 2009 |
| **ASSETS AND DEFERRED OUTFLOWS** | | | | | | | | | | | | | |
| Assets: | | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | $ 326,281 | $ 113,472 | $ 173,861 | $ 232,862 | $ 53,946 | $ 49,902 | $ 91,793 | $ - | $ - | $ 1,042,117 | $ 970,347 | $ 29,655 | $ 16,309 |
| Deposits and investments outside City Treasury | 10 | 89 | 10 | 3,843 | 10 | 89 | 5 | 1 | 5,190 | 9,247 | 8,041 | - | - |
| Receivables (net of allowance for uncollectible amounts of $27,045 and $24,717 in 2010 and 2009, respectively): | | | | | | | | | | | | | |
| Federal and state grants and subventions | - | 998 | 170 | 46,843 | - | 101 | 8,286 | - | - | 56,398 | 36,359 | - | - |
| Charges for services | 30,902 | 75,880 | 13,098 | 4,849 | 47,275 | 35,288 | - | 28,401 | 8 | 235,701 | 223,036 | 67 | 89 |
| Interest and other | 1,180 | 1,117 | 5,345 | 3,409 | 38,225 | 31 | 85 | - | - | 49,392 | 38,808 | 931 | 853 |
| Loans receivable | - | - | - | - | - | - | - | - | - | - | - | 19,455 | 21,100 |
| Due from other funds | - | 10,347 | 13,900 | 7,904 | - | 36 | - | 7,953 | - | 40,140 | 40,088 | - | - |
| Inventories | 86 | 1,791 | 287 | 51,671 | 6,201 | 3,246 | 1,013 | 1,227 | - | 65,522 | 63,768 | - | - |
| Deferred charges and other assets | 2,911 | - | 2,650 | 2,689 | - | - | - | - | 28 | 8,278 | 7,376 | - | - |
| Restricted assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 50,515 | - | - | - | - | - | 51,633 | 68,204 | - | 170,352 | 111,256 | - | - |
| Deposits and investments outside City Treasury | 65,999 | 43,866 | - | - | - | - | 3,300 | - | 21 | 113,186 | 52,034 | - | - |
| Grants and other receivables | 9,175 | - | - | - | - | - | - | - | - | 9,175 | 1,257 | - | - |
| Total current assets | 487,059 | 247,560 | 209,321 | 354,070 | 145,657 | 88,693 | 156,115 | 105,786 | 5,247 | 1,799,508 | 1,552,370 | 50,108 | 38,351 |
| Noncurrent assets: | | | | | | | | | | | | | |
| Deferred charges and other assets | 37,155 | 17,371 | 205 | 1,883 | - | 5,246 | 1,529 | - | - | 63,389 | 51,526 | 4,199 | 4,233 |
| Loans receivable | - | - | - | - | - | - | - | - | - | - | - | 265,321 | 272,191 |
| Advance to component unit | - | - | 4,227 | - | - | - | - | - | - | 4,227 | 4,427 | - | - |
| Restricted assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury | 359,958 | 620,347 | - | 9,293 | - | 133,597 | - | - | - | 1,123,195 | 205,715 | - | - |
| Deposits and investments outside City Treasury | 297,915 | 251,415 | 18,717 | 11,295 | 21,674 | 59,659 | - | 935 | 278 | 661,888 | 306,583 | 89,553 | 96,050 |
| Grants and other receivables | 21,453 | 273 | - | 4,081 | - | 77 | - | 60 | - | 25,944 | 26,410 | - | - |
| Capital assets: | | | | | | | | | | | | | |
| Land and other assets not being depreciated | 336,099 | 805,753 | 41,527 | 207,551 | 17,174 | 100,836 | 119,684 | 506,084 | 1,439 | 2,136,147 | 1,509,611 | 88 | - |
| Facilities, infrastructure, and equipment, net of depreciation | 3,375,692 | 1,058,600 | 244,243 | 1,761,406 | 35,155 | 1,296,776 | 141,355 | 2,903 | 3,893 | 7,920,023 | 7,951,283 | 5,437 | 6,363 |
| Total capital assets | 3,711,791 | 1,864,353 | 285,770 | 1,968,957 | 52,329 | 1,397,612 | 261,039 | 508,987 | 5,332 | 10,056,170 | 9,460,894 | 5,525 | 6,363 |
| Total noncurrent assets | 4,428,272 | 2,753,759 | 308,919 | 1,995,509 | 74,003 | 1,596,191 | 262,568 | 509,982 | 5,610 | 11,934,813 | 10,055,555 | 364,598 | 378,837 |
| Total assets | 4,915,331 | 3,001,319 | 518,240 | 2,349,579 | 219,660 | 1,684,884 | 418,683 | 615,768 | 10,857 | 13,734,321 | 11,607,925 | 414,706 | 417,188 |
| Deferred outflows on derivative instruments | 89,505 | - | - | - | - | - | - | - | - | 89,505 | 57,157 | - | - |
| Total assets and deferred outflows | 5,004,836 | 3,001,319 | 518,240 | 2,349,579 | 219,660 | 1,684,884 | 418,683 | 615,768 | 10,857 | 13,823,826 | 11,665,082 | 414,706 | 417,188 |

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, 2010
(with comparative total financial information as of June 30, 2009)
(In Thousands)

Business-type Activities - Enterprise Funds

| | Major Funds | | | | | | | | Other Fund | Total | | Governmental Activities-Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | San Francisco Market Corporation | 2010 | 2009 | 2010 | 2009 |
| **LIABILITIES** | | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | | |
| Accounts payable | $ 27,625 | $ 10,161 | $ 17,253 | $ 64,531 | $ 29,841 | $ 3,912 | $ 5,047 | $ 9,092 | $ 256 | $ 167,718 | $ 155,388 | $ 10,481 | $ 8,963 |
| Accrued payroll | 9,416 | 7,560 | 2,074 | 25,307 | 18,377 | 3,775 | 1,477 | 7,017 | - | 75,003 | 68,576 | 1,907 | 1,904 |
| Accrued vacation and sick leave pay | 7,955 | 6,366 | 1,520 | 16,873 | 10,545 | 2,747 | 1,100 | 5,071 | - | 52,177 | 51,058 | 1,675 | 1,790 |
| Accrued workers' compensation | 995 | 1,468 | 380 | 15,506 | 3,832 | 724 | 423 | 2,205 | - | 25,533 | 26,899 | 160 | 161 |
| Estimated claims payable | 8,978 | 8,719 | 759 | 20,349 | - | 2,708 | 730 | - | - | 42,243 | 26,634 | - | - |
| Due to other funds | - | 24 | 4,560 | 1,015 | 1,411 | 6,599 | 796 | 16,632 | - | 31,037 | 20,648 | 9,665 | 3,141 |
| Deferred credits and other liabilities | 61,399 | 5,565 | 843 | 76,527 | 58,437 | 1,502 | 9,935 | 652 | 62 | 214,922 | 200,520 | 82,861 | 96,201 |
| Accrued interest payable | - | 16,071 | 164 | 119 | - | 5,605 | 1,023 | - | - | 22,982 | 12,881 | 1,935 | 2,090 |
| Bonds, loans, capital leases, and other payables | 146,183 | 27,795 | 422 | 3,260 | 793 | 40,968 | 585 | 24 | - | 220,030 | 499,564 | 17,580 | 19,128 |
| Liabilities payable from restricted assets: | | | | | | | | | | | | | |
| Bonds, loans, capital leases, and other payables | 159,877 | - | - | - | - | - | - | - | - | 159,877 | 122,566 | - | - |
| Accrued interest payable | 29,406 | - | - | - | - | - | - | - | - | 29,406 | 29,296 | - | - |
| Other | 53,271 | 74,607 | - | 4,407 | - | 4,980 | - | 992 | - | 138,257 | 75,027 | - | - |
| Total current liabilities | 505,105 | 158,336 | 27,975 | 227,894 | 123,236 | 73,520 | 21,116 | 41,685 | 318 | 1,179,185 | 1,289,057 | 126,264 | 133,378 |
| Noncurrent liabilities: | | | | | | | | | | | | | |
| Accrued vacation and sick leave pay | 6,373 | 5,461 | 1,059 | 11,457 | 7,333 | 2,312 | 861 | 3,617 | - | 38,473 | 39,042 | 1,531 | 1,593 |
| Accrued workers' compensation | 4,044 | 6,626 | 1,688 | 76,491 | 18,242 | 3,422 | 2,532 | 9,702 | - | 122,747 | 119,112 | 804 | 866 |
| Other postemployment benefits obligation | 46,281 | 45,598 | 8,472 | 99,993 | 89,626 | 16,078 | 8,268 | 33,971 | - | 348,287 | 247,647 | 10,614 | 7,885 |
| Estimated claims payable | 1,035 | 21,021 | 1,112 | 26,572 | - | 8,401 | 350 | - | - | 58,491 | 52,109 | - | - |
| Deferred credits and other liabilities | - | 4,713 | - | 26,843 | - | 375 | 45,632 | - | 120 | 77,683 | 75,948 | - | - |
| Bonds, loans, capital leases, and other payables | 4,058,628 | 2,343,880 | 21,564 | 46,848 | 23,137 | 555,440 | 38,719 | 12 | - | 7,088,228 | 5,019,406 | 267,980 | 274,910 |
| Derivative instruments liabilities | 94,838 | - | - | - | - | - | - | - | - | 94,838 | 62,615 | - | - |
| Total noncurrent liabilities | 4,211,199 | 2,427,299 | 33,895 | 288,204 | 138,338 | 586,028 | 96,362 | 47,302 | 120 | 7,828,747 | 5,615,879 | 280,929 | 285,254 |
| Total liabilities | 4,716,304 | 2,585,635 | 61,870 | 516,098 | 261,574 | 659,548 | 117,478 | 88,987 | 438 | 9,007,932 | 6,904,936 | 407,193 | 418,632 |
| **NET ASSETS** | | | | | | | | | | | | | |
| Invested in capital assets, net of related debt | (71,205) | 319,581 | 282,698 | 1,918,849 | 50,048 | 970,526 | 256,191 | 508,951 | 5,332 | 4,240,971 | 4,204,644 | 5,051 | 5,651 |
| Restricted: | | | | | | | | | | | | | |
| Debt service | 54,170 | 12,073 | - | 3,408 | - | 1,477 | - | - | - | 71,128 | 58,716 | - | - |
| Capital projects | 81,471 | 3,868 | - | - | - | 22,801 | 12,989 | 66,973 | - | 188,102 | 140,932 | - | - |
| Other purposes | - | - | - | 16,854 | - | - | - | 1,701 | 299 | 18,854 | 31,459 | - | - |
| Unrestricted (deficit) | 224,096 | 80,162 | 173,672 | (105,630) | (91,962) | 30,532 | 32,025 | (50,844) | 4,788 | 296,839 | 324,395 | 2,462 | (7,095) |
| Total net assets (deficit) | $ 288,532 | $ 415,684 | $ 456,370 | $ 1,833,481 | $ (41,914) | $ 1,025,336 | $ 301,205 | $ 526,781 | $ 10,419 | $ 4,815,894 | $ 4,760,146 | $ 7,513 | $ (1,444) |

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



**CITY AND COUNTY OF SAN FRANCISCO**

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
Year ended June 30, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

Business-type Activities - Enterprise Funds

| | Major Funds | | | | | | | | Other Fund | Total | | Governmental Activities-Internal Service Funds | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | San Francisco Market Corporation | 2010 | 2009 | 2010 | 2009 |
| Operating revenues: | | | | | | | | | | | | | |
| Aviation | $ 330,846 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 330,846 | $ 315,777 | $ - | $ - |
| Water and power service | - | 248,369 | 128,345 | - | - | - | - | - | - | 376,714 | 362,692 | - | - |
| Passenger fees | - | - | - | 185,953 | - | - | - | - | - | 185,953 | 150,437 | - | - |
| Net patient service revenue | - | - | - | - | 472,122 | - | - | 123,263 | - | 595,385 | 556,470 | - | - |
| Sewer service | - | - | - | - | - | 202,363 | - | - | - | 202,363 | 199,332 | - | - |
| Rents and concessions | 104,457 | 8,584 | 245 | 5,737 | 2,477 | - | 51,690 | - | - | 173,190 | 172,557 | - | 48 |
| Parking and transportation | 82,876 | - | - | 92,352 | - | - | 11,958 | - | - | 187,186 | 172,988 | - | - |
| Other charges for services | - | - | - | 2,935 | - | - | - | - | 1,681 | 4,616 | 4,247 | 111,612 | 111,318 |
| Other revenues | 58,559 | 8,265 | - | 16,140 | 7,849 | 7,480 | 2,931 | 565 | - | 101,789 | 99,769 | - | - |
| Total operating revenues | 576,738 | 265,218 | 128,590 | 303,117 | 482,448 | 209,843 | 66,579 | 123,828 | 1,681 | 2,158,042 | 2,034,269 | 111,612 | 111,366 |
| Operating expenses: | | | | | | | | | | | | | |
| Personal services | 191,279 | 108,178 | 36,525 | 564,161 | 400,845 | 70,992 | 29,324 | 155,859 | 211 | 1,557,374 | 1,546,869 | 44,904 | 46,873 |
| Contractual services | 46,609 | 13,087 | 7,084 | 56,052 | 146,060 | 12,018 | 4,598 | 5,914 | 599 | 292,021 | 298,079 | 30,838 | 37,612 |
| Light, heat and power | 17,162 | - | 17,726 | - | - | - | 1,963 | - | - | 36,851 | 39,701 | - | - |
| Materials and supplies | 11,077 | 12,748 | 2,510 | 55,014 | 64,281 | 9,888 | 1,311 | 17,773 | 5 | 174,607 | 157,008 | 16,761 | 14,795 |
| Depreciation and amortization | 163,541 | 52,571 | 12,631 | 117,512 | 6,099 | 40,748 | 13,761 | 967 | 292 | 408,122 | 384,172 | 1,920 | 1,704 |
| General and administrative | 8,503 | 25,917 | 11,192 | 43,275 | 479 | 2,500 | 3,988 | - | 9 | 95,863 | 54,782 | 456 | 300 |
| Services provided by other departments | 10,567 | 47,574 | 5,011 | 55,585 | 36,100 | 32,305 | 16,021 | 7,668 | - | 210,831 | 200,373 | 5,706 | 8,245 |
| Other | 25,468 | 17,895 | 25,708 | 3,332 | - | 17,061 | 1,551 | - | 3 | 91,018 | 63,950 | 4,282 | 933 |
| Total operating expenses | 474,206 | 277,970 | 118,387 | 894,931 | 653,864 | 185,512 | 72,517 | 188,181 | 1,119 | 2,866,687 | 2,744,934 | 104,867 | 110,462 |
| Operating income (loss) | 102,532 | (12,752) | 10,203 | (591,814) | (171,416) | 24,331 | (5,938) | (64,353) | 562 | (708,645) | (710,665) | 6,745 | 904 |
| Nonoperating revenues (expenses): | | | | | | | | | | | | | |
| Operating grants: | | | | | | | | | | | | | |
| Federal | - | 1,506 | 197 | 38,393 | - | 185 | 898 | 3,272 | - | 44,451 | 17,486 | - | - |
| State / other | - | - | - | 73,990 | 64,131 | - | - | - | - | 138,121 | 169,319 | - | - |
| Interest and investment income | 20,691 | 9,823 | 2,738 | 4,927 | 644 | 2,056 | 2,313 | 1,268 | 11 | 44,471 | 49,691 | 7,315 | 9,219 |
| Interest expense | (186,838) | (47,272) | (722) | (2,569) | (153) | (15,891) | (1,056) | (290) | - | (254,791) | (253,144) | (6,838) | (8,975) |
| Other, net | 66,657 | 2,572 | 977 | 104,379 | - | 4,051 | (1,279) | (1,293) | - | 176,064 | 181,759 | - | 23 |
| Total nonoperating revenues (expenses) | (99,490) | (33,371) | 3,190 | 219,120 | 64,622 | (9,599) | 876 | 2,957 | 11 | 148,316 | 165,111 | 477 | 267 |
| Income (loss) before capital contributions and transfers | 3,042 | (46,123) | 13,393 | (372,694) | (106,794) | 14,732 | (5,062) | (61,396) | 573 | (560,329) | (545,554) | 7,222 | 1,171 |
| Capital contributions | 44,204 | - | - | 114,133 | - | - | 5,518 | 16,398 | - | 180,253 | 107,118 | - | - |
| Transfers in | - | - | 300 | 271,692 | 128,918 | - | 10,616 | 113,594 | - | 525,120 | 523,850 | 1,900 | 255 |
| Transfers out | (28,100) | (493) | (1,700) | (8,988) | (47,925) | - | - | (2,090) | - | (89,296) | (130,591) | (165) | (29) |
| Change in net assets | 19,146 | (46,616) | 11,993 | 4,143 | (25,801) | 14,732 | 11,072 | 66,506 | 573 | 55,748 | (45,177) | 8,957 | 1,397 |
| Net asset at beginning of year, as previously reported | 269,386 | 462,300 | 444,377 | 1,829,338 | (16,113) | 1,010,604 | 290,133 | 460,275 | 9,846 | 4,760,146 | 4,848,349 | (1,444) | (2,841) |
| Restatements | - | - | - | - | - | - | - | - | - | - | (43,026) | - | - |
| Net assets (deficit) at beginning of year, as restated | 269,386 | 462,300 | 444,377 | 1,829,338 | (16,113) | 1,010,604 | 290,133 | 460,275 | 9,846 | 4,760,146 | 4,805,323 | (1,444) | (2,841) |
| Net assets (deficit) at end of year | $ 288,532 | $ 415,684 | $ 456,370 | $ 1,833,481 | $ (41,914) | $ 1,025,336 | $ 301,205 | $ 526,781 | $ 10,419 | $ 4,815,894 | $ 4,760,146 | $ 7,513 | $ (1,444) |

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 – Proprietary Funds
Year ended June 30, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | | | | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | San Francisco Market Corporation | Total 2010 | Total 2009 | Governmental Activities-Internal Service Funds 2010 | Governmental Activities-Internal Service Funds 2009 |
| Cash flows from operating activities: | | | | | | | | | | | | | |
| Cash received from customers, including cash deposits | $ 589,593 | $ 246,684 | $ 124,818 | $ 441,625 | $ 471,080 | $ 209,252 | $ 9,588 | $ 123,487 | $ 1,683 | $ 2,217,810 | $ 2,102,434 | $ 134,361 | $ 143,646 |
| Cash received from tenants for rent | - | 8,584 | 251 | - | 2,477 | - | 55,518 | - | - | 66,830 | 67,424 | - | - |
| Cash paid to employees for services | (176,049) | (91,035) | (33,208) | (535,125) | (370,813) | (65,615) | (26,764) | (146,504) | (256) | (1,445,369) | (1,409,092) | (42,412) | (43,837) |
| Cash paid to suppliers for goods and services | (126,500) | (94,430) | (53,501) | (225,001) | (237,257) | (63,910) | (26,947) | (40,881) | (626) | (869,053) | (819,361) | (71,046) | (94,955) |
| Cash paid for judgments and claims | - | (4,787) | (8,721) | (20,503) | - | (1,508) | - | - | - | (35,519) | (27,876) | - | - |
| Net cash provided by (used in) operating activities | 287,044 | 65,016 | 29,639 | (339,004) | (134,513) | 78,219 | 11,395 | (63,898) | 801 | (65,301) | (86,471) | 20,903 | 4,854 |
| Cash flows from noncapital financing activities: | | | | | | | | | | | | | |
| Operating grants | - | 845 | 27 | 117,469 | 64,131 | 190 | 645 | - | - | 183,307 | 170,748 | - | - |
| Transfers in | - | - | 300 | 252,904 | 128,918 | - | - | 54,168 | - | 436,290 | 438,460 | 1,900 | 255 |
| Transfers out | (28,100) | (493) | (1,700) | (8,513) | (47,925) | - | - | (2,090) | - | (88,821) | (109,462) | (165) | (29) |
| Transit Impact Development fees received | - | - | - | 484 | - | - | - | - | - | 484 | 3,687 | - | - |
| Other noncapital financing increases | 2,022 | - | 6,016 | - | - | 1,648 | - | 18,240 | - | 27,926 | 25,058 | - | - |
| Other noncapital financing decreases | - | - | (5,332) | (5,648) | (216) | - | - | - | - | (11,196) | (2,669) | - | - |
| Net cash provided by (used in) noncapital financing activities | (26,078) | 352 | (689) | 356,696 | 144,908 | 1,838 | 645 | 70,318 | - | 547,990 | 525,822 | 1,735 | 226 |
| Cash flows from capital and related financing activities: | | | | | | | | | | | | | |
| Capital grants and other taxes restricted for capital purposes | 35,298 | - | - | 107,608 | - | - | 1,067 | 16,488 | - | 160,461 | 120,602 | - | - |
| Transfers in | - | - | - | 18,788 | - | - | 10,616 | 59,426 | - | 88,830 | 52,678 | - | - |
| Transfers out | - | - | - | - | - | - | - | - | - | - | (24,973) | - | - |
| Bond sale proceeds and loans received | 496,941 | 1,478,399 | 16,711 | - | 22,550 | 279,216 | 36,386 | - | - | 2,330,203 | 34,053 | 10,629 | 178,464 |
| Proceeds from sale/transfer of capital assets | - | 23 | 26 | 20 | - | - | 2 | 736 | - | 807 | 29,885 | - | - |
| Proceeds from commercial paper borrowings | 46,420 | - | - | - | - | 663,500 | - | - | - | 709,920 | 1,199,506 | - | - |
| Proceeds from passenger facility charges | 73,196 | - | - | - | - | - | - | - | - | 73,196 | 70,435 | - | - |
| Acquisition of capital assets | (252,827) | (352,805) | (33,033) | (115,161) | (4,553) | (44,265) | (12,663) | (80,669) | (723) | (896,699) | (691,822) | (721) | (2,115) |
| Retirement of capital leases, bonds and loans | (118,835) | (41,005) | (422) | (4,652) | (1,142) | (51,329) | (4,473) | (77) | - | (221,935) | (811,250) | (19,127) | (167,948) |
| Retirement of commercial paper borrowings | - | (229,600) | - | - | - | (763,500) | - | - | - | (993,100) | (203,020) | - | - |
| Bond issue costs paid | - | (12,759) | (150) | - | (71) | (2,861) | (548) | - | - | (16,389) | - | (211) | (1,016) |
| Interest paid on debt | (198,597) | (74,468) | (593) | (2,550) | (82) | (18,302) | (212) | (290) | - | (295,094) | (256,384) | (6,942) | (9,456) |
| Other capital financing increases | - | - | - | 349 | - | - | 1,060 | - | - | 1,409 | - | - | - |
| Other capital financing decreases | - | (10,346) | - | - | - | - | (557) | - | - | (10,903) | (4,973) | - | - |
| Net cash provided by (used in) capital and related financing activities | 81,596 | 757,439 | (17,461) | 4,402 | 16,702 | 62,459 | 30,678 | (4,386) | (723) | 930,706 | (485,263) | (16,372) | (2,071) |
| Cash flows from investing activities: | | | | | | | | | | | | | |
| Purchases of investments with trustees | (2,504,072) | (340,412) | (4,218) | - | - | (66,912) | - | - | (262) | (2,915,876) | (3,435,539) | (34,098) | (23,716) |
| Proceeds from sale of investments with trustees | 2,429,039 | 252,781 | 4,218 | 681 | - | 58,549 | - | - | 260 | 2,745,528 | 3,416,796 | 44,499 | 48,328 |
| Interest and investment income | 18,976 | 9,936 | 4,887 | 5,385 | 644 | 2,281 | 2,488 | 1,267 | 11 | 45,875 | 53,645 | 634 | 2,123 |
| Other investing activities | - | 2,783 | - | - | - | - | - | (3) | - | 2,780 | 1,472 | (50) | (132) |
| Net cash provided by (used in) investing activities | (56,057) | (74,912) | 4,887 | 6,066 | 644 | (6,082) | 2,488 | 1,264 | 9 | (121,693) | 36,374 | 10,985 | 26,603 |
| Net increase (decrease) in cash and cash equivalents | 286,505 | 747,895 | 16,376 | 28,160 | 27,741 | 136,434 | 45,206 | 3,298 | 87 | 1,291,702 | (9,538) | 17,251 | 29,612 |
| Cash and cash equivalents-beginning of year | 447,414 | 152,689 | 176,212 | 229,133 | 47,889 | 98,450 | 101,081 | 64,907 | 5,103 | 1,322,878 | 1,332,416 | 73,669 | 44,057 |
| Cash and cash equivalents-end of year | $ 733,919 | $ 900,584 | $ 192,588 | $ 257,293 | $ 75,630 | $ 234,884 | $ 146,287 | $ 68,205 | $ 5,190 | $ 2,614,580 | $ 1,322,878 | $ 90,920 | $ 73,669 |

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 (continued)
Year ended June 30, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

| | Business-type Activities - Enterprise Funds | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Major Funds | | | | | | | | Other Fund | | | | |
| | San Francisco International Airport | San Francisco Water Enterprise | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | San Francisco Wastewater Enterprise | Port of San Francisco | Laguna Honda Hospital | San Francisco Market Corporation | Total 2010 | Total 2009 | Governmental Activities-Internal Service Funds 2010 | Governmental Activities-Internal Service Funds 2009 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | | | |
| Operating income (loss) | $ 102,532 | $ (12,752) | $ 10,203 | $ (591,814) | $ (171,416) | $ 24,331 | $ (5,938) | $ (64,353) | $ 562 | $ (708,645) | $ (710,665) | $ 6,745 | $ 904 |
| Adjustments for non-cash activities: | | | | | | | | | | | | | |
| Depreciation and amortization | 163,541 | 52,571 | 12,631 | 117,512 | 6,099 | 40,748 | 13,761 | 967 | 292 | 408,122 | 384,172 | 1,920 | 1,704 |
| Provision for uncollectibles | 73 | 834 | - | - | - | 1,374 | 520 | - | - | 2,801 | (240) | - | - |
| Write-off of capital assets | - | 7,043 | 12,455 | - | - | 10,790 | - | - | - | 30,288 | 7,627 | - | - |
| Other | 4,671 | - | 265 | 107,233 | - | - | - | - | - | 112,169 | 118,649 | - | 23 |
| Changes in assets/liabilities: | | | | | | | | | | | | | |
| Receivables, net | (245) | (11,123) | (4,709) | (1,165) | (14,973) | (1,963) | 244 | (445) | 2 | (34,377) | (12,213) | 18,708 | 23,527 |
| Due from other funds | - | 197 | 758 | - | - | (5) | - | - | - | 950 | (717) | - | (54) |
| Inventories | (5) | 58 | (26) | (1,445) | (846) | 340 | 148 | 23 | - | (1,753) | (7,305) | - | - |
| Deferred charges and other assets | (4,323) | - | 828 | (2,414) | - | 3 | (123) | - | - | (6,029) | (3,683) | - | 6 |
| Accounts payable | 8,999 | (4,617) | 2,778 | 8,968 | 10,508 | (3,979) | 291 | (9,549) | (55) | 13,344 | 18,908 | 1,841 | 962 |
| Accrued payroll | 904 | 714 | 256 | 1,229 | 2,178 | 277 | 108 | 279 | - | 5,945 | 6,080 | 3 | (49) |
| Accrued vacation and sick leave pay | 446 | 373 | 39 | (312) | 361 | (19) | (41) | (297) | - | 550 | 3,486 | (177) | (627) |
| Accrued workers' compensation | (175) | (523) | (237) | 1,912 | 389 | (267) | 648 | 522 | - | 2,269 | (1,265) | (63) | (27) |
| Other postemployment benefits obligation | 14,055 | 14,631 | 2,673 | 26,208 | 27,104 | 4,665 | 2,452 | 8,852 | - | 100,640 | 127,264 | 2,729 | 3,738 |
| Estimated claims payable | - | 20,099 | (8,440) | (544) | - | 749 | 180 | - | - | 12,044 | (14,023) | - | - |
| Due to other funds | - | 1 | - | (780) | - | 217 | 124 | - | - | (438) | 2,285 | (131) | 225 |
| Deferred credits and other liabilities | (3,429) | (2,490) | 165 | (3,592) | 6,083 | 958 | (979) | 103 | - | (3,181) | (4,831) | (10,672) | (25,478) |
| Total adjustments | 184,512 | 77,768 | 19,436 | 252,810 | 36,903 | 53,888 | 17,333 | 455 | 239 | 643,344 | 624,194 | 14,158 | 3,950 |
| Net cash provided by (used in) operating activities | $ 287,044 | $ 65,016 | $ 29,639 | $ (339,004) | $ (134,513) | $ 78,219 | $ 11,395 | $ (63,898) | $ 801 | $ (65,301) | $ (86,471) | $ 20,903 | $ 4,854 |
| Reconciliation of cash and cash equivalents to the statement of net assets: | | | | | | | | | | | | | |
| Deposits and investments with City Treasury: | | | | | | | | | | | | | |
| Unrestricted | $ 326,281 | $ 113,472 | $ 173,861 | $ 232,862 | $ 53,946 | $ 49,902 | $ 91,793 | $ - | $ - | $ 1,042,117 | $ 970,347 | $ 29,655 | $ 16,309 |
| Restricted | 410,473 | 620,347 | - | 9,293 | - | 133,597 | 51,633 | 68,204 | - | 1,293,547 | 316,971 | - | - |
| Deposits outside of City Treasury: | | | | | | | | | | | | | |
| Unrestricted | 10 | 89 | 10 | 3,843 | 10 | 89 | 5 | 1 | 5,190 | 9,247 | 8,041 | - | - |
| Restricted | 363,914 | 295,281 | 18,717 | 11,295 | 21,674 | 59,659 | 3,300 | 935 | 299 | 775,074 | 358,617 | 89,553 | 96,050 |
| Total deposits and investments | 1,100,678 | 1,029,189 | 192,588 | 257,293 | 75,630 | 243,247 | 146,731 | 69,140 | 5,489 | 3,119,985 | 1,653,976 | 119,208 | 112,359 |
| Less: Investments outside of City Treasury not meeting the definition of cash equivalents | (366,759) | (128,605) | - | - | - | (8,363) | (444) | (935) | (299) | (505,405) | (331,098) | (28,288) | (38,690) |
| Cash and cash equivalents at end of year on statement of cash flows | $ 733,919 | $ 900,584 | $ 192,588 | $ 257,293 | $ 75,630 | $ 234,884 | $ 146,287 | $ 68,205 | $ 5,190 | $ 2,614,580 | $ 1,322,878 | $ 90,920 | $ 73,669 |
| Non-cash capital and related financing activities: | | | | | | | | | | | | | |
| Acquisition of capital assets on accounts payable and capital lease | $ 58,822 | $ 74,607 | $ 5,926 | $ 14,228 | $ - | $ 4,980 | $ 1,731 | $ - | $ 125 | $ 160,419 | $ 86,149 | $ 9,715 | $ 4,264 |
| Tenant improvements financed by rent credits | - | - | - | - | - | - | 2,015 | - | - | 2,015 | 1,315 | - | - |
| Land acquired through real property exchange | - | - | - | - | - | - | - | - | - | - | 500 | - | - |
| Net capitalized interest | 17,672 | 36,131 | - | - | - | 3,790 | - | - | - | 57,593 | - | - | - |
| Improvements acquired from early termination of lease | - | - | - | - | - | - | 11 | - | - | 11 | - | - | - |
| Bond refunding | 1,283,685 | - | - | - | - | - | - | - | - | 1,283,685 | 293,753 | - | - |
| Interfund loan | - | - | 4,560 | - | - | 5,787 | - | - | - | 10,347 | - | - | - |
| Donated inventory | - | - | - | - | 1,594 | - | - | - | - | 1,594 | - | - | - |

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, 2010
(In Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Fund | Agency Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments with City Treasury | $ 69,193 | $ 585,010 | $ 76,162 |
| Deposits and investments outside City Treasury: | | | |
| Cash and deposits | 12,834 | 105 | - |
| Short-term investments | 583,208 | - | - |
| Alternative investments | 1,763,500 | - | - |
| Debt securities | 4,058,835 | - | - |
| Equity securities | 5,733,593 | - | - |
| Real estate | 1,009,001 | - | - |
| Foreign currency contracts, net | 6,387 | - | - |
| Receivables: | | | |
| Employer and employee contributions | 40,056 | - | 51,604 |
| Brokers, general partners and others | 155,528 | - | - |
| Interest and other | 45,123 | 344 | 195,340 |
| Invested in securities lending collateral | 964,858 | - | - |
| Deferred charges and other assets | - | - | 28,424 |
| Total assets | 14,442,116 | 585,459 | $ 351,530 |
| **LIABILITIES** | | | |
| Accounts payable | 43,043 | 2,854 | $ 78,230 |
| Estimated claims payable | 12,424 | - | - |
| Agency obligations | - | - | 273,300 |
| Payable to brokers | 219,697 | - | - |
| Deferred Retirement Option Program liabilities | 8,653 | - | - |
| Payable to borrowers of securities | 966,502 | - | - |
| Deferred credits and other liabilities | 40,785 | - | - |
| Total liabilities | 1,291,104 | 2,854 | $ 351,530 |
| **NET ASSETS** | | | |
| Held in trust for pension and other employee benefits and external pool participants | $ 13,151,012 | $ 582,605 | |

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, 2010
(In Thousands)

| | Pension and Other Employee Benefit Trust Funds | Investment Trust Fund |
|---|---|---|
| Additions: | | |
| Employees' contributions | $ 301,866 | $ - |
| Employer contributions | 771,799 | - |
| Contributions to pooled investments | - | 3,117,306 |
| Total contributions | 1,073,665 | 3,117,306 |
| Investment income/loss: | | |
| Interest | 195,676 | 9,079 |
| Dividends | 139,161 | - |
| Net appreciation in fair value of investments | 1,334,684 | - |
| Securities lending income | 34,730 | - |
| Total investment income | 1,704,251 | 9,079 |
| Less investment expenses: | | |
| Securities lending borrower rebates and expenses | (4,007) | - |
| Other investment expenses | (44,206) | - |
| Total investment expenses | (48,213) | - |
| Total additions, net | 2,729,703 | 3,126,385 |
| Deductions: | | |
| Benefit payments | 1,452,990 | - |
| Refunds of contributions | 11,997 | - |
| Distribution from pooled investments | - | 3,109,161 |
| Administrative expenses | 13,833 | - |
| Total deductions | 1,478,820 | 3,109,161 |
| Change in net assets | 1,250,883 | 17,224 |
| Net assets at beginning of year | 11,900,129 | 565,381 |
| Net assets at end of year | $ 13,151,012 | $ 582,605 |

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



## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

### (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 (SFCTA)* – The voters of the City created SFCTA 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. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the SFCTA. The SFCTA is reported in a special revenue fund in the City's basic financial statements. Financial statements for the SFCTA 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 (PTC). The PTC consists of five commissioners appointed by the mayor. Upon creation of the PTC, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the PTC. The staff and fiscal operations of the Parking Authority were also incorporated into the PTC. Beginning on July 1, 2002, the responsibility for overseeing the operations of the PTC 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. The PIDC is reported as a blended component unit of the Agency, due to the Board of the PIDC being comprised of management of the Agency and other appointed individuals. Future funding will be dependent on 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 at 1 South Van Ness Avenue, 5th Floor, 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, both of 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. 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 ***San Francisco Water Enterprise Fund*** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.

- The ***Hetch Hetchy Water and Power Enterprise 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 ***San Francisco 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 ***San Francisco 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, the Trial Courts of the State of California and the Transbay Joint Powers Authority 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 (GASB). 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 General Fund, Water Enterprise 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.





**(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 issues 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, 2010, involuntary participants accounted for approximately 97.5% of the pool. Voluntary participants accounted for 2.5% 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, 2010, $582.6 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 13.7%. Internal participants accounted for 86.3% 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***

Investments are carried at fair value, except for certain non-negotiable investments that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as collateralized certificates of deposits and public time deposits. The fair value of investments is determined monthly and is based on current market prices. The fair value of participants' position in the pool approximates the value of the pool shares. The method used to determine the value of participants' equity is based on the book value of the participants' percentage participation. In the event that a certain fund overdraws its share of pooled cash, the overdraft is covered by the General Fund and a payable to the General Fund is established in the City's basic financial statements.

*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 are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 50% and 60%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $917.2 million including $103.3 million in recourse debt at June 30, 2010. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a purchase and sale transaction.

Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of alternative investments are based on net asset values provided by the general partners. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and changes in fair value. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The Charter and Retirement Board policies permit the Retirement System to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the domestic securities for collateral of 102% and international securities for collateral of 105%. Contracts with the lending agent 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 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.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2010 was 84 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which had a weighted average maturity as of June 30, 2010 of 28 days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which had a weighted average maturity as of June 30, 2010 of 15 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. 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 collateral invested in the lending agent's short-term investment pools is reported at fair value. The lending agent's short-term investment pools have not been rated by a nationally recognized statistical rating organization. Payable to borrowers of securities in the statement of fiduciary net assets represents the cash collateral received from borrowers. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses in the statement of changes in fiduciary net assets.

*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) that have a remaining maturity at the time of purchase of one year or less and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) 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, 2010. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and Agency obligations that have a remaining maturity of less than one year at the date of purchase) and participating interest-earning investment contracts (such as





negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are valued at the amortized cost, which approximates fair value as of June 30, 2010.

***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**

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issues loans to qualified applicants. 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. At June 30, 2010, it was determined that $519.7 million of the $592.0 million loan portfolio is not expected to be ultimately collected.

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. 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 each property parcel based on its 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.

(Dollars in Thousands)

**(h) Capital Assets**

Capital assets, which include land, facilities and improvements, machinery and equipment, infrastructure assets, and intangible assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets, except for intangible assets, are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Effective July 1, 2009, the City has established a capitalization threshold of $100 for intangible assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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, easements, and intangible assets 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 |
| Intangible assets | Varies with type |

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 was in effect from July 1, 2002 and ended on June 30, 2010. Final payments due to retired employees under the Program were included in accrued vacation and sick leave pay as of June 30, 2010.

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 or 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 the 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.

*Reserve 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, 2010, the government-wide statement of net assets reported restricted assets of $382.1 million in governmental activities and $278.1 million in business-type activities. For governmental activities, $2.0 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.

The City issued general obligation bonds and certificates of participation for the purpose of rebuilding and improving Laguna Honda Hospital. General obligation bonds were also issued for the purpose of reconstructing and improving waterfront parks and facilities on Port property. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such these general obligation bonds and certificates of participation are reported with unrestricted net assets in the City's governmental activities. In accordance with GASB guidance, the City reclassified $388.4 million of unrestricted net assets, of which $375.7 million reduced net assets invested in capital assets, net of related debt and $12.7 million reduced net assets restricted for capital projects to reflect the primary government as a whole perspective.

***Deficit Net Assets/Fund Balances***

The Environmental Protection Fund, Human Welfare Fund and Senior Citizens' Program Fund had deficits of $0.6 million, $2.9 million and $1.4 million, respectively, as of June 30, 2010. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs which are expected to be collected beyond 120 days of the end of fiscal year 2010.

The San Francisco County Transportation Authority Fund had a $68.4 million deficit as of June 30, 2010. The deficit relates to the Authority's capital projects which are scheduled to be implemented over the course of several fiscal periods and are funded with non-current revenues.

The Moscone Convention Center Fund had a $6.3 million deficit as of June 30, 2010. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Internal Service Fund had deficits in total net assets of $1.9 million as of June 30, 2010 mainly due to the other postemployment benefits liability accrued as per GASB Statement 45. The deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

**(l) Interfund Transfers**

Interfund transfers are generally recorded as transfers in (out) except for certain types of transactions that are described below.

- 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.





- 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) Pollution Remediation Obligations**

Pollution remediation obligations are measured at their current value using a cost-accumulation approach, based on the pollution remediation outlays expected to be incurred to settle those obligations. Each obligation or obligating event is measured as the sum of probability-weighted amounts in a range of possible estimated amounts. Some estimates of ranges of possible cash flows may be limited to a few discrete scenarios or a single scenario, such as the amount specified in a contract for pollution remediation services.

**(o) 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.

**(p) 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.

**(q) Reclassifications**

Certain amounts presented as 2008-2009 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2009-2010 basic financial statements.

**(r) Effects of New Pronouncements**

During fiscal year 2010, the City implemented the following accounting standards:

GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in June 2007. This Statement establishes standards for recognition and measurement of intangible assets including easements and computer software. This Statement requires all capitalized intangible assets be classified as capital assets and recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, and internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization. The implementation of GASB Statement No. 51 did not have a significant impact on the City for the fiscal year ended June 30, 2010.

GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* in June 2008, which became effective for financial statements beginning after June 15, 2009. The Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. It also provides reporting guidelines for hedging derivative instruments and investment derivative instruments. Effective July 1, 2009, the City adopted the provisions of GASB Statement No. 53 and has retroactively restated its comparative 2009 financial statements. The Airport's derivative instruments are eight interest rate swaps entered into to hedge the interest payments on several series of the Airport's variable rate Second Series Revenue Bonds (see Note 8). In addition, pursuant to the requirements of GASB Statement No. 53, the City provided a summary of the Retirement System's derivative investment activities during the fiscal year and the related risks in Note 5(e).

(Dollars in Thousands)

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective to this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). Beginning June 30, 2010, the SFCTA will comply with GASB Statement No. 57 reporting requirements and perform OPEB actuarial valuations based on a common date.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus.* This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.





**(s) 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.

## (3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### (a) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

Total fund balances of the City's governmental funds, $999,085, differs from net assets of governmental activities, $1,152,985, 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.

| | Total Governmental Funds | Long-term Assets, Liabilities [(1)] | Internal Service Funds [(2)] | Reclassi-fications and Eliminations | Statement of Net Assets Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Deposits and investments with City Treasury | $ 1,158,059 | $ - | $ 29,655 | $ - | $ 1,187,714 |
| Deposits and investments outside City Treasury | 144,989 | - | 89,553 | - | 234,542 |
| Receivables, net: | | | | | |
| Property taxes and penalties | 66,324 | - | - | - | 66,324 |
| Other local taxes | 184,587 | - | - | - | 184,587 |
| Federal and state grants and subventions | 279,967 | - | - | - | 279,967 |
| Charges for services | 48,315 | - | 67 | - | 48,382 |
| Interest and other | 32,590 | - | 931 | - | 33,521 |
| Due from other funds | 48,340 | - | - | (48,340) | - |
| Due from component unit | 23,687 | - | - | - | 23,687 |
| Loans receivable, net | 72,294 | - | - | - | 72,294 |
| Capital assets, net | - | 3,172,297 | 5,525 | - | 3,177,822 |
| Deferred charges and other assets | 9,420 | 19,343 | 5,615 | - | 34,378 |
| Total assets | 2,068,572 | 3,191,640 | 131,346 | (48,340) | 5,343,218 |
| **Liabilities** | | | | | |
| Accounts payable | $ 249,788 | $ - | $ 10,481 | $ - | $ 260,269 |
| Accrued payroll | 94,039 | - | 1,907 | - | 95,946 |
| Accrued vacation and sick leave pay | - | 139,498 | 3,206 | - | 142,704 |
| Accrued workers' compensation | - | 215,735 | 964 | - | 216,699 |
| Other postemployment benefits obligation | - | 467,019 | 10,614 | - | 477,633 |
| Estimated claims payable | - | 139,845 | - | - | 139,845 |
| Accrued interest payable | - | 10,745 | 1,935 | - | 12,680 |
| Deferred tax, grant and subvention revenues | 187,968 | (174,622) | - | - | 13,346 |
| Due to other funds/internal balances | 47,778 | - | 9,665 | (48,340) | 9,103 |
| Deferred credits and other liabilities | 334,879 | (144,933) | 1,035 | - | 190,981 |
| Bonds, loans, capital leases, and other payables | 155,035 | 2,190,432 | 285,560 | - | 2,631,027 |
| Total liabilities | 1,069,487 | 2,843,719 | 325,367 | (48,340) | 4,190,233 |
| **Fund balances/net assets** | | | | | |
| Total fund balances/net assets | 999,085 | 347,921 | (194,021) | - | 1,152,985 |
| Total liabilities and fund balances/net assets | $ 2,068,572 | $ 3,191,640 | $ 131,346 | $ (48,340) | $ 5,343,218 |

(1) When capital assets (land, infrastructure, buildings, equipment, and intangible assets) 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 | $ 4,138,843 |
| Accumulated depreciation | (966,546) |
| | $ 3,172,297 |

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. $ 19,343

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 | $ (139,498) |
| Accrued workers' compensation | (215,735) |
| Other postemployment benefits obligation | (467,019) |
| Estimated claims payable | (139,845) |
| Bonds, loans, capital leases, and other payables | (2,190,432) |
| Deferred credits and other liabilities | (3,285) |
| | $(3,155,814) |

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as expenditure when paid. $ (10,745)

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 revenues | $ 174,622 |
| Deferred credits and other liabilities | 148,218 |
| | $ 322,840 |

(2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, fleet management, printing and mailing services, and information systems, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

| | |
|---|---|
| Net assets before adjustments | $ 7,513 |
| Adjustments for internal balances with the San Francisco Finance Corporation: | |
| Capital lease receivables from other governmental and enterprise funds | (284,776) |
| Deferred charges and other assets | 1,416 |
| Deferred credits and other liabilities | 81,826 |
| | $ (194,021) |

In addition, intrafund receivables and payables among various internal service funds of $0.2 million are eliminated.



**CITY AND COUNTY OF SAN FRANCISCO**
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June 30, 2010
(Dollars in Thousands)

**(b) Explanation of certain differences between the governmental funds 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, $14,073, differs from the change in net assets for governmental activities, ($152,218), 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**

| | Governmental Funds Totals | 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 | $ 1,331,957 | $ 13,083 | $ - | $ - | $ - | $ 1,345,040 |
| Business taxes | 354,019 | - | - | - | - | 354,019 |
| Sales and use tax | 164,769 | - | - | - | - | 164,769 |
| Hotel room tax | 186,849 | - | - | - | - | 186,849 |
| Utility users tax | 94,537 | - | - | - | - | 94,537 |
| Other local taxes | 194,070 | - | - | - | - | 194,070 |
| Licenses, permits and franchises | 33,625 | (563) | - | - | - | 33,062 |
| Fines, forfeitures and penalties | 22,255 | 103 | - | - | - | 22,358 |
| Interest and investment income | 27,038 | 330 | - | 509 | - | 27,877 |
| Rents and concessions | 78,527 | 4,453 | - | - | - | 82,980 |
| Intergovernmental: | | | | | | |
| Federal | 448,890 | 7,013 | - | - | - | 455,903 |
| State | 552,641 | 28,775 | - | - | - | 581,416 |
| Other | 7,397 | 505 | - | - | - | 7,902 |
| Charges for services | 243,128 | 788 | - | - | - | 243,916 |
| Other revenues | 51,023 | (22) | - | - | - | 51,001 |
| Total revenues | 3,790,725 | 54,465 | - | 509 | - | 3,845,699 |
| **Expenditures/Expenses** | | | | | | |
| Expenditures: | | | | | | |
| Public protection | 1,021,505 | 60,854 | 13,710 | (6,760) | - | 1,089,309 |
| Public works, transportation and commerce | 243,454 | 6,592 | (22,115) | (2,342) | - | 225,589 |
| Human welfare and neighborhood development | 918,301 | 14,320 | 418 | - | - | 933,039 |
| Community health | 581,392 | 17,223 | 1,126 | - | - | 599,741 |
| Culture and recreation | 303,134 | 14,005 | 25,433 | (13,947) | (18,562) | 310,063 |
| General administration and finance | 187,221 | 18,282 | 14,131 | 1,837 | - | 221,471 |
| General City responsibilities | 86,498 | 8 | - | (7,468) | 1,208 | 80,246 |
| Debt service: | | | | | | |
| Principal retirement | 154,051 | - | - | - | (154,051) | - |
| Interest and fiscal charges | 89,946 | - | - | 6,838 | 5,851 | 102,635 |
| Bond issuance costs | 2,145 | - | - | - | (2,145) | - |
| Capital outlay | 182,448 | - | (182,448) | - | - | - |
| Total expenditures/expenses | 3,770,095 | 131,284 | (149,745) | (21,842) | (167,699) | 3,562,093 |
| **Other financing sources (uses)/changes in net assets** | | | | | | |
| Net transfers (to)/from other funds | (437,559) | - | - | 1,735 | - | (435,824) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | 393,010 | - | - | - | (393,010) | - |
| Face value of loans issued | 599 | - | - | - | (599) | - |
| Premium on issuance of bonds | 16,647 | - | - | - | (16,647) | - |
| Other financing sources - capital leases | 20,746 | - | - | (20,746) | - | - |
| Total other financing sources (uses)/changes in net assets | (6,557) | - | - | (19,011) | (410,256) | (435,824) |
| **Net change for the year** | $ 14,073 | $ (76,819) | $ 149,745 | $ 3,340 | $ (242,557) | $ (152,218) |

(Dollars in Thousands)

(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. $ 13,083

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. 41,382

$ 54,465

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources. $ (134,155)

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 expenditures are not reported in the statement of activities. 2,871

$ (131,284)

(4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year and the loss on disposal of capital assets.

| | |
|---|---|
| Capital expenditures | $ 235,489 |
| Depreciation expense | (85,507) |
| Loss on disposal of capital assets | (237) |
| Difference | $ 149,745 |

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. $ 3,340

(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 | $ 18,562 |





Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.

| | |
|---|---|
| Bond issuance costs | $ 2,145 |
| Amortization of bond issuance costs | (1,208) |
| Difference | $ 937 |

Bond premiums are reported 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. $ (16,647)

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 | $ 154,051 |

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 | (355,125) |
| Certificates of participation | (37,885) |
| Loans | (599) |
| | (393,609) |
| | $ (239,558) |

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 are not 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.

| | |
|---|---|
| Increase in accrued interest | $ (367) |
| Interest payment on capital lease obligations on the Moscone Convention Center | (7,668) |
| Amortization of bond premiums, discounts and refunding losses | 1,822 |
| Increase in arbitrage rebate liability | 362 |
| | $ (5,851) |

## (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), revenues not meeting the 120-day availability period and other assets not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2010 on a budget basis is reconciled to the fund balance on a GAAP basis as follows:

| | General Fund |
|---|---|
| Fund Balance – Budget Basis | $ 312,040 |
| Unrealized Gains/(Losses) on Investments | 1,851 |
| Cumulative Excess Property Tax Revenues Recognized on a Budget Basis | (71,967) |
| Cumulative Excess Health, Human Service, Franchise Tax and Other Revenues Recognized on a Budget Basis | (55,938) |
| Deferred amounts on loan receivables | (9,082) |
| Reserved for Assets Not Available for Appropriation | 14,874 |
| Fund Balance – GAAP Basis | $ 191,778 |

General Fund Budget basis fund balance at June 30, 2010 is composed of the following:

| | | |
|---|---|---|
| Reserved for Rainy Day – Economic Stabilization Reserve | $ 39,582 | |
| Reserved for Encumbrances | 69,562 | |
| Reserved for Appropriation Carryforward | 60,935 | |
| Reserved for Subsequent Years' Budgets: | | |
| Budget Savings Incentive Program – Recreation and Park | 4,677 | |
| Salaries and benefits costs (MOU) | 4,198 | |
| Total Reserved Fund Balance | | $ 178,954 |
| Designated for Litigation and Contingencies | 27,758 | |
| Unreserved, Undesignated Fund Balance – Available for Appropriation | 105,328 | |
| Total Unreserved Amounts | | 133,086 |
| Fund Balance, June 30, 2010 – Budget basis | | $ 312,040 |

Of the $105.3 million unreserved, undesignated fund balance – available for appropriation, $79.9 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2010-2011.



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## (5) DEPOSITS AND INVESTMENTS

### (a) Cash, Deposits and Investments Presentation

Total City cash, deposits and investments, at fair value, are as follows:

| | Primary Government | | | | Component Units |
|---|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total | |
| Deposits and investments with City Treasury | $ 1,187,714 | $ 1,042,117 | $ 730,365 | $ 2,960,196 | $ 1,452 |
| Deposits and investments outside City Treasury | 144,989 | 9,247 | 13,167,463 | 13,321,699 | 275,850 |
| Restricted assets: | | | | | |
| Deposits and investments with City Treasury | - | 1,293,547 | - | 1,293,547 | - |
| Deposits and investments outside City Treasury | 89,553 | 775,074 | - | 864,627 | 154,980 |
| Invested securities lending collateral | - | - | 964,858 | 964,858 | - |
| Total deposits and investments | $ 1,422,256 | $ 3,119,985 | $ 14,862,686 | $ 19,404,927 | $ 432,282 |
| Cash and deposits | | | | $ 406,479 | $ 23,562 |
| Investments | | | | 18,998,448 | 408,720 |
| Total deposits and investments | | | | $ 19,404,927 | $ 432,282 |

### *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, 2010, $0.3 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

### (b) Investment Policies

### *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) as defined in the City Administrative Code section 10.80-3, 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 Mayor, the Board of Supervisors, 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.

(Dollars in Thousands)

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 not exceed 60 percent of the total portfolio at the time of purchase. The investment policy also limits the maximum maturity of each type of agency instrument and does not permit investments in medium-term corporate notes. Investments held by the Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

The City's investment policy dated April 2010 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 except in special circumstances specifically authorized by the Treasurer. The investment policy requires deposits in excess of the Federal Deposit Insurance Corporation (FDIC) deposit insurance limit to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The current insurance limit is $250. 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.

The table below identifies the investment types that are authorized by the City's investment policy dated April 2010. The table also identifies certain provisions of the City's investment policy that address interest rate and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury bills, notes, and bonds | 5 years | None | None |
| U.S. Agency Securities (all): | 5 years | 60% * | None |
| Federal National Mortgage Association | 5 years | 30% * | None |
| Federal Home Loan Mortgage Corporation | 5 years | 30% * | None |
| Federal Home Loan Bank | 5 years ** | 30% * | None |
| Federal Farm Credit Bank | 5 years ** | 30% * | None |
| Federal Agricultural Mortgage Association | 5 years ** | 10% * | None |
| Resolution Trust Funding Corporation | 5 years ** | 5% * | None |
| Tennessee Valley Authority | 5 years ** | 10% * | None |
| Commercial Paper | 270 days | 25% | 10% * |
| Bankers' Acceptances | 5 years | 40% | 30% * |
| Temporary Liquidity Guarantee Program | 5 years | 30% | None |
| State and Local Government Agencies indebtedness | 5 years | 20% | None |
| Repurchase Agreements | 30 days * | None | None |
| Reverse Repurchase Agreements | 45 days * | None | $75 million |
| State of California Local Agency Investment Fund | 5 years | Statutory | None |
| Bank and Thrift: | | | |
| Public Time Deposits | 1 years | None | None |
| Public Demand Accounts | 5 years | None | None |
| Negotiable Certificates of Deposit | 5 years | 30% | None |

* Represents restriction on which the City's investment policy is more restrictive than the California Government Code.

** Investments in these U.S. Agency Securities shall not have a weighted average maturity in excess of 270 days. If the weighted average maturity exceeds 270 days, total investments in these securities shall be restricted to 30% of the total par amount of the portfolio.

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.

Investment managers are required 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. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities and collateralized mortgage obligations. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; foreign currency contracts, derivative instruments, 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). Investment of bond proceeds is limited to those investments permitted in the bond document or provided in the Code. The Agency's Investment Policy is more restrictive than the California Government Code in the following areas: 1) reverse repurchase agreements, which requires the specific approval of the Agency Commission; 2) commercial paper, which the maximum maturity is 180 days; and 3) investment in corporate notes may not exceed 15% of the Agency's portfolio.

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.

(Dollars in Thousands)

## (c) Investment Risks

### *Interest Rate Risk*

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 is to changes in market interest rates. Information about the sensitivity to the fair values of the City's investments to market interest rate fluctuations is provided by the following table, which shows the distribution of the City's investments by maturity. The Employees' Retirement System's interest rate risk information is discussed in section (e) of this note.

| | | | Investment Maturities | | | |
|---|---|---|---|---|---|---|
| | S&P Rating | 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 | AAA | $ 217,451 | $ 217,451 | $ - | $ - | $ - |
| U.S. Treasury Notes | AAA | 423,417 | 100,497 | 322,920 | - | - |
| U.S. Agencies - Coupon | AAA | 2,159,483 | 99,457 | 2,060,026 | - | - |
| Temporary Liquidity Guarantee Program | AAA | 987,971 | 248,287 | 739,684 | - | - |
| Nonnegotiable certificates of deposits | n/a | 25,000 | 25,000 | - | - | - |
| Public time deposits | n/a | 65,100 | 65,100 | - | - | - |
| Less: Treasure Island Development Authority Investments with City Treasury | n/a | (1,452) | (1,452) | - | - | - |
| Subtotal investments in City Treasury | | 3,876,970 | $ 754,340 | $ 3,122,630 | $ - | $ - |
| Investments Outside City Treasury: (Governmental and Business-Type) | | | | | | |
| U.S. Treasury Bills | AAA | 177,945 | $ 177,945 | $ - | $ - | $ - |
| U.S. Treasury Notes | AAA | 121,010 | 58,193 | 35,779 | 27,038 | - |
| U.S. Agencies - Coupon | AAA | 60,198 | 28,177 | 32,021 | - | - |
| U.S. Agencies - Discount | AAA | 25,250 | 25,250 | - | - | - |
| U.S. Agencies - Discount | A-1+ | 363,903 | 363,903 | - | - | - |
| Money market mutual funds | AAAm | 236,703 | 236,703 | - | - | - |
| Guaranteed investment contract | AA- | 15,958 | - | 15,958 | - | - |
| Commercial paper | A-1 | 683 | 683 | - | - | - |
| Certificate of deposits | n/a | 446 | 446 | - | - | - |
| Subtotal investments outside City Treasury | | 1,002,096 | $ 891,300 | $ 83,758 | $ 27,038 | $ - |
| Employees' Retirement System investments | | 14,119,382 | | | | |
| **Total Primary Government** | | 18,998,448 | | | | |
| **Component Units:** | | | | | | |
| Redevelopment Agency: | | | | | | |
| U.S. Treasury Bills | AAA | 104,978 | $ 104,978 | $ - | $ - | $ - |
| U.S. Agencies - Discount | A-1 | 44,997 | 44,997 | - | - | - |
| State Local Agency Investment Fund | n/a | 15,630 | 15,630 | - | - | - |
| Money market mutual funds | AAAm | 237,522 | 237,522 | - | - | - |
| Guaranteed investment contracts | n/a | 4,141 | - | - | - | 4,141 |
| Subtotal Redevelopment Agency | | 407,268 | $ 403,127 | $ - | $ - | $ 4,141 |
| Treasure Island Development Authority: | | | | | | |
| Investments with City Treasury | n/a | 1,452 | $ 1,452 | $ - | $ - | $ - |
| Subtotal Treasure Island Development Authority | | 1,452 | $ 1,452 | $ - | $ - | $ - |
| **Total Component Units** | | 408,720 | | | | |
| **Total Investments** | | $ 19,407,168 | | | | |





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 of June 30, 2010, the investments in the City Treasury had a weighted average maturity of 710 days and its investments in floating rate securities were $120.3 million. These securities are tied to the London Interbank Offered Rate (LIBOR) index.

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 25% of the Agency's portfolio.
- The maximum maturity of bankers' acceptance is 180 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*

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. The Standard & Poor's rating for each of the investment types are shown in the table above.

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-1/P-1 or better for commercial paper and AAA for money market mutual funds, as well as maintaining a portfolio diversified by type and issuer.

### *Custodial Credit Risk for Investments*

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.

***Concentration of Credit Risk***

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. U.S. Treasury and Agency securities are not subject to single issuer limitation. As of June 30, 2010, the City Treasurer has investments in U.S. Agencies that represent 5 percent or more of the total Pool in the following: Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal Home Loan Bank. These investments represent 17.9 percent, 14.3 percent, 13.1 percent and 10.3 percent respectively. The City Treasurer also has investments in Temporary Liquidity Guarantee Program securities issued by General Electric that represent 6.9 percent of the Pool investments.

In addition, 87.8 percent of Airport's investments with its trustees are held in Federal National Mortgage Association and 12.2 percent are held in Federal Home Loan Bank. 21.1 percent and 5.7 percent of the Finance Corporation's investments with its trustee are held in Federal National Mortgage Association and Federal Farm Credit Bank, respectively. The Redevelopment Agency held 17.8 percent of its pooled investments with the Federal Home Loan Bank.

**(d) 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, 2010:

| | |
|---|---|
| **Statement of Net Assets** | |
| Net assets held in trust for all pool participants .......... | $ 4,255,195 |
| Equity of internal pool participants .......................... | 3,672,590 |
| Equity of external pool participants .......................... | 582,605 |
| Total equity ................................................... | $ 4,255,195 |
| **Statement of Changes in Net Assets** | |
| Net assets at July 1, 2009 .................................... | $ 3,001,542 |
| Net change in investments by pool participants .......... | 1,253,653 |
| Net assets at June 30, 2010 ............................. | $ 4,255,195 |

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2010 (in thousands):

| Type of Investment | Rates | Maturities | Par Value | Value |
|---|---|---|---|---|
| U.S. government securities ...................... | 0.34% - 1.11% | 11/30/10 - 07/15/12 | $ 638,000 | $ 640,868 |
| Federal agencies .................................. | 0.57% - 2.88% | 03/23/11 - 06/24/15 | 2,144,841 | 2,159,483 |
| Temporary Liquidity Guarantee Program .... | 0.36% - 2.07% | 12/10/10 - 12/21/12 | 967,310 | 987,971 |
| Negotiable certificates of deposits ............ | 0.72% | 09/02/10 | 25,000 | 25,000 |
| Public time deposits .............................. | 0.70% - 1.75% | 07/31/10 - 05/18/11 | 65,100 | 65,100 |
| | | | $ 3,840,251 | 3,878,422 |
| Carrying amount of deposits in Treasurer's Pool ...... | | | | 376,773 |
| Total cash and investments in Treasurer's Pool ...... | | | | $ 4,255,195 |





**(e) Retirement System Investments**

The Retirement System's investments as of June 30, 2010 are summarized as follows:

| | |
|---|---|
| Fixed Income Investments: | |
| Short-term bills and notes | $ 583,208 |
| Debt securities: | |
| U.S. Government and agencies | 1,177,473 |
| Other debt securities | 2,881,362 |
| Subtotal debt securities | 4,058,835 |
| Total fixed income investments | 4,642,043 |
| Equity securities: | |
| Domestic | 3,090,448 |
| International | 2,643,145 |
| Total equity securities | 5,733,593 |
| Real estate holdings | 1,009,001 |
| Alternative investments | 1,763,500 |
| Foreign currency contracts, net | 6,387 |
| Investment in lending agent's short-term investment pool | 964,858 |
| **Total Retirement System Investments** | $ 14,119,382 |

***Interest Rate Risk***

The Retirement System does not have a specific policy to manage interest rate risk.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2010:

| Investment Type | Fair Value | Less than 1 year | 1-5 years | 5-10 years | 10+ years |
|---|---|---|---|---|---|
| Asset Backed Securities | $ 123,430 | $ 1,535 | $ 20,739 | $ 4,869 | $ 96,287 |
| Bank Loans | 31,135 | 295 | 10,722 | 20,118 | - |
| Collateralized Bonds | 4,736 | - | - | 693 | 4,043 |
| Commercial Mortgage-Backed | 576,020 | - | 57,539 | 151,784 | 366,697 |
| Corporate Bonds | 1,415,786 | 14,315 | 553,286 | 706,884 | 141,301 |
| Corporate Convertible Bonds | 197,705 | 1,068 | 104,058 | 17,827 | 74,752 |
| Government Agencies | 49,369 | 7,906 | 30,478 | 9,528 | 1,457 |
| Government Bonds | 945,315 | 2,555 | 534,511 | 342,794 | 65,455 |
| Government Mortgage-Backed Securities | 246,493 | 45,773 | - | 3,316 | 197,404 |
| Index Linked Government Bonds | 24,715 | - | 9,456 | 1,653 | 13,606 |
| Mortgages | 114 | - | 32 | 82 | - |
| Municipal/Provincial Bonds | 15,628 | - | 2,860 | - | 12,768 |
| Non-Government Backed Collateralized Mortgage Obligations | 179,332 | - | 1,572 | 5,144 | 172,616 |
| Options | (390) | 1,086 | (1,476) | - | - |
| Other Fixed Income | 568,767 | 426,285 | 103,833 | 34,341 | 4,308 |
| Short-term Bills and Notes | 54,099 | 54,099 | - | - | - |
| Short-term Investment Funds | 213,222 | 213,222 | - | - | - |
| Swaps | (3,433) | 1,235 | 858 | (1,590) | (3,936) |
| **Total** | $ 4,642,043 | $ 769,374 | $ 1,428,468 | $ 1,297,443 | $ 1,146,758 |

(Dollars in Thousands)

### Credit Risk

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2010. Investments issued or explicitly guaranteed by the U.S. government of $933.5 million as of June 30, 2010 are not considered to have credit risk and are excluded from the table below.

| Credit Rating | Fair Value | Fair Value as a Percentage of Total |
|---|---|---|
| AAA | $ 512,872 | 13.8% |
| AA | 98,024 | 2.6% |
| A | 294,418 | 8.0% |
| BBB | 456,016 | 12.3% |
| BB | 227,096 | 6.1% |
| B | 281,773 | 7.6% |
| CCC | 132,467 | 3.6% |
| CC | 19,767 | 0.5% |
| C | 2,812 | 0.1% |
| D | 6,111 | 0.2% |
| Not Rated | 1,677,205 | 45.2% |
| **Total** | $ 3,708,561 | 100.0% |

The securities listed as "Not Rated" include short-term investment funds and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 10.2% for 2010.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at fair value) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2010, the Retirement System had no investments of a single issuer that equal or exceed 5% of total Retirement System net assets.

### 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, 2010, $87.4 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. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equity, fixed income, alternative investments, real estate, and swap investments. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposure to foreign currency risk as of June 30, 2010 is as follows:

| Currency | Cash | Equities | Fixed Income | Alternative Investments | Real Estate | Foreign Currency Contracts | Total |
|---|---|---|---|---|---|---|---|
| Argentine peso | $ - | $ - | $ - | $ - | $ - | $ 15,246 | $ 15,246 |
| Australian dollar | (1,229) | 97,985 | 11,803 | - | - | 26,850 | 135,409 |
| Brazilian real | 7 | 49,578 | 16,469 | - | - | 49,890 | 115,944 |
| British pound sterling | 6,758 | 372,888 | 475 | 305 | - | 44,287 | 424,713 |
| Canadian dollar | 5,225 | 80,374 | 39,350 | - | - | (41,813) | 83,136 |
| Chilean peso | - | - | - | - | - | (6,388) | (6,388) |
| Chinese yuan renminbi | - | - | - | - | - | 270 | 270 |
| Columbian peso | - | - | 822 | - | - | 19,815 | 20,637 |
| Czech koruna | 140 | 9,682 | - | - | - | (42,771) | (32,949) |
| Danish krone | 1,475 | 22,521 | - | - | - | (2,447) | 21,549 |
| Egyptian pound | - | 3,403 | - | - | - | - | 3,403 |
| Euro | 25,816 | 581,611 | 502 | 218,461 | - | (284,260) | 542,130 |
| Ghana cedi | - | - | - | - | - | 1,161 | 1,161 |
| Hong Kong dollar | 115 | 184,277 | - | - | - | 1,142 | 185,534 |
| Hungarian forint | 83 | 3,208 | - | - | - | (693) | 2,598 |
| Indian rupee | - | - | - | - | - | 34,317 | 34,317 |
| Indonesian rupiah | 54 | 14,492 | 796 | - | - | 40,035 | 55,377 |
| Israeli new shekel | - | 4,752 | - | - | - | (30,530) | (25,778) |
| Japanese yen | (9,167) | 428,251 | 1,260 | - | 56,871 | 29,763 | 506,978 |
| Kazakhstan tenge | - | - | - | - | - | 553 | 553 |
| Malaysian ringgit | - | 9,854 | 712 | - | - | 35,489 | 46,055 |
| Mexican peso | 333 | 8,150 | 711 | - | - | 67,009 | 76,203 |
| New Zealand dollar | (548) | 1,982 | - | - | - | 73,825 | 75,259 |
| Norwegian krone | 3,438 | 20,122 | - | - | - | 30,489 | 54,049 |
| Peruvian nuevo sol | - | - | 87 | - | - | 33,804 | 33,891 |
| Philippine peso | - | - | - | - | - | 29,189 | 29,189 |
| Polish zloty | 35 | 6,844 | - | - | - | 16,210 | 23,089 |
| Romanian leu | - | - | - | - | - | 1,908 | 1,908 |
| Russian ruble | - | - | 168 | - | - | (7,586) | (7,418) |
| Singapore dollar | (1,656) | 36,045 | - | - | - | 36,517 | 70,906 |
| South African rand | - | 39,703 | 175 | - | - | 57,602 | 97,480 |
| South Korean won | 1,606 | 77,763 | - | - | - | (12,388) | 66,981 |
| Swedish krona | 815 | 46,479 | - | - | - | 74,895 | 122,189 |
| Swiss franc | 4,404 | 174,515 | - | (3) | - | 6,694 | 185,610 |
| Taiwan dollar | 2,436 | 51,447 | - | - | - | (56,970) | (3,087) |
| Thai baht | - | 12,592 | - | - | - | 247 | 12,839 |
| Turkish lira | - | 18,019 | - | - | - | 65,597 | 83,616 |
| United Arab Emirates dirham | 109 | - | 3,817 | - | - | - | 3,926 |
| **TOTAL** | $ 40,249 | $ 2,356,537 | $ 77,147 | $ 218,763 | $ 56,871 | $ 306,958 | $ 3,056,525 |

(Dollars in Thousands)

***Derivative Instruments***

As of June 30, 2010, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The fair value of the exchange traded derivative instruments, such as futures, options, rights and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of equity index swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.

The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2010:

| Derivative Type / Contracts | Notional Amount | Fair Value | Net Appreciation (Depreciation) in Fair Value |
|---|---|---|---|
| Forwards | | | |
| Foreign Exchange Contracts | $ - | $ 6,402 | $ 6,402 |
| Futures | | | |
| Interest Rate Contracts | (1) | - | - |
| Options | | | |
| Foreign Exchange Contracts | 1,604 | 505 | 32 |
| Interest Rate Contracts | - | 356 | 58 |
| Other Contracts | (8,180) | (1,251) | (289) |
| Swaps | | | |
| Credit Contracts | 109,925 | (561) | (1,440) |
| Interest Rate Contracts | 41,070 | (4,106) | (4,106) |
| Other Contracts | 26,300 | 1,235 | 1,235 |
| Rights/Warrants | | | |
| Equity Contracts | 3,987 shares | 15,473 | 2,947 |
| Total | | $ 18,053 | $ 4,839 |

All investment derivatives are reported as investments at fair value in the statement of fiduciary net assets. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statement of changes in fiduciary net assets.





***Counterparty Credit Risk***

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2010, the fair value of forward currency contracts to purchase and sell international currencies were $18.3 million and $11.4 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch). As of June 30, 2010, the Retirement System entered into swaps held by counterparties with at least A ratings.

***Custodial Credit Risk***

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2010, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk as of June 30, 2010.

***Interest Rate Risk***

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2010.

| Derivative Type / Contracts | Fair Value | Less than 1 year | 1-5 years | 6-10 years | 10+ years |
|---|---|---|---|---|---|
| Options | | | | | |
| Interest Rate Contracts | $ 356 | $ 356 | $ - | $ - | $ - |
| Other Contracts | (1,251) | 463 | (1,714) | - | - |
| Swaps | | | | | |
| Credit Contracts | (561) | - | 858 | (1,419) | - |
| Interest Rate Contracts | (4,106) | - | - | (170) | (3,936) |
| Other Contracts | 1,235 | 1,235 | - | - | - |
| Total | $ (4,327) | $ 2,054 | $ (856) | $ (1,589) | $ (3,936) |

The following table details the reference rate, notional amount, and fair value of interest rate swaps at June 30, 2010 that are highly sensitive to changes in interest rates:

| Investment Type | Reference Rate | Notional Value | Fair Value |
|---|---|---|---|
| Interest Rate Swaps | Receiving variable 3 month LIBOR, paying fixed (3.6%) | $ 3,100 | $ (170) |
| Interest Rate Swaps | Receiving variable 3 month LIBOR, paying fixed (4.3%) | 12,820 | (1,541) |
| Interest Rate Swaps | Receiving variable 3 month LIBOR, paying fixed (4.2%) | 25,150 | (2,395) |
| **Total** | | $ 41,070 | $ (4,106) |

(Dollars in Thousands)

### *Foreign Currency Risk*

At June 30, 2010, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2010:

| Currency | Forwards | Rights/ Warrants | Swaps | Total |
|---|---|---|---|---|
| Argentine peso | $ (8) | $ - | $ - | $ (8) |
| Australian dollar | 1,373 | 593 | - | 1,966 |
| Brazilian real | (291) | 48 | - | (243) |
| British pound sterling | (1,323) | - | - | (1,323) |
| Canadian dollar | 6,710 | - | - | 6,710 |
| Chilean peso | 1,889 | - | - | 1,889 |
| Chinese yuan renminbi | (97) | - | - | (97) |
| Colombian peso | (713) | - | - | (713) |
| Czech koruna | 1,708 | - | - | 1,708 |
| Danish krone | (3) | - | - | (3) |
| Euro | 11,315 | 3 | - | 11,318 |
| Hong Kong dollar | - | 4 | - | 4 |
| Hungarian forint | 1,822 | - | - | 1,822 |
| Indian rupee | 348 | - | - | 348 |
| Indonesian rupiah | (12) | - | - | (12) |
| Japanese yen | (9,035) | - | - | (9,035) |
| Malaysian ringgit | (405) | - | - | (405) |
| Mexican peso | 223 | - | - | 223 |
| New Zealand dollar | 1,897 | - | - | 1,897 |
| Norwegian krone | 875 | - | - | 875 |
| Peruvian nuevo sol | (80) | - | - | (80) |
| Philippine peso | 312 | - | - | 312 |
| Polish zloty | 1,823 | - | - | 1,823 |
| Singapore dollar | (25) | - | - | (25) |
| South African rand | 223 | - | - | 223 |
| South Korean won | 3,690 | - | - | 3,690 |
| Swedish krona | 2,185 | - | - | 2,185 |
| Swiss franc | (7,551) | - | (3) | (7,554) |
| Thai baht | (7) | - | - | (7) |
| Turkish lira | 920 | - | - | 920 |
| Russian ruble | 664 | - | - | 664 |
| Romanian leu | 9 | - | - | 9 |
| Taiwan dollar | 315 | - | - | 315 |
| Israeli new shekel | 507 | - | - | 507 |
| | $ 19,258 | $ 648 | $ (3) | $ 19,903 |

### *Contingent Features*

At June 30, 2010, the Retirement System held no positions in derivatives containing contingent features.





### *Currency Management Program*

The Retirement System's currency management program is managed by three investment managers. During fiscal year 2010, the objective of the currency management program was altered. Prior to January 2010, the objectives of the program were to: 1) systematically manage currency exposure in an effort to reduce overall plan volatility; 2) systematically manage currency exposure to reduce the volatility of its international equity portfolio; and 3) enhance diversification since the excess returns of currency trading has historically had a low correlation to the excess returns of traditional equity and fixed income asset classes. Starting in January 2010 and with the approval of the Retirement Board, the objective of the currency management program has been to produce a risk-adjusted return of approximately 100 basis points.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency management program.

Each currency manager manages currency risk through foreign exchange spot and forward contracts, and currency options. Only international equities are subject to the currency management program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2010, the Retirement System's allocation to international equities (including cash and other assets) totaled $2.75 billion, which represented 20.9% of plan net assets, which is primarily denominated in foreign currencies. For the year ended June 30, 2010, the currency overlay program gained $23.7 million or 0.87% of the international equity portfolio (including cash and other assets) and 0.182% of the Retirement System's average total portfolio.

### *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. Cash and non-cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at anytime. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

As of June 30, 2010, the Retirement System lent $1.07 billion in securities and received collateral of $0.97 billion and $0.15 billion in cash and securities, respectively, from borrowers. The cash collateral is invested in the securities lending agent's short-time investment pool. Due to the decline in the fair value of assets held by the short-term investment pool, the Retirement System's invested cash collateral was valued at $0.96 billion. The net unrealized gains and losses of $1.6 million are presented as part of the net appreciation in fair value of investments in the statement of changes in fiduciary net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the short-term investment pool due to the fluctuation in the fair value of assets held by the short-term investment pool.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net assets. As of June 30, 2010, 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. However, the lending agent indemnifies the Retirement System against all borrower defaults.

The Retirement System's securities lending transactions as of June 30, 2010, are summarized in the following table (in thousands):

| Security Type | Fair Value of Loaned Securities | Cash Collateral | Fair Value of Securities Collateral |
|---|---|---|---|
| Securities Loaned for Cash Collateral: | | | |
| International Equities | $ 135,351 | $ 145,418 | $ - |
| International Corporate Fixed Income | 2,119 | 2,242 | - |
| International Government Fixed Income | 3,042 | 3,229 | - |
| U.S. Government Agencies | 10,504 | 10,710 | - |
| U.S. Corporate Fixed Income | 172,352 | 177,128 | - |
| U.S. Equities | 487,659 | 502,808 | - |
| U.S. Government Fixed Income | 121,913 | 124,967 | - |
| Securities Loaned with Non-Cash Collateral: | | | |
| International Equities | 117,907 | - | 129,258 |
| International Government Fixed Income | 14,097 | - | 14,900 |
| U.S. Equities | 206 | - | 212 |
| U.S. Government Fixed Income | 2,505 | - | 2,571 |
| **Total** | $ 1,067,655 | $ 966,502 | $ 146,941 |

***Investments in Real Estate Holdings***

Real estate investments represent the Retirement System's interest in real estate limited partnerships. The changes in these investments during the year ended June 30, 2010 are summarized as follows:

| | |
|---|---|
| Investments: | |
| Beginning of the year | $ 1,181,932 |
| Capital investments | 45,165 |
| Equity in net earnings | 64,707 |
| Net depreciation in fair value | (226,118) |
| Capital distributions | (56,685) |
| End of the year | $ 1,009,001 |





## (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 levied 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 date the bill is mailed.

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 adjusted 1975-1976 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 or be adjusted 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 $169 million for the year ended June 30, 2010.

Taxable valuation for the year ended June 30, 2010 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $152 billion, an increase of 8.0%. The secured tax rate was $1.159 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 $0.159 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.83% and 4.78%, respectively, of the current year tax levy, for an average delinquency rate of 2.95% 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 City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City 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, 2010 was $17.5 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.

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.

(Dollars in Thousands)

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded. The amount of this borrowing pertaining to the City was $89.2 million.

## (7) CAPITAL ASSETS

### *Primary Government*

Capital asset activity of the primary government for the year ended June 30, 2010 was as follows:

**Governmental Activities:**

| | Balance July 1, 2009 | Increases * | Decreases * | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 155,512 | $ - | $ - | $ 155,512 |
| Intangible assets | - | 16,047 | - | 16,047 |
| Construction in progress | 187,133 | 209,898 | (83,904) | 313,127 |
| Total capital assets, not being depreciated | 342,645 | 225,945 | (83,904) | 484,686 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 2,959,968 | 47,636 | (4,400) | 3,003,204 |
| Machinery and equipment | 323,898 | 13,270 | (6,144) | 331,024 |
| Infrastructure | 327,798 | 35,525 | - | 363,323 |
| Intangible assets | - | 104 | - | 104 |
| Total capital assets, being depreciated | 3,611,664 | 96,535 | (10,544) | 3,697,655 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 622,490 | 57,885 | (1,805) | 678,570 |
| Machinery and equipment | 265,250 | 19,405 | (6,135) | 278,520 |
| Infrastructure | 37,654 | 9,763 | - | 47,417 |
| Intangible assets | - | 12 | - | 12 |
| Total accumulated depreciation | 925,394 | 87,065 | (7,940) | 1,004,519 |
| Total capital assets, being depreciated, net | 2,686,270 | 9,470 | (2,604) | 2,693,136 |
| Governmental activities capital assets, net | $ 3,028,915 | $ 235,415 | $ (86,508) | $ 3,177,822 |

* The increases and decrease include transfers of categories of capital assets from construction in progress to depreciable categories.





**Business-type Activities:**

Capital asset activity of the business enterprises for the year ended June 30, 2010, was as follows:

**San Francisco International Airport**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,787 | $ - | $ - | $ 2,787 |
| Construction in progress | 109,900 | 298,467 | (75,055) | 333,312 |
| Total capital assets, not being depreciated | 112,687 | 298,467 | (75,055) | 336,099 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 5,088,064 | 58,540 | (3,772) | 5,142,832 |
| Machinery and equipment | 79,161 | 8,752 | (1,943) | 85,970 |
| Intangible assets | 139,617 | 1,469 | - | 141,086 |
| Total capital assets, being depreciated | 5,306,842 | 68,761 | (5,715) | 5,369,888 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 1,701,445 | 151,944 | (2,509) | 1,850,880 |
| Machinery and equipment | 52,786 | 4,383 | (1,940) | 55,229 |
| Intangible assets | 80,873 | 7,214 | - | 88,087 |
| Total accumulated depreciation | 1,835,104 | 163,541 | (4,449) | 1,994,196 |
| Total capital assets, being depreciated, net | 3,471,738 | (94,780) | (1,266) | 3,375,692 |
| Capital assets, net | $ 3,584,425 | $ 203,687 | $ (76,321) | $ 3,711,791 |

**San Francisco Water Enterprise**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 18,386 | $ - | $ (679) | $ 17,707 |
| Intangible assets [(1)] | - | 679 | - | 679 |
| Construction in progress | 547,293 | 417,265 | (177,191) | 787,367 |
| Total capital assets, not being depreciated | 565,679 | 417,944 | (177,870) | 805,753 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 1,426,180 | 123,062 | (667) | 1,548,575 |
| Machinery and equipment | 146,788 | 49,456 | (605) | 195,639 |
| Intangible assets [(1)] | - | 3,973 | - | 3,973 |
| Total capital assets, being depreciated | 1,572,968 | 176,491 | (1,272) | 1,748,187 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 537,920 | 46,940 | - | 584,860 |
| Machinery and equipment | 99,467 | 5,631 | (371) | 104,727 |
| Total accumulated depreciation | 637,387 | 52,571 | (371) | 689,587 |
| Total capital assets, being depreciated, net | 935,581 | 123,920 | (901) | 1,058,600 |
| Capital assets, net | $ 1,501,260 | $ 541,864 | $ (178,771) | $ 1,864,353 |

[(1)] As a result of the adoption of GASB Statement No. 51, the Water Enterprise Fund reclassified $4,652 in intangible assets as of June 30, 2010, primarily composed of $3,973 of Customer Care & Billing computer software and $679 of easements.

(Dollars in Thousands)

**Hetch Hetchy Water and Power**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 4,676 | $ - | $ (11) | $ 4,665 |
| Intangible assets [2] | - | 1,437 | - | 1,437 |
| Construction in progress | 38,965 | 33,579 | (37,119) | 35,425 |
| Total capital assets, not being depreciated | 43,641 | 35,016 | (37,130) | 41,527 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 489,342 | 11,938 | (45,604) | 455,676 |
| Machinery and equipment | 55,162 | 14,945 | (177) | 69,930 |
| Intangible assets [2] | - | 45,604 | - | 45,604 |
| Total capital assets, being depreciated | 544,504 | 72,487 | (45,781) | 571,210 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 280,866 | 10,057 | (15,283) | 275,640 |
| Machinery and equipment | 33,640 | 2,574 | (1,927) | 34,287 |
| Intangible assets [2] | - | 17,040 | - | 17,040 |
| Total accumulated depreciation | 314,506 | 29,671 | (17,210) | 326,967 |
| Total capital assets, being depreciated, net | 229,998 | 42,816 | (28,571) | 244,243 |
| Capital assets, net | $ 273,639 | $ 77,832 | $ (65,701) | $ 285,770 |

**Municipal Transportation Agency**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 26,245 | $ - | $ - | $ 26,245 |
| Construction in progress | 110,563 | 127,351 | (56,608) | 181,306 |
| Total capital assets, not being depreciated | 136,808 | 127,351 | (56,608) | 207,551 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 594,010 | 11,751 | - | 605,761 |
| Machinery and equipment | 1,176,718 | 36,984 | (20,181) | 1,193,521 |
| Infrastructure | 1,107,755 | 9,911 | - | 1,117,666 |
| Total capital assets, being depreciated | 2,878,483 | 58,646 | (20,181) | 2,916,948 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 187,507 | 13,343 | - | 200,850 |
| Machinery and equipment | 530,139 | 71,947 | (19,601) | 582,485 |
| Infrastructure | 339,985 | 32,222 | - | 372,207 |
| Total accumulated depreciation | 1,057,631 | 117,512 | (19,601) | 1,155,542 |
| Total capital assets, being depreciated, net | 1,820,852 | (58,866) | (580) | 1,761,406 |
| Capital assets, net | $ 1,957,660 | $ 68,485 | $ (57,188) | $ 1,968,957 |

[2] As a result of the adoption of GASB Statement No. 51, the Hetch Hetchy Water and Power Enterprise Fund reclassified $45,616 of water rights and easements and recorded $1,425 of emission reduction credits for a total of $47,041 in intangible assets as of June 30, 2010.





**San Francisco General Hospital Medical Center**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 542 | $ - | $ - | $ 542 |
| Construction in progress | 13,109 | 3,523 | - | 16,632 |
| Total capital assets, not being depreciated | 13,651 | 3,523 | - | 17,174 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 136,084 | 787 | - | 136,871 |
| Machinery and equipment | 57,953 | 243 | - | 58,196 |
| Total capital assets, being depreciated | 194,037 | 1,030 | - | 195,067 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 103,740 | 4,174 | - | 107,914 |
| Machinery and equipment | 50,073 | 1,925 | - | 51,998 |
| Total accumulated depreciation | 153,813 | 6,099 | - | 159,912 |
| Total capital assets, being depreciated, net | 40,224 | (5,069) | - | 35,155 |
| Capital assets, net | $ 53,875 | $ (1,546) | $ - | $ 52,329 |

**San Francisco Wastewater Enterprise**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 21,787 | $ - | $ (577) | $ 21,210 |
| Intangible assets [3] | - | 1,153 | - | 1,153 |
| Construction in progress | 77,330 | 50,527 | (49,384) | 78,473 |
| Total capital assets, not being depreciated | 99,117 | 51,680 | (49,961) | 100,836 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 2,109,382 | 34,468 | (737) | 2,143,113 |
| Machinery and equipment | 58,013 | 2,282 | (2,419) | 57,876 |
| Intangible assets [3] | - | 3,434 | - | 3,434 |
| Total capital assets, being depreciated | 2,167,395 | 40,184 | (3,156) | 2,204,423 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 843,406 | 37,884 | (2,199) | 879,091 |
| Machinery and equipment | 28,183 | 2,864 | (2,491) | 28,556 |
| Total accumulated depreciation | 871,589 | 40,748 | (4,690) | 907,647 |
| Total capital assets, being depreciated, net | 1,295,806 | (564) | 1,534 | 1,296,776 |
| Capital assets, net | $ 1,394,923 | $ 51,116 | $ (48,427) | $ 1,397,612 |

[3] As a result of the adoption of GASB Statement No. 51, the Wastewater Enterprise Fund reclassified $4,587 of intangible assets as of June 30, 2010, primarily composed of $3,434 of customer care and billing computer software and $1,153 of easements.

## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

**Port of San Francisco**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 105,582 | $ - | $ - | $ 105,582 |
| Construction in progress | 6,157 | 14,380 | (6,435) | 14,102 |
| Total capital assets, not being depreciated | 111,739 | 14,380 | (6,435) | 119,684 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 324,936 | 10,937 | (2,142) | 333,731 |
| Machinery and equipment | 16,501 | 1,358 | (1,676) | 16,183 |
| Infrastructure | 25,984 | 1,928 | - | 27,912 |
| Intangible assets | 8,849 | - | (6,070) | 2,779 |
| Total capital assets, being depreciated | 376,270 | 14,223 | (9,888) | 380,605 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 213,079 | 12,520 | (2,142) | 223,457 |
| Machinery and equipment | 11,389 | 1,268 | (1,624) | 11,033 |
| Infrastructure | (112) | 3,288 | - | 3,176 |
| Intangible assets | 4,899 | 165 | (3,480) | 1,584 |
| Total accumulated depreciation | 229,255 | 17,241 | (7,246) | 239,250 |
| Total capital assets, being depreciated, net | 147,015 | (3,018) | (2,642) | 141,355 |
| Capital assets, net | $ 258,754 | $ 11,362 | $ (9,077) | $ 261,039 |

**Laguna Honda Hospital**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 914 | $ - | $ - | $ 914 |
| Construction in progress | 424,501 | 80,669 | - | 505,170 |
| Total capital assets, not being depreciated | 425,415 | 80,669 | - | 506,084 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 21,960 | - | - | 21,960 |
| Machinery and equipment | 13,824 | - | - | 13,824 |
| Property held under lease | 2,890 | - | (2,119) | 771 |
| Total capital assets, being depreciated | 38,674 | - | (2,119) | 36,555 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 19,407 | 585 | - | 19,992 |
| Machinery and equipment | 12,606 | 307 | - | 12,913 |
| Property held under lease | 672 | 75 | - | 747 |
| Total accumulated depreciation | 32,685 | 967 | - | 33,652 |
| Total capital assets, being depreciated, net | 5,989 | (967) | (2,119) | 2,903 |
| Capital assets, net | $ 431,404 | $ 79,702 | $ (2,119) | $ 508,987 |



## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

**Other Fund - San Francisco Market Corporation**

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | $ 874 | $ 595 | $ (30) | $ 1,439 |
| Total capital assets, not being depreciated | 874 | 595 | (30) | 1,439 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 9,630 | 95 | - | 9,725 |
| Machinery and equipment | 89 | 9 | (46) | 52 |
| Total capital assets, being depreciated | 9,719 | 104 | (46) | 9,777 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 5,601 | 269 | - | 5,870 |
| Machinery and equipment | 38 | 13 | (37) | 14 |
| Total accumulated depreciation | 5,639 | 282 | (37) | 5,884 |
| Total capital assets, being depreciated, net | 4,080 | (178) | (9) | 3,893 |
| Capital assets, net | $ 4,954 | $ 417 | $ (39) | $ 5,332 |

**Total Business-type Activities**

| | Balance July 1, 2009 | Increases * | Decreases * | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 180,919 | $ - | $ (1,267) | $ 179,652 |
| Intangible assets | - | 3,269 | - | 3,269 |
| Construction in progress | 1,328,692 | 1,026,356 | (401,822) | 1,953,226 |
| Total capital assets, not being depreciated | 1,509,611 | 1,029,625 | (403,089) | 2,136,147 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 10,199,588 | 251,578 | (52,922) | 10,398,244 |
| Machinery and equipment | 1,604,209 | 114,029 | (27,047) | 1,691,191 |
| Infrastructure | 1,133,739 | 11,839 | - | 1,145,578 |
| Property held under lease | 2,890 | - | (2,119) | 771 |
| Intangible assets | 148,466 | 54,480 | (6,070) | 196,876 |
| Total capital assets, being depreciated | 13,088,892 | 431,926 | (88,158) | 13,432,660 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 3,892,971 | 277,716 | (22,133) | 4,148,554 |
| Machinery and equipment | 818,321 | 90,912 | (27,991) | 881,242 |
| Infrastructure | 339,873 | 35,510 | - | 375,383 |
| Property held under lease | 672 | 75 | - | 747 |
| Intangible assets | 85,772 | 24,419 | (3,480) | 106,711 |
| Total accumulated depreciation | 5,137,609 | 428,632 | (53,604) | 5,512,637 |
| Total capital assets, being depreciated, net | 7,951,283 | 3,294 | (34,554) | 7,920,023 |
| Capital assets, net | $ 9,460,894 | $ 1,032,919 | $ (437,643) | $ 10,056,170 |

* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories and transfers for intangible assets.

(Dollars in Thousands)

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|---|
| Governmental activities: | |
| Public protection | $ 14,682 |
| Public works transportation and commerce | 13,173 |
| Human welfare and neighborhood development | 520 |
| Community health | 1,131 |
| Culture and recreation | 37,162 |
| General administration and finance | 18,839 |
| Capital assets held by the City's internal service funds charged to the various functions on a prorated basis | 1,558 |
| Total depreciation expense – governmental activities | $ 87,065 |
| Business-type activities: | |
| Airport | $ 163,541 |
| Water | 52,571 |
| Hetch Hetchy Water and Power | 12,631 |
| Transportation | 117,512 |
| Hospitals | 7,066 |
| Sewer | 40,748 |
| Port | 13,761 |
| Market | 282 |
| Total depreciation expense – business-type activities | $ 408,112 |

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise 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 Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), 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, and pier substructures of the Port, which totaled $1.6 billion as of June 30, 2010. Hetch Hetchy Water and Power (Hetch Hetchy) had an intangible asset of water rights having estimated useful lives from 15 to 50 years, which totaled $45.6 million as of June 30, 2010. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2010.

During the fiscal year ended June 30, 2010, the City's enterprise funds incurred total interest expense and interest income of approximately $254.8 million and $44.5 million, respectively. Of these amounts, interest expense of approximately $60.0 million was capitalized, which was offset by $2.4 million of interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2010, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $7.0 million, $2.1 million, and $10.8 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 expenses in the accompanying financial statements.





***Component Unit –Redevelopment Agency***

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2010 was as follows:

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Property held under lease | $ 137,969 | $ 4,611 | $ - | $ 142,580 |
| Construction in progress | 23,504 | 104 | - | 23,608 |
| Total capital assets, not being depreciated | 161,473 | 4,715 | - | 166,188 |
| Capital assets, being depreciated: | | | | |
| Facilities and improvements | 177,503 | 144 | - | 177,647 |
| Machinery and equipment | 8,120 | - | - | 8,120 |
| Leasehold improvements | 22,202 | - | - | 22,202 |
| Total capital assets, being depreciated | 207,825 | 144 | - | 207,969 |
| Less accumulated depreciation for: | | | | |
| Facilities and improvements | 53,236 | 4,440 | - | 57,676 |
| Machinery and equipment | 7,908 | 50 | - | 7,958 |
| Leasehold improvements | 9,550 | 444 | - | 9,994 |
| Total accumulated depreciation | 70,694 | 4,934 | - | 75,628 |
| Total capital assets, being depreciated, net | 137,131 | (4,790) | - | 132,341 |
| Redevelopment Agency capital asssets, net | $ 298,604 | $ (75) | $ - | $ 298,529 |

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

### Changes in Short-Term Obligations

The changes in short-term obligations for governmental and business-type activities for the year ended June 30, 2010, are as follows:

| Type of Obligation | July 1, 2009 | Additional Obligation | Current Maturities | June 30, 2010 |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Commercial paper | | | | |
| San Francisco County Transportation Authority | $ 150,000 | $ - | $ - | $ 150,000 |
| Moscone Convention Center | - | 5,035 | - | 5,035 |
| Government activities short-term obligations | $ 150,000 | $ 5,035 | $ - | $ 155,035 |
| Business-type activities: | | | | |
| Commercial paper | | | | |
| San Francisco International Airport | $ 106,280 | $ 46,420 | $ (24,040) | $ 128,660 |
| San Francisco Water Enterprise | 229,600 | - | (229,600) | - |
| San Francisco Wastewater Enterprise | 100,000 | 663,500 | (763,500) | - |
| Business-type activities short-term obligations | $ 435,880 | $ 709,920 | $ (1,017,140) | $ 128,660 |

San Francisco County Transportation Authority

In March 2004, the San Francisco County Transportation Authority (SFCTA) issued an initial tranche of $50 million and in September 2004 the SFCTA issued 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 a source of financing for the Authority's voter-approved Proposition K Expenditure Plan. Under this program, the SFCTA 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 line of credit (LOC) issued by

(Dollars in Thousands)

Landesbank Baden–Württemberg, New York Branch in the amount up to $217.8 million. On July 12, 2005, the expiration date of the irrevocable LOC was extended from April 14, 2007 to December 29, 2015 through SFCTA Board Resolution 06-01. The commercial paper notes are secured by a first lien gross pledge of the SFCTA's Sales Tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2010, $150 million in commercial paper notes were outstanding and maturing within 8 to 99 days after year-end with interest rates ranging from 0.32% to 0.35%.

Moscone Convention Center

In March 2009, the Board of Supervisor authorized the issuance of tax-exempt and taxable lease revenue commercial paper certificates of participation (CP) in an aggregate principal amount not to exceed $150 million to provide short term financing to 1) pay for acquisition, construction and rehabilitation of certain capital improvements within the City and the financing of vehicles and equipment; 2) fund capitalized interest with respect to the CP; 3) fund capitalized fees and expenses as defined in the trust agreement; and 4) pay for cost incurred in connection with the sale and delivery of the CP. In June 2010, the City obtained irrevocable lines of credit (LOC) issued by JP Morgan Chase Bank, National Association with a maximum available amount of $50.0 million and U.S. Bank, National Association with a maximum available amount of $50.0 million. Both LOCs expire on June 10, 2013.

In June 2010, the City issued commercial paper notes (Tax-Exempt), Series 2010-1 in the amount of $5 million to reimburse prior expenditures and pay for project expenditures from June through August 2010 for the Moscone Center Improvement project, and related issuance fees and cost. As of June 30, 2010, the outstanding principal amount of CP was $5 million with a interest rate of 0.30% and a maturity date of September 8, 2010.

San Francisco International Airport

In May 1997, the Airport authorized the issuance of its subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400 million or the stated amount of the letter of credit securing the CP. On May 9, 2006, the Airport obtained a letter of credit issued by State Street Bank and Trust Company, with a maximum principal amount of $200 million.

As of June 30, 2010, the outstanding principal amount of CP was $128.7 million. The proceeds of the CP will be used by the Airport to pay capital costs, to pay costs of CP issuance and other incidental costs, to pay certain extraordinary expenditures for which Airport funds are not otherwise available, and to pay principal and interest on maturing CP. For fiscal year 2010, the interest rate for the taxable CP ranged from 0.35% to 0.75%; interest rates for tax-exempt private activity (AMT) CP ranged from 0.30% to 0.35% and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.28% to 0.30%.

San Francisco Water Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $500 million in commercial paper. During the fiscal year 2010, $229.6 million in outstanding commercial paper was refunded as part of the Series 2009A Water Revenue Bond issuance. The Water Enterprise Fund has no commercial paper notes outstanding as at June 30 2010.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $150 million in commercial paper under the voter-approved 2002 Proposition E for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. During the fiscal year 2010, $103.5 million in outstanding commercial paper was refunded as part of the 2010 Series A and B Wastewater Revenue Bonds issuance. The Wastewater Enterprise Fund has no commercial paper notes outstanding as at June 30, 2010.





**Long-Term Obligations**

The following is a summary of long-term obligations of the City as of June 30, 2010:

GOVERNMENTAL ACTIVITIES

| Type of Obligation and Purpose | Final Maturity Date | Remaining Interest Rate | Amount |
|---|---|---|---|
| GENERAL OBLIGATION BONDS [(a)]: | | | |
| Affordable housing | 2014 | 6.50% - 6.75% | $ 4,545 |
| California Academy of Sciences | 2025 | 3.125% - 5.25% | 71,405 |
| Laguna Honda Hospital | 2030 | 3.25% - 5.00% | 154,020 |
| Branch libraries | 2028 | 3.00% - 5.00% | 72,670 |
| Parks and playgrounds | 2030 | 3.00% - 6.26% | 168,060 |
| Schools | 2023 | 3.00% - 4.25% | 21,270 |
| San Francisco General Hospital | 2030 | 4.00% - 6.26% | 398,310 |
| Seismic safety loan program | 2028 | 4.35% - 5.83% | 9,940 |
| Steinhart Aquarium | 2025 | 3.125% - 5.00% | 23,980 |
| Zoo facilities | 2025 | 3.00% - 5.00% | 10,375 |
| Refunding | 2030 | 2.85% - 5.00% | 452,065 |
| General Obligation Bonds - governmental activities | | | 1,386,640 |
| LEASE REVENUE BONDS: | | | |
| San Francisco Finance Corporation [(b), (e) & (f)] | 2034 | 2.00% - 5.875% * | 285,675 |
| Lease Revenue Bonds - governmental activities | | | 285,675 |
| OTHER LONG-TERM OBLIGATIONS: | | | |
| Certificates of participation [(c) & (d)] | 2041 | 1.95% - 5.30% | 591,815 |
| Loans [(c), (d) & (f)] | 2025 | 2.00% - 7.498% | 10,607 |
| Capital leases payable [(c) & (f)] | 2025 | 3.30% - 7.05% | 152,273 |
| Settlement Obligation Bonds [(d)] | 2011 | 3.05% | 7,040 |
| Accrued vacation and sick leave [(d) & (f)] | | | 142,704 |
| Accrued workers' compensation [(d) & (f)] | | | 216,699 |
| Estimated claims payable [(d) & (f)] | | | 139,845 |
| Other postemployment benefits obligation | | | 477,633 |
| Other long-term obligations - governmental activities | | | 1,738,616 |
| DEFERRED AMOUNTS: | | | |
| Bond issuance premiums | | | 60,535 |
| Bond issuance discounts | | | (3,886) |
| Bond refunding | | | (14,707) |
| Deferred amounts | | | 41,942 |
| Governmental activities total long-term obligations | | | $ 3,452,873 |

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.

* Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008-1 & 2, both of which were financed with variable rate bonds that reset weekly. The rate at June 30, 2010 for Series 2008-1 & 2 was approximately 0.25%.

(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

| Entity and Type of Obligation | Final Maturity Date | Remaining Interest Rate | Amount |
|---|---|---|---|
| San Francisco International Airport: | | | |
| Revenue bonds * | 2039 | 0.75% - 6.00% | $ 4,180,365 |
| Revenue notes | 2019 | 6.50% - 6.75% | 66,525 |
| San Francisco Water Enterprise: | | | |
| Revenue bonds | 2040 | 2.50% - 6.00% | 2,193,090 |
| Certificates of Participation | 2042 | 2.00% - 6.49% | 119,717 |
| Accreted interest | 2019 | 0.00% | 3,878 |
| Hetch Hetchy Water and Power: | | | |
| Energy bonds ** | 2023 | - | 5,481 |
| Certificates of Participation | 2042 | 2.00% - 6.49% | 16,298 |
| Municipal Transportation Agency: | | | |
| Parking and Traffic | | | |
| Revenue bonds | 2020 | 4.45% - 5.00% | 15,635 |
| Lease revenue bonds | 2022 | 4.80% - 5.50% | 5,820 |
| Downtown Parking - parking revenue refunding bonds | 2018 | 3.00% - 5.75% | 7,780 |
| Ellis-O'Farrell - parking revenue refunding bonds | 2017 | 3.50% - 4.70% | 3,405 |
| Uptown Parking - revenue bonds | 2031 | 4.50% - 6.00% | 16,715 |
| San Francisco General Hospital Medical Center: | | | |
| Certificates of Participation | 2026 | 5.55% | 22,550 |
| Capital leases | 2013 | 2.75% - 4.00% | 1,380 |
| San Francisco Wastewater Enterprise: | | | |
| Revenue bonds | 2040 | 3.00% - 5.82% | 495,095 |
| Certificates of Participation | 2042 | 2.00% - 6.49% | 31,655 |
| State of California - revolving funds loans | 2021 | 2.80% - 3.50% | 61,140 |
| Port of San Francisco: | | | |
| Revenue bonds | 2040 | 2.72% - 7.41% | 36,650 |
| Notes, loans and other payables | 2029 | 4.50% | 2,919 |
| Laguna Honda Hospital: | | | |
| Capital leases | 2013 | 3.25% - 4.00% | 36 |
| Accrued vacation and sick leave | | | 90,650 |
| Accrued workers' compensation | | | 148,280 |
| Estimated claims payable | | | 100,734 |
| Other postemployment benefits obligation | | | 348,287 |
| Deferred Amounts: | | | |
| Bond issuance premiums | | | 201,025 |
| Bond issuance discounts | | | (4,587) |
| Bond refunding | | | (143,097) |
| Business-type activities total long-term obligations | | | $ 8,027,426 |

* Includes Second Series Revenue Bonds Issue 36 A / B, 36 C / D, 37 C / D and 2010A, which were initially issued as variable rate bonds in a weekly mode. For the fiscal year ended June 30, 2010, the average interest rate on Issue 36A and B was 0.19% and 0.22 %, respectively; for Issue 36 C and D was 0.34% and 0.34%, respectively; for Issue 37C and D was 0.35% and 0.35%, respectively; and for Issue 2010A-1, 2 & 3 was 0.28%, 0.26% & 0.26%, respectively.

** The Clean Renewable Energy Bonds issued to fund solar photovoltaic projects carry no interest cost since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in the respective enterprise funds.





COMPONENT UNIT

| Entity and Type of Obligation | Final Maturity Date | Remaining Interest Rate | Amount |
|---|---|---|---|
| San Francisco Redevelopment Agency | | | |
| and Financing Authority: | | | |
| Lease Revenue Bonds: | | | |
| Moscone Convention Center [(a)] | 2025 | 3.30% - 7.05% | $ 111,453 |
| Hotel tax revenue bonds [(b)] | 2026 | 4.75% - 6.75% | 54,350 |
| Financing Authority Bonds: | | | |
| Tax allocation revenue bonds [(c)] | 2040 | 2.50% - 8.41% | 853,453 |
| South Beach Harbor Variable Rate | | | |
| Refunding bonds [(d)] | 2017 | Variable (0.62% at 6/30/10) | 6,300 |
| Less deferred amounts: | | | |
| Bond issuance premiums | | | 8,894 |
| Bond issuance discounts | | | (3,703) |
| Refunding loss | | | (4,081) |
| Subtotal | | | 1,026,666 |
| California Department of Boating and | | | |
| Waterways Loan [(e)] | 2037 | 4.50% | 7,917 |
| Loans payable | | | 2,897 |
| Accreted interest payable | | | 62,723 |
| Accrued vacation and sick leave | | | 2,253 |
| Other postemployment benefits obligation | | | 643 |
| Component unit total long-term obligations | | | $ 1,103,099 |

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 the occupancy of guest rooms in the 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, 2010, the City's debt limit (3% of valuation subject to taxation) was $4.85 billion. The total amount of debt applicable to the debt limit was $1.39 billion. The resulting legal debt margin was $3.46 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 $1.5 million as of June 30, 2010. 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 $0.01

(Dollars in Thousands)

million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2010. 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, 2010, the aggregate outstanding obligation of such bonds was $139.6 million.

### Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2010, are as follows:

| | July 1, 2009 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 1,165,141 | $ 355,125 | $ (133,626) | $ 1,386,640 | $ 123,036 |
| Lease revenue bonds | 294,310 | 10,255 | (18,890) | 285,675 | 17,395 |
| Certificates of participation | 565,205 | 37,885 | (11,275) | 591,815 | 17,395 |
| Settlement obligation bonds | 13,890 | - | (6,850) | 7,040 | 7,040 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 47,587 | 17,051 | (4,103) | 60,535 | - |
| For issuance discounts | (4,034) | - | 148 | (3,886) | - |
| On refunding | (16,831) | - | 2,124 | (14,707) | - |
| Total bonds payable | 2,065,268 | 420,316 | (172,472) | 2,313,112 | 164,866 |
| Loans | 11,329 | 599 | (1,321) | 10,607 | 1,406 |
| Capital leases | 164,383 | 4,061 | (16,171) | 152,273 | 22,208 |
| Accrued vacation and sick leave pay | 143,528 | 89,940 | (90,764) | 142,704 | 76,591 |
| Accrued workers' compensation | 212,881 | 43,551 | (39,733) | 216,699 | 39,582 |
| Estimated claims payable | 145,006 | 22,963 | (28,124) | 139,845 | 47,754 |
| Other postemployment benefits obligation | 338,822 | 209,738 | (70,927) | 477,633 | - |
| Governmental activities long-term obligations | $ 3,081,217 | $ 791,168 | $ (419,512) | $ 3,452,873 | $ 352,407 |





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 June 30, 2010, $285.7 million of lease revenue bonds, $0.5 million of capital leases, $3.2 million of accrued vacation and sick leave pay and $1.0 million of accrued workers' compensation and $10.6 million of other postemployment benefits obligation 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, 2010, are as follows:

| | July 1, 2009 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **San Francisco International Airport** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 3,563,705 | $ 1,716,440 | $ (1,099,780) | $ 4,180,365 | $ 175,420 |
| Revenue notes | 314,925 | - | (248,400) | 66,525 | 1,980 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 55,400 | 64,186 | (9,868) | 109,718 | - |
| For issuance discounts | (8,071) | - | 3,920 | (4,151) | - |
| On refunding | (95,165) | (62,360) | 41,096 | (116,429) | - |
| Total bonds payable | 3,830,794 | 1,718,266 | (1,313,032) | 4,236,028 | 177,400 |
| Accrued vacation and sick leave pay | 13,882 | 546 | (100) | 14,328 | 7,955 |
| Accrued workers' compensation | 5,214 | 1,683 | (1,858) | 5,039 | 995 |
| Estimated claims payable | 66 | 10,051 | (104) | 10,013 | 8,978 |
| Other postemployment benefits obligation | 32,226 | 14,055 | - | 46,281 | - |
| Long-term obligations | $ 3,882,182 | $ 1,744,601 | $ (1,315,094) | $ 4,311,689 | $ 195,328 |
| **San Francisco Water Enterprise** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 921,390 | $ 1,312,705 | $ (41,005) | $ 2,193,090 | $ 27,795 |
| Certificates of Participation | - | 119,717 | - | 119,717 | - |
| Less deferred amounts: | | | | | |
| For issuance premiums | 24,929 | 45,977 | (4,012) | 66,894 | - |
| On refunding | (13,433) | - | 1,529 | (11,904) | - |
| Total bonds payable | 932,886 | 1,478,399 | (43,488) | 2,367,797 | 27,795 |
| Accreted interest payable | 3,620 | 258 | - | 3,878 | - |
| Accrued vacation and sick leave pay | 11,454 | 8,380 | (8,007) | 11,827 | 6,366 |
| Accrued workers' compensation | 8,617 | 1,624 | (2,147) | 8,094 | 1,468 |
| Estimated claims payable | 9,641 | 26,835 | (6,736) | 29,740 | 8,719 |
| Other postemployment benefits obligation | 30,967 | 19,073 | (4,442) | 45,598 | - |
| Long-term obligations | $ 997,185 | $ 1,534,569 | $ (64,820) | $ 2,466,934 | $ 44,348 |
| **Hetch Hetchy Water and Power** | | | | | |
| Bonds payable: | | | | | |
| Clean Renewable Energy Bonds | $ 5,903 | $ - | $ (422) | $ 5,481 | $ 422 |
| Certificates of Participation | - | 16,298 | - | 16,298 | - |
| Less deferred amounts: | | | | | |
| For issuance premiums | - | 413 | (35) | 378 | - |
| For issuance discounts | (186) | - | 15 | (171) | - |
| Total bonds payable | 5,717 | 16,711 | (442) | 21,986 | 422 |
| Accrued vacation and sick leave pay | 2,540 | 1,460 | (1,421) | 2,579 | 1,520 |
| Accrued workers' compensation | 2,305 | 349 | (586) | 2,068 | 380 |
| Estimated claims payable | 10,311 | 332 | (8,772) | 1,871 | 759 |
| Other postemployment benefits obligation | 5,799 | 3,843 | (1,170) | 8,472 | - |
| Long-term obligations | $ 26,672 | $ 22,695 | $ (12,391) | $ 36,976 | $ 3,081 |

## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2010, are as follows (continued):

| | July 1, 2009 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Municipal Transportation Agency** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 45,360 | $ - | $ (1,825) | $ 43,535 | $ 2,895 |
| Lease revenue bonds | 6,165 | - | (345) | 5,820 | 365 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 794 | - | (41) | 753 | - |
| Total bonds payable | 52,319 | - | (2,211) | 50,108 | 3,260 |
| Notes, loans, and other payables | 2,482 | - | (2,482) | - | - |
| Accrued vacation and sick leave pay | 28,642 | 18,018 | (18,330) | 28,330 | 16,873 |
| Accrued workers' compensation | 90,085 | 17,680 | (15,768) | 91,997 | 15,506 |
| Estimated claims payable | 47,465 | 19,959 | (20,503) | 46,921 | 20,349 |
| Other postemployment benefits obligation | 73,785 | 47,903 | (21,695) | 99,993 | - |
| Long-term obligations | $ 294,778 | $ 103,560 | $ (80,989) | $ 317,349 | $ 55,988 |
| **San Francisco General Hospital Medical Center** | | | | | |
| Bonds payable: | | | | | |
| Certificates of participation | $ - | $ 22,550 | $ - | $ 22,550 | $ - |
| Capital leases | 2,522 | - | (1,142) | 1,380 | 793 |
| Accrued vacation and sick leave pay | 17,517 | 13,673 | (13,312) | 17,878 | 10,545 |
| Accrued workers' compensation | 21,685 | 5,919 | (5,530) | 22,074 | 3,832 |
| Other postemployment benefits obligation | 62,522 | 27,104 | - | 89,626 | - |
| Long-term obligations | $ 104,246 | $ 69,246 | $ (19,984) | $ 153,508 | $ 15,170 |
| **San Francisco Wastewater Enterprise** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 292,660 | $ 239,565 | $ (37,130) | $ 495,095 | $ 26,320 |
| Certificates of participation | - | 31,655 | - | 31,655 | - |
| Less deferred amounts: | | | | | |
| For issuance premiums | 16,360 | 7,996 | (1,074) | 23,282 | - |
| On refunding | (16,491) | - | 1,727 | (14,764) | - |
| Total bonds payable | 292,529 | 279,216 | (36,477) | 535,268 | 26,320 |
| State of California - Revolving fund loans | 75,339 | - | (14,199) | 61,140 | 14,648 |
| Accrued vacation and sick leave pay | 5,078 | 2,945 | (2,964) | 5,059 | 2,747 |
| Accrued workers' compensation | 4,413 | 454 | (721) | 4,146 | 724 |
| Estimated claims payable | 10,360 | 1,535 | (786) | 11,109 | 2,708 |
| Other postemployment benefits obligation | 11,413 | 6,730 | (2,065) | 16,078 | - |
| Long-term obligations | $ 399,132 | $ 290,880 | $ (57,212) | $ 632,800 | $ 47,147 |



## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2010, are as follows (continued):

| | July 1, 2009 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Port of San Francisco** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 4,320 | $ 36,650 | $ (4,320) | $ 36,650 | $ 485 |
| Less deferred amounts: | | | | | |
| For issuance discounts | - | (268) | 3 | (265) | - |
| Total bonds payable | 4,320 | 36,382 | (4,317) | 36,385 | 485 |
| Notes, loans, and other payables | 3,015 | - | (96) | 2,919 | 100 |
| Accrued vacation and sick leave pay | 2,002 | 115 | (156) | 1,961 | 1,100 |
| Accrued workers' compensation | 2,307 | 1,562 | (914) | 2,955 | 423 |
| Estimated claims payable | 900 | 355 | (175) | 1,080 | 730 |
| Other postemployment benefits obligation | 5,816 | 3,454 | (1,002) | 8,268 | - |
| Long-term obligations | $ 18,360 | $ 41,868 | $ (6,660) | $ 53,568 | $ 2,838 |
| **Laguna Honda Hospital** | | | | | |
| Capital leases | $ 113 | $ - | $ (77) | $ 36 | $ 24 |
| Accrued vacation and sick leave pay | 8,985 | - | (297) | 8,688 | 5,071 |
| Accrued workers' compensation | 11,385 | 522 | - | 11,907 | 2,205 |
| Other postemployment benefits obligation | 25,119 | 8,852 | - | 33,971 | - |
| Long-term obligations | $ 45,602 | $ 9,374 | $ (374) | $ 54,602 | $ 7,300 |
| **Total Business-type Activities:** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 4,827,435 | $ 3,305,360 | $ (1,184,060) | $ 6,948,735 | $ 232,915 |
| Revenue notes | 314,925 | - | (248,400) | 66,525 | 1,980 |
| Clean renewable energy bonds | 5,903 | - | (422) | 5,481 | 422 |
| Certificates of participation | - | 190,220 | - | 190,220 | - |
| Lease revenue bonds | 6,165 | - | (345) | 5,820 | 365 |
| Less deferred amounts: | | | | | |
| For issuance premiums | 97,483 | 118,572 | (15,030) | 201,025 | - |
| For issuance discounts | (8,257) | (268) | 3,938 | (4,587) | - |
| On refunding | (125,089) | (62,360) | 44,352 | (143,097) | - |
| Total bonds payable | 5,118,565 | 3,551,524 | (1,399,967) | 7,270,122 | 235,682 |
| Accreted interest payable | 3,620 | 258 | - | 3,878 | - |
| State of California - Revolving fund loans | 75,339 | - | (14,199) | 61,140 | 14,648 |
| Notes, loans, and other payables | 5,497 | - | (2,578) | 2,919 | 100 |
| Capital leases | 2,635 | - | (1,219) | 1,416 | 817 |
| Accrued vacation and sick leave pay | 90,100 | 45,137 | (44,587) | 90,650 | 52,177 |
| Accrued workers' compensation | 146,011 | 29,793 | (27,524) | 148,280 | 25,533 |
| Estimated claims payable | 78,743 | 59,067 | (37,076) | 100,734 | 42,243 |
| Other postemployment benefits obligation | 247,647 | 131,014 | (30,374) | 348,287 | - |
| Long-term obligations | $ 5,768,157 | $ 3,816,793 | $ (1,557,524) | $ 8,027,426 | $ 371,200 |

(Dollars in Thousands)

The changes in long term obligations for the component unit for the year ended June 30, 2010, are as follows:

| | July 1, 2009 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities, Retirements, and Net Decreases | June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Component unit -** | | | | | |
| **San Francisco Redevelopment Agency** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 808,399 | $ 247,325 | $ (36,468) | $ 1,019,256 | $ 44,268 |
| Refunding bonds | 6,300 | - | - | 6,300 | - |
| Less deferred amounts: | | | | | |
| For issuance premiums | 9,612 | 203 | (921) | 8,894 | - |
| For issuance discounts | (2,610) | (1,274) | 181 | (3,703) | - |
| On refunding | (4,504) | - | 423 | (4,081) | - |
| Total bonds payable | 817,197 | 246,254 | (36,785) | 1,026,666 | 44,268 |
| Accreted interest payable | 66,640 | 8,245 | (12,162) | 62,723 | 12,577 (1) |
| Notes, loans, and other payables | 9,496 | 1,457 | (139) | 10,814 | 284 |
| Accrued vacation and sick leave pay | 2,103 | 1,287 | (1,137) | 2,253 | 1,137 |
| Other postemployment benefits obligation | 552 | 91 | - | 643 | - |
| Component unit - long term obligations | $ 895,988 | $ 257,334 | $ (50,223) | $ 1,103,099 | $ 58,266 |

(1) This amount is included in accrued interest payable in the statement of net assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2010, for governmental activities are as follows:

**Governmental Activities (2) (3)**

| Fiscal Year Ending June 30 | General Obligation Bonds Principal | General Obligation Bonds Interest (4) | Lease Revenue Bonds Principal | Lease Revenue Bonds Interest | Other Long-Term Obligations Principal (5) | Other Long-Term Obligations Interest (5) | Total Principal | Total Interest |
|---|---|---|---|---|---|---|---|---|
| 2011 | $ 123,036 | $ 65,867 | $ 17,395 | $ 7,718 | $ 31,914 | $ 28,639 | $ 172,345 | $ 102,224 |
| 2012 | 97,990 | 60,168 | 17,385 | 7,248 | 25,999 | 41,701 | 141,374 | 109,117 |
| 2013 | 88,737 | 56,196 | 16,270 | 6,732 | 24,171 | 41,004 | 129,178 | 103,932 |
| 2014 | 84,144 | 51,993 | 12,870 | 6,220 | 25,734 | 40,265 | 122,748 | 98,478 |
| 2015 | 77,982 | 48,125 | 11,030 | 5,861 | 31,758 | 34,523 | 120,770 | 88,509 |
| 2016-2020 | 359,708 | 188,171 | 58,570 | 24,833 | 128,282 | 121,585 | 546,560 | 334,589 |
| 2021-2025 | 305,600 | 111,946 | 68,400 | 16,418 | 137,880 | 84,284 | 511,880 | 212,648 |
| 2026-2030 | 249,443 | 39,515 | 75,140 | 7,246 | 137,880 | 53,618 | 462,463 | 100,379 |
| 2031-2035 | - | - | 8,615 | 1,267 | 100,210 | 21,059 | 108,825 | 22,326 |
| 2036-2040 | - | - | - | - | 37,590 | 6,305 | 37,590 | 6,305 |
| 2041-2045 | - | - | - | - | 8,565 | 192 | 8,565 | 192 |
| Adjustment for interest accretion | - | - | - | - | 33,386 | (33,386) | 33,386 | (33,386) |
| Total | $ 1,386,640 | $ 621,981 | $ 285,675 | $ 83,543 | $ 723,369 | $ 439,789 | $ 2,395,684 | $ 1,145,313 |

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

(3) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2 which bears interest at a weekly rate. An assumed rate of 0.245%, together with liquidity fee of 0.750% and remarketing fee of 0.0725%, were used to project the interest payment in this table.

(4) The interest is before the Federal interest subsidy for the Series 2010 C and Series 2010 D General Obligation Bonds. The Federal interest subsidy on the Series 2010 C and Series 2010 D General Obligation Bonds is approximately $53.0 million and $10.9 million, respectively, through the year ending 2030.

(5) Includes approximately $197.2 million in lease payments to the Agency for the Moscone Convention Center through July 1, 2024. Debt service requirement for 2011 differs from the amount due within a year as shown in the table on page 86 due to accreted interest.





The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows:

**San Francisco International Airport (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 |
|---|---|---|---|---|---|---|
| 2011 | $ 134,800 | $ 192,862 | $ 1,980 | $ 4,427 | $ 136,780 | $ 197,289 |
| 2012 | 130,820 | 188,228 | 4,120 | 4,293 | 134,940 | 192,521 |
| 2013 | 144,045 | 183,667 | 5,870 | 4,021 | 149,915 | 187,688 |
| 2014 | 156,280 | 178,699 | 7,690 | 3,630 | 163,970 | 182,329 |
| 2015 | 171,737 | 171,900 | 8,075 | 3,119 | 179,812 | 175,019 |
| 2016-2020 | 1,022,473 | 730,075 | 38,790 | 6,678 | 1,061,263 | 736,753 |
| 2021-2025 | 1,235,322 | 460,260 | - | - | 1,235,322 | 460,260 |
| 2026-2030 | 871,593 | 197,470 | - | - | 871,593 | 197,470 |
| 2031-2035 | 181,685 | 66,192 | - | - | 181,685 | 66,192 |
| 2036-2040 | 131,610 | 20,316 | - | - | 131,610 | 20,316 |
| Total | $ 4,180,365 | $ 2,389,669 | $ 66,525 | $ 26,168 | $ 4,246,890 | $ 2,415,837 |

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

In addition, the Airport's revenue bond debt service requirements to maturity if the take out agreements (letters of credits or standby purchase agreements) of the variable rate bond structure were to be exercised and if the fixed rate bond was subject to mandatory tender for purchase are as follows:

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest |
|---|---|---|
| 2011 | $ 175,420 | $ 192,885 |
| 2012 | 130,820 | 186,828 |
| 2013 | 726,495 | 179,768 |
| 2014 | 154,730 | 156,178 |
| 2015 | 170,125 | 149,435 |
| 2016-2020 | 901,065 | 623,819 |
| 2021-2025 | 996,275 | 384,753 |
| 2026-2030 | 612,140 | 169,815 |
| 2031-2035 | 181,685 | 66,192 |
| 2036-2040 | 131,610 | 20,316 |
| Total | $ 4,180,365 | $ 2,129,989 |

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

**San Francisco Water Enterprise [1]**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest [2] | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest [3] | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2011 | $ 27,795 | $ 106,244 | $ - | $ 7,231 | $ 27,795 | $ 113,475 |
| 2012 | 44,050 | 108,029 | - | 7,231 | 44,050 | 115,260 |
| 2013 | 45,965 | 105,884 | 1,971 | 7,199 | 47,936 | 113,083 |
| 2014 | 48,130 | 103,561 | 2,035 | 7,132 | 50,165 | 110,693 |
| 2015 | 50,485 | 101,078 | 2,106 | 7,060 | 52,591 | 108,138 |
| 2016-2020 | 293,500 | 464,301 | 12,188 | 33,654 | 305,688 | 497,955 |
| 2021-2025 | 355,275 | 386,459 | 15,587 | 30,104 | 370,862 | 416,563 |
| 2026-2030 | 428,735 | 289,123 | 19,285 | 24,752 | 448,020 | 313,875 |
| 2031-2035 | 460,125 | 173,803 | 23,737 | 17,863 | 483,862 | 191,666 |
| 2036-2040 | 439,030 | 60,375 | 29,271 | 9,297 | 468,301 | 69,672 |
| 2041-2045 | - | - | 13,537 | 887 | 13,537 | 887 |
| Total | $ 2,193,090 | $ 1,898,857 | $ 119,717 | $ 152,410 | $ 2,312,807 | $ 2,051,267 |

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

(2) The interest is before the Federal interest subsidy for the Water Enterprise Fund's Revenue Bonds 2001 Series A, 2002 Series A, 2002 Refunding Series B, 2006 Series A, 2006 Refunding Series B and C, 2009 Series A and B and 2010 Series ABC. In addition, the Federal interest subsidy amounts represent 35% of the interest for the Revenue Bonds 2001 Sub-Series B. The Federal interest subsidy on the Water Enterprise Fund Revenue Bonds is approximately $174.0 million through the year ending 2040.

(3) The interest is before the Water Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $49.7 million through the year ending 2042.



**CITY AND COUNTY OF SAN FRANCISCO**
Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

**Hetch Hetchy Water and Power [1]**

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest [2] | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest [3] | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2011 | $ 422 | $ - | $ - | $ 984 | $ 422 | 984 |
| 2012 | 422 | - | - | 984 | 422 | 984 |
| 2013 | 422 | - | 268 | 980 | 690 | 980 |
| 2014 | 422 | - | 277 | 970 | 699 | 970 |
| 2015 | 422 | - | 287 | 961 | 709 | 961 |
| 2016-2020 | 2,110 | - | 1,659 | 4,582 | 3,769 | 4,582 |
| 2021-2125 | 1,261 | - | 2,122 | 4,099 | 3,383 | 4,099 |
| 2026-2030 | - | - | 2,625 | 3,370 | 2,625 | 3,370 |
| 2031-2035 | - | - | 3,232 | 2,432 | 3,232 | 2,432 |
| 2036-2040 | - | - | 3,985 | 1,266 | 3,985 | 1,266 |
| 2041-2045 | - | - | 1,843 | 121 | 1,843 | 121 |
| Total | $ 5,481 | $ - | $ 16,298 | $ 20,749 | $ 21,779 | $ 20,749 |

**Municipal Transportation Agency [1]**

| 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 |
|---|---|---|---|---|---|---|
| 2011 | $ 3,260 | $ 2,576 | $ - | $ - | $ 3,260 | $ 2,576 |
| 2012 | 3,405 | 2,426 | - | - | 3,405 | 2,426 |
| 2013 | 3,575 | 2,267 | - | - | 3,575 | 2,267 |
| 2014 | 3,750 | 2,097 | - | - | 3,750 | 2,097 |
| 2015 | 3,930 | 1,917 | - | - | 3,930 | 1,917 |
| 2016-2020 | 18,585 | 6,531 | - | - | 18,585 | 6,531 |
| 2021-2025 | 5,125 | 3,030 | - | - | 5,125 | 3,030 |
| 2026-2030 | 5,190 | 1,577 | - | - | 5,190 | 1,577 |
| 2031-2035 | 2,535 | 154 | - | - | 2,535 | 154 |
| Total | $ 49,355 | $ 22,575 | $ - | $ - | $ 49,355 | $ 22,575 |

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

(2) Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of Federal tax credits in lieu of interest paid by the issuer.

(3) The interest is before the Hetch Hetchy Water and Power Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $6.8 million through the year ending 2042.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

**San Francisco General Hospital** [(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 |
|---|---|---|---|---|---|---|
| 2011 | $ - | $ - | $ 793 | $ 1,317 | $ 793 | $ 1,317 |
| 2012 | - | - | 931 | 1,281 | 931 | 1,281 |
| 2013 | - | - | 1,331 | 1,217 | 1,331 | 1,217 |
| 2014 | - | - | 1,196 | 1,142 | 1,196 | 1,142 |
| 2015 | - | - | 1,263 | 1,075 | 1,263 | 1,075 |
| 2016-2020 | - | - | 7,464 | 4,225 | 7,464 | 4,225 |
| 2021-2025 | - | - | 9,814 | 1,875 | 9,814 | 1,875 |
| 2026-2030 | - | - | 1,138 | 186 | 1,138 | 186 |
| Total | $ - | $ - | $ 23,930 | $ 12,318 | $ 23,930 | $ 12,318 |

**San Francisco Wastewater Enterprise** [(1)]

| Fiscal Year Ending June 30 | Revenue Bonds Principal | Revenue Bonds Interest [(2)] | Other Long-Term Obligations Principal | Other Long-Term Obligations Interest [(3)] | Total Principal | Total Interest |
|---|---|---|---|---|---|---|
| 2011 | $ 26,320 | $ 22,377 | $ 14,648 | $ 3,767 | $ 40,968 | $ 26,144 |
| 2012 | 22,010 | 23,920 | 9,594 | 3,301 | 31,604 | 27,221 |
| 2013 | 23,095 | 22,903 | 8,843 | 3,003 | 31,938 | 25,906 |
| 2014 | 24,395 | 21,715 | 8,730 | 2,734 | 33,125 | 24,449 |
| 2015 | 25,790 | 20,429 | 6,243 | 2,469 | 32,033 | 22,898 |
| 2016-2020 | 109,095 | 84,678 | 16,219 | 10,043 | 125,314 | 94,721 |
| 2021-2025 | 90,895 | 58,038 | 5,823 | 8,009 | 96,718 | 66,047 |
| 2026-2030 | 46,380 | 42,710 | 5,099 | 6,545 | 51,479 | 49,255 |
| 2031-2035 | 51,330 | 29,604 | 6,276 | 4,723 | 57,606 | 34,327 |
| 2036-2040 | 61,931 | 13,311 | 7,740 | 2,459 | 69,671 | 15,770 |
| 2041-2045 | 13,854 | 403 | 3,580 | 235 | 17,434 | 638 |
| Total | $ 495,095 | $ 340,088 | $ 92,795 | $ 47,288 | $ 587,890 | $ 387,376 |

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

(2) The interest is before the Federal interest subsidy for the Wastewater Enterprise Fund Revenue Bonds 2003 Refunding Series A, 2010 Series A and 2010 Series B. In addition, the Federal interest subsidy amounts represent 35% of the interest for the Revenue Bonds 2010 Series B. The Federal interest subsidy on the Wastewater Enterprise Fund Revenue Bonds is approximately $84.9 million through the year ending 2041.

(3) The interest is before the Wastewater Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $13.1 million through the year ending 2042.





The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

**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 |
|---|---|---|---|---|---|---|
| 2011 | $ 485 | $ 2,358 | $ 100 | $ 131 | $ 585 | $ 2,489 |
| 2012 | 670 | 2,175 | 105 | 127 | 775 | 2,302 |
| 2013 | 695 | 2,151 | 110 | 122 | 805 | 2,273 |
| 2014 | 725 | 2,122 | 115 | 117 | 840 | 2,239 |
| 2015 | 755 | 2,088 | 120 | 112 | 875 | 2,200 |
| 2016-2020 | 4,450 | 9,775 | 685 | 474 | 5,135 | 10,249 |
| 2021-2025 | 6,070 | 8,154 | 853 | 306 | 6,923 | 8,460 |
| 2026-2030 | 8,580 | 5,642 | 831 | 96 | 9,411 | 5,738 |
| 2031-2035 | 6,225 | 3,038 | - | - | 6,225 | 3,038 |
| 2036-2040 | 7,995 | 1,270 | - | - | 7,995 | 1,270 |
| Total | $ 36,650 | $ 38,773 | $ 2,919 | $ 1,485 | $ 39,569 | $ 40,258 |

**Laguna Honda Hospital** [(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 |
|---|---|---|---|---|---|---|
| 2011 | $ - | $ - | $ 24 | $ 5 | $ 24 | $ 5 |
| 2012 | - | - | 12 | 2 | 12 | 2 |
| Total | $ - | $ - | $ 36 | $ 7 | $ 36 | $ 7 |

**Total Business-type Activities** [(1)]

| 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 |
|---|---|---|---|---|---|---|
| 2011 | $ 193,082 | $ 326,417 | $ 17,545 | $ 17,862 | $ 210,627 | $ 344,279 |
| 2012 | 201,377 | 324,778 | 14,762 | 17,219 | 216,139 | 341,997 |
| 2013 | 217,797 | 316,872 | 18,393 | 16,542 | 236,190 | 333,414 |
| 2014 | 233,702 | 308,194 | 20,043 | 15,725 | 253,745 | 323,919 |
| 2015 | 253,119 | 297,412 | 18,094 | 14,796 | 271,213 | 312,208 |
| 2016-2020 | 1,450,213 | 1,295,360 | 77,005 | 59,656 | 1,527,218 | 1,355,016 |
| 2021-2025 | 1,693,948 | 915,941 | 34,199 | 44,393 | 1,728,147 | 960,334 |
| 2026-2030 | 1,360,478 | 536,522 | 28,978 | 34,949 | 1,389,456 | 571,471 |
| 2031-2035 | 701,900 | 272,791 | 33,245 | 25,018 | 735,145 | 297,809 |
| 2036-2040 | 640,566 | 95,272 | 40,996 | 13,022 | 681,562 | 108,294 |
| 2041-2045 | 13,854 | 403 | 18,960 | 1,243 | 32,814 | 1,646 |
| Total | $ 6,960,036 | $ 4,689,962 | $ 322,220 | $ 260,425 | $ 7,282,256 | $ 4,950,387 |

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

(Dollars in Thousands)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2010, for the component unit are as follows:

**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 [2] | Principal | Interest [2] | Principal | Interest [3] | Principal | Interest |
| 2011............... | $ 5,019 | $ 13,776 | $ 36,479 | $ 48,128 | $ 3,054 | $ 3,194 | $ 44,552 | $ 65,098 |
| 2012............... | 4,881 | 13,992 | 37,418 | 45,293 | 2,996 | 3,024 | 45,295 | 62,309 |
| 2013............... | 4,791 | 14,155 | 39,923 | 42,898 | 6,356 | 2,829 | 51,070 | 59,882 |
| 2014............... | 4,732 | 14,296 | 42,231 | 41,053 | 4,414 | 2,673 | 51,377 | 58,022 |
| 2015............... | 9,510 | 9,479 | 46,080 | 37,958 | 4,573 | 2,507 | 60,163 | 49,944 |
| 2016-2020....... | 68,040 | 11,171 | 250,637 | 148,438 | 21,400 | 9,931 | 340,077 | 169,540 |
| 2021-2025....... | 14,480 | 1,953 | 118,931 | 149,491 | 19,868 | 5,115 | 153,279 | 156,559 |
| 2026-2030...... | - | - | 88,553 | 93,039 | 6,249 | 979 | 94,802 | 94,018 |
| 2031-2035...... | - | - | 107,479 | 66,629 | 2,304 | 376 | 109,783 | 67,005 |
| 2036-2040...... | - | - | 85,722 | 22,042 | 250 | 12 | 85,972 | 22,054 |
| Total........... | $ 111,453 | $ 78,822 | $ 853,453 | $ 694,969 | $ 71,464 | $ 30,640 | $ 1,036,370 | $ 804,431 |

(1) The specific year for payment of accrued vacation and sick leave is not practicable to determine.

(2) Includes payment of accreted interest.

(3) Variable interest on the refunding bond 1986 Issue A is estimated using interest rate at June 30, 2010 of 0.62%.

***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, 2010, are as follows:

**Governmental Activities - General Obligation Bonds**

| | |
|---|---|
| Authorized and unissued as of June 30, 2009 ........................................ | $ 1,202,235 |
| Bonds issued: | |
| 2008 San Francisco General Hospital Improvement Bonds S2010A ........... | (120,890) |
| 2008 Clean and Safe Neighborhood Parks S2010B ................................ | (24,785) |
| 2008 San Francisco General Hospital Improvement Bonds S2010C .......... | (173,805) |
| 2008 Clean and Safe Neighborhood Parks S2010D ................................ | (35,645) |
| Net authorized and unissued as of June 30, 2010 .................................... | $ 847,110 |

In March 2010, the City issued $355.1 million in General Obligation Bonds, consisting of San Francisco General Hospital Improvement Series 2010A in the amount of $120.9 million; Clean and Safe Neighborhood Parks Series 2010B in the amount of $24.8 million; General Hospital Improvement (Federally Taxable Build America Bonds) Series 2010C in the amount of $173.8 and the Clean and Safe Neighborhood Parks (Federally Taxable Build America Bonds) Series 2010D in the amount of $35.6 million. Interest rates on the Series 2010A and Series 2010B range from 4.0% to 5.0% and mature from June 2010 to June 2019. The Series 2010C and 2010D Federally Taxable Build America Bonds mature from June 2020 to June 2030 with interest rates ranging from 4.6% to 6.26%. After adjusting for the federal interest subsidy, the true interest cost averages 3.65% for the Series 2010C and Series 2010D bonds.

The San Francisco General Hospital Improvement Bonds were issued to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center and to pay certain costs related to the issuance of 2010A Bonds and the 2010C Bonds. The proceeds of the Clean and Safe Neighborhood Parks Series 2010B and Series 2010D Bonds will be used to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and the Port Commission, and to pay certain costs related to the issuance of the 2010B and 2010D Bonds. Debt service payments are funded through ad valorem taxes on property.





Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992 which authorized the issuance of up to a total of $350 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007 the Board of Supervisors approved Resolution No. 65-07 which authorized the issuance of indebtedness under Proposition A in the amount not to exceed $35 million. Such issuance was achieved pursuant to the terms of a credit agreement with Bank of America, N.A. In March 2007, the City made the first draw under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of $2 million. The first borrowing bears an interest rate of 5.69% with principal amortizing from June 2007 through June 2026. Within the first loan account are two loan sub-accounts, the market rate loan account and the below market rate loan account.

In October 2007 and January 2008, the City made the second and third draws in the amount of $3.8 million and $3.9 million, respectively. The second borrowing bears an interest rate of 5.83% with principal amortizing from June 2008 through June 2027. The third borrowing bears interest rate of 5.09% with principal amortizing from June 2008 through June 2027. Both borrowings are for below market rate loan accounts.

In November 2008, the City made the fourth borrowing in the amount of $1.3 million. This draw bears an interest rate of 4.35% with principal amortizing from June 2009 through June 2028 and for below market rate loan account.

Debt service payments of the Seismic Safety Loan Program Government Obligation Bonds are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Certificates of Participation

In September 2009, the City issued $37.9 million Certificates of Participation, Capital Improvement Projects, Series 2009B. The Certificates were issued to 1) pay a portion of the costs of acquisition, construction and installation of certain improvements to various City streets; 2) fund capitalized interest payable with respect to the 2009B Certificates on each due date through October 1, 2010; 3) fund the 2009B Reserve Account of the Reserve Fund under the Trust Agreement for the Certificates; and 4) pay costs of execution and the delivery of the 2009B Certificates. The Certificates were issued in pursuant to a Trust Agreement between the City and U.S. Bank National Association as Trustee. The City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the Certificates. The Trustee has leased the property back to the City and the City is obligated under the Project Lease to pay the Base Rental in consideration of the use and occupancy of the land and facilities subject to the Project Lease. The Series 2009B were issued with interest rates ranging from 3.0% to 5.0% and matures from April 2011 through April 2035.

At June 30, 2010, the City has a total of $591.8 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City, pursuant to the Project Lease between the City and the Trustee. Total debt service payments remaining on the certificates of participation are $998.1 million payable through September 1, 2040. For the fiscal year ended June 30, 2010, principal and interest paid by the City totaled $11.3 million and $26.3 million, respectively.

(Dollars in Thousands)

Lease Revenue Bonds

The changes in governmental activities – lease revenue bonds for the year ended June 30, 2010 were as follows:

**Governmental Activities - Lease Revenue Bonds**

| | |
|---|---|
| Authorized and unissued as of June 30, 2009 ..................... | $ 140,892 |
| Increases in authorization this fiscal year | |
| Current year annual increase in Finance Corporation's equipment program .......... | 2,407 |
| Current year maturities in Finance Corporation's equipment program ................. | 9,055 |
| Bond Issued: | |
| Series 2010A, San Francisco Finance Corporation.................................... | (10,255) |
| Net authorized and unissued as of June 30, 2010 .................................. | $ 142,099 |

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 in the internal service fund until such time as they are used for their intended purposes.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and the San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bonds is $369.2 million payable through June 2034. For the fiscal year ended June 30, 2010, principal and interest paid by the Corporation and the total lease payments made by the City totaled $18.9 million and $6.9 million, respectively.

(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, 2010, the total authorized amount is $50.5 million. The total accumulated annual authorization since 1990 is $30.5 million of which $2.4 million is new annual authorization for the fiscal year ended June 30, 2010.

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 $157.6 million in equipment lease revenue bonds since 1991. As of June 30, 2010, $135.0 million has been repaid leaving $22.6 million in equipment lease revenue bonds outstanding and $27.9 million available for new issuance.

In June 2010, The Finance Corporation issued its seventeenth series of equipment lease revenue bonds, Series 2010A in the amount of $10.3 million with interest rates ranging from 2.0% to 4.0%. The bonds mature from April 2011 to April 2016.





(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 February 1999 for $31.3 million and $18.7 million, respectively. As of June 30, 2010, the amount authorized and unissued for the City-wide Emergency Radio System bonds 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 July 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2010, 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 located on the northwest corner of Howard and Fourth Street in the City. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million (the "2000 Bonds") were issued. Each series of the bonds bear interest at a weekly rate and may bear interest at a different rate and in a different rate mode from other series of bonds.

In September 2008, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Expansion Project) Series 2008-1 and Series 2008-2 for a total of $145.3 million (the "Refunding Moscone Bonds") to provide funds, together with other available monies to the refund the 2000 Bonds to address the concerns regarding the credit provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost of issuing the Bonds.

The Bonds are limited obligations of the Finance Corporation payable from revenues which consist of base rental payments to be made by the City, and other amounts held in certain funds and accounts, established under an indenture of trust. The payment of the principal of and interest on each series of the Bonds and the purchase price of each series of the Bonds upon the optional or mandatory tender thereof will initially be supported by separate irrevocable direct-pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and by State Street Bank and Trust Company for Series 2008-2. The Bonds were issued pursuant to Ordinance No. 203-08 adopted by the Board of Supervisors on August 12, 2008. The proceeds of the Bonds were used to provide funds, together with other City monies, to fully refinance a portion of the costs of acquiring, constructing and improving an expansion to the City's George R. Moscone Convention Center.

Owners of the Bonds may elect to have their Bonds, or portions of their Bonds, purchased at a purchase price equal to the principal amount of such Bonds (or portions thereof), plus accrued interest, if any, payable in immediately available funds, upon not less than seven (7) calendar days' irrevocable written notice. E.J. De La Rosa & Co., Inc. is the exclusive remarketing agent for the 2008-1 Bonds. Banc of America Securities LLC is the exclusive remarketing agent for the 2008-2 Bonds. The remarketing agents have agreed to use their best efforts to remarket the Bonds and have agreed to purchase for their own accounts Bonds tendered but not remarketed under certain conditions specified in remarketing agreements, at a price equal to 100 percent of the principal amount thereof plus accrued interest to the tender date.

Under irrevocable direct pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are effective through September 9, 2011 or such later date or dates as may be extended, and to the extent there is a unreimbursed draw of the letter(s) of credit, carries a fluctuating rate per annum: (A) for any day prior to the date that is 31 days from and including the date of the draw the higher of (i) the Federal Funds Rate plus 2% and (ii) the Prime Rate plus 1% (the "Base Rate"), (B) on any day on or after the date that is 31 days from and including the date of the draw and prior to the date that is 61 from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 1%, (C) on any day on or after the date that is 61 days from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 2%, and (D) on any day after the maturity date for the draw, a fluctuating rate of interest equal to the Base Rate in effect on such date plus 3%.

If the remarketing agent is unable to resell any Bonds that are "tendered" within the six month anniversary of the "tender" date, the City has a reimbursement agreement with Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 to convert the bonds to an installment loan payable in six (6) equal semiannual installments, commencing on the six month anniversary of the date of the "tender" date and bearing a fluctuating interest rate equal to the Draw Rate. The reimbursement agreement expires September 9, 2011 or such later date or dates as extended by mutual agreement. If the reimbursement agreement were to be exercised because the entire outstanding balance of $137.6 million of demand bonds were "tendered" and not resold, the City would be required to pay an amount not to exceed the fair rental value per annum of the leased asset per year for three (3) years under the reimbursement agreement at a rate per annum equal to the Draw Rate.

The City is required to pay to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 an annual commitment fee for the letter of credit of 0.75 percent per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2009-10, the City will pay a commitment fee of $0.5 million each to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2. In addition, the remarketing agent receives an annual fee of 0.0725 percent of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2010-11, the City will pay a remarketing fee of $0.05 million each to E.J. De La Rosa & Co., Inc. for Series 2008-1 and Banc of America Securities LLC for Series 2008-2 Bonds.

The Refunding Moscone Bonds mature from April 2009 to April 2030. As of end of June 30, 2010, both series has combined balance of $137.6 million and bear interest at a weekly rate. Interest rates as of June 30, 2010 for Series 2008-1 and Series 2008-2 were 0.28% and 0.21%, respectively.

(d) Open Space Fund

In 2000, the voters of the City adopted Proposition C amending the Charter by repealing the then existing Park and Office Space Fund, authorizing the creation of a new Park, Recreation and Open Space Fund to purchase open space, acquire property for recreation facilities and develop, and maintain these facilities 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.

The Corporation issued Lease Revenue Bonds (Open Space Fund-Various Fund Projects) Series S2006 for $27 million in November 2006 and Series S2007 for $42.4 million in October 2007 to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates for the Series 2006 bonds range from 3.75% to 5.5% and the bonds mature from July 2007 through July 2027. Interest rates for the Series 2007 bonds range from 3.75% to 5.875% with principal amortizing from July 2008 through July 2029.

(e) Library Preservation Fund

At an election held in November 2007, the voters of the City adopted Proposition D, amending the Charter by repealing the then existing Library Preservation Fund, renewing the Library Preservation Fund for 15 years to provide library services and to construct, maintain and operate library facilities and authorizing the issuance of debt for such purpose. The Library Preservation Fund is administered by the Library Department as directed by the Library Commission. A set-aside from the City's share of the county-wide 1% 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 Library Preservation Fund. The authorization to set aside these taxes in the Library Preservation Fund commences in Fiscal Year 2008-2009 and extends through July 2024.





In April 2009, the Corporation issued Lease Revenue Bonds Series 2009A (Branch Library Improvement Program) in the amount of $34.3 million (the "Series 2009A Bonds"). The Series 2009 Bonds were issued to finance the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the San Francisco Public Library for Library purposes and for the purchase of equipment relating to such real property and/or facilities, to fund the Reserve Fund and to pay costs associated with the issuance of the Series 2009A bonds. Interest rates range from 3.0% to 5.75% and the bonds mature from December 2009 to June 2034.

***Business-Type Activities Long-Term Liabilities***

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

<u>San Francisco International Airport</u>

The Airport Commission has authorized the issuance of up to $6.8 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding, paying, calling, and retiring a portion or all of one or more series of outstanding 1991 Resolution Bonds and all or a portion of the San Francisco International Airport's outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related redemption premiums therewith.

**Second Series Revenue Bonds, Series 2009E (Capital Plan Bonds)**

In November 2009, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2009E, (Non-Alternative Minimum Tax (AMT)/Private Activity) in the amount of $485.8 million. The proceeds will be used to finance a portion of the engineering and construction costs associated with the renovation of Terminal 2 and Boarding Area D, as well as other projects within the Airport's five-year Capital Plan. The Series 2009E Bonds are uninsured fixed rate bonds maturing between May 2020 and May 2029, with interest rates from 4.375% to 6.0%.

The net proceeds of $413.7 million ($485.8 million in bond principal less $81.2 million in underwriting fees, deposits to the capitalized interest account, payment of underwriting fees and costs of issuance, together with $9.1 million in net original issue premium) were deposited into a construction account to fund capital projects at the Airport.

**Refunding Bonds:**

In fiscal year 2010, the Airport took advantage of low interest rates to refund and restructure a large portion of its long-term debt for debt service and cash-flow savings. The Airport closed five refunding bond transactions totaling $1.3 billion during fiscal year 2010, a number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), the economic stimulus package enacted by Congress and signed into law on February 17, 2009. The Airport also continues to respond to the ongoing effects of the global financial crisis. The Airport issued the following refunding bonds during fiscal year 2010:

**Second Series Revenue Refunding Bonds, Series 2009A and B**

In September 2009, the Airport issued $175.0 million of Second Series Refunding Bonds Series 2009A and B, in the amount of $92.5 and $82.5 million, respectively, to purchase and hold in trust all of the outstanding Issue 34A/B variable rate demand bonds. The Series 2009A/B Bonds mature in May 2029, are subject to mandatory tender in September 2010, and bear interest at 0.75%. If the Airport is unable to purchase the Series 2009A/B Bonds on the mandatory tender date, the Series 2009A/B Bonds will be subject to mandatory redemption on that date.

(Dollars in Thousands)

The net proceeds of $175.1 million ($175.0 million in bond principal less $15.0 million in underwriting fees, deposits to separate 2009A and B reserve accounts, and costs of issuance, together with $13.8 million in available prior bond debt service reserve funds and $1.2 million in other funds of the Airport) were used to purchase and hold in trust all of the outstanding Issue 34A/B Bonds.

| | Amount Purchased | Interest Rate | Purchase Price |
|---|---|---|---|
| Second Series Variable Rate Revenue Bond: | | | |
| Issue 34A | $ 92,500 | Variable | 100.0% |
| Issue 34B | 82,500 | Variable | 100.0% |
| Total | $ 175,000 | | |

The refunded bonds were purchased in September 2009 and deposited into separate trust accounts. The Airport will make payments of principal and interest on the Issue 34A/B Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust accounts. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 34A/B Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The purchase of the Issue 34A/B Bonds with Series 2009A/B Bonds was initiated by the Airport to address credit concerns regarding the liquidity provider on the 34A/B Bonds and was not undertaken to specifically generate an economic gain for the Airport. While the Issue 34A/B Bonds are held in the trust accounts, the liquidity facility and bond insurance policy associated with Issue 34A/B Bonds will remain in place.

**Second Series Revenue Refunding Bonds, Series 2009C**

Following an invitation to tender bonds, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009C, in November 2009, in the amount of $132.9 million to purchase and cancel portions of its outstanding Issue 32H, 34C and 34E fixed rate bonds and Series 2008A Revenue Notes that were voluntarily tendered by bondholders and not otherwise subject to optional redemption. The Series 2009C Bonds mature between May 1, 2011 and May 1, 2025, with interest rates ranging between 3.00% and 5.00%.

The Series 2009C Bonds were issued as one of several refundings made possible by the American Recovery and Reinvestment Act of 2009 ("ARRA") to replace bonds subject to the federal Alternative Minimum Tax (AMT) with bonds that are not, resulting in debt service savings to the Airport. The Series 2009C-1 Bonds in the principal amount of $67.6 million were sold with bond insurance from Assured Guaranty Municipal Corporation, while the Series 2009C-2 Bonds in the principal amount of $65.3 million were uninsured.





The net proceeds of $130 million (net of $11.8 million in deposits to a new 2009 Debt Service Reserve Account, payment of underwriter's discount and costs of issuance, together with net original issue premium of $8.8 million) were deposited with the bond trustee to purchase and cancel $120.2 million of the following bonds upon tender by bondholders.

| | Amount Purchased | Interest Rate | Purchase Price |
|---|---|---|---|
| Second Series Revenue Bond: | | | |
| Issue 32H | $ 640 | 4.00–5.00% | 100.5-104.5% |
| Issue 34C | 23,560 | 4.00–5.00% | 102.5-106.9% |
| Issue 34E | 35,755 | 4.00–5.75% | 98.0-108.6% |
| | 59,955 | | |
| Series 2008A Notes: | | | |
| 2008A-1 | 55 | 5.50% | 99.5% |
| 2008A-2 | 58,935 | 6.75% | 109.6% |
| 2008A-3 | 1,275 | 6.50% | 110.1% |
| | 60,265 | | |
| | $ 120,220 | | |

The tendered bonds were purchased and cancelled in November 2009. Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

**Second Series Revenue Refunding Bonds, Series 2009D**

In November 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009D, in the principal amount of $88.2 million to defease and purchase all of the Second Series Revenue Notes, Series 2008B, upon their mandatory tender for purchase in December 2009. The Series 2009D Bonds mature in May 2029, are subject to mandatory tender for purchase in December 2012, and bear interest at 2.25%. If the Airport is unable to purchase the Series 2009D Bonds on the mandatory tender date, the Series 2009D Bonds will be subject to mandatory redemption on that date.

The net proceeds of $90.7 million ($88.2 million in bond principal, together with $2.5 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease the Series 2008B Notes until their purchase and cancellation upon their mandatory tender date. Costs of issuance, including underwriters' compensation were funded with $0.7 million of taxable commercial paper proceeds.

| | Amount Purchased | Interest Rate | Purchase Price |
|---|---|---|---|
| Second Series Revenue Notes: | | | |
| Series 2008B | $ 88,190 | 3.00% | 100.0% |

The Series 2008B Notes were initially issued to refund certain Variable Rate Demand Bonds impacted by the bankruptcy of Lehman Brothers in fall 2008 (Issue 37B) and were not issued specifically to produce debt service savings. Likewise, the issuance of Series 2009D Bonds was necessitated by the mandatory tender date of the Series 2008B Notes and was not specifically undertaken to generate an economic gain for the Airport. The Series 2008B Notes were purchased and cancelled in December 2009. Accordingly, the liability for the notes has been removed from the accompanying statements of net assets.

(Dollars in Thousands)

**Second Series Variable Rate Revenue Refunding Bonds, Series 2010A**

In February 2010, the Airport issued its Second Series Variable Rate Refunding Bonds, Series 2010A, in the amount of $216.0 million to refund certain outstanding Issue 23A, 24A, 25 and 26A fixed rate bonds. The Series 2010A Bonds are comprised of $86.4 million of Series 2010A-1, $57.6 million of Series 2010A-2 and $72.0 million of Series 2010A-3 Bonds, which were issued in a weekly interest rate mode, subject to conversion by the Airport to another mode. As of July 2010, each series of the Series 2010A Bonds continued to bear interest in a weekly mode, with an average interest rate through July 2010 of 0.257%. The Series 2010A Bonds mature in May 2030, and are secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires in February 2013.

The net proceeds of $218.4 million ($216.0 million bond principal less $1.5 million in costs of issuance and underwriting fees, together with $3.9 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease and redeem $210.5 million of the following revenue bonds.

| | Amount Refunded | Interest Rate | Redemption Price |
|---|---|---|---|
| Second Series Revenue Bond: | | | |
| Issue 23A | $ 8,530 | 5.25% | 101% |
| Issue 24A | 73,915 | 5.50–6.00% | 101% |
| Issue 25 | 83,220 | 5.50–6.00% | 101% |
| Issue 26A | 44,825 | 5.25% | 101% |
| | $ 210,490 | | |

The refunded bonds were redeemed in March 2010 (Issue 23A) and May 2010 (Issues 24A, 25 and 26A). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of $6.6 million in deferred refunding loss for fiscal year ended June 30, 2010 but reduced the Airport's aggregate debt service payments over the next twenty-one years by approximately $22.4 million. However remarketing and facility liquidity fees associated with the variable rate bonds and related swaps hedging the bonds resulted in a net negative cash flow of approximately $18.9 million, in spite of which, the Airport still realized an economic gain (the difference between the present value of the old and new debt service payments, net of refunding expenses) of $0.5 million because of the savings realized during the early years.

**Second Series Revenue Refunding Bonds, Series 2010C-E**

In April 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010C-E in the aggregate principal amount of $618.6 million, comprised of $345.7 million of Series 2010C (Non-AMT/Governmental Purpose), $89.9 million of Series 2010D (Non-AMT/Private Activity), and $183.0 million of Series 2010E (Taxable), to refund certain outstanding Issue 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 24B, 25, 26A, 26B, 27B and 28B fixed rate bonds and all of outstanding Series 2008A-1 and A-2 Notes. The Series 2010C and D Bonds mature from May 2014 through May 2027, and bear interest at rates from 3.0% to 5.0%, while the Series 2010E Bonds mature from May 2011 to May 2014, and bear interest rates from 1.15% to 2.968%.





Net proceeds of $678.8 million ($618.6 million in bond principal less $12.7 million in underwriting fees, cost of issuance and deposit to the reserve fund, together with $46.2 million in net original issue premium and available debt service fund of $26.7 million), were deposited in irrevocable escrows with the bond trustee to defease and redeem $656.6 million in revenue bonds described below.

| | Amount Purchased | Interest Rate | Purchase Price |
|---|---|---|---|
| Second Series Revenue Bonds: | | | |
| Issue 15A | $ 32,020 | 4.60–5.00% | 100% |
| Issue 15B | 11,735 | 4.40–4.50% | 100% |
| Issue 18A | 18,385 | 5.00% | 100% |
| Issue 20 | 146,070 | 4.50–4.75% | 100% |
| Issue 21 | 36,085 | 4.50–4.75% | 100% |
| Issue 22 | 26,455 | 4.70–5.00% | 100% |
| Issue 23A | 44,925 | 5.00–5.50% | 100.5% |
| Issue 23B | 7,760 | 4.50–5.00% | 100.5% |
| Issue 24A | 15,375 | 5.50–5.875% | 101% |
| Issue 24B | 2,085 | 5.00–5.125% | 101% |
| Issue 25 | 17,310 | 5.50–5.875% | 101% |
| Issue 26A | 26,750 | 5.00–5.25% | 101% |
| Issue 26B | 107,375 | 4.50–5.00% | 101% |
| Issue 27B | 56,695 | 5.00–5.25% | 100% |
| Issue 28B | 7,595 | 5.25% | 100% |
| Subtotal | 556,620 | | |
| Series 2008A Notes: | | | |
| 2008A-1 | 49,945 | 5.50% | 100% |
| 2008A-2 | 50,000 | 6.50% | 100% |
| Subtotal | 99,945 | | |
| Total refunded | $ 656,565 | | |

The refunded bonds were or will be redeemed on May 3, 2010 (Series 2008A Notes), May 7, 2010 (Issues 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 25, 26A and 26B), May 1, 2011 (Issue 27B), and May 1, 2012 (Issue 28B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting loss of $23.5 million for fiscal year ended June 30, 2010. The Airport however reduced its aggregate debt service payments by approximately $66.1 million over the next twenty-one years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $41.6 million.

**Interest Rate Swaps**

***Objective and Terms –*** The Airport entered into seven forward-starting interest rate swaps (the "2004 swaps"), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E in February 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was used as a means to increase the Airport's debt service savings, when compared with fixed-rate refunding bonds at the time of issuance. In July 2007, the Airport entered into four additional forward-starting interest rate swaps, in connection with the anticipated issuance of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, in May 2008 (the "2007 swaps"), and the Variable Rate Revenue Refunding Bonds, Series 2010A, in February 2010 (the "2010 swaps"). The final maturity of the 2004 swaps is May 1, 2026, and the final maturities of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues were transferred to the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and 37A, respectively. Subsequently, in December 2008, the Airport refunded Issues 37A and 37B. Concurrently, the 2004 swaps associated with Issue 37A were terminated. However, the 2007 swap associated with Issue 37B was not terminated and is now not assigned to any bond issue for tax law purposes, but is associated with $79.7 million of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Series 2009D.

Following the refunding of Issue 37A in October 2008, the three interest rate swaps in the aggregate notional amount of $205.1 million were terminated. The Airport paid a termination amount in connection with the termination of the interest rate swaps in the aggregate amount of $6.7 million from proceeds of the 2008A Notes. The termination amounts were paid to Lehman Brothers Special Financing and J.P. Morgan Chase & Co. (as successor to Bear Sterns Capital Markets Inc.), the parent company of J.P. Morgan Securities.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from its swap counterparties equal to 63.5% of USD-LIBOR-BBA1 plus 0.29%. The Airport receives 61.85% of USD-LIBOR-BBA plus 0.34% under the 2007 and 2010 swaps. These payments are intended to approximate the variable interest rates on the bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed interest rate on the associated bond issues. No monthly payments were made on the 2010 swaps prior to their effective date of February 1, 2010.

As of June 30, 2010, the fair value of the Airport's eight outstanding swaps, which had a total notional amount of $585.4 million are broken down by series as follows:

| Associated Bonds | Notional Amount | Effective Date | Bank Counterparty |
|---|---|---|---|
| 36AB | $ 70,000 | 2/10/2005 | J.P. Morgan Chase Bank N.A. |
| 36A | 69,930 | 2/10/2005 | J.P. Morgan Chase Bank N.A. |
| 36C | 30,000 | 2/10/2005 | J.P. Morgan Chase Bank N.A. |
| 36D | 29,970 | 2/10/2005 | J.P. Morgan Chase Bank N.A. |
| 2009AB [(1)] | 79,684 | 5/15/2008 | Merrill Lynch Capital Services, Inc. |
| 37C | 89,856 | 5/15/2008 | J.P. Morgan Chase Bank N.A. |
| 2010A | 71,973 | 2/1/2010 | Depfa Bank PLC, New York |
| 2010A | 143,947 | 2/1/2010 | Goldman Sachs Bank USA |
| | $ 585,360 | | |

(1) The swap previously associated with 37B was applied to a portion of 2009AB.

The swaps hedging Issue 36A-D Bonds terminate in May 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

| | | | Counterparty credit ratings | | | |
|---|---|---|---|---|---|---|
| Counterparty/guarantor | Initial Notional | Fixed rate payable by Airport | Moody's | S&P | Fitch | Fair value to Airport |
| J.P. Morgan Chase Bank, N.A. | $ 70,000 | 3.4440% | Aa1 | AA- | AA- | $ (8,273) |
| J.P. Morgan Chase Bank, N.A. | 69,930 | 3.4450% | Aa1 | AA- | AA- | (8,273) |
| J.P. Morgan Chase Bank, N.A. | 30,000 | 3.4400% | Aa1 | AA- | AA- | (3,546) |
| J.P. Morgan Chase Bank, N.A. | 29,970 | 3.4450% | Aa1 | AA- | AA- | (3,546) |
| (Aggregate notional amount) | $ 199,900 | | | | | $ (23,638) |



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The swaps hedging the Issue 37B and 37C Bonds (the former is currently applied to Series 2009D Bonds) terminate in May 2029, which is the final maturity date of the Issue 37B/C Bonds. Following the refunding of the Issue 37B bonds, the Airport did not restructure the amortization of the swap to match the amortization of the Series 2009D Bonds, resulting in a mismatch in later years and a lack of integration for tax purposes. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

| | | | Counterparty credit ratings | | | |
|---|---|---|---|---|---|---|
| Counterparty/guarantor | Initial Notional | Fixed rate payable by Airport | Moody's | S&P | Fitch | Fair value to Airport |
| Merrill Lynch Capital Services | $ 79,684 | 3.8980% | A2 | A | A+ | $ (14,407) |
| J.P. Morgan Chase Bank, N.A. | 89,856 | 3.8980% | Aa1 | AA- | AA- | (16,246) |
| (Aggregate notional amount) | $ 169,540 | | | | | $ (30,653) |

The swaps relating to the Series 2010A Bonds terminate in May 2030, the final maturity date of the Series 2010A Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

| | | | Counterparty credit ratings | | | |
|---|---|---|---|---|---|---|
| Counterparty/guarantor | Initial Notional | Fixed rate payable by Airport | Moody's | S&P | Fitch | Fair value to Airport |
| Depfa Bank PLC, New York | $ 71,973 | 3.8950% | A3 | BBB | A- | $ (13,334) |
| Goldman Sachs Bank USA | 143,947 | 3.9250% | Aa3 | A | A+ | (27,213) |
| (Aggregate notional amount) | $ 215,920 | | | | | $ (40,547) |

***Fair Value*** **–** The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

***Basis Risk*** **–** The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2010, the Airport received $0.4 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

***Credit Risk*** **–** As of June 30, 2010, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

***Counterparty Risk*** **–** The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. The Airport's swap policy limits counterparty credit risk by limiting exposure to any one counterparty at the time a swap is executed to not more than 20% of the total portfolio. While the Airport's exposure to J.P. Morgan Chase Bank, N.A. and affiliates complied with the swap policy when the applicable swaps were executed, the Airport's exposure as of June 30, 2010 exceeded this threshold due to JPMorgan's acquisition of Bear Stearns Capital Markets, Inc. The swap policy does not require remedial action in this case.

(Dollars in Thousands)

***Termination Risk –*** All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. 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 all its regular payments and some termination payments due under all its interest rate swaps except the swaps associated with the Series 2010A Bonds, from the following insurers:

| Swap | Swap Insurer | Insurer credit ratings June 30, 2010 (S&P/Moody's) |
|---|---|---|
| Issue 36C | Assured Guaranty Municipal Corp. | AAA/Aa3 |
| Issue 36AB (two swaps) | FGIC/National Public Finance Guarantee Corporation | A/Baa1 |
| Issue 36D | Assured Guaranty Municipal Corp. | AAA/Aa3 |
| Issue 37C | Assured Guaranty Municipal Corp. | AAA/Aa3 |
| Series 2009D | Assured Guaranty Municipal Corp. | AAA/Aa3 |
| Series 2010A (two swaps) | None | N/A |

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating 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 with respect to a counterparty include a rating downgrade below investment grade followed by a 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.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2010 is as follows:

| | Deferred outflows on derivative instrument | Derivative instrument liabilities |
|---|---|---|
| Balance June 30, 2009 | $ 57,157 | $ 62,615 |
| Change in fair value to year end | 32,348 | 32,223 |
| Balance June 30, 2010 | $ 89,505 | $ 94,838 |





Deferred outflows on derivative instruments of $89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53 in fiscal year 2010. Per reporting guidelines of GASB Statement No. 53, derivative outflows on derivative instrument as of June 30, 2009 were restated at the amount of $57.2 million.

Derivative instrument liabilities of $94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per GASB Statement No. 53. Per reporting guidelines of GASB Statement No. 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of $62.6 million.

***Variable Rate Demand Bonds***

Included in long-term debt as of June 30, 2010 is $535.0 million of Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, Issues 37C-D and Series 2010A (collectively, the "Variable Rate Bonds") in a weekly variable rate mode that mature on May 1, 2006 (Issues36 A-D), May 1, 2029 (Issues 37C), and May 1, 2030 (Issues 37D and Series 2010A). The Variable Rate Bonds are long-term tax-exempt bonds that bear a floating weekly interest rate that provide the holders thereof the option to tender their bonds at par on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The Variable Rate Bonds can be converted to other interest rate modes, including a term rate or a fixed rate to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Issues 36A-B and Series 2010A bonds is secured by three irrevocable direct-pay letters of credit issued to the bond trustee for the benefit of the applicable bondholders by the banks identified in the table below. The scheduled payment of principal of and interest on the Issues 36C/D and 37C/D when due is guaranteed under several bond insurance policies issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), while the payment of the purchase price of the Issues 36C/D and 37C/D bonds upon tender for purchase is payable, subject to the satisfaction of certain conditions precedent, from amounts made available pursuant to three Standby Bond Purchase Agreements with Dexia Credit Local, acting through its New York Branch.

Amounts drawn under a standby bond purchase agreement or a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit and standby bond purchase agreements range between 0.55% and 1.35% per annum. As of June 30, 2010, there were no unreimbursed draws under these facilities. The primary terms of the standby bond purchase agreements and letters of credits are as follows:

| | Issue 36A | Issue 36B | Issue 36 C/D | Issue 37C/D | Series 2010A |
|---|---|---|---|---|---|
| Principal Amount.............. | $100,000 | $40,620 | $68,830 | $109,585 | $215,970 |
| Type.............................. | Line of Credit | Line of Credit | Standby Bond Purchase Agreement | Standby Bond Purchase Agreement | Line of Credit |
| Expiration Date................ | May 7, 2013 | May 6, 2011 | May 15, 2013 | May 15, 2013 | February 8, 2013 |
| Insurer........................... | n/a | n/a | Assured Guaranty Municipal Corp. | Assured Guaranty Municipal Corp. | n/a |
| Credit/Liquidity Provider........................ | Wells Fargo Bank, National Association | Union Bank, N.A. | Dexia Credit Local, New York Branch | Dexia Credit Local, New York Branch | JPMorgan Chase Bank, N.A. |

Port Commission

In February 2010, the Port issued $36.6 million in revenue bonds in two series; a non-AMT taxable exempt series (Series 2010A) with a par value of $14.2 million and a taxable series (Series 2010B) with a par value of $22.4 million. Series 2010A bonds will mature in March 2040 and carry a coupon rate of 5.125%. Series 2010B bonds carry coupon rates ranging from 2.72% to 7.41% and mature from March 2011 through March 2030. The net proceeds of the bond, after deduction for bond issue discount, underwriting and other issuance cost, debt service reserve fund and bond auditing fees will be used to provide funds for the design, construction, reconstruction, repair and/or improvements to various Port facilities. The Port has pledged future net revenues to repay the bonds which are solely repayable from the net revenues of the Port and are not an obligation of the City.

San Francisco Public Utilities Commission

In October 2009, the City issued $167.7 million in certificates of participation to fund construction of the future headquarters building of the San Francisco Public Utilities Commission (SFPUC) at 525 Golden Gate Avenue. The 2009 Series C were issued for $38.1 million and 2009 Series D for $129.6 million as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.36% to 6.49% and mature on November 1, 2041, after adjusting for the Federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C & D, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City's use under a Project Lease. The City will be obligated under the Project Lease to pay base rental payments and other payments to the Trustee each year during the thirty-two year term of the Project Lease. The SFPUC will make annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated that these lease costs will be offset with reductions in costs associated with current office rental expense.

Each of the three Enterprise Funds has an ownership interest in the building equal to their projected usage of space as follows: Water Enterprise (73%), Wastewater Enterprise (15%) and Hetch Hetchy Water and Power (12%). Similarly, each Enterprise Fund is responsible for a portion of the annual Base Rental Payment based on their ownership percentages less contributed equity. The percentage share of Base Rental Payments for the Enterprise Funds is as follows: Water Enterprise (71.4%), Wastewater Enterprise (18.9%), and Hetch Hetchy Water and Power (9.7%).

a) San Francisco Water Enterprise

In August 2009, the SFPUC issued $412 million in 2009 Water Revenue Bonds, Series A and in September 2009, SFPUC issued $412 million in 2009 Water Revenue Bonds, Series B. The bonds were issued to finance a portion of the design, acquisition and construction of various capital projects of the Water System Improvement Program (WSIP), fund the capitalized interest accounts of the 2009 Series A and B for approximately five Indentures and to pay for the costs of issuances. A portion of the 2009 Series A will also be used to refund SFPUC's Commercial Paper Notes issued to fund a portion of the WSIP. Interest rates for the 2009 Series A bonds range from 4.0% to 5.3% and mature from November 2011 through November 2039. The 2009 Series B bonds bear interest rates ranging from 4.0% to 5.0% and mature from November 2011 to November 2039.

In June 2010, the SFPUC issued 2010 San Francisco Water Revenue Bonds Series ABC (the "ABC bonds") with the combined amount of $488.7 million. The Sub-Series A bonds was issued for $56.9 million to provide funds for the Advance Metering Infrastructure System ("AMI") project as well as financing costs. The 2010 Sub-Series A bonds mature from November 2011 through November 2030 with interest rates ranging from 2.0% to 5.0%. The Sub-Series B (Federally Taxable-Build America Bonds-Direct Payment) bonds was issued for $417.7 million to provide $364.8 million in new money for the WSIP capital projects as well as to pay financing costs. The 2010 Sub-Series B bonds mature





from November 2016 through November 2040 with interest rates ranging from 4.0% to 6.0%. The Sub-Series C bonds was issued for $14.1 million to refund $14.4 million of outstanding principal amount of SFPUC's Water Revenue Bonds, 2001 Series A and to pay financing costs. The 2010 Sub-Series C bonds mature from November 2012 through November 2015 with interest rate of 5.0%. A portion of the proceeds on the 2010 Sub-Series C revenue bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated June 1, 2010, to refund and legally defease a portion of the outstanding 2001 Series A bonds. This deposit, together with certain other available moneys was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities-State and Local Government Series (SLGS). The principal and interest on monies held by the escrow agent will be sufficient to redeem the Refunded 2001 Series A bonds on November 1, 2011 by optional redemption on that date. As of June 30, 2010, the 2001 Series A bonds still outstanding totals $60.2 million. Although the refunding resulted in the recognition of a deferred accounting loss of $1.0 million, the Water Enterprise Fund achieved net present value debt service savings of $0.9 million or 6.4% of the refunded principal.

b) San Francisco Wastewater Enterprise

In June 2010, the SFPUC issued the 2010 Wastewater Revenue Bonds Series A for $47.1 million and Wastewater Revenue Bonds Series B (Federally Taxable-Build America Bonds-Direct Payment) for $192.5 million. The 2010 Series A Bonds were issued to 1) refinance a portion of the costs of planning, design, construction and improvement of various capital projects in furtherance of the SFPUC's Wastewater Enterprise Capital Improvement Program (the "CIP"); 2) to refund commercial paper notes issued by SFPUC to fund a portion of the CIP; 3) to fund the reserve account; and 4) pay costs of issuance. The proceeds of the 2010 Series B will be applied to 1) refund additional commercial paper notes; 2) to fund a portion of the costs of the CIP and a portion of the SFPUC's proposed Sewer System Improvement Program; 3) to fund capitalized interest on the 2010 Series B Bonds; 4) to fund a reserve account for the 2010 Series B Bonds; and 5) pay costs of issuance. The 2010 Series A Bonds mature from October 2016 through October 2021 with interest rates ranging from 4.0% to 5.0% and the 2010 Series B Bonds mature from October 2022 through October 2040 with interest rates ranging from 4.65% to 5.82%.

San Francisco General Hospital

In April 2010, the City issued $22.5 million Certificates of Participation, San Francisco General Hospital Emergency Backup Generator Project Series 2010A. The Certificates were issued to finance the replacement of the existing steam turbine-driven emergency generators, along with the steam generating equipment which currently provides a back-up emergency power source to the San Francisco General Hospital. A portion of the proceeds will also be used to pay for the cost of issuance of the Certificates and fund the capital lease payable through November 25, 2011. The Certificates were issued pursuant to a Trust Agreement between the City and the Trustee, Deutsche Bank National Trust, acting on behalf to the lessor, Princeton Credit LLC. Under the trust agreement, the City and the lessor, have entered into a lease purchase financing agreement pursuant to which the City agreed to lease the project from the lessor and to make rental payments. The Series 2010A were issued with an interest rate of 5.55% and matures from May 2012 through November 2025.

The City is required under the Lease to pay Rental Payments from any source of legally available funds. Rental Payments are required to be deposited with the Trustee on or before the twenty-fifth day of the month preceding each Certificate Payment Date, for application to the Rental Payment Fund established pursuant to the Trust Agreement. The City has also pledged all amounts on deposit from time to time in the funds established pursuant to the Trust Agreement (other than in the Rebate Fund) to the payment of all Rental Payments.

***Component Unit Debt – San Francisco Redevelopment Agency***

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(Dollars in Thousands)

## (9) EMPLOYEE BENEFIT PROGRAMS

### (a) Retirement Plan

The City maintains a cost-sharing multiple-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, and San Francisco Trial Court employees other than judges. Due to the relative insignificance of the other employers in the Plan, the City presents disclosure information for the Plan as if it were a single-employer plan. 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), agent or cost-sharing multiple-employer, public employee pension plans, which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority 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 the Administrative Code are 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, 2010 was approximately $2.46 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.

Legislative Changes to the Plan – In June 2010, the voters of the City and County approved a Charter amendment to create new benefit plans for miscellaneous City employees and firefighter and police employees who are hired on or after July 1, 2010. The new benefit plan covering Miscellaneous employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation. The two new benefit plans covering firefighter and police employees hired on or after July 1, 2010 provide for: a) an increase in required employee contributions from 7.5% of covered compensation in the previous safety plans to 9% of covered compensation, and b) a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Membership of the Retirement System consisted of the following as of June 30, 2010:

| | Police | Fire | Miscellaneous | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 2,214 | 2,059 | 19,227 | 23,500 |
| Active members | 2,139 | 1,394 | 24,689 | 28,222 |
| Terminated members entitled to but not yet receiving benefits | 121 | 71 | 5,301 | 5,493 |
| Total | 4,474 | 3,524 | 49,217 | 57,215 |

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.





Deferred Retirement Option Program – In February 2008, the voters of the City approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer may elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and begins to accrue monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation and service frozen as of the date of his or her entry into DROP. DROP is scheduled to sunset effective July 1, 2011 unless extended by the Board of Supervisors of the City.

Changes in DROP liabilities during the year ended June 30, 2010 are as follows:

| | |
|---|---|
| DROP liability, beginning of year | $ 4,143 |
| Additions | 6,994 |
| Distributions | (2,484) |
| DROP liability, end of year | $ 8,653 |

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 2009-2010 varied from 7% to 8% as a percentage of gross salary. For fiscal year ended June 30, 2010, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2008 actuarial report, the required employer contribution rate for fiscal year 2009-2010 was 9.49%.

Employer contributions and employee 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, 2008. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.75%; (2) cost of living adjustments of 2% to 4.5%; and (3) salary merit increases of 4.5%. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. 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 an open 15-year period. Plan amendments and changes in interest crediting rate are amortized over a closed 20-year period.

Three-year trend information is as follows:

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2008 | $ 134,060 | 100% | $ - |
| 6/30/2009 | 119,750 | 100% | - |
| 6/30/2010 | 223,614 | 100% | - |

(Dollars in Thousands)

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the actuarial value of assets was $16.0 billion; the actuarial accrued liability was $16.5 billion; the total unfunded actuarial accrued liability was $493.9 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 97.0%; the annual covered payroll was $2.5 billion; and the ratio of the unfunded actuarial liability to annual covered payroll was 19.5%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above. The Retirement System's actuarial accrued surplus from its July 1, 2008 actuarial valuation decreased from a surplus $582.6 million to a deficit of $493.9 million primarily due to investment experience during the year ended June 30, 2009. The actuarial value of assets is "smoothed" in order to mitigate the impact of investment performance volatility on employer contribution rates. Because asset valuations are smoothed and the full investment losses from the year ended June 30, 2009 have not been recognized, the contribution rate is expected to increase over the next four years assuming investment returns equal the assumed rate and all other actuarial assumptions are met. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***California Public Employees' Retirement System***

Various City public safety, Port, and all Redevelopment Agency and San Francisco County Transportation Authority employees are eligible to participate in PERS. Disclosures for the San Francisco County Transportation Authority and 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 100 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 2009-2010 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 2009-2010 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows:

| Fiscal Year Ended | Pension Cost (APC) | of APC Contributed | Pension Obligation |
|---|---|---|---|
| 6/30/2008 | $ - | N/A | $ - |
| 6/30/2009 | - | N/A | - |
| 6/30/2010 | - | 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 18.125%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2009-2010 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2007 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. The cost-of-living adjustment includes 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.

Three-year trend information is as follows:

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2008 | $ 15,982 | 100% | $ - |
| 6/30/2009 | 15,926 | 100% | - |
| 6/30/2010 | 15,657 | 100% | - |

Funded Status and Funding Progress – As of June 30, 2009, the most recent actuarial valuation date, the actuarial value of assets was $707.6 million; the actuarial accrued liability was $758.1 million; the total unfunded actuarial accrued liability was $50.5 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 93.3%; the annual covered payroll was $101.9 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 49.6%. The actuarial assumptions used were the same as described in the Annual Pension Cost – Safety Plan section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(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, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $548.2 million in fiscal year 2009-2010. 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 $159.5 million to provide postemployment health care benefits for 23,623 retired participants, of which $126.8 million related to the City employees. The City's liability for both current employee and postemployment health care benefits is enumerated below. 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. 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.

(Dollars in Thousands)

### (d) Postemployment Health Care Benefits

***City (excluding the San Francisco County Transportation Authority and the San Francisco Redevelopment Agency)***

Plan Description – The City maintains a single-employer, defined benefit other postemployment benefits plan, which provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through three plan choices: City Health Plan, Kaiser, and Blue Shield.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For fiscal year ended June 30, 2010, the City paid approximately $126.8 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years. The ARC was determined based on the July 1, 2008 actuarial valuation.

The net OPEB obligations are reflected in the statements of net assets of the governmental activities, business-type activities, and fiduciary funds. The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 368,665 |
| Interest on Net OPEB obligation | 25,729 |
| Adjustment to annual required contribution | (20,180) |
| Annual OPEB cost | 374,214 |
| Contribution made | (126,829) |
| Increase in net OPEB obligation | 247,385 |
| Net OPEB obligation - beginning of year | 605,397 |
| Net OPEB obligation - end of year | $ 852,782 |

The table below shows how the total net OPEB obligation as of June 30, 2010, is distributed.

| | |
|---|---|
| Governmental activities | $ 477,633 |
| Business-type activities | 348,287 |
| Fiduciary funds | 26,862 |
| Net OPEB obligation - end of year | $ 852,782 |

Eligible fiduciary funds' employees are City employees and thereby eligible for postemployment health benefits. These obligations are reported as other obligations in the City's basic financial statements.





Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2008 | $ 409,080 | 28.0% | $ 294,440 |
| 6/30/2009 | 430,924 | 27.8% | 605,397 |
| 6/30/2010 | 374,214 | 33.9% | 852,782 |

The Annual OPEB Cost computed for the year ended June 30, 2010 includes the following actuarial assumptions changes since the July 1, 2006 valuation:

- The discount rate has changed from 4.50% to 4.25%
- The payroll growth rate has changed from 4.50% to 4.25%.
- A refund of contribution assumption was introduced to better reflect anticipated experience.
- Rates of retirement for miscellaneous, craft, and municipal members have been updated, in line with the Retirement System's rates.
- The benefit commencement age for current and future terminated vested participants is assumed to be at age 55 compared to the eligible age of 50.
- Health care cost trend rates, plan costs and retiree contributions have been updated to better reflect anticipated future experience.
- The spouse coverage assumption was updated from 50% for males and 20% for females to 35% for both genders.
- The Medicare eligibility assumption was updated from 95% to 100%.
- The plan election rates were updated to reflect the elimination of PacifiCare as a plan option.

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over a thirty year period, beginning July 1, 2007. As of July 1, 2008, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0%. The actuarial accrued liability for benefits was $4.4 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4.4 billion. The covered payroll (annual payroll of active employees covered by the plan) was $2.3 billion and the ratio of the UAAL to the covered payroll was 191.3%.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2008, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). Unfunded liabilities are amortized using the level percentage of expected payroll over an open 30-year period. The actuarial assumptions included a 4.25% investment rate of return on investment; annual healthcare cost trend rates using the actual rates for fiscal years ended June 30, 2009 and 2010, an annual blended healthcare cost trend rate of 9% in the fiscal year ended June 30, 2011, reduced by 0.5% each year to an ultimate rate of 5% in the eighth year and beyond; annual vision and expenses trend rates using the actual rates for fiscal years ended June 30, 2009 and 2010, and 3% per year thereafter; and a 4.25% annual increase in projected payroll.

(Dollars in Thousands)

***San Francisco County Transportation Authority***

The San Francisco County Transportation Authority (SFCTA) maintains a separate single-employer defined benefit OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2010. SFCTA's most recent actuarial valuation was performed as of January 1, 2010, covering the fiscal years ended June 30, 2010 and June 30, 2011. SFCTA's OPEB plan was for retiree healthcare benefits and was 46.3% funded and the unfunded actuarial accrued liability was $0.2 million. Details of SFCTA's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2010. Financial statements for SFCTA can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

As of June 30, 2010, the SFCTA's annual OPEB expense of $110 was equal to the ARC. Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2008 | $ 84 | 100% | $ - |
| 6/30/2009 | 86 | 100% | - |
| 6/30/2010 | 110 | 100% | - |

***San Francisco Redevelopment Agency***

The San Francisco Redevelopment Agency (the Agency) maintains a separate OPEB single-employer defined benefit plan and reported a net OPEB obligation of $0.6 million as of June 30, 2010. The Agency's most recent actuarial valuation was performed as of June 30, 2009, covering the fiscal year ended June 30, 2010. The Agency's OPEB plan was for retiree healthcare benefits and was 3.6% funded and the unfunded actuarial accrued liability was $13.3 million. Details of the Agency's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2010. Financial statements for the Agency can be obtained from their finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

The following table shows the components of the Agency's annual OPEB cost for the year, the amount contributed to the plan, and changes in its net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 1,306 |
| Interest on Net OPEB obligation | 43 |
| Adjustment to annual required contribution | (53) |
| Annual OPEB cost | 1,296 |
| Contribution made | (1,205) |
| Increase in net OPEB obligation | 91 |
| Net OPEB obligation - beginning of year | 552 |
| Net OPEB obligation - end of year | $ 643 |





Three-year trend information is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2008 | $ 1,216 | 59% | $ 493 |
| 6/30/2009 | 1,298 | 95% | 552 |
| 6/30/2010 | 1,296 | 93% | 643 |

***Proposition B – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund***

Proposition B was passed by voters on June 3, 2008, and increased the years of service required to qualify for employer-funded retiree health benefits for City employees and certain employees of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Now it states that between 5-10 years of service, there is no employer contribution, at 10-15 years there is a 50% contribution, between 15-20 years there is 75% contribution and only after 20 years of service will the employer pay 100% of the contribution.

Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%. The San Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this trust fund if approved by their governing boards.

The trust fund is administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System. The Board is in the process of establishing trust documentation.

## (10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (SFCTA) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The SFCTA was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990. The Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Within 20 years of the effective date of the adoption of the Proposition K Expenditure Plan, the SFCTA may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the SFCTA Board may adopt an updated Expenditure Plan anytime after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the SFCTA directs the use of the Sales Tax and may spend up to $485.2 million per year and may issue up to $1.88 billion in bonds secured by the Sales Tax.

In November 1990, the SFCTA was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the SFCTA is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

Major programs under the CMA include:

- Surface Transportation Program (STP) – In September 1992, the MTC began programming Federal STP to CMAs in the Bay Area. In turn, the Authority is responsible for certain planning and programming activities, work tasks and products, that support MTC's overall work program.
- Countywide Transportation Plan – As the CMA, the Authority is responsible for preparing a Countywide Transportation Plan to guide transportation system development and investment over the next 30 years. The Plan is consistent with the broader policy framework of the City and County of San Francisco's General Plan and particularly its Transportation Element. The Countywide Transportation Plan further develops and implements General Plan principles, by identifying needed transportation system improvements based on technical review of system performance; extensive public input on key issues and needs; and analysis of financial opportunities and constraints. The planning process began this summer and continues over the next 18 months to two years.
- Transportation Fund for Clean Air Program – On June 15, 2002, the SFCTA was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the Transportation Fund for Clean Air (TFCA) program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD) come from a $4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the SFCTA recommends projects that benefit air quality by reducing motor vehicle emissions.

## (11) Detailed Information for Enterprise Funds

### (a) San Francisco International Airport

San Francisco International Airport (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 the San Francisco Bay. According to final data for calendar year 2008 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (10th) and air cargo (14th). The Airport 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 the Airport creates a convenient connection between the Airport 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 the Airport 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.





The Airport has revised its five-year Capital Plan, which was approved in May 2010 and included airfield and groundside improvements, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

***Pledged Revenues under the 1991 Master Resolution*** – Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the common 1991 Reserve Fund, the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the common 1991 Reserve Fund or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net revenues (as defined in the bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and

(b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differs from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

***Passenger Facility Charges*** **–** The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of $4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. The Airport's most recent application amendment of $609.1 million was approved by the FAA in September 2006. The current authority to impose PFCs is estimated to end January 1, 2017.

For the year ended June 30, 2010, the Airport reported approximately $73.8 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. The Airport designated $61.0 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2009-2010.

***Commitments and Contingencies*** **–** In addition to the long-term obligations discussed in Note 8, there was $98.8 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2010, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel agreed to pay facilities rent to the Airport 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 the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport 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.

(Dollars in Thousands)

Purchase commitments for construction, material and services as of June 30, 2010 are as follows:

| | |
|---|---|
| Construction | $ 109,539 |
| Operating | 11,184 |
| Total | $ 120,723 |

***Transactions with Other Funds and Business Concentrations –*** Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2010 was $28.1 million and was recorded as a transfer. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2010 was $104.2 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2010, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

| | |
|---|---|
| United Airlines | 22.0% |
| New South Parking | 12.6% |

**(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.

***Pledged Revenues*** – 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 pledged future net revenues to repay $36.7 million in Revenue Bonds issued in 2010. Annual principal and interest payments through 2040 are expected to require less than 24% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $75.4 million. The first debt service payment on the new Revenue Bonds issued in 2010 is in 2011.

The Port has entered into a loan agreement with the California Department of Boating and Waterways for $3.5 million to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $4.4 million. Annual principal and interest payments were $0.2 million in 2010 and pledged revenues were $0.1 million for the year ended June 30, 2010.

***Commitments and Contingencies –*** 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, 2010, $16.8 million of Port funds have been appropriated and $3.3 million has been expended for projects under the agreement. The $16.8 million appropriated includes $9.0 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. After expiration of the original development agreement in 2006, the land sales proceeds of $9.0 million remain designated for the design and construction of a public plaza (Brannan Street Wharf) as required by the San Francisco Waterfront Special Area Plan. An additional $10.8 million has been identified for appropriation and expenditure on Plan projects subsequent to June 30, 2010.

A City general obligation bond, 2008 Clean and Safe Neighborhood Parks, included $33.5 million for open space projects on Port property. The Port received $10.6 million in 2010 of proceeds from these general obligation bonds. The next issuance in 2011 will provide additional funding of $6.0 million, including $2.9 million for the Brannan Street Wharf project.

As of June 30, 2010, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $7.1 million for capital projects and $3.0 million for general operations.

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The recovered drydock is currently moored at a safer harbor location. The Port continues to evaluate options for the final disposition of this surplus vessel. Engineering consultants have assessed requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Due to its poor condition, the drydock is most likely only salvageable for scrap metal. Based on the information from various consultants and internal engineering estimates, $2.8 million was accrued in 2008 for the drydock's final disposition, including the remediation of identified hazardous materials. Disposition options and related cost estimates were re-assessed in 2010 and the total accrued liability as of June 30, 2010 has been increased to $5.0 million. The Port is also pursuing federal financial assistance towards the final disposition cost of Drydock #1. This accrual is included in other noncurrent liabilities.

***Pollution Remediation Obligations –*** The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

The Port has been conducting a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. The 65-acre site has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Much of the site was owned and/or occupied by the U.S. Navy or its contractors for at least 60 years. Fifteen acres remain occupied by an on-going ship repair facility. Environmental conditions exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70.

(Dollars in Thousands)

Since early 2007, the Port has been engaged in a community-based master planning process to produce a plan to rehabilitate and reuse many of the historic buildings, enable new development, create parks, open space and other public amenities, complete environmental remediation where required, and preserve existing ship repair facilities. In 2007, the Port completed a site investigation of a small portion of Pier 70: an approximately 17-acre area along the northeast shoreline. This investigation found that soil and sediment are contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that do not pose a hazard to human health or the environment under existing conditions, but will require removal or capping of surface soil before development of the area for public access and recreation.

With funding from a federal grant, the Port proceeded in fiscal year 2008-2009 with a $1.2 million contract to investigate soil and groundwater conditions throughout the site, including the fifteen-acre portion leased to the Port's ship repair tenant and in fiscal year 2010-2011 the Port will proceed with a contract to survey many of the historic buildings for hazardous building materials, such as lead and asbestos. At June 30, 2010, the contract work for the site assessment remains in progress. Findings to date, including data from previous investigations, indicate that soil throughout the Pier 70 site contains metals, naturally-occurring asbestos, and petroleum hydrocarbons at concentrations that do not require imminent remediation, but will require removal or capping of surface soil in connection with development of the area for public access and recreation. The investigation also found oily residue in soil and groundwater beneath by the ship repair tenant's leasehold area and contamination from the adjacent former manufactured gas plant site (see "*Potrero Power Plant*") that has migrated beneath a small area in the southeast portion of Pier 70. The current environmental investigation work scope includes evaluation of the potential human health and environmental risks associated with contaminants at Pier 70 and development of a Risk Management Plan to ensure that significant risks are addressed. The Risk Management Plan will establish institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impacts to the environment. Future development will likely cover existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. Although the risk assessment phase is currently underway, findings to date do not suggest significant potential for risk to current site occupants or visitors, or a need for soil or groundwater remediation that would substantially affect the current use or future development as envisioned by the Port's Master Plan. However, previous investigation of the northeast shoreline of Pier 70, in an area slated in the Master Plan for development as the future "Crane Cove Park", found that near-shore sediment is contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation.

The contractor prepared an earlier report in 2009 describing potential remediation scenarios for Pier 70 site and probability of certain contamination being encountered in soil, soil vapor or groundwater, and various degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between $15.0 million and $50.0 million, with a most likely probability-weighted estimated cost of $27.5 million. Port management believes the environmental consultant's model calculation is a reasonable estimate of an existing brownfield pollution remediation obligation. The $27.5 million is recorded as a noncurrent pollution remediation obligation. As part of the contract work to be completed in fiscal year 2010-2011, the Port and the contractor will update the probabilistic cost estimate for remediation of environmental conditions at Pier 70, including evaluation of the cost to mitigate environmental impact from contaminated sediment. The results will more thoroughly inform pollution remediation activities and adaptive re-use of the Pier 70 project area.

Hazardous building materials, such as lead-based paint, asbestos, and mercury and/or PCBs in certain electrical equipment, will have to be abated during the course of rehabilitation of any historic





building. Hazardous building materials abatement is very roughly estimated to be 20% of the total construction cost of building rehabilitation. In an effort to reduce the development uncertainties, the Port will use a portion of the federal grant for an assessment (identification and quantification) of hazardous building materials to enable rehabilitation or demolition of buildings and other structures within the site.

In addition to the Pier 70 issue, the Port has identified and accrued certain environmental issues related to Port property, including fuel tank removal and oil contamination in the amount of $0.1 million at June 30, 2010. The Port may be required to perform certain clean-up work if it intends to develop or lease the property, or at such time as required by the City or State. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for such risk cannot be reasonably made at this time.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2010, is as follows:

| | Environmental Remediation | Monitoring and Compliance | Total |
|---|---|---|---|
| Environmental liabilities at July 1, 2009 | $ 27,500 | $ 494 | $ 27,994 |
| Current year claims and changes in estimates | - | (157) | (157) |
| Vendor payments | - | (239) | (239) |
| Environmental liabilities at June 30, 2010 | $ 27,500 | $ 98 | $ 27,598 |

### (c) San Francisco Water Enterprise

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, 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 Enterprise delivers water, approximately 80,273 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 Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. Under Proposition E, the City's Charter Amendment approved by the voters in June 2008, the Mayor nominates candidates subject to qualification requirements to the Commission and the Board of Supervisors votes to approve the nominees by a majority (at least 6 members).

***Pledged Revenues –*** The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through the year ending 2040.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

| | |
|---|---|
| Bonds issued with revenue pledge | $ 2,421,205 |
| Principal and interest remaining due at the end of the year | 4,091,947 |
| Principal and interest paid during the year | 69,621 |
| Net revenue for the year ended June 30, 2010 | 77,735 |
| Funds available for revenue bond debt service | 138,686 |

During fiscal year 2009-2010, water sales to suburban resale customers were $129.2 million. As of June 30, 2010, the suburban resale customers owed the Water Enterprise approximately $34.1 million under the Water Rate Agreement.

(Dollars in Thousands)

***Commitments and Contingencies*** **–** As of June 30, 2010, the Water Enterprise had outstanding commitments with third parties of $913.6 million for various capital projects and for materials and supplies.

***Pollution Remediation Obligation*** **–** In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Enterprise to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Enterprise. In response to the directive, the Commission completed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. This environmental issue, along with the Water Enterprise's complete review of GASB Statement No. 49 pronouncement resulted in the reporting of $0.7 million in fiscal year 2010. The Water Enterprise paid $2.7 million in fiscal year 2010 in accordance with the remedial action plan.

***Transactions with Other Funds*** **–** The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately $29.7 million and $6.7 million, respectively, for the year ended June 30, 2010, are included in the charges for services provided by other departments in the Water Enterprise's financial statements.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $11.1 million for the year ended June 30, 2010 and have been included in services provided by other departments.

### (d) Hetch Hetchy Water and Power Enterprise

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 and Stanislaus National Forest to the City. Hetch Hetchy has two segments: Hetch Hetchy Power (Power Enterprise) and Hetch Hetchy Water, a portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service for the latter. Hetch Hetchy accounts for the activities of the Hetch Hetchy Water and Power and 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 65% of the electricity generated by Hetch Hetchy Power is used by the City's municipal customers (e.g., the San Francisco Transportation Agency, the Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, street lighting, Moscone Convention Center, and the Water and Wastewater Enterprises). Also a result of the Raker Act of 1913, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E. 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 market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.





***Segment Information*** **–** Hetch Hetchy issued debt to finance its improvements. Both the Water Enterprise and the Power Enterprise are reported for in a single fund (i.e., Hetch Hetchy Water and Power Enterprise). However investors in the debt rely solely on the revenue generated by the individual activities for repayment. Summary financial information for Hetch Hetchy is presented below:

| **Condensed Statement of Net Assets** | Hetch Hetchy Water | Hetch Hetchy Power | Total |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 34,512 | $ 160,909 | $ 195,421 |
| Receivables from other funds and component units | - | 18,127 | 18,127 |
| Restricted cash and investments | - | 18,717 | 18,717 |
| Other noncurrent assets | - | 205 | 205 |
| Capital assets | 86,634 | 199,136 | 285,770 |
| Total assets | 121,146 | 397,094 | 518,240 |
| Liabilities: | | | |
| Current liabilities | 4,696 | 23,279 | 27,975 |
| Noncurrent liabilities | 3,301 | 30,594 | 33,895 |
| Total liabilities | 7,997 | 53,873 | 61,870 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 86,634 | 196,064 | 282,698 |
| Unrestricted net assets | 26,515 | 147,157 | 173,672 |
| Total net assets | $ 113,149 | $ 343,221 | $ 456,370 |

| **Condensed Statement of Revenues, Expenses, and Changes in Net Assets** | Hetch Hetchy Water | Hetch Hetchy Power | Total |
|---|---|---|---|
| Operating revenues | $ 31,219 | $ 97,371 | $ 128,590 |
| Depreciation expense | (4,092) | (8,539) | (12,631) |
| Other operating expenses | (27,961) | (77,795) | (105,756) |
| Net operating income (loss) | (834) | 11,037 | 10,203 |
| Nonoperating revenues (expenses): | | | |
| Federal grants | - | 197 | 197 |
| Interest and investment income | 657 | 2,081 | 2,738 |
| Interest expense | - | (722) | (722) |
| Other nonoperating revenues (expenses) | 39 | 938 | 977 |
| Transfers out, net | - | (1,400) | (1,400) |
| Change in net assets | (138) | 12,131 | 11,993 |
| Net assets at beginning of year | 113,287 | 331,090 | 444,377 |
| Net assets at end of year | $ 113,149 | $ 343,221 | $ 456,370 |

| **Condensed Statement of Cash Flows** | Hetch Hetchy Water | Hetch Hetchy Power | Total |
|---|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | $ 5,782 | $ 23,857 | $ 29,639 |
| Noncapital financing activities | 2 | (691) | (689) |
| Capital and related financing activities | (8,626) | (8,835) | (17,461) |
| Investing activities | 1,105 | 3,782 | 4,887 |
| Change in net assets | (1,737) | 18,113 | 16,376 |
| Cash and cash equivalents at beginning of year | 35,725 | 140,487 | 176,212 |
| Cash and cash equivalents at end of year | $ 33,988 | $ 158,600 | $ 192,588 |

(Dollars in Thousands)

***Pledged Revenues* –** Hetch Hetchy Power has pledged future power revenues to repay Clean Renewable Energy Bonds, which were issued in fiscal year 2009. Proceeds from the bonds provided financing for various capital construction projects. These bonds are payable solely from net power revenues of Hetch Hetchy Power and are payable through the year ending 2022.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

| | |
|---|---|
| Bonds issued with revenue pledge | $ 6,325 |
| Principal and interest remaining due at the end of the year | 5,481 |
| Principal and interest paid during the year | 422 |
| Net revenue for the year ended June 30, 2010 | 33,898 |

***Commitments and Contingencies* –** As of June 30, 2010, Hetch Hetchy had outstanding commitments with third parties of $29.7 million for various capital projects and other purchase agreements for materials and services.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were $4.6 million in fiscal year 2010. 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. 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 December 31, 2007. The renegotiated agreement with MID became effective January 1, 2008, removed Hetch Hetchy's obligation to provide firm power, and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement between Hetch Hetchy and TID restates and amends the power sales agreement and terminates Hetch Hetchy's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. Hetch Hetchy will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2010, energy sales to the Districts totaled 286,980 MWhrs or $7.5 million.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2010, Hetch Hetchy purchased $12.9 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

The City's Interconnection Agreement with PG&E contains a contractual provision allowing it to bank excess power produced, with a maximum of 110,000 of Megawatt hours (MWh). During the fiscal year 2010, Hetch Hetchy Power generated 1,453,158 MWh of power, banked (deposited) in Deferred Delivery Account (DDA) 104,321 MWH and used (withdrew) 115,630 MWH. At June 30, 2010, the balance in the bank was 92,854 MWh or $2.6 million.





Hetch Hetchy is exposed to risks that could negatively impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the financial results of Hetch Hetchy are sensitive to variability in watershed hydrology and market prices for energy.

***Transactions with Other Funds*** – Charges for services for the year ended June 30, 2010 include $60.3 million in sales of power by Hetch Hetchy Power to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

The Water Enterprise purchases water from Hetch Hetchy Water and power from Hetch Hetchy Power. Included in the operating revenues are the waster assessment fees totaling $29.7 million and purchased electricity for $6.7 million for the year ended June 30, 2010. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $8.7 million for the year ended June 30, 2010.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $5.0 million for the year ended June 30, 2010 and have been included in services provided by other departments.

**(e) Municipal Transportation Agency**

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. It is composed of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), the Department of Parking and Traffic (DPT), five nonprofit parking garage corporations, and the Division of Taxis operations. Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating MUNI and DPT by July 1, 2002. The incorporations are intended to support the City's *TransitFirst* Policy. MUNI is one of America's oldest public transit agencies, the seventh largest system in the United States. The DPT operations manage 40 City-owned garages and metered parking lots as well as all traffic engineering functions within the City. SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of MUNI by purchasing equipment and improving facilities. The operations of former Taxi Commission have been merged with SFMTA as the Division of Taxis and Accessible services. SFMTA has the power to regulate the taxi industry and other motor vehicle for hire in San Francisco. The five nonprofit parking garages account for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities and manage various facilities.

(Dollars in Thousands)

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the SFMTA, net of eliminations for $1.6 million receivable, restricted cash and payables, and transfers in of $167.7 million.

| | MUNI | DPT | Parking Garages | Eliminations | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | $ 318,888 | $ 33,131 | $ 3,700 | $ (1,649) | $ 354,070 |
| Noncurrent assets | 1,890,053 | 29,694 | 75,762 | - | 1,995,509 |
| Total assets | 2,208,941 | 62,825 | 79,462 | (1,649) | 2,349,579 |
| Liabilities | | | | | |
| Current liabilities | 198,764 | 18,911 | 7,461 | (1,649) | 223,487 |
| Current liabilities payable from restricted assets | 4,407 | - | - | - | 4,407 |
| Noncurrent liabilities | 212,009 | 49,156 | 27,039 | - | 288,204 |
| Total liabilities | 415,180 | 68,067 | 34,500 | (1,649) | 516,098 |
| Net assets | | | | | |
| Invested in capital assets, net of related debt | 1,876,679 | 7,314 | 34,856 | - | 1,918,849 |
| Restricted net assets | 8,967 | 682 | 10,613 | - | 20,262 |
| Unrestricted net assets (deficits) | (91,885) | (13,238) | (507) | - | (105,630) |
| Total net assets (deficits) | $ 1,793,761 | $ (5,242) | $ 44,962 | $ - | $ 1,833,481 |

| | MUNI | DPT | Parking Garages | Eliminations/ Reclassifications | Total |
|---|---|---|---|---|---|
| Operating revenues | $ 202,796 | $ 55,597 | $ 44,724 | $ - | $ 303,117 |
| Operating expenses | 775,660 | 100,713 | 18,558 | - | 894,931 |
| Net operating income (loss) | (572,864) | (45,116) | 26,166 | - | (591,814) |
| Nonoperating income (loss) | 112,525 | 113,510 | (6,915) | - | 219,120 |
| Capital contributions | 111,854 | 2,279 | - | - | 114,133 |
| Transfers in | 359,329 | 80,075 | - | (167,712) | 271,692 |
| Transfers out | (2,505) | (153,974) | (20,221) | 167,712 | (8,988) |
| Change in net assets | 8,339 | (3,226) | (970) | - | 4,143 |
| Net assets (deficits), beginning of year | 1,785,422 | (2,016) | 45,932 | - | 1,829,338 |
| Net assets (deficits), end of year | $ 1,793,761 | $ (5,242) | $ 44,962 | $ - | $ 1,833,481 |





The data below reflect the operations of the parking garages operated by separate nonprofit corporations managed by SFMTA. Information about these nonprofit corporations for the year ended June 30, 2010 is as follows:

| | Downtown Parking | Uptown Parking | Japan Center Garage | Ellis - O'Farrell Parking | Portsmouth Plaza Parking | Total |
|---|---|---|---|---|---|---|
| Operating revenues | $ 15,799 | $ 16,284 | $ 3,391 | $ 5,666 | $ 3,584 | $ 44,724 |
| Depreciation | 687 | 1,006 | 175 | 361 | 143 | 2,372 |
| Operating income | 10,708 | 10,637 | 1,588 | 1,820 | 1,413 | 26,166 |
| Interest and other non-operating revenues (expenses) | (429) | (4,063) | (442) | (181) | (1,800) | (6,915) |
| Change in net assets | 160 | (572) | (161) | (10) | (387) | (970) |
| Capital assets, additions | 154 | 13 | - | 1 | 89 | 257 |
| Capital assets, deletions | - | - | (452) | - | - | (452) |
| Net working capital (deficit) | (1,438) | (1,144) | 543 | (2,743) | 1,021 | (3,761) |
| Total assets | 21,367 | 37,420 | 2,864 | 14,109 | 3,702 | 79,462 |
| Total liabilities | 8,799 | 18,403 | 436 | 5,870 | 992 | 34,500 |
| Net assets | 12,568 | 19,017 | 2,428 | 8,239 | 2,710 | 44,962 |
| Total debt outstanding | $ 7,918 | $ 17,300 | $ - | $ 3,409 | $ - | $ 28,627 |

***Operating and Capital Grants and Subsidies* –** 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 SFMTA was $236.9 million in fiscal year 2010.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2010, MUNI had approved capital grants with unused balances amounting to $580.5 million. Capital grants receivable as of June 30, 2010 totaled $36.0 million.

The SFMTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2010, SFMTA had various operating grants receivable of $18.7 million. In fiscal year 2010, the SFMTA's operating assistance also includes BART American Disability Act (ADA) revenues of $1.2 million and other federal, state and local grants of $37.3 million to fund project expenses that are operating in nature.

The capital grants and operating assistance identified above include funds received and due from the San Francisco County Transportation Authority (SFCTA). During the fiscal year 2010, the SFCTA approved $150 million in new capital grants and $15.6 million in new operating grants for SFMTA. During the same period, the SFMTA received total payments of $12.4 million for capital grants and $16.6 million in operating grants from the SFCTA. As of June 30, 2010, the SFMTA had $6.9 million due from the SFCTA for capital grants and $0.9 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. SFMTA received $36.7 million in fiscal year 2010 for different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2010, $25.6 million drawdowns were made from these funds for the various eligible project costs.

On July 23, 2009, the Metropolitan Transportation Commission approved allocation of State Transit Assistance (STA) funds for the SFMTA transit projects in the amount of $2.1 million. The cash was received in advance and recorded as deferred grant.

In addition, MTC approved SFMTA's request to advance STA money for the "Third Street Light project" for unspent open contracts that will cover costs for closeouts and claims. The cash received in advance amounting to $3.4 million was recorded as deferred grant.

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 SFMTA from parking revenues and the General Fund.

***Commitments and Contingencies*** **–** The SFMTA has outstanding contract commitments of approximately $175.8 million with third parties for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately $31.8 million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures. The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The SFMRIC board of directors has authorized SFMRIC to extend financial guarantees to the SFMTA for certain projects totaling $1.2 million.

SFMRIC is authorized to issue debt to fund each of its programs under separate indentures. Transit Equipment Progress bonds totaling $51.5 million have been authorized, of which $30.5 million is available for issuance and none are outstanding. Transit Improvement Program (TIP) bonds amounting to $44.0 million have been authorized, of which $7.8 million is available for issuance. As of June 30, 2010, no bonds were outstanding under TIP.

**Leveraged Lease-Leaseback of BREDA Vehicles – Tranches 1 and 2**

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors and the City's Board of Supervisors, MUNI entered into the leveraged lease-leaseback transactions for over 118 and 21, respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). Each transaction also referred to as "sale in lease out" or "SILO", was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Under the respective sublease, MUNI may exercise an option to purchase the Tranche 1 Equipment on specified dates between November 2026 through January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled expiration dates of the subleases. During the terms of the subleases, MUNI maintains custody of the Tranche 1 and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of each sublease.

MUNI received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head lease. MUNI deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company that is currently rated "AA+" by Standard & Poor's ("S&P") and "Aa3" by Moody's Investor Services ("Moody's"). AGM was downgraded by S&P on October 25, 2010. The terms of the SILO documents require the City to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by Standard & Poor's and Moody's, respectively. AGM's current ratings satisfy this requirement. In addition, FSA provided a surety policy with respect to each SILO to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require MUNI to replace AGM, as successor to FSA, as surety provider if AGM's ratings are downgraded below "AA-/Aa3" by Standard & Poor's and Moody's, respectively. AGM's current ratings satisfy this requirement. Although Moody's has a "negative" outlook with respect to AGM's rating (S&P's outlook is "stable"), it is not known whether or to what level downgrades, if any, may occur. Failure of MUNI to replace





AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to MUNI. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, MUNI could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2010 after giving effect to the market value of the securities in the escrow accounts would approximate $97.1 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and sublease obligations are not recorded on the financial statements of the SFMTA as of June 30, 2010.

As a result of the cash transactions above, MUNI recorded deferred revenue of $35.5 million and $4.4 million in fiscal years 2002 and 2003, respectively, for the difference between the amounts received of $388.2 million and $72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million and $0.2 million in fiscal year 2010.

As of June 30, 2010, the outstanding payments to be made on the sublease through the end of the sublease term are $44.3 million and $49.3 million, for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be $680.8 million and $154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. 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.

**(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 year ended June 30, 2010, the subsidy for LHH was approximately $37.1 million.

***Net Patient Services Revenue*** **–** Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals and bad debt. These allowances are based on closed account history.

***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. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

(Dollars in Thousands)

During the fiscal year ended June 30, 2010, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net

| | Medi-Cal | Medicare | Other | Total |
|---|---|---|---|---|
| Gross accounts receivable | $ 46,545 | $ 1,628 | $ 287 | $ 48,460 |
| Less: | | | | |
| Contractual Allowances | (19,621) | (434) | (4) | (20,059) |
| Total, net | $ 26,924 | $ 1,194 | $ 283 | $ 28,401 |

Net Patient Service Revenue

| | Medi-Cal | Medicare | Other | Total |
|---|---|---|---|---|
| Gross revenue | $ 212,558 | $ 10,546 | $ 1,858 | $ 224,962 |
| Less: | | | | |
| Provision for contractual allowances | (93,025) | (7,271) | (1,077) | (101,373) |
| Provision for bad debt | (326) | - | - | (326) |
| Total, net | $ 119,207 | $ 3,275 | $ 781 | $ 123,263 |

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. For the year ended June 30, 2010, LHH accrued and recognized $16.0 million of revenue as a result of matching federal funds to local funds. In addition, during the year ended June 30, 2010, LHH recognized $16.4 million in tobacco settlement revenues as capital contributions in accordance with Proposition A as further described in the Replacement Project section below.

***Deferred Credits and Other Liabilities*** – As of June 30, 2010, LHH recorded approximately $0.7 million in other liabilities for third party payor settlements payable.

***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 able to 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, 2010, general obligation bonds in the amount of $299 million have been sold to fund the Replacement Project and are reported as a governmental activity.

As of June 30, 2010, LHH has entered into various purchase contracts totaling approximately $61.3 million that are related to future construction for the Replacement Project.





**(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, 2010, the subsidy for SFGH was $ 128.9 million.

***Net Patient Services Revenue*** **–** Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals, bad debt, and administrative write-offs. These allowances are based on closed account history.

***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. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2010, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net

| | Medi-Cal | Medicare | Other | Total |
|---|---|---|---|---|
| Gross accounts receivable | $ 158,250 | $ 56,890 | $ 80,025 | $ 295,165 |
| Less: | | | | |
| Contractual allowances | (125,492) | (45,114) | (63,460) | (234,066) |
| Bad debt | - | - | (13,824) | (13,824) |
| Total, net | $ 32,758 | $ 11,776 | $ 2,741 | $ 47,275 |

Net Patient Service Revenue

| | Medi-Cal | Medicare | Other | Total |
|---|---|---|---|---|
| Gross revenue | $ 694,824 | $ 322,504 | $ 771,124 | $ 1,788,452 |
| Less: | | | | |
| Provision for contractual allowances | (636,336) | (205,350) | (416,219) | (1,257,905) |
| Provision for bad debt | - | - | (58,425) | (58,425) |
| Total, net | $ 58,488 | $ 117,154 | $ 296,480 | $ 472,122 |

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is the current 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, and covers the period from July 1, 2005 to June 30, 2010 and was extended to October 31, 2010 (see Note 17 for discussion of new program). 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 pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP). 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 $104 million for the fiscal year ended June 30, 2010. Beginning in fiscal year 2008, the State created the Health Care Coverage Initiative (HCCI), allowable under the Demonstration, to expand healthcare coverage for eligible low-income, uninsured individuals using an annual allotment of federal funds from the SNCP. On September 1, 2007, the City entered in to a contract with the State to participate in HCCI and was allocated $73.1 million over 3 years. As of June 30, 2010, SFGH has accrued and recognized $43.3 million. The HCCI covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements as further discussed in the Healthy San Francisco Program section below.

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, 2010 reimbursement under the Short-Doyle Program amounted to approximately $5.3 million and is included in other operating revenue.

***Deferred Credits and Other Liabilities –*** As of June 30, 2010, SFGH recorded approximately $58.4 million in deferred credits and other liabilities, which was comprised of $41.2 million in deferred credits and $17.2 million in third-party settlements payable.

***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 $151 million and estimated costs and expenses to provide charity care were $61 million in fiscal year 2009-2010.

***Other Nonoperating 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. For the year ended June 30, 2010, SFGH recognized $49.9 million as other nonoperating revenue for realignment funding.

***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, 2010, was approximately $94.6 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 Potrero 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. An institutional master plan, a hazardous materials assessment, a geotechnical analysis and rebuild space program have all been completed in fiscal year 2006-2007. Schematic design of the new building is complete and the project cost is estimated at $887.4 million.

Majority of the funding will be through issuance of bonds. In November 2008, San Francisco voters approved Proposition A, a ballot measure that authorized the City to issue general obligation bonds for the rebuild of the hospital. As of June 30, 2010, general obligation bonds in the amount of $426.3 million have been sold to fund the hospital rebuild. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds.

***Healthy San Francisco Program –*** In July 2007, the City and County of San Francisco Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Persons between the ages of 18-64 are eligible and persons whose income is at or below 500% of the federal poverty level are eligible for a subsidy.

As of June 30, 2010, over 53,400 uninsured adult residents were enrolled in HSF – this represented a 24% increase compared to enrollment at the end of fiscal year 2008-2009. With 53,400 participants, HSF provided care to 89% of the estimated 60,000 uninsured adult residents. In addition to increasing access by serving more uninsured adults, the program also expanded access by increasing the number of primary care medical homes that participate in the program. HSF ended the 2009-2010 fiscal year with 32 medical homes – a 19% increase from 2007-2008 (the program's first year).

***Commitments and Contingencies –*** As of June 30, 2010, SFGH had outstanding commitments with third parties for capital projects totaling $1.9 million.

**(h) San Francisco Wastewater Enterprise**

The San Francisco Wastewater Enterprise (Wastewater Enterprise), formerly known as the San Francisco Clean Water Program, was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater Enterprise pursuant to bond resolution to account for the City's municipal sewage treatment and disposal system.

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows generated within the City for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers cost of service through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 150,000 residential accounts, which discharge about 18.5 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 8.6 million units of sanitary flow per year.

***Pledged Revenues –*** Wastewater Enterprise's revenues, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various revenue bonds. Proceeds from the bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from net power revenues of Wastewater Enterprise and are payable through fiscal year ending 2041.

(Dollars in Thousands)

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

| | |
|---|---|
| Bonds issued with revenue pledge | $ 635,835 |
| Principal and interest remaining due at the end of the year | 835,183 |
| Principal and interest paid during the year | 50,313 |
| Net revenue for the year ended June 30, 2010 | 63,995 |
| Funds available for bond debt service | 113,267 |

***Commitments and Contingencies*** **–** As of June 30, 2010, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling $27.1 million.

***Pollution Remediation Obligations*** **–** The City and the Wastewater Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Wastewater Enterprise's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows emanating from a local industrial discharger in the drainage areas to Yosemite Creek is the likely responsible source of the contamination. As of June 30, 2010, the environmental liability reported in the accompanying statements of net assets is $375, based on estimated contractual costs.

***Transactions with Other Funds*** **–** The Wastewater Enterprise purchases electricity from Hetch Hetchy at market rates. The amount was $8.7 million for the year ended June 30, 2010, and has been included in services provided by other departments.

The City's Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount charged was approximately $15.3 million for the year ended June 30, 2010 and has been included in services provided by other departments.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $8.3 million for the year ended June 30, 2010 and have been included in services provided by other departments.

### (i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.





## (12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment 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. Feasibility studies are underway for Bayview Hunters Point Survey Areas designated by the Board of Supervisors.

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 $86.4 million.

The Public Initiatives Development Corporation (PIDC) was formed in May of 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 XI 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, 2010, 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.

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 City-Wide Housing Capital Project Account to account for this commitment and has budgeted $682 million for such expenditures since its inception. The Agency has expended $471 million for low- and moderate-income housing since its inception.

**Payment to Supplemental Educational Revenue Augmentation Fund (SERAF)** – On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in the county Supplemental Educational Revenue Augmentation Fund (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's share of this revenue shift is $28.7 million in fiscal year 2009-2010 and $5.9 million in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. Accordingly, the first payment was made by the Agency during the year.

**New Debt Issuances –** In September 2009, the Agency issued $75.0 million in 2009 Series A Taxable Tax Allocation Revenue Bonds, $17.6 million in 2009 Series B Tax-Exempt Tax Allocation Bonds, $25.7 million in 2009 Series C Tax-Exempt Tax Allocation Revenue Bonds and $49.8 million in 2009 Series D Tax-Exempt Tax Allocation Revenue Bonds (2009 Series A to D Bonds). The proceeds for the 2009 Series A Bonds were used primarily to fund the construction of affordable housing. The proceeds from the 2009 Series B Bonds were used to fund various public works projects in the Bayview Hunters Point (Area B), South of Market, Transbay and Yerba Buena Center project areas. The proceeds from the 2009 Series C Bonds were used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay North Owner Participation Agreement. The proceeds from the Series 2009 Series D Bonds were used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay South Owner Participation Agreement. The 2009 Series A to D bonds bear fixed interest rates. 2009 Series A bonds have a final maturity date of August 1, 2024, while 2009 Series B, 2009 Series C and 2009 Series D bonds have a final maturity date of August 1, 2039.

In December 2009, the Agency issued $72.6 million in 2009 Series E Taxable Tax Allocation Revenue Bonds and $6.6 million in 2009 Series F Tax-Exempt Tax Allocation Bonds (2009 E and F

Bonds). The proceeds for the 2009 Series E Bonds were used to fund general redevelopment activities, including financing the development, rehabilitation, and preservation of low and moderate income housing for in the Bayview Hunters Point (Area B), Mission Bay North, Mission Bay South, Rincon Point-South Beach, Western Addition, and Yerba Buena Center project areas. The proceeds for the 2009 Series F Bonds were used to fund various redevelopment projects in the Bayview Hunters Point (Area B), South of Market, and Transbay project areas. The 2009 Series E and F bonds bear fixed interest rates and have a final maturity date of August 1, 2039.

**Pledged Revenues for Bonds** – The Agency's Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the Agency's tax increment revenue. These revenues have been pledged until the year 2040, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.5 billion. The tax increment revenue recognized during the year ended June 30, 2010 was $86.4 million as against the total debt service payment of $64.3 million.

The Agency's Moscone Convention Center Lease Revenue Bonds are secured by the pledge of the capital lease revenue received by the Agency from the City. These revenues have been pledged until the year 2025, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $190.3 million. The lease payments recognized during the year ended June 30, 2010 was $18.6 million as against the total debt service payment of $18.7 million.

The Agency's Hotel Tax Lease Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $79.1 million. The tax revenue recognized during the fiscal year ended June 30, 2010 was $5.9 million as against the total debt service payment of $5.6 million.

**Variable Rate Demand Refunding Bonds –** The interest rate for the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A is reset weekly by a remarketing agent. The rate varies depending on financial market conditions. In connection with the issuance of the bonds, the Agency obtained an irrevocable letter of credit as a credit facility with Dexia Credit Local for the bonds. At June 30, 2010, the letter of credit was set to expire on January 27, 2012. The Agency's repayment of unreimbursed draws made on the credit facility bear interest at the Default Rate as defined in the reimbursement agreement with the principal due at the expiration of the credit facility. At June 30, 2010, the Agency did not made any draws on the credit facility. The Agency is required to pay the credit facility providers an annual commitment fee of 0.42% based on the outstanding principal amount of the bonds supported by the credit facility.

**Mortgage Revenue Bonds and Other Conduit Debt** – In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $576 million as of June 30, 2010 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.

**Commitments and Contingencies** – The Agency had commitments under contracts for capital improvements of approximately $65.7 million as of June 30, 2010.

The Agency provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $58.7 million. As of June 30, 2010, management has designated $5.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.





### (13) Treasure Island Development Authority

The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation. 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. 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 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 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 TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing approximately 800 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan represented the culmination of nearly seven years of extensive public discourse about the future of Treasure Island, and was the product of the most extensive public review process for a large development project in the City's history. The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006. The 2006 endorsement of the Development Plan marked a very important milestone in the project, as it has very specifically guided the enormous efforts undertaken since then to make the ambitious redevelopment plans for Treasure Island a reality.

The Development Plan presents a comprehensive look at all of the key elements of the proposed redevelopment of NSTI, and includes detailed plans regarding land uses, phasing, infrastructure, transportation, sustainability, housing, including affordable housing, jobs and equal opportunity programs, community facilities and project financing. The Development Plan is extraordinarily comprehensive in its scope. The breadth of the Development Plan is intended to allow for a clear understanding of the policy goals and objectives of the project, and once it is endorsed, will provide specific guidance for the enormous effort necessary to prepare final development agreements and plans.

In May 2010, the TIDA Board and Board of Supervisors both unanimously endorsed a package of legislation that included an Update to the Development Plan and Term Sheet, terms of an Economic Development Conveyance Memorandum of Agreement, and a Term Sheet between TIDA and the Treasure Island Homeless Development Initiative (TIHDI). Together these three agreements form the comprehensive vision for the future of the former military base and represent a major milestone in moving the project closer towards implementation. In August 2010, Mayor Gavin Newsom, House Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, representing another major step towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring.

Next steps include negotiating the terms of a comprehensive Disposition and Development Agreement between TIDA and TICD and engaging multiple agencies and stakeholders to obtain final project approvals. A Draft Environmental Impact Report was published on July 12, 2010, and a public hearing was held on August 12, 2010, to evaluate the proposed redevelopment plans and alternatives in accordance with the California Environmental Quality Act. Predevelopment planning and entitlement efforts will continue over the next several months with the goal of receiving final project approvals from the TIDA Board and the Board of Supervisors in Spring 2011. The first phase of construction could begin in Fall 2011 and would consist primarily of horizontal infrastructure improvements to enable subsequent phases of vertical construction. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

(Dollars in Thousands)

## (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 or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2010, is as follows:

**Due to/from other funds:**

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Nonmajor Governmental Funds | $ 19,194 |
| | Internal Service Funds | 41 |
| | Municipal Transportation Agency | 914 |
| | Port of San Francisco | 125 |
| | San Francisco Water Enterprise | 24 |
| | Laguna Honda Hospital | 16,632 |
| | | 36,930 |
| Nonmajor Governmental Funds | Nonmajor Governmental Funds | 1,777 |
| | Internal Service Funds | 9,532 |
| | Municipal Transportation Agency | 101 |
| | | 11,410 |
| Laguna Honda Hospital | Nonmajor Governmental Funds | 7,861 |
| | Internal Service Funds | 92 |
| | | 7,953 |
| San Francisco Water Enterprise | Hetch Hetchy Water and Power | 4,560 |
| | San Francisco Wastewater Enterprise | 5,787 |
| | | 10,347 |
| Hetch Hetchy Water and Power | General Fund | 881 |
| | Nonmajor Governmental Funds | 10,125 |
| | Port of San Francisco | 671 |
| | General Hospital Medical Center | 1,411 |
| | San Francisco Wastewater Enterprise | 812 |
| | | 13,900 |
| Municipal Transportation Agency | Nonmajor Governmental Funds | 7,904 |
| | | 7,904 |
| San Francisco Wastewater Enterprise | Nonmajor Governmental Funds | 36 |
| | | 36 |
| Total | | $ 88,480 |

**Interfund transactions between the primary government and component units:**

| Receivable Entity | Payable Entity | Amount |
|---|---|---|
| Primary government - governmental fund | Component unit - San Francisco Redevelopment Agency | $ 16,620 |
| Hetch Hetchy Water and Power Enterprise | Component unit - Treasure Island Development Authority | $ 4,227 |
| Primary government - governmental fund | Component unit - Treasure Island Development Authority | $ 7,067 |





| Transfers Out: | Transfers In: | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Funds | | | | | | | | |
| Funds | General Fund | Nonmajor Governmental | Internal Service Funds | Hetch Hetchy Water and Power | Municipal Transportation Agency | General Hospital Medical Center | Port | Laguna Honda Hospital | Total |
| General Fund | $ - | $ 154,441 | $ 1,900 | $ - | $ 236,920 | $ 128,878 | $ - | $ 37,124 | $ 559,263 |
| Nonmajor governmental funds | 21,893 | 44,753 | - | 300 | 34,772 | 40 | 10,616 | 68,712 | 181,086 |
| Internal service funds | 165 | - | - | - | - | - | - | - | 165 |
| San Francisco International Airport | 28,100 | - | - | - | - | - | - | - | 28,100 |
| Water Enterprise | - | 493 | - | - | - | - | - | - | 493 |
| Hetch Hetchy Water and Power | - | - | - | - | - | - | - | 1,700 | 1,700 |
| Municipal Transportation Agency | - | 8,988 | - | - | - | - | - | - | 8,988 |
| San Francisco General Hospital Medical Center | 41,867 | - | - | - | - | - | - | 6,058 | 47,925 |
| Laguna Honda Hospital | 2,090 | - | - | - | - | - | - | - | 2,090 |
| Total transfers out | $ 94,115 | $ 208,675 | $ 1,900 | $ 300 | $ 271,692 | $ 128,918 | $ 10,616 | $ 113,594 | $ 829,810 |

The $559.3 million General Fund transfer out includes a total of $402.9 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of $154.4 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families nonmajor governmental funds, as well as to provide resources for the payment 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 San Francisco International Airport transferred $28.1 million to the General Fund, representing a portion of concession revenue (note 11(a)). The General Fund received transfers in of $33.4 million from SFGH for the Safety Net Care Pool (SNCP) intergovernmental transfers (IGT) matching program reimbursement and $8.5 million for Health Care Coverage Initiative (HCCI) reimbursement for Primary Care clinics (note 11(g)). In addition, Laguna Honda Hospital transferred $2.1 million to reimburse the General Fund for expenditures related to Laguna Honda Hospital's capital activities.

The $34.8 million transferred to the Municipal Transportation Agency (MTA) is primarily due to a $34.3 million capital and operating transfers from the San Francisco County Transportation Authority. The MTA also transferred $9.0 million to nonmajor governmental funds to fund various street improvement projects. The $10.6 million transfer from City Facilities Improvement nonmajor governmental funds to the Port of San Francisco is for a capital transfer funded by the 2008 Clean & Safe Park Bonds.

The $68.7 million transfer from nonmajor governmental funds to the Laguna Honda Hospital (LHH) is due primarily to a $68.5 million transfer for capital projects funded by the Laguna Honda Hospital Certificates of Participation from the City Facilities Improvement nonmajor governmental fund. LHH also received transfers in from Hetch Hetchy Water and Power Enterprise in the amount of $1.7 million for energy savings reimbursements and from SFGH's budgetary savings in the amount of $6.0 million to fund its budgetary cost overruns.

## (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 noncancelable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments:

***Primary Government***

Governmental Activities

| Fiscal Years | |
|---|---|
| 2011 | $ 21,825 |
| 2012 | 18,944 |
| 2013 | 13,039 |
| 2014 | 8,607 |
| 2015 | 7,123 |
| 2016-2020 | 8,958 |
| Total | $ 78,496 |

Operating lease expense incurred for fiscal year 2009-2010 was approximately $24.5 million.

Business-type Activities

| Fiscal Years | San Francisco International Airport | Port of San Francisco | Municipal Transportation Agency (MTA) | Total Business-type Activities |
|---|---|---|---|---|
| 2011 | $ 188 | $ 3,058 | $ 8,764 | $ 12,010 |
| 2012 | 116 | 2,861 | 9,047 | 12,024 |
| 2013 | 118 | 2,861 | 9,157 | 12,136 |
| 2014 | 85 | 2,861 | 9,173 | 12,119 |
| 2015 | 5 | 2,861 | 9,352 | 12,218 |
| 2016-2020 | - | 13,600 | 37,220 | 50,820 |
| 2021-2025 | - | 13,507 | 44,031 | 57,538 |
| 2026-2030 | - | 13,507 | 53,242 | 66,749 |
| 2031-2035 | - | 13,507 | 57,538 | 71,045 |
| 2036-2040 | - | 13,507 | - | 13,507 |
| 2041-2045 | - | 13,507 | - | 13,507 |
| 2046-2050 | - | 11,031 | - | 11,031 |
| Total | $ 512 | $ 106,668 | $ 237,524 | $ 344,704 |

Operating lease expense incurred for the Airport, Port, and MTA for fiscal year 2009-2010 was $0.3 million, $3.2 million, and $12.1 million, respectively.

***Component Unit – San Francisco Redevelopment Agency***

The San Francisco Redevelopment Agency (the Agency) has noncancelable operating leases for its office sites, which require the following minimum annual payments:

| Fiscal Years | | Fiscal Years | |
|---|---|---|---|
| 2011 | $ 1,846 | 2026-2030 | 4,351 |
| 2012 | 1,838 | 2031-2035 | 4,351 |
| 2013 | 1,822 | 2036-2040 | 4,351 |
| 2014 | 1,822 | 2041-2045 | 4,351 |
| 2015 | 1,822 | 2046-2050 | 4,350 |
| 2016-2020 | 6,650 | 2051-2055 | 217 |
| 2021-2025 | 4,351 | Total | $ 42,122 |

Rent payments totaling $1.8 million are included in the Agency's financial statements for the year ended June 30, 2010.



CITY AND COUNTY OF SAN FRANCISCO
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Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments:

***Primary Government***

Governmental Activities

| Fiscal Years | |
|---|---|
| 2011 | $ 2,547 |
| 2012 | 2,201 |
| 2013 | 1,956 |
| 2014 | 1,664 |
| 2015 | 1,513 |
| 2016-2020 | 3,965 |
| 2021-2025 | 331 |
| 2026-2030 | 33 |
| Total | $ 14,210 |

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 |
|---|---|---|---|---|---|---|
| 2011 | $ 78,337 | $ 32,256 | $ 1,285 | $ 3,838 | $ 972 | $ 116,688 |
| 2012 | 64,219 | 29,644 | 1,323 | 3,233 | 943 | 99,362 |
| 2013 | 59,521 | 25,044 | 1,363 | 2,492 | 961 | 89,381 |
| 2014 | 52,728 | 20,104 | 1,404 | 2,250 | 78 | 76,564 |
| 2015 | 45,963 | 18,240 | 1,446 | 1,452 | - | 67,101 |
| 2016-2020 | - | 79,961 | 6,231 | 534 | - | 86,726 |
| 2021-2025 | - | 63,701 | - | - | - | 63,701 |
| 2026-2030 | - | 52,053 | - | - | - | 52,053 |
| 2031-2035 | - | 48,415 | - | - | - | 48,415 |
| 2036-2040 | - | 37,700 | - | - | - | 37,700 |
| 2041-2045 | - | 24,539 | - | - | - | 24,539 |
| 2046-2050 | - | 19,715 | - | - | - | 19,715 |
| 2051-2055 | - | 9,319 | - | - | - | 9,319 |
| 2056-2060 | - | 8,633 | - | - | - | 8,633 |
| 2061-2065 | - | 8,633 | - | - | - | 8,633 |
| 2066-2070 | - | 4,109 | - | - | - | 4,109 |
| 2071-2075 | - | 1,610 | - | - | - | 1,610 |
| 2076-2080 | - | 322 | - | - | - | 322 |
| Total | $ 300,768 | $ 483,998 | $ 13,052 | $ 13,799 | $ 2,954 | $ 814,571 |

The Airport and Port have certain rental agreements with concessionaires, which 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 for the Airport and Port were approximately $15.9 million and $11.5 million, respectively, in fiscal year 2009-2010. In addition, the Airport has a car rental agreement that will expire on December 31, 2013. Under this agreement the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with the terms of their concession agreement, the minimum annual guarantee (MAG) for the rental car operators does not apply if the number of deplaning passengers on all scheduled airlines during one calendar month is less than 70% of the number of deplaning passengers for the same calendar month of the base year (1996). The MAG attributable to the rental car companies was approximately $30.9 million for fiscal year 2010.

(Dollars in Thousands)

***Component Unit – San Francisco Redevelopment Agency***

The Agency leases various facilities within the Yerba Buena Center, Western Addition. Hunters Point, South of Market, Mission Bay North and South Beach Harbor project areas. The minimum annual payments are as follows:

| Fiscal Years | | | Fiscal Years | | |
|---|---|---|---|---|---|
| 2011 | $ | 4,770 | 2046-2050 | $ | 8,740 |
| 2012 | | 4,678 | 2051-2055 | | 1,205 |
| 2013 | | 4,647 | 2056-2060 | | 950 |
| 2014 | | 7,534 | 2061-2065 | | 800 |
| 2015 | | 7,510 | 2066-2070 | | 660 |
| 2016-2020 | | 23,402 | 2071-2075 | | 395 |
| 2021-2025 | | 22,967 | 2076-2080 | | 295 |
| 2026-2030 | | 20,623 | 2081-2085 | | 250 |
| 2031-2035 | | 19,899 | 2086-2090 | | 150 |
| 2036-2040 | | 20,882 | 2091-2095 | | 150 |
| 2041-2045 | | 22,153 | 2096-2098 | | 90 |
| | | | Total | $ | 172,750 |

For the year ended June 30, 2010, operating lease rental income for noncancelable operating leases was $10.7 million. Within the operating lease rental income, $6.0 million represents contingent rental income received. At June 30, 2010, the leased assets had a net book value of $141.5 million.

**(c) Other Commitments**

The Retirement System has unfunded commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.4 billion at June 30, 2010.

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, contributes to the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2010, the City contributed approximately $7.3 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

The San Francisco Redevelopment Agency (the Agency) provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $58.7 million. As of June 30, 2010, management has designated $5.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

**(16) Risk Management**

***Risk Retention Program Description***

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions noted below, 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 Airport has an ongoing loss prevention program, a safety officer, property loss control and ongoing employee training programs. The Airport carries general liability insurance coverage of $1 billion, subject to a deductible of $10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at SFO owned by the Airport subject to a deductible of $500 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. The Airport carries public official liability and employment practices liability coverage of $5 million, subject to a deductible of $100 per single occurrence for each wrongful act other than employment practices' violations, and $200 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels. The Airport does not carry insurance for losses due to land movement or seismic activity and losses for war, terrorism and hijacking.

The Port carries the following insurance: 1) marine general liability coverage of $50 million, subject to a deductible of $75 per occurrence; 2) hull and machinery liability coverage of $3.8 million, subject to a deductible of $100 per occurrence; 3) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1 billion and a deductible of $50 per occurrence; and 4) public officials and employee liability coverage of $5 million, subject to a deductible of $50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution and data processing equipment. The Port does not carry commercial insurance for workers' compensation, property damage to most Port-owned vehicles, employee health and accident and losses due to seismic events.

Beginning July 2009, the MTA added excess insurance coverage to address exceptionally large litigation and claims liabilities for a $25 million excess liability limit with a $5 million self-insured retention level. Thus their unpaid claim estimates reflect only MTA's deductible/retained portion.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limit of $29 million and a deductible of $50 self insurance retention per occurrence. Claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City. Workers' compensation insurance is provided by the State Compensation Insurance Fund up to statutorily determined limits.

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 and allocated loss adjustment expenses. 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.

(Dollars in Thousands)

***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, 2010 has been actuarially determined and includes an estimate of incurred but not reported losses and allocated loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2008, resulted from the following activity:

| | Beginning Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Ending Fiscal Year Liability |
|---|---|---|---|---|
| 2008-2009 | $ 206,942 | $ 71,752 | $ (54,945) | $ 223,749 |
| 2009-2010 | 223,749 | 82,030 | (65,200) | 240,579 |

Breakdown of the estimated claims payable at June 30, 2010 is as follows:

| | |
|---|---|
| Governmental activities: | |
| Current portion of estimated claims payable | $ 47,754 |
| Long-term portion of estimated claims payable | 92,091 |
| Total | $ 139,845 |
| Business-type activities: | |
| Current portion of estimated claims payable | $ 42,243 |
| Long-term portion of estimated claims payable | 58,491 |
| Total | $ 100,734 |

In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of the covenant of good faith and fair dealing and awarded the plaintiffs $1.1 million in damages. In April 2008, the Superior Court vacated the judgment against the Airport and ordered that judgment be entered in the Airport's favor. The plaintiffs appealed the Superior Court's ruling and on September 2010, the Court of Appeals granted plaintiffs appeal and reversed the judgment for the Airport. The Airport has sought review by the California Supreme Court.

In July 2004, the San Francisco Superior Court granted summary judgment to the plaintiff in a case involving a contractor who claimed the City's minority and women-owned business program violates the California Constitution. The Superior Court enjoined the City from enforcing the program but did not award damages. The City appealed the Superior Court's decision and prevailed in part, in the Court of Appeals. Plaintiff sought review in the California Supreme Court, which agreed to hear the case. In August 2010, the California Supreme Court issued an order affirming the Court of Appeals decision and remanding the case to the trial court for further proceedings. The case is now pending in the Superior Court. If plaintiffs prevail, they will be entitled to reasonable attorney's fees, which could approximate $3.5 million. The Airport, which is one of two City departments sued in the case, would be responsible for 50% of any attorney's fees awarded.

The Retirement System is involved in various other petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System, which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City's required annual contributions.





***Workers' Compensation***

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2010 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, 2010 was $365.0 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, 2008, resulted from the following activity:

| | Beginning Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Ending Fiscal Year Liability |
|---|---|---|---|---|
| 2008-2009 | $ 351,606 | $ 75,169 | $ (67,883) | $ 358,892 |
| 2009-2010 | 358,892 | 73,344 | (67,257) | 364,979 |

Breakdown of the accrued workers' compensation liability at June 30, 2010 is as follows:

| | |
|---|---|
| Governmental activities: | |
| Current portion of accrued workers' compensation liability | $ 39,582 |
| Long-term portion of accrued workers' compensation liability | 177,117 |
| Total | $ 216,699 |
| Business-type activities: | |
| Current portion of accrued workers' compensation liability | $ 25,533 |
| Long-term portion of accrued workers' compensation liability | 122,747 |
| Total | $ 148,280 |

## (17) Subsequent Events

### (a) Long-term Debt Issuance

In July 2010, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Emergency Communications System Refinancing) Series 2010-R1 in the amount of $22.3 million (the Refunding Bonds) to refund the following outstanding bonds of the San Francisco Finance Corporation: Lease Revenue Bonds, Series 1997 (Combined Emergency Communications Center), Series 1998 (Combined Emergency Communications System), Series 1998-I (Citywide Emergency Radio System), and Series 1999-I (Citywide Emergency Radio System) with the outstanding amount of $26.8 million; to fund the Reserve Fund established under the Trust Agreement and to pay costs of issuance and delivery of the 2010-R1 Bonds. The Refunding Bonds begin to mature in April 2011 through April 2024 and interest rates ranges from 2.0% to 4.0%.

In July 2010, the San Francisco Public Utilities Commission ("SFPUC") issued San Francisco Water Revenue Bonds 2010 Sub-Series 2010D (the "Series D") for $102.7 million and 2010 Sub-Series 2010E (Federally Taxable-Build America Bonds-Direct Payment) (the "Series E") for $344.2 million. The proceeds of the issuance will be used to finance and refinance a portion of the design, acquisition and construction of various capital projects in furtherance of the SFPUC's Water System Improvement Program ("WSIP"). Proceeds of the Series D and E bonds will be applied to fund a portion of the WSIP, refund $31.6 million aggregate principal amount of the SFPUC's Water Revenue Bonds, 2002 Series A, to fund capitalized interest on the Series D and E bonds, to fund a debt service reserve account for the 2010 Series D and E bonds and to pay cost of issuance. Interest rate ranges from 3.00% to 5.00% and from 4.90% to 6.00% for the Series D and Series E bonds, respectively. The Series D bonds mature from November 2015 through November 2021 and the Series E bonds mature from November 2022 through November 2040.

In August 2010, the Airport refunded $121.9 million of the commercial paper outstanding at June 30, 2010 through the issuance of Series 2010FG. Following these transactions, the outstanding principal amount of the commercial paper decreased from $128.7 million to $6.8 million.

In August 2010, the Water Enterprise sold $25 million in taxable commercial paper with the proceeds used to exclusively fund Regional Projects under the Water System Improvement Program ("WSIP"). The Enterprise expects to refinance the commercial paper notes with an intermediate-term debt issuance in the winter of 2010.

In September 2010, the Airport remarketed $175.0 million of Series 2009AB Revenue Refunding Bonds in a new interest period extending to their final maturity date.

In September 2010, the City issued City and County of San Francisco Refunding Certificates of Participation, Series 2010A for $138.4 million (the Refunding Certificates) to refund the City's Certificates of Participation 2789 25th Street, Series 1997, 555 7th Street, Series 1999, San Bruno Jail Series 2000 and 25 Van Ness Series 2001-1 (collectively the Prior Certificates) with an outstanding amount of $142.4 million. A portion of the proceeds of the Refunding Bonds was also used to pay the costs incurred in connection with issuance of the Refunding Certificates. The Series 2010A certificates mature from October 2011 through October 2033 with interest rate ranging from 3.0% to 5.0%.

In September 2010, the City and County of San Francisco Redevelopment Financing Authority issued $40.1 million in 2010 Series A Taxable Tax Allocation Revenue Bonds. The proceeds of the 2010 Series A bonds will be used to fund various redevelopment projects in the Golden Gateway, Transbay and Western Addition project areas. The 2010 Series A bonds bear fixed interest rates and have a final maturity date of August 1, 2020.





In November 2010, the City made the fifth borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of $15 million. The fifth borrowing bears an interest rate of 4.91% with principal amortizing from June 2011 through June 2030. The fifth borrowing is for below market rate loan account.

In December 2010, the City issued General Obligation Bonds, Earthquake Safety and Emergency Response Bonds, Series 2010E in the amount of $79.5 million. Interest rates ranges from 3.0% to 5.0%. The bonds mature from June 2011 through June 2035. The bonds were issued to provide funds to finance the improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure, and to pay certain costs related to the issuance of the bonds. The debt service payments are funded through ad valorem taxes on property.

### (b) Elections

On November 2, 2010, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

**Proposition AA – Amendment to the City's Business and Tax Regulations Code to add $10 to the existing annual registration fee for vehicle registered in San Francisco to fund transportation projects.** Under the SFCTA's Expenditure Plan, the proceeds from the fee would be spent on projects in the following categories: 1) Street Repairs and Reconstruction (50% of fee revenue) – giving priority to streets with bicycle and public transit routes. It would also include projects such as curb ramps, bicycle infrastructure, pedestrian improvements, and other measures to slow or reduce traffic. 2) Pedestrian Safety (25% of fee revenue) – including crosswalk improvements, sidewalk repair or upgrade, and pedestrian countdown signals and lighting. 3) Transit Reliability and Improvement (25% of revenue) – including transit stop improvements, consolidation and relocation; transit signal priority; traffic signal upgrades; travel information improvements; and parking management projects. The SFCTA will determine the specific projects and can use up to 5% of the funds for administrative cost.

Fiscal Impact: Overall, the proposed changes will generate additional tax revenue for the City of approximately $5.0 million annually that can be used for projects related to street repair, pedestrian safety and transit improvement.

**Proposition G – Eliminates the formula for setting minimum wages for the San Francisco Municipal Railway (MUNI) operators.** This will allow the San Francisco Municipal Transportation Agency (MTA) to set MUNI operators wages and benefits through collective bargaining and arbitration proceedings regarding MTA's employees, and make other changes to terms of employment.

Fiscal Impact: The amendment can either increase or decrease the cost of government depending on the outcome of collective bargaining and labor arbitration processes.

**Proposition N – Increases the tax rate for sale of real estate valued at more than $5.0 million.** For real estate sales of $5.0 million to $10.0 million, the rate will increase from 1.5% to 2.0%. For real estate sales of $10.0 million or more, the rate will increase from 1.5% to 2.5%. These increases will also apply to real estate leases with a term of 35 years or more.

Fiscal Impact: Based on the actual pattern of transactions and revenues received by the City through the property transfer tax, had the proposed ordinance been in place during the period fiscal year 2000-2001 through fiscal year 2008-2009, it would have resulted in additional revenues ranging from $6.0 million to $90.0 million with an average amount of $36.0 million annually during that period. While the estimate that the ordinance would have resulted in average additional revenue of $36.0 million per year in the past, it is important to note that this is the City's most volatile revenue source, and estimates based on prior year's activity may not be predicative of future revenues.

**(c) Ratings Downgrade**

In November 2010, Moody's Investors Service downgraded to Aa2 from Aa1 the rating on the City's general obligation bonds and assigned an Aa2 rating to the City's General Obligation Bonds, 2010 Earthquake Safety and Emergency Response Bonds, Series 2010E. Moody's also downgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds. The outlook on the City's ratings has been revised to stable. Fitch Ratings and Standard & Poor's maintained their ratings of AA and AA with negative and stable outlook, respectively.

**(d) Litigation**

In August 2010, resolution has been reached to conclude the Implementation Agreement the City entered into in January 2003 with the Attorney General of the State of California, the California Consumer Power and Conservation Financing Authority, and the California Department of Water Resources (DWR). On March 11, 2010, pursuant to section 4.02(a) of the Implementation Agreement, the City sold the four combustion turbines for $44.0 million; some of these proceeds were distributed to the Hetch Hetchy Power and DWR accordingly; with the remaining funds placed in a holding escrow account, pending resolution between the City and DWR. Under the terms of the resolution, Hetch Hetchy Power is to be reimbursed $6.3 million of expenses, and has recorded as receivable accordingly. In September 2010, Hetch Hetchy Power received the State's warrant in the amount of $2.7 million to be applied to the receivable. Remaining receivable amount will be subsequently drawn from escrow accounts. The total settlement amount was approximately $21.0 million to offset expenses, including write-off of assets.

In October 2010, a federal jury rejected First Amendment retaliation claims that San Francisco Public Utilities Commission (SFPUC) retaliated against an engineering firm for engaging in speech protected by First Amendment. However, the jury found for the engineering firm on the due process claim related to the contract termination. The engineering firm was awarded $3.6 million, and will be entitled for attorneys' fees and costs under the federal statute. SFPUC is appealing the verdict. On a related note, this federal case is separate from the pending state cases between the SFPUC and the engineering firm, each of which involves cross-allegations of breach of contract. Estimated costs for both federal and state cases have been reflected in the financial statements.

**(e) Laguna Honda Hospital and Rehabilitation Center**

In December 2010, Laguna Honda Hospital and Rehabilitation Center occupied its newly constructed modern patient care facility that is designed to foster integration, independence and community. The new Laguna Honda provides 780 resident beds in three state of the art buildings on Laguna Honda's 62-acre campus. The new, 500,000 square foot facility received silver certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, becoming the first green-certified hospital in California.

**(f) California Hospital Fee Program**

The California Hospital Fee Program (Program) was signed into law by the Governor of California effective January 1, 2010. Enactment of the legislation was subject to approval by the Centers for Medicare and Medicaid Services (CMS). Subsequent to June 30, 2010, CMS approved the State Plan Amendment and Waiver allowing the State to implement the Program. The Program contains two components: 1) the Quality Assurance Fee Act, which governs the hospital fee paid by participating hospitals (public hospitals are exempt from this requirement) and 2) the Medi-Cal Hospital Provider Stabilization Act, which governs supplemental Medi-Cal payments made to providers. Subsequent to year end through January 7, 2011, SFGH received approximately $23 million of enhanced Medi-Cal payments under the Program.



SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

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# Required Supplementary Information

**CITY AND COUNTY OF SAN FRANCISCO**

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2010
(Dollars in Thousands)

The schedules of funding progress presented below provide consolidated snapshots of the entity's ability to meet current and future liabilities with plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension or OPEB plans. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

**Employees' Retirement System – Pension Plan [1]**

| Actuarial Valuation Date | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | Over (Under) funded AAL (O/UAAL) | Funded Ratio | Covered Payroll | O/UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 07/01/07 | $ 14,929,287 | $ 13,541,388 | $ 1,387,899 | 110.2% | $ 2,376,221 | 58.4% |
| 07/01/08 | 15,941,390 | 15,358,824 | 582,566 | 103.8% | 2,457,196 | 23.7% |
| 07/01/09 | 16,004,730 | 16,498,649 | (493,919) | 97.0% | 2,537,785 | -19.5% |

[1] In the most recent actuarial valuation as of July 1, 2009, the Retirement System assumed investment rate of return is 7.75% consistent with previous actuarial valuation as of July 1, 2008. However, the unfunded actuarial liability increased by $1.1 billion from a surplus of $582.6 million as of July 1, 2008 to a deficit of $493.9 million as of July 1, 2009. This increase in the unfunded liability primarily reflects investment experience reductions of $722.7 million and liability experience losses of an additional $235.8 million.

In the prior July 1, 2008 valuation, along with a decrease in the assumed rate of return to 7.75%, the following benefit changes passed in June 2008 under Proposition B were recognized:

- Increased retirement accrual factors for miscellaneous plan members (resulting in an additional change in retirement rates to recognize the increased benefits).
- Basic COLA for all new plan members (police, fire, and miscellaneous) changed from a 2.0% simple COLA to a 2.0% compound COLA.
- The changes to the supplemental COLA took effect July 1, 2009; however, no Supplemental COLA was adopted by the Board as of July 1, 2009.

**California Public Employees' Retirement System – Pension Plan (Safety Members)**

| Actuarial Valuation Date | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | Under funded AAL | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 06/30/07 | $ 622,866 | $ 627,675 | $ (4,809) | 99.2% | $ 85,508 | -5.6% |
| 06/30/08 | 673,275 | 685,150 | (11,875) | 98.3% | 89,009 | -13.3% |
| 06/30/09 | 707,615 | 758,124 | (50,509) | 93.3% | 101,929 | -49.6% |

**CITY AND COUNTY OF SAN FRANCISCO**

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2010
(Dollars in Thousands)

**City and County of San Francisco – Other Postemployment Health Care Benefits**

| Actuarial Valuation Date (1) | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | (Under) funded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 07/01/06 | $ - | $ 4,036,324 | $ (4,036,324) | 0.0% | $ 2,066,866 | -195.3% |
| 07/01/08 | - | 4,364,273 | (4,364,273) | 0.0% | 2,296,336 | -190.1% |

**San Francisco County Transportation Authority – Other Postemployment Health Care Benefits**

| Actuarial Valuation Date (1) | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | (Under) funded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 01/01/08 | $ - | $ 182 | $ (182) | 0.0% | $ 1,978 | -9.2% |
| 01/01/10 | 173 | 374 | (201) | 46.3% | 2,858 | -7.0% |

**San Francisco Redevelopment Agency – Other Postemployment Health Care Benefits**

| Actuarial Valuation Date (1) | Actuarial Asset Value | Actuarial Accrued Liability (AAL) Entry Age | (Under) funded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 06/30/07 | $ - | $ 13,829 | $ (13,829) | 0.0% | $ 9,634 | -143.5% |
| 06/30/09 | 493 | 13,790 | (13,297) | 3.6% | 10,515 | -126.5% |

(1) The actuarial valuation report is conducted once every two years.



# Combining Financial Statements and Schedules

## CITY AND COUNTY OF SAN FRANCISCO

## 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.

*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.

*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.

## CITY AND COUNTY OF SAN FRANCISCO

## NONMAJOR GOVERNMENTAL FUNDS

### 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.

*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. 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.



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2010
(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 | $ 398,150 | $ 47,400 | $ 466,811 | $ 7,810 | $ 920,171 |
| Deposits and investments outside City Treasury | 9,341 | 31,146 | 104,299 | - | 144,786 |
| Receivables: | | | | | |
| Property taxes and penalties | 4,026 | 4,513 | - | - | 8,539 |
| Other local taxes | 13,123 | - | - | - | 13,123 |
| Federal and state grants and subventions | 132,733 | - | 15,122 | - | 147,855 |
| Charges for services | 12,171 | - | 45 | - | 12,216 |
| Interest and other | 3,644 | 201 | 427 | 5 | 4,277 |
| Due from other funds | 623 | - | 10,787 | - | 11,410 |
| Due from / advance to component unit | 8,598 | - | 1,603 | - | 10,201 |
| Loans receivable (net of allowance for uncollectibles) | 72,294 | - | - | - | 72,294 |
| Deferred charges and other assets | 3,814 | - | 169 | - | 3,983 |
| Total assets | $ 658,517 | $ 83,260 | $ 599,263 | $ 7,815 | $ 1,348,855 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $ 98,354 | $ - | $ 34,089 | $ 6 | $ 132,449 |
| Accrued payroll | 16,618 | - | 2,150 | 17 | 18,785 |
| Deferred tax, grant and subvention revenues | 64,932 | 3,952 | 1,113 | 46 | 70,043 |
| Due to other funds | 28,788 | - | 18,109 | - | 46,897 |
| Deferred credits and other liabilities | 89,346 | 11,155 | 17,547 | 291 | 118,339 |
| Bonds, loans, capital leases and other payables | 150,000 | - | 5,035 | - | 155,035 |
| Total liabilities | 448,038 | 15,107 | 78,043 | 360 | 541,548 |
| Fund balances: | | | | | |
| Reserved for assets not available for appropriation | 25,830 | - | 3,167 | - | 28,997 |
| Reserved for debt service | 313 | 68,153 | - | - | 68,466 |
| Reserved for encumbrances | 129,592 | - | 80,298 | 170 | 210,060 |
| Reserved for appropriation carryforward | 175,881 | - | 481,553 | 5,240 | 662,674 |
| Reserved for subsequent years' budgets | 13,041 | - | - | - | 13,041 |
| Unreserved (deficit) | (134,178) | - | (43,798) | 2,045 | (175,931) |
| Total fund balances | 210,479 | 68,153 | 521,220 | 7,455 | 807,307 |
| Total liabilities and fund balances | $ 658,517 | $ 83,260 | $ 599,263 | $ 7,815 | $ 1,348,855 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year ended June 30, 2010
(In Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Fund Bequest Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Property taxes | $ 118,571 | $ 168,646 | $ - | $ - | $ 287,217 |
| Business taxes | 548 | - | - | - | 548 |
| Sales and use tax | 68,164 | - | - | - | 68,164 |
| Hotel room tax | 51,328 | - | - | - | 51,328 |
| Licenses, permits and franchises | 9,376 | - | - | - | 9,376 |
| Fines, forfeitures and penalties | 4,976 | - | - | - | 4,976 |
| Interest and investment income | 11,808 | 1,926 | 5,264 | 140 | 19,138 |
| Rents and concessions | 57,350 | 823 | 634 | 987 | 59,794 |
| Intergovernmental: | | | | | |
| Federal | 223,360 | - | 14,513 | - | 237,873 |
| State | 93,726 | 729 | 18,165 | - | 112,620 |
| Other | 2,464 | - | 4,897 | - | 7,361 |
| Charges for services | 104,513 | - | - | - | 104,513 |
| Other | 26,699 | 905 | 1,543 | 20 | 29,167 |
| Total revenues | 772,883 | 173,029 | 45,016 | 1,147 | 992,075 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public protection | 72,733 | - | - | - | 72,733 |
| Public works, transportation and commerce | 203,229 | - | - | - | 203,229 |
| Human welfare and neighborhood development | 285,440 | - | - | 148 | 285,588 |
| Community health | 108,112 | - | - | - | 108,112 |
| Culture and recreation | 206,968 | - | - | 1,271 | 208,239 |
| General administration and finance | 17,241 | - | - | - | 17,241 |
| General City responsibilities | 242 | - | - | - | 242 |
| Debt service: | | | | | |
| Principal retirement | - | 153,072 | - | - | 153,072 |
| Interest and fiscal charges | 1,272 | 86,530 | 2,112 | - | 89,914 |
| Bond issuance costs | - | - | 2,145 | - | 2,145 |
| Capital outlay | - | - | 182,448 | - | 182,448 |
| Total expenditures | 895,237 | 239,602 | 186,705 | 1,419 | 1,322,963 |
| Excess (deficiency) of revenues over (under) expenditures | (122,354) | (66,573) | (141,689) | (272) | (330,888) |
| Other financing sources (uses): | | | | | |
| Transfers in | 136,874 | 59,142 | 12,659 | - | 208,675 |
| Transfers out | (80,035) | - | (101,027) | (24) | (181,086) |
| Issuance of bonds and loans: | | | | | |
| Face value of bonds issued | - | - | 393,010 | - | 393,010 |
| Face value of loans issued | 599 | - | - | - | 599 |
| Premium on issuance of bonds | - | - | 16,647 | - | 16,647 |
| Other financing sources-capital leases | 298 | - | 16,715 | - | 17,013 |
| Total other financing sources (uses) | 57,736 | 59,142 | 338,004 | (24) | 454,858 |
| Net change in fund balances | (64,618) | (7,431) | 196,315 | (296) | 123,970 |
| Fund balances at beginning of year | 275,097 | 75,584 | 324,905 | 7,751 | 683,337 |
| Fund balances at end of year | $ 210,479 | $ 68,153 | $ 521,220 | $ 7,455 | $ 807,307 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds – Special Revenue Funds
June 30, 2010
(In Thousands)

| | Building Inspection Fund | Children and Families Fund | Community/ Neighborhood Development Fund | Community Health Services Fund | Convention Facilities Fund | Court's Fund | Culture and Recreation Fund | Environmental Protection Fund |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Deposits and investments with City Treasury | $ 26,470 | $ 53,876 | $ 62,698 | $ 14,267 | $ 9,777 | $ 253 | $ 8,645 | $ - |
| Deposits and investments outside City Treasury | 1 | - | 2,550 | - | - | - | - | - |
| Receivables: | | | | | | | | |
| Property taxes and penalties | - | 1,510 | - | - | - | - | - | - |
| Other local taxes | - | - | - | - | - | - | - | - |
| Federal and state grants and subventions | - | 3,874 | 12,719 | 26,206 | - | - | 2 | 1,922 |
| Charges for services | 237 | - | 153 | - | 2,345 | 201 | 257 | - |
| Interest and other | 15 | 39 | 36 | 10 | - | - | 4 | - |
| Due from other funds | - | - | - | - | - | - | - | 21 |
| Due from / advance to component unit | - | - | 773 | - | - | - | - | - |
| Loans receivable (net of allowance for uncollectibles) | 345 | - | 71,949 | - | - | - | - | - |
| Deferred charges and other assets | - | - | 446 | - | - | - | - | - |
| Total assets | $ 27,068 | $ 59,299 | $ 151,324 | $ 40,483 | $ 12,122 | $ 454 | $ 8,908 | $ 1,943 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | $ 750 | $ 12,574 | $ 7,859 | $ 14,796 | $ 457 | $ 23 | $ 924 | $ 531 |
| Accrued payroll | 1,289 | 756 | 718 | 1,640 | 29 | 3 | 178 | 79 |
| Deferred tax, grant and subvention revenues | - | 1,452 | 1,631 | 8,864 | - | - | - | 819 |
| Due to other funds | - | 515 | 431 | 279 | - | - | - | 1,051 |
| Deferred credits and other liabilities | 3,192 | 3,116 | 56,937 | 782 | 1,711 | - | 2 | 52 |
| Bonds, loans, capital leases and other payables | - | - | - | - | - | - | - | - |
| Total liabilities | 5,231 | 18,413 | 67,576 | 26,361 | 2,197 | 26 | 1,104 | 2,532 |
| Fund balances: | | | | | | | | |
| Reserved for assets not available for appropriation | 1 | - | 18,153 | - | - | - | - | - |
| Reserved for debt service | - | - | - | - | - | - | - | - |
| Reserved for encumbrances | 988 | 5,763 | 18,432 | 13,773 | 2,591 | 5 | 2,066 | 6,448 |
| Reserved for appropriation carryforward | 8,452 | 18,664 | 51,502 | 15,563 | 2,223 | 219 | 1,505 | - |
| Reserved for subsequent years' budgets | - | 13,041 | - | - | - | - | - | - |
| Unreserved (deficit) | 12,396 | 3,418 | (4,339) | (15,214) | 5,111 | 204 | 4,233 | (7,037) |
| Total fund balances | 21,837 | 40,886 | 83,748 | 14,122 | 9,925 | 428 | 7,804 | (589) |
| Total liabilities and fund balances | $ 27,068 | $ 59,299 | $ 151,324 | $ 40,483 | $ 12,122 | $ 454 | $ 8,908 | $ 1,943 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds – Special Revenue Funds (continued)
June 30, 2010
(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 | $ 8,306 | $ 6,795 | $ 8,817 | $ 1,762 | $ 404 | $ 27,266 | $ 31,628 |
| Deposits and investments outside City Treasury | - | - | 192 | - | - | - | - |
| Receivables: | | | | | | | |
| Property taxes and penalties | - | - | - | - | - | 1,258 | 1,258 |
| Other local taxes | - | - | - | - | - | - | - |
| Federal and state grants and subventions | 5,140 | 269 | 9 | - | 16,560 | - | - |
| Charges for services | 371 | 1,997 | - | 401 | - | - | 40 |
| Interest and other | 6 | 635 | 1 | 1 | 4 | 17 | 17 |
| Due from other funds | - | - | - | - | 431 | - | - |
| Due from / advance to component unit | - | - | - | - | - | - | - |
| Loans receivable (net of allowance for uncollectibles) | - | - | - | - | - | - | - |
| Deferred charges and other assets | - | - | - | - | - | - | - |
| Total assets | $ 13,823 | $ 9,696 | $ 9,019 | $ 2,164 | $ 17,399 | $ 28,541 | $ 32,943 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 447 | $ 1,307 | $ 1,093 | $ 404 | $ 4,565 | $ 726 | $ 1,538 |
| Accrued payroll | 1,349 | 322 | 8 | 206 | 1,004 | 870 | 2,906 |
| Deferred tax, grant and subvention revenues | - | 154 | 148 | - | 3,418 | 1,127 | 1,128 |
| Due to other funds | - | - | - | - | 11,347 | - | - |
| Deferred credits and other liabilities | 11,580 | 125 | - | 114 | - | 2,597 | 2,597 |
| Bonds, loans, capital leases and other payables | - | - | - | - | - | - | - |
| Total liabilities | 13,376 | 1,908 | 1,249 | 724 | 20,334 | 5,320 | 8,169 |
| Fund balances: | | | | | | | |
| Reserved for assets not available for appropriation | - | - | 192 | - | - | - | - |
| Reserved for debt service | - | - | - | - | - | - | - |
| Reserved for encumbrances | 2,731 | 670 | 430 | 681 | 12,275 | 1,384 | 3,009 |
| Reserved for appropriation carryforward | 8,868 | 6,130 | 6,787 | 1,090 | - | 19,183 | 5,679 |
| Reserved for subsequent years' budgets | - | - | - | - | - | - | - |
| Unreserved (deficit) | (11,152) | 988 | 361 | (331) | (15,210) | 2,654 | 16,086 |
| Total fund balances | 447 | 7,788 | 7,770 | 1,440 | (2,935) | 23,221 | 24,774 |
| Total liabilities and fund balances | $ 13,823 | $ 9,696 | $ 9,019 | $ 2,164 | $ 17,399 | $ 28,541 | $ 32,943 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds – Special Revenue Funds (continued)
June 30, 2010
(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 | $ 44 | $ 17,811 | $ 9,905 | $ 97,579 | $ - | $ 11,847 | $ 398,150 |
| Deposits and investments outside City Treasury | - | 57 | 419 | 6,122 | - | - | 9,341 |
| Receivables: | | | | | | | |
| Property taxes and penalties | - | - | - | - | - | - | 4,026 |
| Other local taxes | - | - | - | 13,123 | - | - | 13,123 |
| Federal and state grants and subventions | 29,291 | 86 | - | 35,016 | 1,639 | - | 132,733 |
| Charges for services | 2,321 | 2,343 | 1,505 | - | - | - | 12,171 |
| Interest and other | 253 | - | - | 2,606 | - | - | 3,644 |
| Due from other funds | - | 69 | 1 | 101 | - | - | 623 |
| Due from / advance to component unit | - | 662 | - | 7,163 | - | - | 8,598 |
| Loans receivable (net of allowance for uncollectibles) | - | - | - | - | - | - | 72,294 |
| Deferred charges and other assets | - | 3,320 | - | 48 | - | - | 3,814 |
| Total assets | $ 31,909 | $ 24,348 | $ 11,830 | $ 161,758 | $ 1,639 | $ 11,847 | $ 658,517 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 5,618 | $ 1,353 | $ 1,008 | $ 41,677 | $ 432 | $ 272 | $ 98,354 |
| Accrued payroll | 1,295 | 2,572 | 869 | 188 | - | 337 | 16,618 |
| Deferred tax, grant and subvention revenues | 16,665 | - | - | 28,104 | 1,422 | - | 64,932 |
| Due to other funds | 4,657 | 38 | - | 9,249 | 1,221 | - | 28,788 |
| Deferred credits and other liabilities | - | 5,592 | - | 910 | - | 39 | 89,346 |
| Bonds, loans, capital leases and other payables | - | - | - | 150,000 | - | - | 150,000 |
| Total liabilities | 28,235 | 9,555 | 1,877 | 230,128 | 3,075 | 648 | 448,038 |
| Fund balances: | | | | | | | |
| Reserved for assets not available for appropriation | - | - | 417 | 7,067 | - | - | 25,830 |
| Reserved for debt service | - | - | - | 313 | - | - | 313 |
| Reserved for encumbrances | 42,528 | 3,054 | 1,821 | 10,396 | 25 | 522 | 129,592 |
| Reserved for appropriation carryforward | 2,384 | 10,957 | 6,914 | 1,653 | - | 8,108 | 175,881 |
| Reserved for subsequent years' budgets | - | - | - | - | - | - | 13,041 |
| Unreserved (deficit) | (41,238) | 782 | 801 | (87,799) | (1,461) | 2,569 | (134,178) |
| Total fund balances | 3,674 | 14,793 | 9,953 | (68,370) | (1,436) | 11,199 | 210,479 |
| Total liabilities and fund balances | $ 31,909 | $ 24,348 | $ 11,830 | $ 161,758 | $ 1,639 | $ 11,847 | $ 658,517 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Special Revenue Funds
Year ended June 30, 2010
(In Thousands)

| | Building Inspection Fund | Children and Families Fund | Community/ Neighborhood Development Fund | Community Health Services Fund | Convention Facilities Fund | Court's Fund | Culture and Recreation Fund | Environmental Protection Fund |
|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | |
| Property taxes | $ - | $ 44,461 | $ - | $ - | $ - | $ - | $ - | $ - |
| Business taxes | - | - | 548 | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | 42,227 | - | - | - |
| Licenses, permits and franchises | 6,574 | - | - | - | - | - | 245 | - |
| Fines, forfeitures and penalties | - | - | - | 2,439 | - | 26 | - | - |
| Interest and investment income | 394 | 1,142 | 5,641 | 362 | 231 | 4 | 148 | - |
| Rents and concessions | - | - | - | - | 22,706 | - | 290 | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | 11,402 | 42,707 | 69,459 | - | - | 110 | 188 |
| State | - | 14,515 | 3,541 | 23,877 | - | - | 25 | 3,090 |
| Other | - | - | 3 | - | - | - | - | 568 |
| Charges for services | 38,876 | - | 6,308 | 3,239 | - | 3,561 | 6,257 | - |
| Other | - | - | 6,310 | 982 | 8,821 | - | 693 | 2,850 |
| Total revenues | 45,844 | 71,520 | 65,058 | 100,358 | 73,985 | 3,591 | 7,768 | 6,696 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public protection | - | - | - | - | - | 354 | - | - |
| Public works, transportation and commerce | 36,906 | 5 | 9,702 | 667 | - | 94 | 651 | 7 |
| Human welfare and neighborhood development | - | 146,809 | 58,690 | - | 2,395 | - | - | 6,259 |
| Community health | - | - | - | 107,980 | - | - | - | - |
| Culture and recreation | - | - | 63 | - | 53,271 | - | 8,120 | - |
| General administration and finance | - | - | 2,451 | - | - | - | - | 40 |
| General City responsibilities | - | - | - | - | - | - | - | 10 |
| Debt service: | | | | | | | | |
| Interest and fiscal charges | - | - | - | - | - | - | - | - |
| Total expenditures | 36,906 | 146,814 | 70,906 | 108,647 | 55,666 | 448 | 8,771 | 6,316 |
| Excess (deficiency) of revenues over (under) expenditures | 8,938 | (75,294) | (5,848) | (8,289) | 18,319 | 3,143 | (1,003) | 380 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 70,907 | 344 | 5,026 | - | - | 893 | 10 |
| Transfers out | (1,060) | (1,000) | (3,090) | - | (13,808) | (4,188) | (1,224) | (731) |
| Issuance of bonds and loans | | | | | | | | |
| Face value of loans issued | - | - | - | - | - | - | 599 | - |
| Other financing sources-capital leases | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (1,060) | 69,907 | (2,746) | 5,026 | (13,808) | (4,188) | 268 | (721) |
| Net change in fund balances | 7,878 | (5,387) | (8,594) | (3,263) | 4,511 | (1,045) | (735) | (341) |
| Fund balances at beginning of year | 13,959 | 46,273 | 92,342 | 17,385 | 5,414 | 1,473 | 8,539 | (248) |
| Fund balances at end of year | $ 21,837 | $ 40,886 | $ 83,748 | $ 14,122 | $ 9,925 | $ 428 | $ 7,804 | $ (589) |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Special Revenue Funds (continued)
Year ended June 30, 2010
(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 | $ - | $ - | $ - | $ - | $ - | $ 37,055 | $ 37,055 |
| Business taxes | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - |
| Licenses, permits and franchises | - | 1,748 | - | - | 203 | - | - |
| Fines, forfeitures and penalties | - | - | - | - | 3 | - | - |
| Interest and investment income | 88 | 59 | 126 | 25 | 11 | 407 | 488 |
| Rents and concessions | - | 2,266 | - | 3,214 | - | - | 20 |
| Intergovernmental: | | | | | | | |
| Federal | - | - | - | - | 48,046 | - | 5 |
| State | 25,921 | 66 | - | - | 240 | 168 | 598 |
| Other | - | - | - | - | - | - | - |
| Charges for services | 627 | 1,553 | 27 | 7,666 | 174 | - | 964 |
| Other | 41 | 400 | 4,868 | - | 340 | - | - |
| Total revenues | 26,677 | 6,092 | 5,021 | 10,905 | 49,017 | 37,630 | 39,130 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Public protection | - | 446 | 61 | - | - | - | - |
| Public works, transportation and commerce | 38,343 | - | 266 | - | - | 1,563 | 1,861 |
| Human welfare and neighborhood development | - | - | 210 | - | 51,004 | - | - |
| Community health | - | - | 132 | - | - | - | - |
| Culture and recreation | - | 2,133 | 2,658 | 11,131 | - | 38,960 | 79,038 |
| General administration and finance | - | 2,708 | - | - | - | - | - |
| General City responsibilities | - | 103 | 129 | - | - | - | - |
| Debt service: | | | | | | | |
| Interest and fiscal charges | - | - | - | - | - | - | - |
| Total expenditures | 38,343 | 5,390 | 3,456 | 11,131 | 51,004 | 40,523 | 80,899 |
| Excess (deficiency) of revenues over (under) expenditures | (11,666) | 702 | 1,565 | (226) | (1,987) | (2,893) | (41,769) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | 10,960 | 648 | - | 579 | 2,517 | 10 | 41,662 |
| Transfers out | - | (12) | (1,725) | - | (4,869) | - | (80) |
| Issuance of bonds and loans | | | | | | | |
| Face value of loans issued | - | - | - | - | - | - | - |
| Other financing sources-capital leases | 298 | - | - | - | - | - | - |
| Total other financing sources (uses) | 11,258 | 636 | (1,725) | 579 | (2,352) | 10 | 41,582 |
| Net change in fund balances | (408) | 1,338 | (160) | 353 | (4,339) | (2,883) | (187) |
| Fund balances at beginning of year | 855 | 6,450 | 7,930 | 1,087 | 1,404 | 26,104 | 24,961 |
| Fund balances at end of year | $ 447 | $ 7,788 | $ 7,770 | $ 1,440 | $ (2,935) | $ 23,221 | $ 24,774 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Special Revenue Funds (continued)
Year ended June 30, 2010
(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 | $ - | $ - | $ - | $ - | $ - | $ - | $ 118,571 |
| Business taxes | - | - | - | - | - | - | 548 |
| Sales and use tax | - | - | - | 68,164 | - | - | 68,164 |
| Hotel room tax | - | - | - | - | - | 9,101 | 51,328 |
| Licenses, permits and franchises | 606 | - | - | - | - | - | 9,376 |
| Fines, forfeitures and penalties | 2,436 | 72 | - | - | - | - | 4,976 |
| Interest and investment income | 182 | 301 | - | 2,065 | - | 134 | 11,808 |
| Rents and concessions | - | 75 | 26,547 | - | - | 2,232 | 57,350 |
| Intergovernmental: | | | | | | | |
| Federal | 43,990 | 599 | - | 2,246 | 4,608 | - | 223,360 |
| State | 8,949 | - | - | 11,641 | 1,095 | - | 93,726 |
| Other | 10 | 1,608 | - | 275 | - | - | 2,464 |
| Charges for services | 15,050 | 19,810 | 11 | - | - | 390 | 104,513 |
| Other | 347 | 1,046 | - | 1 | - | - | 26,699 |
| Total revenues | 71,570 | 23,511 | 26,558 | 84,392 | 5,703 | 11,857 | 772,883 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Public protection | 71,872 | - | - | - | - | - | 72,733 |
| Public works, transportation and commerce | - | 18,504 | 668 | 93,900 | - | 92 | 203,229 |
| Human welfare and neighborhood development | 2,201 | 11,617 | - | - | 6,255 | - | 285,440 |
| Community health | - | - | - | - | - | - | 108,112 |
| Culture and recreation | - | - | - | - | - | 11,594 | 206,968 |
| General administration and finance | 95 | 308 | 11,639 | - | - | - | 17,241 |
| General City responsibilities | - | - | - | - | - | - | 242 |
| Debt service: | | | | | | | |
| Interest and fiscal charges | - | - | - | 1,272 | - | - | 1,272 |
| Total expenditures | 74,168 | 30,429 | 12,307 | 95,172 | 6,255 | 11,686 | 895,237 |
| Excess (deficiency) of revenues over (under) expenditures | (2,598) | (6,918) | 14,251 | (10,780) | (552) | 171 | (122,354) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | 632 | 2,606 | 10 | - | 20 | 50 | 136,874 |
| Transfers out | (829) | (301) | (12,430) | (34,254) | - | (434) | (80,035) |
| Issuance of bonds and loans | | | | | | | |
| Face value of loans issued | - | - | - | - | - | - | 599 |
| Other financing sources-capital leases | - | - | - | - | - | - | 298 |
| Total other financing sources (uses) | (197) | 2,305 | (12,420) | (34,254) | 20 | (384) | 57,736 |
| Net change in fund balances | (2,795) | (4,613) | 1,831 | (45,034) | (532) | (213) | (64,618) |
| Fund balances at beginning of year | 6,469 | 19,406 | 8,122 | (23,336) | (904) | 11,412 | 275,097 |
| Fund balances at end of year | $ 3,674 | $ 14,793 | $ 9,953 | $ (68,370) | $ (1,436) | $ 11,199 | $ 210,479 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis
### Special Revenue Funds
Year ended June 30, 2010
(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 | $ - | $ - | $ - | $ - | $ 44,860 | $ 44,860 | $ 44,461 | $ (399) |
| Business taxes | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 3,878 | 3,878 | 6,574 | 2,696 | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 332 | 332 | 200 | (132) | 818 | 818 | 764 | (54) |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | 9,903 | 11,498 | 11,403 | (95) |
| State | - | - | - | - | 13,432 | 13,813 | 13,758 | (55) |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 34,993 | 35,731 | 38,877 | 3,146 | 1,142 | 7 | - | (7) |
| Other revenues | - | - | - | - | - | - | - | - |
| Total revenues | 39,203 | 39,941 | 45,651 | 5,710 | 70,155 | 70,996 | 70,386 | (610) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 39,733 | 38,713 | 36,907 | 1,806 | - | 5 | 5 | - |
| Human welfare and neighborhood development | - | - | - | - | 141,078 | 147,259 | 146,805 | 454 |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| Total expenditures | 39,733 | 38,713 | 36,907 | 1,806 | 141,078 | 147,264 | 146,810 | 454 |
| Excess (deficiency) of revenues over (under) expenditures | (530) | 1,228 | 8,744 | 7,516 | (70,923) | (76,268) | (76,424) | (156) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | 70,190 | 70,902 | 70,902 | - |
| Transfers out | (655) | (999) | (999) | - | - | (1,000) | (1,000) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (655) | (999) | (999) | - | 70,190 | 69,902 | 69,902 | - |
| Net change in fund balances | (1,185) | 229 | 7,745 | 7,516 | (733) | (6,366) | (6,522) | (156) |
| Budgetary fund balance (deficit), July 1 | 1,185 | 14,005 | 14,005 | - | 733 | 47,283 | 47,283 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 14,234 | $ 21,750 | $ 7,516 | $ - | $ 40,917 | $ 40,761 | $ (156) |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | 900 | 900 | 548 | (352) | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | 2,281 | 2,327 | 2,439 | 112 |
| Interest and investment income | 110 | 4,920 | 5,153 | 233 | 35 | 37 | 246 | 209 |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 28,979 | 42,485 | 42,485 | - | 68,045 | 71,340 | 71,340 | - |
| State | - | 3,464 | 3,464 | - | 40,721 | 23,220 | 23,220 | - |
| Other | - | 3 | 3 | - | - | - | - | - |
| Charges for services | 5,219 | 5,372 | 6,308 | 936 | 35 | 3,054 | 3,239 | 185 |
| Other revenues | 135 | 3,214 | 6,354 | 3,140 | 359 | 982 | 982 | - |
| Total revenues | 35,343 | 60,358 | 64,315 | 3,957 | 111,476 | 100,960 | 101,466 | 506 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 13,384 | 9,702 | 9,702 | - | - | 667 | 667 | - |
| Human welfare and neighborhood development | 21,815 | 59,165 | 58,691 | 474 | - | - | - | - |
| Community health | - | - | - | - | 111,536 | 107,955 | 107,955 | - |
| Culture and recreation | 600 | 63 | 63 | - | - | - | - | - |
| General administration and finance | 1,420 | 2,451 | 2,451 | - | - | - | - | - |
| Total expenditures | 37,219 | 71,381 | 70,907 | 474 | 111,536 | 108,622 | 108,622 | - |
| Excess (deficiency) of revenues over (under) expenditures | (1,876) | (11,023) | (6,592) | 4,431 | (60) | (7,662) | (7,156) | 506 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 344 | 344 | - | - | 5,001 | 5,001 | - |
| Transfers out | - | (3,010) | (3,010) | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | (2,666) | (2,666) | - | - | 5,001 | 5,001 | - |
| Net change in fund balances | (1,876) | (13,689) | (9,258) | 4,431 | (60) | (2,661) | (2,155) | 506 |
| Budgetary fund balance (deficit), July 1 | 1,876 | 82,825 | 82,825 | - | 60 | 23,962 | 23,962 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 69,136 | $ 73,567 | $ 4,431 | $ - | $ 21,301 | $ 21,807 | $ 506 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | 41,183 | 42,227 | 42,227 | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | 34 | 35 | 26 | (9) |
| Interest and investment income | - | 1 | 1 | - | 115 | 115 | 3 | (112) |
| Rents and concessions | 22,934 | 23,505 | 22,705 | (800) | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - |
| State | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 571 | - | - | - | 3,746 | 3,746 | 3,560 | (186) |
| Other revenues | 8,000 | 8,821 | 8,821 | - | - | - | - | - |
| Total revenues | 72,688 | 74,554 | 73,754 | (800) | 3,895 | 3,896 | 3,589 | (307) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 4,571 | 384 | 354 | 30 |
| Public works, transportation and commerce | - | - | - | - | - | 94 | 94 | - |
| Human welfare and neighborhood development | 500 | 2,395 | 2,395 | - | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | 58,810 | 59,501 | 53,271 | 6,230 | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| Total expenditures | 59,310 | 61,896 | 55,666 | 6,230 | 4,571 | 478 | 448 | 30 |
| Excess (deficiency) of revenues over (under) expenditures | 13,378 | 12,658 | 18,088 | 5,430 | (676) | 3,418 | 3,141 | (277) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | - |
| Transfers out | (13,378) | (13,578) | (13,578) | - | - | (4,188) | (4,188) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | (13,378) | (13,578) | (13,578) | - | - | (4,188) | (4,188) | - |
| Net change in fund balances | - | (920) | 4,510 | 5,430 | (676) | (770) | (1,047) | (277) |
| Budgetary fund balance (deficit), July 1 | - | 9,672 | 9,672 | - | 676 | 1,481 | 1,481 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 8,752 | $ 14,182 | $ 5,430 | $ - | $ 711 | $ 434 | $ (277) |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 240 | 240 | 245 | 5 | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 53 | 53 | 72 | 19 | - | - | - | - |
| Rents and concessions | 297 | 296 | 290 | (6) | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 100 | 110 | 110 | - | - | 1,438 | 188 | (1,250) |
| State | - | 25 | 25 | - | 1,101 | 12,000 | 3,093 | (8,907) |
| Other | - | - | - | - | 1,053 | 1,618 | 738 | (880) |
| Charges for services | 5,637 | 6,142 | 6,257 | 115 | - | - | - | - |
| Other revenues | 691 | 693 | 693 | - | - | 5,938 | 2,688 | (3,250) |
| Total revenues | 7,018 | 7,559 | 7,692 | 133 | 2,154 | 20,994 | 6,707 | (14,287) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 510 | 651 | 651 | - | - | 7 | 7 | - |
| Human welfare and neighborhood development | - | - | - | - | 854 | 19,706 | 6,219 | 13,487 |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | 6,594 | 8,172 | 8,120 | 52 | - | - | - | - |
| General administration and finance | - | - | - | - | 477 | 68 | 40 | 28 |
| Total expenditures | 7,104 | 8,823 | 8,771 | 52 | 1,331 | 19,781 | 6,266 | 13,515 |
| Excess (deficiency) of revenues over (under) expenditures | (86) | (1,264) | (1,079) | 185 | 823 | 1,213 | 441 | (772) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 400 | 893 | 893 | - | - | - | - | - |
| Transfers out | - | (1,195) | (1,195) | - | (823) | (1,286) | (771) | 515 |
| Issuance of loans | - | 599 | 599 | - | - | - | - | - |
| Budget reserves and designations | (302) | 1 | - | (1) | - | - | - | - |
| Loan repayments and other financing sources (uses) | (12) | (12) | - | 12 | - | - | - | - |
| Total other financing sources (uses) | 86 | 286 | 297 | 11 | (823) | (1,286) | (771) | 515 |
| Net change in fund balances | - | (978) | (782) | 196 | - | (73) | (330) | (257) |
| Budgetary fund balance (deficit), July 1 | - | 13,438 | 13,438 | - | - | 73 | 73 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 12,460 | $ 12,656 | $ 196 | $ - | $ - | $ (257) | $ (257) |

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## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | 1,480 | 1,481 | 1,748 | 267 |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 255 | 255 | 39 | (216) | 53 | 53 | 37 | (16) |
| Rents and concessions | - | - | - | - | - | 2,266 | 2,266 | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | 154 | 154 | - |
| State | 29,166 | 37,776 | 25,921 | (11,855) | - | 66 | 66 | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 800 | 800 | 627 | (173) | 1,378 | 1,527 | 1,553 | 26 |
| Other revenues | - | - | 41 | 41 | - | 401 | 400 | (1) |
| Total revenues | 30,221 | 38,831 | 26,628 | (12,203) | 2,911 | 5,948 | 6,224 | 276 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 280 | 446 | 446 | - |
| Public works, transportation and commerce | 41,498 | 39,030 | 38,045 | 985 | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | 2,133 | 2,133 | - |
| General administration and finance | - | - | - | - | 2,631 | 2,704 | 2,708 | (4) |
| Total expenditures | 41,498 | 39,030 | 38,045 | 985 | 2,911 | 5,283 | 5,287 | (4) |
| Excess (deficiency) of revenues over (under) expenditures | (11,277) | (199) | (11,417) | (11,218) | - | 665 | 937 | 272 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 11,277 | 10,960 | 10,960 | - | - | 545 | 545 | - |
| Transfers out | - | - | - | - | - | (12) | (12) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 11,277 | 10,960 | 10,960 | - | - | 533 | 533 | - |
| Net change in fund balances | - | 10,761 | (457) | (11,218) | - | 1,198 | 1,470 | 272 |
| Budgetary fund balance (deficit), July 1 | - | 870 | 870 | - | - | 6,467 | 6,467 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 11,631 | $ 413 | $ (11,218) | $ - | $ 7,665 | $ 7,937 | $ 272 |

**CITY AND COUNTY OF SAN FRANCISCO**

**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis** (Continued)
**Special Revenue Funds**
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | - | 10 | 23 | 13 | 10 | 10 | 15 | 5 |
| Rents and concessions | - | - | - | - | 3,644 | 3,894 | 3,214 | (680) |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | - | - | - | - |
| State | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | - | 24 | 27 | 3 | 8,042 | 8,452 | 7,666 | (786) |
| Other revenues | 1,024 | 4,840 | 4,869 | 29 | - | - | - | - |
| Total revenues | 1,024 | 4,874 | 4,919 | 45 | 11,696 | 12,356 | 10,895 | (1,461) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | 61 | 61 | - | - | - | - | - |
| Public works, transportation and commerce | - | 266 | 266 | - | - | - | - | - |
| Human welfare and neighborhood development | - | 210 | 210 | - | - | - | - | - |
| Community health | - | 132 | 132 | - | - | - | - | - |
| Culture and recreation | 661 | 2,658 | 2,658 | - | 12,525 | 12,814 | 11,131 | 1,683 |
| General administration and finance | 363 | 129 | 129 | - | - | - | - | - |
| Total expenditures | 1,024 | 3,456 | 3,456 | - | 12,525 | 12,814 | 11,131 | 1,683 |
| Excess (deficiency) of revenues over (under) expenditures | - | 1,418 | 1,463 | 45 | (829) | (458) | (236) | 222 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | 829 | 579 | 579 | - |
| Transfers out | - | (1,630) | (1,630) | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | (1,630) | (1,630) | - | 829 | 579 | 579 | - |
| Net change in fund balances | - | (212) | (167) | 45 | - | 121 | 343 | 222 |
| Budgetary fund balance (deficit), July 1 | - | 7,923 | 7,923 | - | - | 1,092 | 1,092 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 7,711 | $ 7,756 | $ 45 | $ - | $ 1,213 | $ 1,435 | $ 222 |



**CITY AND COUNTY OF SAN FRANCISCO**

**Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis** (Continued)
**Special Revenue Funds**
Year ended June 30, 2010
(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 | $ - | $ - | $ - | $ - | $ 37,384 | $ 37,384 | $ 37,055 | $ (329) |
| Business taxes | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | 210 | 210 | 203 | (7) | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | 3 | 3 | - | - | - | - |
| Interest and investment income | - | - | 3 | 3 | 500 | 500 | 221 | (279) |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 23,934 | 49,589 | 49,589 | - | - | - | - | - |
| State | 1,502 | 240 | 240 | - | 152 | 152 | 168 | 16 |
| Other | - | - | - | - | - | - | - | - |
| Charges for services | 176 | 176 | 174 | (2) | - | - | - | - |
| Other revenues | 355 | 339 | 339 | - | - | 163 | - | (163) |
| Total revenues | 26,177 | 50,554 | 50,551 | (3) | 38,036 | 38,199 | 37,444 | (755) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | - | - | - | - | - | 1,563 | 1,563 | - |
| Human welfare and neighborhood development | 28,590 | 50,904 | 50,901 | 3 | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | 43,472 | 41,318 | 38,960 | 2,358 |
| General administration and finance | - | - | - | - | - | - | - | - |
| Total expenditures | 28,590 | 50,904 | 50,901 | 3 | 43,472 | 42,881 | 40,523 | 2,358 |
| Excess (deficiency) of revenues over (under) expenditures | (2,413) | (350) | (350) | - | (5,436) | (4,682) | (3,079) | 1,603 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 2,413 | 2,413 | 2,413 | - | - | 10 | 10 | - |
| Transfers out | - | (4,869) | (4,869) | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 2,413 | (2,456) | (2,456) | - | - | 10 | 10 | - |
| Net change in fund balances | - | (2,806) | (2,806) | - | (5,436) | (4,672) | (3,069) | 1,603 |
| Budgetary fund balance (deficit), July 1 | - | 3,112 | 3,112 | - | 5,436 | 26,173 | 26,173 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 306 | $ 306 | $ - | $ - | $ 21,501 | $ 23,104 | $ 1,603 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | $ 37,384 | $ 37,384 | $ 37,055 | $ (329) | $ - | $ - | $ - | $ - |
| Business taxes | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | 489 | 489 | 606 | 117 |
| Fines, forfeitures, and penalties | - | - | - | - | 1,579 | 1,579 | 2,436 | 857 |
| Interest and investment income | 234 | 234 | 240 | 6 | 53 | 84 | 103 | 19 |
| Rents and concessions | 38 | 38 | 20 | (18) | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | - | 5 | 5 | - | 3,790 | 44,562 | 44,562 | - |
| State | 575 | 534 | 598 | 64 | 10,380 | 9,148 | 9,148 | - |
| Other | - | - | - | - | - | 10 | 10 | - |
| Charges for services | 685 | 685 | 964 | 279 | 3,898 | 8,808 | 15,127 | 6,319 |
| Other revenues | - | - | - | - | - | 347 | 347 | - |
| Total revenues | 38,916 | 38,880 | 38,882 | 2 | 20,189 | 65,027 | 72,339 | 7,312 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 18,649 | 71,734 | 71,683 | 51 |
| Public works, transportation and commerce | - | 1,861 | 1,861 | - | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | 2,802 | 2,201 | 2,201 | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | 79,089 | 82,869 | 79,038 | 3,831 | - | - | - | - |
| General administration and finance | - | - | - | - | - | 95 | 95 | - |
| Total expenditures | 79,089 | 84,730 | 80,899 | 3,831 | 21,451 | 74,030 | 73,979 | 51 |
| Excess (deficiency) of revenues over (under) expenditures | (40,173) | (45,850) | (42,017) | 3,833 | (1,262) | (9,003) | (1,640) | 7,363 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 42,240 | 43,530 | 41,662 | (1,868) | - | 444 | 444 | - |
| Transfers out | - | - | - | - | - | (829) | (829) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | (3,415) | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 38,825 | 43,530 | 41,662 | (1,868) | - | (385) | (385) | - |
| Net change in fund balances | (1,348) | (2,320) | (355) | 1,965 | (1,262) | (9,388) | (2,025) | 7,363 |
| Budgetary fund balance (deficit), July 1 | 1,348 | 25,018 | 25,018 | - | 1,262 | 17,826 | 17,826 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 22,698 | $ 24,663 | $ 1,965 | $ - | $ 8,438 | $ 15,801 | $ 7,363 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | - | - | - | - | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | 41 | 72 | 31 | - | - | - | - |
| Interest and investment income | - | - | - | - | - | - | - | - |
| Rents and concessions | - | - | 75 | 75 | 1,289 | 25,830 | 26,547 | 717 |
| Intergovernmental: | | | | | | | | |
| Federal | - | 591 | 599 | 8 | - | - | - | - |
| State | - | - | - | - | - | - | - | - |
| Other | 260 | 1,608 | 1,608 | - | - | - | - | - |
| Charges for services | 12,828 | 21,828 | 19,811 | (2,017) | - | - | 10 | 10 |
| Other revenues | - | 972 | 1,046 | 74 | - | - | - | - |
| Total revenues | 13,088 | 25,040 | 23,211 | (1,829) | 1,289 | 25,830 | 26,557 | 727 |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 1,069 | 15,274 | 18,503 | (3,229) | - | 668 | 668 | - |
| Human welfare and neighborhood development | 12,287 | 12,408 | 11,617 | 791 | - | - | - | - |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General administration and finance | 260 | 308 | 308 | - | 1,289 | 11,628 | 11,628 | - |
| Total expenditures | 13,616 | 27,990 | 30,428 | (2,438) | 1,289 | 12,296 | 12,296 | - |
| Excess (deficiency) of revenues over (under) expenditures | (528) | (2,950) | (7,217) | (4,267) | - | 13,534 | 14,261 | 727 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 2,605 | 2,605 | - | - | - | - | - |
| Transfers out | - | - | - | - | - | (12,430) | (12,430) | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | 2,605 | 2,605 | - | - | (12,430) | (12,430) | - |
| Net change in fund balances | (528) | (345) | (4,612) | (4,267) | - | 1,104 | 1,831 | 727 |
| Budgetary fund balance (deficit), July 1 | 528 | 18,284 | 18,284 | - | - | 8,126 | 8,126 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 17,939 | $ 13,672 | $ (4,267) | $ - | $ 9,230 | $ 9,957 | $ 727 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | - | - | - | - | - | - | - | - |
| Sales and use tax | 72,861 | 72,861 | 68,164 | (4,697) | - | - | - | - |
| Hotel room tax | - | - | - | - | - | - | - | - |
| Licenses, permits, and franchises | - | - | - | - | - | - | - | - |
| Fines, forfeitures, and penalties | - | - | - | - | - | - | - | - |
| Interest and investment income | 1,737 | 1,737 | 2,065 | 328 | - | - | - | - |
| Rents and concessions | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | |
| Federal | 23,991 | 23,991 | 2,246 | (21,745) | 4,854 | 5,262 | 5,101 | (161) |
| State | 10,404 | 40,411 | 11,641 | (28,770) | 1,431 | 1,120 | 1,120 | - |
| Other | 11,900 | 7,295 | 275 | (7,020) | - | - | - | - |
| Charges for services | - | - | - | - | - | - | - | - |
| Other revenues | - | - | 1 | 1 | - | - | - | - |
| Total revenues | 120,893 | 146,295 | 84,392 | (61,903) | 6,285 | 6,382 | 6,221 | (161) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | - | - | - | - |
| Public works, transportation and commerce | 220,135 | 195,330 | 134,178 | 61,152 | - | - | - | - |
| Human welfare and neighborhood development | - | - | - | - | 6,285 | 6,376 | 6,235 | 141 |
| Community health | - | - | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | - | - | - | - |
| General administration and finance | - | - | - | - | - | - | - | - |
| Total expenditures | 220,135 | 195,330 | 134,178 | 61,152 | 6,285 | 6,376 | 6,235 | 141 |
| Excess (deficiency) of revenues over (under) expenditures | (99,242) | (49,035) | (49,786) | (751) | - | 6 | (14) | (20) |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - | - |
| Issuance of loans | - | - | - | - | - | - | - | - |
| Budget reserves and designations | - | - | - | - | - | - | - | - |
| Loan repayments and other financing sources (uses) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - | - | - | - |
| Net change in fund balances | (99,242) | (49,035) | (49,786) | (751) | - | 6 | (14) | (20) |
| Budgetary fund balance (deficit), July 1 | 99,242 | 136,003 | 136,003 | - | - | 2 | 2 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 86,968 | $ 86,217 | $ (751) | $ - | $ 8 | $ (12) | $ (20) |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(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 | $ - | $ - | $ - | $ - | $ 119,628 | $ 119,628 | $ 118,571 | $ (1,057) |
| Business taxes | - | - | - | - | 900 | 900 | 548 | (352) |
| Sales and use tax | - | - | - | - | 72,861 | 72,861 | 68,164 | (4,697) |
| Hotel room tax | 9,102 | 9,101 | 9,101 | - | 50,285 | 51,328 | 51,328 | - |
| Licenses, permits, and franchises | - | - | - | - | 6,297 | 6,298 | 9,376 | 3,078 |
| Fines, forfeitures, and penalties | - | - | - | - | 3,894 | 3,982 | 4,976 | 994 |
| Interest and investment income | - | - | - | - | 4,305 | 9,159 | 9,185 | 26 |
| Rents and concessions | 1,616 | 1,964 | 2,232 | 268 | 29,818 | 57,793 | 57,349 | (444) |
| Intergovernmental: | | | | | | | | |
| Federal | - | - | - | - | 163,596 | 251,025 | 227,782 | (23,243) |
| State | - | - | - | - | 108,864 | 141,969 | 92,462 | (49,507) |
| Other | - | - | - | - | 13,213 | 10,534 | 2,634 | (7,900) |
| Charges for services | 279 | 338 | 391 | 53 | 79,429 | 96,690 | 104,591 | 7,901 |
| Other revenues | - | - | - | - | 10,564 | 26,710 | 26,581 | (129) |
| Total revenues | 10,997 | 11,403 | 11,724 | 321 | 663,654 | 848,877 | 773,547 | (75,330) |
| **Expenditures:** | | | | | | | | |
| Public protection | - | - | - | - | 23,500 | 72,625 | 72,544 | 81 |
| Public works, transportation and commerce | - | 92 | 92 | - | 316,329 | 303,923 | 243,209 | 60,714 |
| Human welfare and neighborhood development | - | - | - | - | 214,211 | 300,624 | 285,274 | 15,350 |
| Community health | - | - | - | - | 111,536 | 108,087 | 108,087 | - |
| Culture and recreation | 12,356 | 12,709 | 11,594 | 1,115 | 214,107 | 222,237 | 206,968 | 15,269 |
| General administration and finance | - | - | - | - | 6,440 | 17,383 | 17,359 | 24 |
| Total expenditures | 12,356 | 12,801 | 11,686 | 1,115 | 886,123 | 1,024,879 | 933,441 | 91,438 |
| Excess (deficiency) of revenues over (under) expenditures | (1,359) | (1,398) | 38 | 1,436 | (222,469) | (176,002) | (159,894) | 16,108 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | 50 | 50 | - | 127,349 | 138,276 | 136,408 | (1,868) |
| Transfers out | - | (300) | (300) | - | (14,856) | (45,326) | (44,811) | 515 |
| Issuance of loans | - | - | - | - | - | 599 | 599 | - |
| Budget reserves and designations | - | - | - | - | (302) | 1 | - | (1) |
| Loan repayments and other financing sources (uses) | - | - | - | - | (3,427) | (12) | - | 12 |
| Total other financing sources (uses) | - | (250) | (250) | - | 108,764 | 93,538 | 92,196 | (1,342) |
| Net change in fund balances | (1,359) | (1,648) | (212) | 1,436 | (113,705) | (82,464) | (67,698) | 14,766 |
| Budgetary fund balance (deficit), July 1 | 1,359 | 11,376 | 11,376 | - | 113,705 | 455,011 | 455,011 | - |
| Budgetary fund balance (deficit), June 30 | $ - | $ 9,728 | $ 11,164 | $ 1,436 | $ - | $ 372,547 | $ 387,313 | $ 14,766 |

**CITY AND COUNTY OF SAN FRANCISCO**

**Schedule of Expenditures by Department**
**Budget and Actual – Budget Basis**
**Special Revenue Funds**
Year ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| BUILDING INSPECTION FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Building Inspection | $ 39,733 | $ 38,462 | $ 36,656 | $ 1,806 |
| Public Works | - | 251 | 251 | - |
| Total Building Inspection Fund | 39,733 | 38,713 | 36,907 | 1,806 |
| CHILDREN AND FAMILIES FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Municipal Transportation Agency | - | 5 | 5 | - |
| | - | 5 | 5 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Child Support Services | 15,012 | 14,988 | 14,824 | 164 |
| Children and Families Commission | 23,845 | 23,669 | 23,669 | - |
| Mayor's Office | 102,221 | 108,602 | 108,312 | 290 |
| | 141,078 | 147,259 | 146,805 | 454 |
| Total Children and Families Fund | 141,078 | 147,264 | 146,810 | 454 |
| COMMUNITY/NEIGHBORHOOD DEVELOPMENT FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Business and Economic Development | 13,384 | 9,631 | 9,631 | - |
| Public Works | - | 71 | 71 | - |
| | 13,384 | 9,702 | 9,702 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 16,483 | 53,835 | 53,834 | 1 |
| Rent Arbitration Board | 5,332 | 5,330 | 4,857 | 473 |
| | 21,815 | 59,165 | 58,691 | 474 |
| **Culture and Recreation** | | | | |
| Recreation and Park Commission | 600 | 63 | 63 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | 900 | 1,120 | 1,120 | - |
| City Planning | 520 | 1,331 | 1,331 | - |
| | 1,420 | 2,451 | 2,451 | - |
| Total Community/Neighborhood Development Fund | 37,219 | 71,381 | 70,907 | 474 |
| COMMUNITY HEALTH SERVICES FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 667 | 667 | - |
| **Community Health** | | | | |
| Community Health Network | 111,536 | 107,955 | 107,955 | - |
| Total Community Health Services Fund | 111,536 | 108,622 | 108,622 | - |
| CONVENTION FACILITIES FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 500 | 2,395 | 2,395 | - |
| **Culture and Recreation** | | | | |
| Administrative Services | 58,810 | 59,501 | 53,271 | 6,230 |
| Total Convention Facilities Fund | 59,310 | 61,896 | 55,666 | 6,230 |



**CITY AND COUNTY OF SAN FRANCISCO**

**Schedule of Expenditures by Department**
**Budget and Actual – Budget Basis** (Continued)
**Special Revenue Funds**
Year ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| COURT'S FUND | | | | |
| **Public Protection** | | | | |
| Trial Courts | $ 4,571 | $ 384 | $ 354 | $ 30 |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 94 | 94 | - |
| Total Court's Fund | 4,571 | 478 | 448 | 30 |
| CULTURE AND RECREATION FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Mayor's Office | 510 | 619 | 619 | - |
| Public Works | - | 32 | 32 | - |
| | 510 | 651 | 651 | - |
| **Culture and Recreation** | | | | |
| Arts Commission | 1,278 | 1,645 | 1,645 | - |
| Asian Art Museum | 873 | 757 | 757 | - |
| Fine Arts Museums | 2,170 | 2,169 | 2,169 | - |
| Recreation and Park Commission | 2,273 | 3,601 | 3,549 | 52 |
| | 6,594 | 8,172 | 8,120 | 52 |
| Total Culture and Recreation Fund | 7,104 | 8,823 | 8,771 | 52 |
| ENVIRONMENTAL PROTECTION FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 7 | 7 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 854 | 19,706 | 6,219 | 13,487 |
| **General Administration and Finance** | | | | |
| City Planning | 477 | 68 | 40 | 28 |
| Total Environmental Protection Fund | 1,331 | 19,781 | 6,266 | 13,515 |
| GASOLINE TAX FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Municipal Transportation Agency | - | 369 | 369 | - |
| Public Utilities Commission | - | 101 | 101 | - |
| Public Works | 41,498 | 38,560 | 37,575 | 985 |
| Total Gasoline Tax Fund | 41,498 | 39,030 | 38,045 | 985 |
| GENERAL SERVICES FUND | | | | |
| **Public Protection** | | | | |
| Mayor's Office | - | 30 | 30 | - |
| Trial Courts | 280 | 416 | 416 | - |
| | 280 | 446 | 446 | - |
| **Culture and Recreation** | | | | |
| Fine Arts Museum | - | 2,133 | 2,133 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | 166 | 235 | 235 | - |
| Assessor/Recorder | 932 | 690 | 690 | - |
| Board of Supervisors | - | 31 | 31 | - |
| Telecommunications and Information Services | 1,533 | 1,397 | 1,402 | (5) |
| Treasurer/Tax Collector | - | 351 | 350 | 1 |
| | 2,631 | 2,704 | 2,708 | (4) |
| Total General Services Fund | 2,911 | 5,283 | 5,287 | (4) |

**CITY AND COUNTY OF SAN FRANCISCO**

**Schedule of Expenditures by Department**
**Budget and Actual – Budget Basis** (Continued)
**Special Revenue Funds**
Year ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| GIFT FUND | | | | |
| **Public Protection** | | | | |
| Fire Department | $ - | $ 10 | $ 10 | $ - |
| Police Department | - | 50 | 50 | - |
| Public Defender | - | 1 | 1 | - |
| | - | 61 | 61 | - |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 266 | 266 | - |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | - | 27 | 27 | - |
| Social Services | - | 177 | 177 | - |
| Commission on Status of Women | - | 6 | 6 | - |
| | - | 210 | 210 | - |
| **Community Health** | | | | |
| Community Health Network | - | 132 | 132 | - |
| **Culture and Recreation** | | | | |
| Arts Commission | - | 4 | 4 | - |
| Fine Arts Museums | - | 1,992 | 1,992 | - |
| Public Library | 22 | 470 | 470 | - |
| Recreation and Park Commission | 639 | 184 | 184 | - |
| War Memorial | - | 8 | 8 | - |
| | 661 | 2,658 | 2,658 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | - | 44 | 44 | - |
| Mayor's Office | - | 31 | 31 | - |
| Treasurer/Tax Collector | 363 | 54 | 54 | - |
| | 363 | 129 | 129 | - |
| Total Gift Fund | 1,024 | 3,456 | 3,456 | - |
| GOLF FUND | | | | |
| **Culture and Recreation** | | | | |
| Recreation and Park Commission | 12,525 | 12,814 | 11,131 | 1,683 |
| Total Golf Fund | 12,525 | 12,814 | 11,131 | 1,683 |
| HUMAN WELFARE FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Commission on Status of Women | 210 | 206 | 203 | 3 |
| Social Services | 28,380 | 50,698 | 50,698 | - |
| | 28,590 | 50,904 | 50,901 | 3 |
| Total Human Welfare Fund | 28,590 | 50,904 | 50,901 | 3 |



**CITY AND COUNTY OF SAN FRANCISCO**

**Schedule of Expenditures by Department**
**Budget and Actual – Budget Basis** (Continued)
**Special Revenue Funds**
Year ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| OPEN SPACE AND PARK FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Municipal Transportation Agency | $ - | $ 12 | $ 12 | $ - |
| Public Works | - | 1,551 | 1,551 | - |
| | - | 1,563 | 1,563 | - |
| **Culture and Recreation** | | | | |
| Arts Commission | - | 4 | 4 | - |
| Recreation and Park Commission | 43,472 | 41,314 | 38,956 | 2,358 |
| | 43,472 | 41,318 | 38,960 | 2,358 |
| Total Open Space and Park Fund | 43,472 | 42,881 | 40,523 | 2,358 |
| PUBLIC LIBRARY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 1,861 | 1,861 | - |
| | - | 1,861 | 1,861 | - |
| **Culture and Recreation** | | | | |
| Arts Commission | - | 86 | 86 | - |
| Public Library | 79,089 | 82,783 | 78,952 | 3,831 |
| | 79,089 | 82,869 | 79,038 | 3,831 |
| Total Public Library Fund | 79,089 | 84,730 | 80,899 | 3,831 |
| PUBLIC PROTECTION FUND | | | | |
| **Public Protection** | | | | |
| District Attorney | 5,741 | 6,394 | 6,394 | - |
| Emergency Communications Department | 923 | 36,542 | 36,491 | 51 |
| Fire Department | - | 1,591 | 1,591 | - |
| Mayor's Office | - | 1,129 | 1,129 | - |
| Police Commission | 6,450 | 21,312 | 21,312 | - |
| Public Defender | 101 | 120 | 120 | - |
| Sheriff | 3,187 | 2,431 | 2,431 | - |
| Trial Courts | 2,247 | 2,215 | 2,215 | - |
| | 18,649 | 71,734 | 71,683 | 51 |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 2,802 | 2,201 | 2,201 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | - | 95 | 95 | - |
| Total Public Protection Fund | 21,451 | 74,030 | 73,979 | 51 |

## CITY AND COUNTY OF SAN FRANCISCO

### Schedule of Expenditures by Department
### Budget and Actual – Budget Basis (Continued)
### Special Revenue Funds
Year ended June 30, 2010
(In Thousands)

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|---|
| PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Municipal Transportation Agency | $ - | $ 29 | $ 29 | $ - |
| Public Utilities Commission | - | 2 | 2 | - |
| Public Works | 1,069 | 15,243 | 18,472 | (3,229) |
| | 1,069 | 15,274 | 18,503 | (3,229) |
| **Human Welfare and Neighborhood Development** | | | | |
| Mayor's Office | 12,287 | 12,408 | 11,617 | 791 |
| **General Administration and Finance** | | | | |
| City Planning | 260 | 308 | 308 | - |
| Total Public Works, Transportation and Commerce Fund | 13,616 | 27,990 | 30,428 | (2,438) |
| REAL PROPERTY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 668 | 668 | - |
| **General Administration and Finance** | | | | |
| Administrative Services | 1,289 | 11,628 | 11,628 | - |
| Total Real Property Fund | 1,289 | 12,296 | 12,296 | - |
| SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Board of Supervisors | 220,135 | 195,330 | 134,178 | 61,152 |
| Total SF County Transportation Authority Fund | 220,135 | 195,330 | 134,178 | 61,152 |
| SENIOR CITIZENS' PROGRAM FUND | | | | |
| **Human Welfare and Neighborhood Development** | | | | |
| Social Services Department | 6,285 | 6,376 | 6,235 | 141 |
| Total Senior Citizens' Program Fund | 6,285 | 6,376 | 6,235 | 141 |
| WAR MEMORIAL FUND | | | | |
| **Public Works, Transportation and Commerce** | | | | |
| Public Works | - | 92 | 92 | - |
| **Culture and Recreation** | | | | |
| War Memorial | 12,356 | 12,709 | 11,594 | 1,115 |
| Total War Memorial Fund | 12,356 | 12,801 | 11,686 | 1,115 |
| Total Special Revenue Funds With Legally Adopted Budgets | $ 886,123 | $ 1,024,879 | $ 933,441 | $ 91,438 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds – Debt Service Funds
June 30, 2010
(In Thousands)

| | General Obligation Bond | Certificates of Participation | Other Bond Funds | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 47,400 | $ - | $ - | $ 47,400 |
| Deposits and investments outside City Treasury | - | 31,146 | - | 31,146 |
| Receivables: | | | | |
| Property taxes and penalties | 4,513 | - | - | 4,513 |
| Interest and other | 95 | 106 | - | 201 |
| Total assets | $ 52,008 | $ 31,252 | $ - | $ 83,260 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Deferred tax, grant and subvention revenues | $ 3,952 | $ - | $ - | $ 3,952 |
| Deferred credits and other liabilities | 11,155 | - | - | 11,155 |
| Total liabilities | 15,107 | - | - | 15,107 |
| Fund balances: | | | | |
| Reserved for debt service | 36,901 | 31,252 | - | 68,153 |
| Total fund balances | 36,901 | 31,252 | - | 68,153 |
| Total liabilities and fund balances | $ 52,008 | $ 31,252 | $ - | $ 83,260 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Debt Service Funds
Year ended June 30, 2010
(In Thousands)

| | General Obligation Bond | Certificates of Participation | Other Bond Funds | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Property taxes | $ 168,646 | $ - | $ - | $ 168,646 |
| Interest and investment income | 1,312 | 614 | - | 1,926 |
| Rents and concessions | - | 823 | - | 823 |
| Intergovernmental: | | | | |
| State | 729 | - | - | 729 |
| Other | 905 | - | - | 905 |
| Total revenues | 171,592 | 1,437 | - | 173,029 |
| Expenditures: | | | | |
| Current: | | | | |
| Debt service: | | | | |
| Principal retirement | 133,626 | 11,275 | 8,171 | 153,072 |
| Interest and fiscal charges | 59,239 | 26,309 | 982 | 86,530 |
| Total expenditures | 192,865 | 37,584 | 9,153 | 239,602 |
| Deficiency of revenues under expenditures | (21,273) | (36,147) | (9,153) | (66,573) |
| Other financing sources (uses): | | | | |
| Transfers in | 17,267 | 32,722 | 9,153 | 59,142 |
| Total other financing sources, net | 17,267 | 32,722 | 9,153 | 59,142 |
| Net change in fund balances | (4,006) | (3,425) | - | (7,431) |
| Fund balances at beginning of year | 40,907 | 34,677 | - | 75,584 |
| Fund balances at end of year | $ 36,901 | $ 31,252 | $ - | $ 68,153 |



## CITY AND COUNTY OF SAN FRANCISCO

### Schedule of Revenues, Expenditures, and Changes in Fund Balances
### Budget and Actual – Budget Basis
### Debt Service Fund
Year ended June 30, 2010
(In Thousands)

| | General Obligation Bond Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | |
| Property taxes | $ 185,133 | $ 185,133 | $ 168,646 | $ (16,487) |
| Interest and investment income | - | - | 972 | 972 |
| Intergovernmental: | | | | |
| State | 750 | 750 | 729 | (21) |
| Other revenues | - | - | 899 | 899 |
| Total revenues | 185,883 | 185,883 | 171,246 | (14,637) |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Principal retirement | 185,883 | 133,626 | 133,626 | - |
| Interest and fiscal charges | - | 59,239 | 59,239 | - |
| Total expenditures | 185,883 | 192,865 | 192,865 | - |
| Deficiency of revenues under expenditures | - | (6,982) | (21,619) | (14,637) |
| Other financing sources (uses): | | | | |
| Transfers in | - | 17,267 | 17,267 | - |
| Total other financing sources (uses) | - | 17,267 | 17,267 | - |
| Net change in fund balances | - | 10,285 | (4,352) | (14,637) |
| Budgetary fund balance, July 1 | - | 48,722 | 48,722 | - |
| Budgetary fund balance, June 30 | $ - | $ 59,007 | $ 44,370 | $ (14,637) |

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**CITY AND COUNTY OF SAN FRANCISCO**

**Combining Balance Sheet**
**Nonmajor Governmental Funds – Capital Projects Funds**
June 30, 2010
(In Thousands)

| | City Facilities Improvement | Earthquake Safety Improvement | Fire Protection Systems Improvement | Moscone Convention Center |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 336,360 | $ 1,003 | $ 8,436 | $ 9,362 |
| Deposits and investments outside City Treasury | 72,172 | - | - | 2,187 |
| Receivables: | | | | |
| Federal and state grants and subventions | - | - | - | - |
| Charges for services | - | - | - | - |
| Interest and other | 227 | - | 6 | 116 |
| Due from other funds | - | - | - | - |
| Due from / advance to component unit | - | - | - | - |
| Deferred charges and other assets | - | - | - | 39 |
| Total assets | $ 408,759 | $ 1,003 | $ 8,442 | $ 11,704 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 19,235 | $ 65 | $ 179 | $ 2,789 |
| Accrued payroll | 315 | - | - | - |
| Deferred tax, grant and subvention revenues | - | - | - | - |
| Due to other funds | 7,889 | - | - | 10,151 |
| Deferred credits and other liabilities | - | - | - | - |
| Bonds, loans, capital leases and other payables | - | - | - | 5,035 |
| Total liabilities | 27,439 | 65 | 179 | 17,975 |
| Fund balances: | | | | |
| Reserved for assets not available for appropriation | - | - | - | 2,226 |
| Reserved for encumbrances | 35,637 | 14 | 72 | 93 |
| Reserved for appropriation carryforward | 336,694 | 934 | 1,381 | 1,834 |
| Unreserved | 8,989 | (10) | 6,810 | (10,424) |
| Total fund balances | 381,320 | 938 | 8,263 | (6,271) |
| Total liabilities and fund balances | $ 408,759 | $ 1,003 | $ 8,442 | $ 11,704 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Balance Sheet
### Nonmajor Governmental Funds – Capital Projects Funds (continued)
June 30, 2010
(In Thousands)

| | Public Library Improvement | Recreation and Park Projects | Street Improvement | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Deposits and investments with City Treasury | $ 15,224 | $ 88,579 | $ 7,847 | $ 466,811 |
| Deposits and investments outside City Treasury | - | - | 29,940 | 104,299 |
| Receivables: | | | | |
| Federal and state grants and subventions | 1,141 | 5,339 | 8,642 | 15,122 |
| Charges for services | - | - | 45 | 45 |
| Interest and other | 10 | 65 | 3 | 427 |
| Due from other funds | 4,592 | 4,941 | 1,254 | 10,787 |
| Due from / advance to component unit | - | - | 1,603 | 1,603 |
| Deferred charges and other assets | - | - | 130 | 169 |
| Total assets | $ 20,967 | $ 98,924 | $ 49,464 | $ 599,263 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 3,251 | $ 1,770 | $ 6,800 | $ 34,089 |
| Accrued payroll | 154 | 338 | 1,343 | 2,150 |
| Deferred tax, grant and subvention revenues | - | 819 | 294 | 1,113 |
| Due to other funds | - | 3 | 66 | 18,109 |
| Deferred credits and other liabilities | 1,008 | 56 | 16,483 | 17,547 |
| Bonds, loans, capital leases and other payables | - | - | - | 5,035 |
| Total liabilities | 4,413 | 2,986 | 24,986 | 78,043 |
| Fund balances: | | | | |
| Reserved for assets not available for appropriation | - | - | 941 | 3,167 |
| Reserved for encumbrances | 15,256 | 8,346 | 20,880 | 80,298 |
| Reserved for appropriation carryforward | 546 | 89,719 | 50,445 | 481,553 |
| Unreserved | 752 | (2,127) | (47,788) | (43,798) |
| Total fund balances | 16,554 | 95,938 | 24,478 | 521,220 |
| Total liabilities and fund balances | $ 20,967 | $ 98,924 | $ 49,464 | $ 599,263 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Capital Projects Funds
Year Ended June 30, 2010
(In Thousands)

| | City Facilities Improvement | Earthquake Safety Improvement | Fire Protection Systems Improvement | Moscone Convention Center |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Interest and investment income | $ 3,245 | $ 14 | $ 172 | $ 98 |
| Rents and concessions | - | - | - | - |
| Intergovernmental: | | | | |
| Federal | 130 | - | - | - |
| State | - | - | - | - |
| Other | - | - | - | - |
| Other | - | - | - | - |
| Total revenues | 3,375 | 14 | 172 | 98 |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Interest and fiscal charges | 145 | - | - | 1,860 |
| Bond issuance costs | 1,266 | - | - | - |
| Capital outlay | 85,339 | 45 | 1,465 | 778 |
| Total expenditures | 86,750 | 45 | 1,465 | 2,638 |
| Excess (deficiency) of revenues over (under) expenditures | (83,375) | (31) | (1,293) | (2,540) |
| Other financing sources (uses): | | | | |
| Transfers in | - | 274 | - | - |
| Transfers out | (82,409) | - | (662) | (98) |
| Issuance of bonds and loans | | | | |
| Face value of bonds issued | 294,695 | - | - | - |
| Premium on issuance of bonds | 13,575 | - | - | - |
| Other financing sources-capital leases | - | - | - | - |
| Total other financing sources, net | 225,861 | 274 | (662) | (98) |
| Net change in fund balances | 142,486 | 243 | (1,955) | (2,638) |
| Fund balances at beginning of year | 238,834 | 695 | 10,218 | (3,633) |
| Fund balances at end of year | $ 381,320 | $ 938 | $ 8,263 | $ (6,271) |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
### Nonmajor Governmental Funds – Capital Projects Funds (continued)
Year Ended June 30, 2010
(In Thousands)

| | Public Library Improvement | Recreation and Park Projects | Street Improvement | Total |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Interest and investment income | $ 393 | $ 1,101 | $ 241 | $ 5,264 |
| Rents and concessions | - | - | 634 | 634 |
| Intergovernmental: | | | | |
| Federal | 46 | - | 14,337 | 14,513 |
| State | 1,393 | 7,108 | 9,664 | 18,165 |
| Other | - | - | 4,897 | 4,897 |
| Other | - | 1,400 | 143 | 1,543 |
| Total revenues | 1,832 | 9,609 | 29,916 | 45,016 |
| **Expenditures:** | | | | |
| Debt service: | | | | |
| Interest and fiscal charges | 107 | - | - | 2,112 |
| Bond issuance costs | - | 249 | 630 | 2,145 |
| Capital outlay | 21,752 | 22,210 | 50,859 | 182,448 |
| Total expenditures | 21,859 | 22,459 | 51,489 | 186,705 |
| Excess (deficiency) of revenues over (under) expenditures | (20,027) | (12,850) | (21,573) | (141,689) |
| Other financing sources (uses): | | | | |
| Transfers in | - | 2,785 | 9,600 | 12,659 |
| Transfers out | - | (13,400) | (4,458) | (101,027) |
| Issuance of bonds and loans | | | | |
| Face value of bonds issued | - | 60,430 | 37,885 | 393,010 |
| Premium on issuance of bonds | - | 2,783 | 289 | 16,647 |
| Other financing sources-capital leases | 6,379 | 10,336 | - | 16,715 |
| Total other financing sources, net | 6,379 | 62,934 | 43,316 | 338,004 |
| Net change in fund balances | (13,648) | 50,084 | 21,743 | 196,315 |
| Fund balances at beginning of year | 30,202 | 45,854 | 2,735 | 324,905 |
| Fund balances at end of year | $ 16,554 | $ 95,938 | $ 24,478 | $ 521,220 |



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## CITY AND COUNTY OF SAN FRANCISCO

### 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, 2010
(In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecom-munications & Information Fund | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Deposits and investments with City Treasury | $ 2,391 | $ 316 | $ 581 | $ 26,367 | $ 29,655 |
| Receivables: | | | | | |
| Charges for services | 67 | - | - | - | 67 |
| Interest and other | - | 2 | 93 | 836 | 931 |
| Due from other funds | - | 184 | - | - | 184 |
| Capital leases receivable | - | 19,455 | - | - | 19,455 |
| Total current assets | 2,458 | 19,957 | 674 | 27,203 | 50,292 |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Deposits and investments outside City Treasury | - | 89,553 | - | - | 89,553 |
| Capital leases receivable | - | 265,321 | - | - | 265,321 |
| Capital assets: | | | | | |
| Land and other assets not being depreciated | 88 | - | - | - | 88 |
| Facilities and equipment, net of depreciation | 480 | - | 600 | 4,357 | 5,437 |
| Deferred charges and other assets | - | 4,199 | - | - | 4,199 |
| Total noncurrent assets | 568 | 359,073 | 600 | 4,357 | 364,598 |
| Total assets | 3,026 | 379,030 | 1,274 | 31,560 | 414,890 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,277 | 226 | 270 | 8,708 | 10,481 |
| Accrued payroll | 541 | - | 60 | 1,306 | 1,907 |
| Accrued vacation and sick leave pay | 484 | - | - | 1,191 | 1,675 |
| Accrued workers' compensation | - | - | - | 160 | 160 |
| Bonds, loans, capital leases, and other payables | - | 17,395 | 185 | - | 17,580 |
| Accrued interest payable | - | 1,935 | - | - | 1,935 |
| Due to other funds | 49 | 9,665 | - | 135 | 9,849 |
| Deferred credits and other liabilities | - | 82,118 | - | 743 | 82,861 |
| Total current liabilities | 2,351 | 111,339 | 515 | 12,243 | 126,448 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation and sick leave pay | 417 | - | - | 1,114 | 1,531 |
| Accrued workers' compensation | - | - | - | 804 | 804 |
| Other postemployment benefits obligation | 2,205 | - | - | 8,409 | 10,614 |
| Bonds, loans, capital leases, and other payables | - | 267,691 | 289 | - | 267,980 |
| Total noncurrent liabilities | 2,622 | 267,691 | 289 | 10,327 | 280,929 |
| Total liabilities | 4,973 | 379,030 | 804 | 22,570 | 407,377 |
| **Net Assets** | | | | | |
| Invested in capital assets, net of related debt | 568 | - | 126 | 4,357 | 5,051 |
| Unrestricted (deficit) | (2,515) | - | 344 | 4,633 | 2,462 |
| Total net assets (deficit) | $ (1,947) | $ - | $ 470 | $ 8,990 | $ 7,513 |

Notes:

(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Assets - Proprietary Funds on page 32.

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Revenues, Expenses, and Changes in Net Assets – Internal Service Funds
Year ended June 30, 2010
(In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecom-munications & Information Fund | Total |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Charges for services | $ 23,858 | $ - | $ 6,790 | $ 80,964 | $ 111,612 |
| Operating expenses: | | | | | |
| Personal services | 12,096 | - | 1,716 | 31,092 | 44,904 |
| Contractual services | 2,085 | - | 3,700 | 25,053 | 30,838 |
| Materials and supplies | 9,652 | - | 307 | 6,802 | 16,761 |
| Depreciation and amortization | 530 | 362 | 181 | 847 | 1,920 |
| General and administrative | 98 | - | 1 | 357 | 456 |
| Services provided by other departments | 1,262 | - | 491 | 3,953 | 5,706 |
| Other | 4 | - | 547 | 3,731 | 4,282 |
| Total operating expenses | 25,727 | 362 | 6,943 | 71,835 | 104,867 |
| Operating income (loss) | (1,869) | (362) | (153) | 9,129 | 6,745 |
| Nonoperating revenues (expenses): | | | | | |
| Interest and investment income | - | 7,150 | - | 165 | 7,315 |
| Interest expense | (45) | (6,788) | (5) | - | (6,838) |
| Total nonoperating revenues (expenses) | (45) | 362 | (5) | 165 | 477 |
| Income (loss) before transfers | (1,914) | - | (158) | 9,294 | 7,222 |
| Transfers in | 1,695 | - | 5 | 200 | 1,900 |
| Transfers out | - | - | - | (165) | (165) |
| Change in net assets | (219) | - | (153) | 9,329 | 8,957 |
| Total net assets (deficit) - beginning | (1,728) | - | 623 | (339) | (1,444) |
| Total net assets (deficit) - ending | $ (1,947) | $ - | $ 470 | $ 8,990 | $ 7,513 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Cash Flows – Internal Service Funds
Year ended June 30, 2010
(In Thousands)

| | Central Shops Fund | Finance Corporation | Reproduction Fund | Telecom-munications & Information Fund | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Cash received from customers | $ 23,838 | $ 23,169 | $ 6,831 | $ 80,523 | $ 134,361 |
| Cash paid to employees for services | (11,259) | - | (1,753) | (29,400) | (42,412) |
| Cash paid to suppliers for goods and services | (13,129) | (14,714) | (4,915) | (38,288) | (71,046) |
| Net cash provided by (used in) operating activities | (550) | 8,455 | 163 | 12,835 | 20,903 |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers in | 1,695 | - | 5 | 200 | 1,900 |
| Transfers out | - | - | - | (165) | (165) |
| Net cash provided by noncapital financing activities | 1,695 | - | 5 | 35 | 1,735 |
| Cash flows from capital and related financing activities: | | | | | |
| Bond sale proceeds | - | 10,629 | - | - | 10,629 |
| Acquisition of capital assets | (88) | - | (8) | (625) | (721) |
| Retirement of capital lease obligation | - | (18,890) | (237) | - | (19,127) |
| Bond issue costs paid | - | (211) | - | - | (211) |
| Interest paid on long-term debt | - | (6,942) | - | - | (6,942) |
| Net cash (used in) capital financing activities | (88) | (15,414) | (245) | (625) | (16,372) |
| Cash flows from investing activities: | | | | | |
| Purchases of investments with trustees | - | (34,098) | - | - | (34,098) |
| Proceeds from sale of investments with trustees | - | 44,499 | - | - | 44,499 |
| Interest income received | - | 469 | - | 165 | 634 |
| Other investing activities | (45) | - | (5) | - | (50) |
| Net cash provided by (used in) investing activities | (45) | 10,870 | (5) | 165 | 10,985 |
| Increase (decrease) in cash and cash equivalents | 1,012 | 3,911 | (82) | 12,410 | 17,251 |
| Cash and cash equivalents - beginning of year | 1,379 | 57,670 | 663 | 13,957 | 73,669 |
| Cash and cash equivalents - end of year | $ 2,391 | $ 61,581 | $ 581 | $ 26,367 | $ 90,920 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Operating income (loss) | $ (1,869) | $ (362) | $ (153) | $ 9,129 | $ 6,745 |
| Adjustments for non-cash activities: | | | | | |
| Depreciation and amortization | 530 | 362 | 181 | 847 | 1,920 |
| Changes in assets/liabilities: | | | | | |
| Receivables, net | 22 | 18,890 | 40 | (244) | 18,708 |
| Accounts payable | - | - | 131 | 1,710 | 1,841 |
| Accrued payroll | 46 | - | (36) | (7) | 3 |
| Accrued vacation and sick leave pay | 49 | - | - | (226) | (177) |
| Accrued workers' compensation | - | - | - | (63) | (63) |
| Other postemployment benefits obligation | 742 | - | - | 1,987 | 2,729 |
| Due to other funds | (29) | - | - | (102) | (131) |
| Deferred credits and other liabilities | (41) | (10,435) | - | (196) | (10,672) |
| Total adjustments | 1,319 | 8,817 | 316 | 3,706 | 14,158 |
| Net cash provided by (used in) operating activities | $ (550) | $ 8,455 | $ 163 | $ 12,835 | $ 20,903 |
| Reconciliation of cash and cash equivalents to the combining statement of net assets: | | | | | |
| Deposits and investments with City Treasury: | | | | | |
| Unrestricted | $ 2,391 | $ 316 | $ 581 | $ 26,367 | $ 29,655 |
| Deposits and investments outside City Treasury: | | | | | |
| Restricted | - | 89,553 | - | - | 89,553 |
| Total deposits and investments | 2,391 | 89,869 | 581 | 26,367 | 119,208 |
| Less: Investments outside of City Treasury not meeting the definition of cash equivalents | - | (28,288) | - | - | (28,288) |
| Cash and cash equivalents at end of year on combining statement of cash flows | $ 2,391 | $ 61,581 | $ 581 | $ 26,367 | $ 90,920 |
| Non-cash capital and related financing activities: | | | | | |
| Acquisition of capital assets on accounts payable and capital lease | $ - | $ 9,715 | $ - | $ - | $ 9,715 |

## CITY AND COUNTY OF SAN FRANCISCO

## 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 Net Assets – Fiduciary Funds**
**Pension and Other Employee Trust Funds**
June 30, 2010
(In Thousands)

| | Pension Trust Fund | Other Employee Benefit Trust Fund | |
|---|---|---|---|
| | Employees' Retirement System | Health Service System | Total |
| **ASSETS** | | | |
| Deposits and investments with City Treasury | $ 3,599 | $ 65,594 | $ 69,193 |
| Deposits and investments outside City Treasury: | | | |
| Cash and deposits | 12,834 | - | 12,834 |
| Short-term investments | 583,208 | - | 583,208 |
| Alternative investments | 1,763,500 | - | 1,763,500 |
| Debt securities | 4,058,835 | - | 4,058,835 |
| Equity securities | 5,733,593 | - | 5,733,593 |
| Real estate | 1,009,001 | - | 1,009,001 |
| Foreign currency contracts, net | 6,387 | - | 6,387 |
| Receivables: | | | |
| Employer and employee contributions | 19,163 | 20,893 | 40,056 |
| Brokers, general partners and others | 155,528 | - | 155,528 |
| Interest and other | 36,960 | 8,163 | 45,123 |
| Invested in securities lending collateral | 964,858 | - | 964,858 |
| Total assets | 14,347,466 | 94,650 | 14,442,116 |
| **Liabilities** | | | |
| Accounts payable | 15,828 | 27,215 | 43,043 |
| Estimated claims payable | - | 12,424 | 12,424 |
| Payable to brokers | 219,697 | - | 219,697 |
| Deferred Retirement Option Program liabilities | 8,653 | - | 8,653 |
| Payable to borrowers of securities | 966,502 | - | 966,502 |
| Deferred credits and other liabilities | - | 40,785 | 40,785 |
| Total liabilities | 1,210,680 | 80,424 | 1,291,104 |
| **Net Assets** | | | |
| Held in trust for pension benefits and other purposes | $ 13,136,786 | $ 14,226 | $ 13,151,012 |

## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
### Pension and Other Employee Trust Funds
Year ended June 30, 2010
(In Thousands)

| | Pension Trust Fund: Employees' Retirement System | Other Employee Benefit Trust Fund: Health Service System | Total |
|---|---|---|---|
| Additions: | | | |
| Employees' contributions | $ 189,948 | $ 111,918 | $ 301,866 |
| Employer contributions | 223,614 | 548,185 | 771,799 |
| Total contributions | 413,562 | 660,103 | 1,073,665 |
| Investment income/loss: | | | |
| Interest | 195,166 | 510 | 195,676 |
| Dividends | 139,161 | - | 139,161 |
| Net appreciation in fair value of investments | 1,334,257 | 427 | 1,334,684 |
| Securities lending income | 34,730 | - | 34,730 |
| Total investment income | 1,703,314 | 937 | 1,704,251 |
| Less investment expenses: | | | |
| Securities lending borrower rebates and expenses | (4,007) | - | (4,007) |
| Other investment expenses | (44,206) | - | (44,206) |
| Total investment expenses | (48,213) | - | (48,213) |
| Total additions, net | 2,068,663 | 661,040 | 2,729,703 |
| Deductions: | | | |
| Benefit payments | 792,776 | 660,214 | 1,452,990 |
| Refunds of contributions | 11,997 | - | 11,997 |
| Administrative expenses | 13,833 | - | 13,833 |
| Total deductions | 818,606 | 660,214 | 1,478,820 |
| Change in net assets | 1,250,057 | 826 | 1,250,883 |
| Net assets at beginning of year | 11,886,729 | 13,400 | 11,900,129 |
| Net assets at end of year | $ 13,136,786 | $ 14,226 | $ 13,151,012 |



## CITY AND COUNTY OF SAN FRANCISCO

### Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year ended June 30, 2010
(In Thousands)

| | Balance July 1, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| **Assistance Program Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 35,688 | $ 9,580 | $ 16,859 | $ 28,409 |
| Receivables: | | | | |
| Interest and other | 88 | 351 | 421 | 18 |
| Total assets | $ 35,776 | $ 9,931 | $ 17,280 | $ 28,427 |
| LIABILITIES | | | | |
| Accounts payable | $ 734 | $ 8,359 | $ 8,999 | $ 94 |
| Agency obligations | 35,042 | 9,840 | 16,549 | 28,333 |
| Total liabilities | $ 35,776 | $ 18,199 | $ 25,548 | $ 28,427 |
| **Deposits Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 18,246 | $ 39,488 | $ 39,859 | $ 17,875 |
| Deposits and investments outside City Treasury | 15 | - | 15 | - |
| Receivables: | | | | |
| Interest and other | 39 | 58 | 51 | 46 |
| Deferred charges and other assets | 24,299 | 4,150 | 25 | 28,424 |
| Total assets | $ 42,599 | $ 43,696 | $ 39,950 | $ 46,345 |
| LIABILITIES | | | | |
| Accounts payable | $ 895 | $ 11,665 | $ 11,609 | $ 951 |
| Agency obligations | 41,704 | 38,716 | 35,026 | 45,394 |
| Total liabilities | $ 42,599 | $ 50,381 | $ 46,635 | $ 46,345 |
| **Payroll Deduction Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 10,628 | $ 1,566 | $ - | $ 12,194 |
| Receivables: | | | | |
| Employer and employee contributions | 48,107 | 3,497 | - | 51,604 |
| Total assets | $ 58,735 | $ 5,063 | $ - | $ 63,798 |
| LIABILITIES | | | | |
| Accounts payable | $ 46,824 | $ 2,898 | $ - | $ 49,722 |
| Agency obligations | 11,911 | 2,183 | 18 | 14,076 |
| Total liabilities | $ 58,735 | $ 5,081 | $ 18 | $ 63,798 |

## CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Changes in Assets and Liabilities –**
**Agency Funds** (continued)
Year ended June 30, 2010
(In Thousands)

| | Balance July 1, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| **State Revenue Collection Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 585 | $ 3,126 | $ 2,844 | $ 867 |
| Total assets | $ 585 | $ 3,126 | $ 2,844 | $ 867 |
| LIABILITIES | | | | |
| Accounts payable | $ 296 | $ 2,674 | $ 2,684 | $ 286 |
| Agency obligations | 289 | 3,283 | 2,991 | 581 |
| Total liabilities | $ 585 | $ 5,957 | $ 5,675 | $ 867 |
| **Tax Collection Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ - | $ 2,999,824 | $ 2,999,824 | $ - |
| Deposits and investments outside City Treasury | 208 | - | 208 | - |
| Receivables: | | | | |
| Interest and other | 191,833 | 1,753,253 | 1,750,341 | 194,745 |
| Total assets | $ 192,041 | $ 4,753,077 | $ 4,750,373 | $ 194,745 |
| LIABILITIES | | | | |
| Accounts payable | $ 8,220 | $ 181,804 | $ 163,952 | $ 26,072 |
| Agency obligations | 183,821 | 2,095,640 | 2,110,788 | 168,673 |
| Total liabilities | $ 192,041 | $ 2,277,444 | $ 2,274,740 | $ 194,745 |
| **Transit Fund** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 5,179 | $ 51,631 | $ 55,076 | $ 1,734 |
| Receivables: | | | | |
| Interest and other | 4 | 22 | 26 | - |
| Total assets | $ 5,183 | $ 51,653 | $ 55,102 | $ 1,734 |
| LIABILITIES | | | | |
| Accounts payable | $ 3,405 | $ 19,941 | $ 23,086 | $ 260 |
| Agency obligations | 1,778 | 32,289 | 32,593 | 1,474 |
| Total liabilities | $ 5,183 | $ 52,230 | $ 55,679 | $ 1,734 |



## CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Changes in Assets and Liabilities –**
**Agency Funds** (continued)
Year ended June 30, 2010
(In Thousands)

| | Balance July 1, 2009 | Additions | Deductions | Balance June 30, 2010 |
|---|---|---|---|---|
| **Other Agency Funds** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 20,805 | $ 168,923 | $ 174,645 | $ 15,083 |
| Receivables: | | | | |
| Interest and other | 522 | 324 | 315 | 531 |
| Total assets | $ 21,327 | $ 169,247 | $ 174,960 | $ 15,614 |
| LIABILITIES | | | | |
| Accounts payable | $ 5,908 | $ 150,169 | $ 155,232 | $ 845 |
| Agency obligations | 15,419 | 168,419 | 169,069 | 14,769 |
| Total liabilities | $ 21,327 | $ 318,588 | $ 324,301 | $ 15,614 |
| **Total Agency Funds** | | | | |
| ASSETS | | | | |
| Deposits and investments with City Treasury | $ 91,131 | $ 3,274,138 | $ 3,289,107 | $ 76,162 |
| Deposits and investments outside City Treasury | 223 | - | 223 | - |
| Receivables: | | | | |
| Employer and employee contributions | 48,107 | 3,497 | - | 51,604 |
| Interest and other | 192,486 | 1,754,008 | 1,751,154 | 195,340 |
| Deferred charges and other assets | 24,299 | 4,150 | 25 | 28,424 |
| Total assets | $ 356,246 | $ 5,035,793 | $ 5,040,509 | $ 351,530 |
| LIABILITIES | | | | |
| Accounts payable | $ 66,282 | $ 377,510 | $ 365,562 | $ 78,230 |
| Agency obligations | 289,964 | 2,350,370 | 2,367,034 | 273,300 |
| Total liabilities | $ 356,246 | $ 2,727,880 | $ 2,732,596 | $ 351,530 |

# Statistical Section

## CITY AND COUNTY OF SAN FRANCISCO
## 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.

**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.

**Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.

**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.

**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.

**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.

**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.

## CITY AND COUNTY OF SAN FRANCISCO

### Net Assets by Component – Last Ten Fiscal Years
(Accrual basis of accounting)
(In Thousands)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 (1) | 2003 (2) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| **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 | $ 1,454,614 | $ 1,436,842 | $ 1,725,203 | $ 1,833,733 |
| Restricted for: | | | | | | | | | | |
| Cash and emergencies requirements by Charter (3) | 97,491 | 93,293 | 59,337 | 55,139 | - | - | - | - | - | - |
| Reserve for rainy day | - | - | - | - | 48,139 | 121,976 | 133,622 | 117,792 | 98,297 | 39,582 |
| Debt service | 10,855 | 12,135 | 7,795 | 9,996 | 46,575 | 53,076 | 28,310 | 23,130 | 30,724 | 34,308 |
| Capital projects | 118,549 | 115,052 | 86,912 | 48,313 | 25,101 | 10,589 | 19,128 | - | - | 63,323 |
| Community development | 181,264 | 135,308 | 158,591 | 163,875 | 208,532 | 71,207 | 63,043 | 95,136 | 64,031 | 66,251 |
| Transportation Authority activities | 162,037 | 142,740 | 149,070 | 135,466 | 75,282 | 23,727 | 10,390 | 1,693 | 2,515 | 1,966 |
| Other purposes | 153,838 | 219,351 | 133,233 | 122,265 | 138,224 | 148,071 | 176,350 | 172,360 | 176,264 | 176,640 |
| Unrestricted (deficit) | (45,402) | (130,525) | (265,950) | (325,147) | (200,467) | (72,038) | (14,446) | (261,897) | (791,831) | (1,062,818) |
| Total governmental activities net assets | $ 1,458,330 | $ 1,475,021 | $ 1,312,822 | $ 1,306,741 | $ 1,501,082 | $ 1,794,618 | $ 1,871,011 | $ 1,585,056 | $ 1,305,203 | $ 1,152,985 |
| **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 | $ 3,795,006 | $ 3,935,008 | $ 4,204,644 | $ 4,240,971 |
| Restricted for: | | | | | | | | | | |
| Debt service | 276,392 | 334,747 | 273,242 | 242,537 | 202,006 | 256,055 | 249,656 | 282,187 | 58,716 | 71,128 |
| Capital projects | 189,103 | 141,154 | 147,693 | 128,387 | 161,231 | 148,957 | 75,771 | 111,463 | 140,932 | 188,102 |
| Other purposes | 112,335 | 70,118 | 61,616 | 61,241 | 66,753 | 32,354 | 23,709 | 28,254 | 31,459 | 18,854 |
| Unrestricted | 578,675 | 568,599 | 542,813 | 464,658 | 446,039 | 536,670 | 567,122 | 491,437 | 324,395 | 296,839 |
| Total business-type activities net assets | $ 4,126,703 | $ 4,230,010 | $ 4,298,813 | $ 4,312,977 | $ 4,267,479 | $ 4,412,433 | $ 4,711,264 | $ 4,848,349 | $ 4,760,146 | $ 4,815,894 |
| **Primary government** | | | | | | | | | | |
| Invested in capital assets, net of related debt (4) | $ 3,749,896 | $ 4,003,059 | $ 4,257,283 | $ 4,512,988 | $ 4,551,146 | $ 4,876,407 | $ 5,249,620 | $ 5,371,850 | $ 5,630,550 | $ 5,699,016 |
| Restricted for: | | | | | | | | | | |
| Cash and emergencies requirements by Charter | 97,491 | 93,293 | 59,337 | 55,139 | - | - | - | - | - | - |
| Reserve for rainy day | - | - | - | - | 48,139 | 121,976 | 133,622 | 117,792 | 98,297 | 39,582 |
| Debt service | 287,247 | 346,882 | 281,037 | 252,533 | 248,581 | 309,131 | 277,966 | 305,317 | 89,440 | 105,436 |
| Capital projects (4) | 307,652 | 256,206 | 234,605 | 176,700 | 186,332 | 159,546 | 94,899 | 111,463 | 140,932 | 238,731 |
| Community development | 181,264 | 135,308 | 158,591 | 163,875 | 208,532 | 71,207 | 63,043 | 95,136 | 64,031 | 66,251 |
| Transportation Authority activities | 162,037 | 142,740 | 149,070 | 135,466 | 75,282 | 23,727 | 10,390 | 1,693 | 2,515 | 1,966 |
| Other purposes | 266,173 | 289,469 | 194,849 | 183,506 | 204,977 | 180,425 | 200,059 | 200,614 | 207,723 | 195,494 |
| Unrestricted (4) | 533,273 | 438,074 | 276,863 | 139,511 | 245,572 | 464,632 | 552,676 | 229,540 | (168,139) | (377,597) |
| Total primary activities net assets | $ 5,585,033 | $ 5,705,031 | $ 5,611,635 | $ 5,619,718 | $ 5,768,561 | $ 6,207,051 | $ 6,582,275 | $ 6,433,405 | $ 6,065,349 | $ 5,968,879 |

Notes:
(1) 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 projects funds.
(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.
(3) 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.
(4) Certain net assets are reclassified to reflect the primary government as a whole perspective since fiscal year 2009. See Note 2(k) in the Notes to Basic Financial Statements for details.




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## CITY AND COUNTY OF SAN FRANCISCO

### Changes in Net Assets – Last Ten Fiscal Years
(Accrual basis of accounting)
(In Thousands)

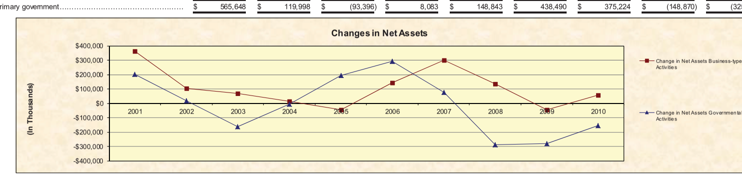
| | Fiscal Year 2001 | 2002 [1] | 2003 [2] | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 [3] | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Public protection | $ 699,472 | $ 717,552 | $ 778,710 | $ 727,580 | $ 738,688 | $ 780,642 | $ 861,689 | $ 1,020,457 | $ 1,109,311 | $ 1,089,309 |
| Public works, transportation and commerce | 309,171 | 317,778 | 287,910 | 169,179 | 213,335 | 272,397 | 309,095 | 342,411 | 254,955 | 225,589 |
| Human welfare and neighborhood development | 523,827 | 586,188 | 626,306 | 651,250 | 619,753 | 858,396 | 751,034 | 848,195 | 908,449 | 933,039 |
| Community health | 457,500 | 493,856 | 542,480 | 517,066 | 503,259 | 478,844 | 516,321 | 567,410 | 608,733 | 599,741 |
| Culture and recreation | 229,721 | 246,620 | 242,398 | 232,187 | 256,336 | 244,423 | 290,547 | 347,433 | 319,994 | 310,063 |
| General administration and finance | 107,318 | 156,770 | 186,144 | 183,258 | 152,850 | 167,490 | 194,653 | 250,295 | 238,601 | 221,471 |
| General City responsibilities | 109,804 | 55,551 | 53,026 | 73,530 | 59,024 | 49,054 | 67,948 | 80,887 | 72,634 | 80,246 |
| Unallocated Interest on long-term debt | 73,588 | 77,335 | 77,827 | 86,131 | 89,690 | 94,923 | 94,060 | 97,694 | 93,387 | 102,635 |
| Total governmental activities expenses | 2,510,401 | 2,651,650 | 2,794,801 | 2,640,181 | 2,632,935 | 2,946,169 | 3,085,347 | 3,554,782 | 3,606,064 | 3,562,093 |
| Business-type activities: | | | | | | | | | | |
| Airport | 529,002 | 599,335 | 641,036 | 618,301 | 628,445 | 633,102 | 624,832 | 651,581 | 683,335 | 661,044 |
| Transportation | 468,753 | 528,725 | 628,180 | 660,650 | 711,733 | 695,593 | 726,053 | 830,411 | 863,218 | 897,500 |
| Port | 47,587 | 58,694 | 61,074 | 61,185 | 54,897 | 55,329 | 61,937 | 67,495 | 71,778 | 73,573 |
| Water | 145,858 | 165,362 | 186,579 | 206,211 | 197,848 | 213,584 | 236,824 | 252,802 | 277,162 | 325,242 |
| Power | 107,000 | 113,754 | 95,427 | 121,629 | 116,683 | 119,146 | 95,020 | 109,436 | 96,228 | 119,109 |
| Hospitals | 513,486 | 525,045 | 561,673 | 562,188 | 598,160 | 646,149 | 714,349 | 812,399 | 820,236 | 842,488 |
| Sewer | 149,687 | 159,896 | 153,845 | 150,586 | 160,650 | 160,701 | 168,954 | 182,712 | 184,977 | 201,403 |
| Garages | 34,155 | 32,274 | - | - | - | - | - | - | - | - |
| Market | - | - | 894 | 949 | 1,055 | 1,035 | 1,061 | 1,052 | 1,144 | 1,119 |
| Total business-type activities expenses | 1,995,528 | 2,183,085 | 2,328,708 | 2,381,699 | 2,469,471 | 2,524,639 | 2,629,030 | 2,907,888 | 2,998,078 | 3,121,478 |
| Total primary government expenses | $ 4,505,929 | $ 4,834,735 | $ 5,123,509 | $ 5,021,880 | $ 5,102,406 | $ 5,470,808 | $ 5,714,377 | $ 6,462,670 | $ 6,604,142 | $ 6,683,571 |
| **Program Revenues** | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Public protection | $ 43,051 | $ 42,254 | $ 44,291 | $ 40,349 | $ 54,805 | $ 51,874 | $ 58,979 | $ 66,343 | $ 90,044 | $ 58,980 |
| Public works, transportation and commerce | 97,432 | 102,576 | 84,057 | 83,176 | 95,081 | 113,861 | 111,364 | 115,939 | 72,287 | 71,288 |
| Human welfare and neighborhood development | 12,742 | 20,292 | 26,349 | 23,931 | 21,375 | 29,181 | 56,367 | 108,956 | 33,988 | 25,813 |
| Community health | 29,999 | 36,176 | 41,906 | 38,933 | 44,850 | 52,183 | 50,266 | 52,455 | 60,708 | 65,756 |
| Culture and recreation | 57,191 | 47,116 | 44,629 | 53,369 | 64,614 | 64,720 | 65,407 | 70,576 | 74,477 | 81,855 |
| General administration and finance | 49,977 | 53,434 | 36,525 | 43,585 | 41,348 | 55,799 | 10,502 | 20,376 | 33,530 | 35,190 |
| General City responsibilities | 54,329 | 47,050 | 41,123 | 59,609 | 28,956 | 31,647 | 29,604 | 26,980 | 27,377 | 37,806 |
| Operating Grants and Contributions | 763,863 | 781,767 | 809,670 | 823,784 | 834,607 | 859,919 | 927,256 | 926,089 | 909,695 | 997,091 |
| Capital Grants and Contributions | 22,619 | 58,394 | 46,029 | 39,209 | 55,435 | 248,329 | 50,479 | 36,079 | 44,048 | 50,349 |
| Total Governmental activities program revenues | 1,131,203 | 1,189,059 | 1,174,579 | 1,205,945 | 1,241,071 | 1,507,513 | 1,360,224 | 1,423,793 | 1,346,154 | 1,424,128 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Airport | 414,880 | 465,176 | 500,116 | 486,132 | 477,314 | 455,342 | 503,914 | 535,771 | 551,283 | 576,738 |
| Transportation | 113,196 | 107,455 | 155,656 | 186,390 | 187,913 | 210,692 | 222,115 | 257,341 | 257,083 | 303,117 |
| Port | 50,345 | 50,494 | 54,467 | 56,702 | 57,519 | 58,588 | 61,193 | 64,498 | 66,438 | 66,579 |
| Water | 149,917 | 147,216 | 170,253 | 168,260 | 184,835 | 201,833 | 216,531 | 234,216 | 265,781 | 265,218 |
| Power | 101,963 | 125,777 | 132,190 | 124,474 | 132,303 | 149,500 | 108,224 | 119,855 | 115,274 | 128,590 |
| Hospitals | 398,461 | 412,874 | 429,128 | 453,607 | 493,596 | 472,327 | 515,092 | 558,167 | 568,210 | 606,276 |
| Sewer | 141,770 | 134,595 | 134,745 | 137,806 | 148,888 | 164,703 | 193,411 | 202,549 | 208,654 | 209,843 |
| Garages | 37,589 | 35,645 | - | - | - | - | - | - | - | - |
| Market | - | - | 1,296 | 1,413 | 1,462 | 1,503 | 1,567 | 1,564 | 1,546 | 1,681 |
| Operating Grants and Contributions | 260,520 | 282,059 | 164,257 | 169,767 | 180,807 | 188,672 | 183,301 | 181,725 | 186,805 | 182,572 |
| Capital Grants and Contributions | 335,520 | 251,747 | 204,751 | 94,818 | 93,724 | 110,403 | 150,080 | 152,511 | 107,118 | 180,253 |
| Total business-type activities program revenues | 2,004,161 | 2,013,038 | 1,946,859 | 1,879,369 | 1,958,361 | 2,013,563 | 2,155,428 | 2,308,197 | 2,328,192 | 2,520,867 |
| Total primary government program revenues | $ 3,135,364 | $ 3,202,097 | $ 3,121,438 | $ 3,085,314 | $ 3,199,432 | $ 3,521,076 | $ 3,515,652 | $ 3,731,990 | $ 3,674,346 | $ 3,944,995 |



## CITY AND COUNTY OF SAN FRANCISCO

### Changes in Net Assets – Last Ten Fiscal Years (continued)
(Accrual basis of accounting)
(In Thousands)

| | Fiscal Year 2001 | 2002 [1] | 2003 [2] | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 [3] | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net (expenses)/revenue** | | | | | | | | | | |
| Governmental activities | $ (1,379,198) | $ (1,462,591) | $ (1,620,222) | $ (1,434,236) | $ (1,391,864) | $ (1,438,656) | $ (1,725,123) | $ (2,130,989) | $ (2,259,910) | $ (2,137,965) |
| Business-type activities | 8,633 | (170,047) | (381,849) | (502,330) | (511,110) | (511,076) | (473,602) | (599,691) | (669,886) | (600,611) |
| Total primary government net expenses | $ (1,370,565) | $ (1,632,638) | $ (2,002,071) | $ (1,936,566) | $ (1,902,974) | $ (1,949,732) | $ (2,198,725) | $ (2,730,680) | $ (2,929,796) | $ (2,738,576) |
| **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 | $ 1,126,992 | $ 1,189,511 | $ 1,302,071 | $ 1,345,040 |
| Business taxes | 277,822 | 274,848 | 276,651 | 264,832 | 292,763 | 323,153 | 337,592 | 396,025 | 388,653 | 354,019 |
| Sales and use tax | 219,303 | 174,154 | 172,396 | 182,567 | 161,451 | 175,138 | 184,723 | 190,967 | 172,794 | 164,769 |
| Hotel room tax | 189,264 | 119,658 | 122,853 | 142,437 | 151,993 | 173,923 | 194,290 | 219,089 | 214,460 | 186,849 |
| Utility users tax | 73,870 | 70,779 | 71,378 | 70,938 | 72,574 | 76,444 | 78,729 | 86,964 | 89,801 | 94,537 |
| Other local taxes | 99,043 | 79,999 | 84,050 | 113,513 | 152,067 | 170,159 | 211,082 | 155,951 | 126,017 | 194,070 |
| Interest and investment income | 81,084 | 70,597 | 26,332 | 11,856 | 29,490 | 71,129 | 86,233 | 57,929 | 35,434 | 27,877 |
| Other | 115,695 | 115,943 | 196,496 | 170,163 | 47,153 | 56,022 | 33,046 | 25,939 | 44,086 | 54,410 |
| Transfers - internal activities of primary government | (102,154) | (124,399) | (178,991) | (251,937) | (241,600) | (329,996) | (451,171) | (477,341) | (393,259) | (435,824) |
| Total governmental activities | 1,582,773 | 1,479,282 | 1,458,023 | 1,428,155 | 1,586,205 | 1,732,192 | 1,801,516 | 1,845,034 | 1,980,057 | 1,985,747 |
| Business-type activities: | | | | | | | | | | |
| Interest and investment income | 96,493 | 63,530 | 50,215 | 17,620 | 33,268 | 53,161 | 85,692 | 67,217 | 49,691 | 44,471 |
| Other | 28,779 | 85,425 | 188,446 | 237,692 | 237,102 | 272,873 | 218,184 | 233,244 | 181,759 | 176,064 |
| Special item | 126,014 | - | 33,000 | 9,245 | (46,358) | - | 17,386 | (41,026) | - | - |
| Transfers - internal activities of primary government | 102,154 | 124,399 | 178,991 | 251,937 | 241,600 | 329,996 | 451,171 | 477,341 | 393,259 | 435,824 |
| Total business-type activities | 353,440 | 273,354 | 450,652 | 516,494 | 465,612 | 656,030 | 772,433 | 736,776 | 624,709 | 656,359 |
| Total primary government | $ 1,936,213 | $ 1,752,636 | $ 1,908,675 | $ 1,944,649 | $ 2,051,817 | $ 2,388,222 | $ 2,573,949 | $ 2,581,810 | $ 2,604,766 | $ 2,642,106 |
| **Change in Net Assets** | | | | | | | | | | |
| Governmental activities | $ 203,575 | $ 16,691 | $ (162,199) | $ (6,081) | $ 194,341 | $ 293,536 | $ 76,393 | $ (285,955) | $ (279,853) | $ (152,218) |
| Business-type activities | 362,073 | 103,307 | 68,803 | 14,164 | (45,498) | 144,954 | 298,831 | 137,085 | (45,177) | 55,748 |
| Total primary government | $ 565,648 | $ 119,998 | $ (93,396) | $ 8,083 | $ 148,843 | $ 438,490 | $ 375,224 | $ (148,870) | $ (325,030) | $ (96,470) |




Notes:

(1) 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.

(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.

(3) In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

**CITY AND COUNTY OF SAN FRANCISCO**

**Fund Balances of Governmental Funds – Last Ten Fiscal Years**
(Modified accrual basis of accounting)
(In Thousands)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 (1) | 2003 (2) | 2004 (3) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 (4) |
| **General Fund** | | | | | | | | | | |
| Reserved by charter for cash and emergency requirements. | $ 97,491 | $ 97,491 | $ 59,337 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Reserved for rainy day | - | - | - | 55,139 | 48,139 | 121,976 | 133,622 | 117,792 | 98,297 | 39,582 |
| Reserved for assets not available for appropriation | 6,089 | 6,406 | 6,768 | 7,142 | 9,031 | 10,710 | 12,665 | 11,358 | 11,307 | 14,874 |
| Reserved for encumbrances | 37,743 | 52,735 | 43,195 | 42,501 | 57,762 | 38,159 | 60,948 | 63,068 | 65,902 | 69,562 |
| Reserved for appropriation carryforward | 77,060 | 61,716 | 26,880 | 35,754 | 36,198 | 124,009 | 161,127 | 99,959 | 91,075 | 60,935 |
| Reserved for subsequent years' budgets | 53,337 | 25,379 | 15,414 | 6,242 | 22,351 | 27,451 | 32,062 | 36,341 | 6,891 | 8,875 |
| Unreserved | 207,467 | 136,664 | 44,718 | 63,657 | 134,199 | 138,971 | 141,037 | 77,117 | 28,203 | (2,050) |
| Total general fund | $ 479,187 | $ 380,391 | $ 196,312 | $ 210,435 | $ 307,680 | $ 461,276 | $ 541,461 | $ 405,635 | $ 301,675 | $ 191,778 |
| **All other governmental funds** | | | | | | | | | | |
| Reserved for assets not available for appropriation | $ 51,548 | $ 41,233 | $ 25,906 | $ 17,443 | $ 17,683 | $ 20,202 | $ 19,413 | $ 19,814 | $ 19,781 | $ 28,997 |
| Reserved for debt service | 63,308 | 36,548 | 33,866 | 18,800 | 45,540 | 57,429 | 51,299 | 47,334 | 75,886 | 68,466 |
| Reserved for encumbrances | 373,088 | 340,591 | 278,656 | 142,784 | 97,920 | 423,120 | 288,948 | 193,461 | 167,169 | 210,060 |
| Reserved for appropriation carryforward | 446,211 | 285,508 | 227,818 | 287,690 | 549,571 | 294,340 | 292,234 | 314,051 | 501,006 | 662,674 |
| Reserved for subsequent years' budgets | 9,664 | 18,604 | 8,004 | 8,005 | 8,004 | 8,004 | 8,004 | 13,504 | 11,245 | 13,041 |
| Unreserved reported in: | | | | | | | | | | |
| Special revenue funds | 54,018 | 97,167 | 67,988 | 19,043 | 30,809 | 35,243 | 47,445 | (27,758) | (69,468) | (134,178) |
| Capital projects funds | 11,629 | 44,487 | 40,561 | 10,048 | 7,193 | 13,662 | (373) | 2,126 | (26,153) | (43,798) |
| Permanent fund | 4,064 | 4,433 | 4,227 | 3,326 | 3,856 | 2,308 | 3,508 | 3,502 | 3,871 | 2,045 |
| Total other governmental funds | $ 1,013,530 | $ 868,571 | $ 687,026 | $ 507,139 | $ 760,576 | $ 854,308 | $ 710,478 | $ 566,034 | $ 683,337 | $ 807,307 |

Notes:
(1) 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.
(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.
(3) 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.
(4) The change in reserved and unreserved fund balance in fiscal year 2010 is explained in Management's Discussion and Analysis.



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## 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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 (1) | 2002 (2) | 2003 (3) | 2004 | 2005 (4) | 2006 | 2007 | 2008 (5) | 2009 (5) | 2010 |
| **Revenues:** | | | | | | | | | | |
| Property taxes | $ 627,654 | $ 687,150 | $ 686,154 | $ 721,437 | $ 918,645 | $ 1,008,151 | $ 1,107,864 | $ 1,179,688 | $ 1,272,385 | $ 1,331,957 |
| Business taxes | 277,822 | 274,848 | 276,651 | 264,832 | 292,763 | 323,153 | 337,592 | 396,025 | 388,653 | 354,019 |
| Sales and use tax | 219,303 | 174,154 | 172,396 | 182,567 | 161,451 | 175,138 | 184,723 | 190,967 | 172,794 | 164,769 |
| Hotel room tax | 189,264 | 119,658 | 122,853 | 142,437 | 151,993 | 173,923 | 194,290 | 219,089 | 214,460 | 186,849 |
| Utility users tax | 73,870 | 70,779 | 71,378 | 70,938 | 72,574 | 76,444 | 78,729 | 86,964 | 89,801 | 94,537 |
| Other local taxes | 99,043 | 79,999 | 84,050 | 113,513 | 152,067 | 170,159 | 211,082 | 155,951 | 126,017 | 194,070 |
| Licenses, permits and franchises | 23,503 | 25,762 | 21,648 | 23,788 | 25,942 | 27,662 | 27,428 | 30,943 | 32,153 | 33,625 |
| Fines, forfeitures and penalties | 12,773 | 12,045 | 9,000 | 25,183 | 12,509 | 14,449 | 8,871 | 13,217 | 9,694 | 22,255 |
| Interest and investment income | 91,429 | 65,597 | 25,570 | 11,630 | 28,268 | 70,046 | 83,846 | 54,256 | 33,547 | 27,038 |
| Rent and concessions | 75,382 | 63,623 | 55,369 | 58,979 | 49,450 | 52,426 | 52,493 | 70,160 | 77,014 | 78,527 |
| Intergovernmental: | | | | | | | | | | |
| Federal | 296,758 | 307,943 | 320,254 | 344,155 | 348,764 | 350,985 | 381,688 | 328,315 | 362,582 | 448,890 |
| State | 575,361 | 608,804 | 690,271 | 630,953 | 522,937 | 565,989 | 582,666 | 561,095 | 575,774 | 552,641 |
| Other | 6,245 | 33,924 | 24,623 | 18,259 | 25,783 | 23,500 | 15,689 | 15,907 | 15,186 | 7,397 |
| Charges for services | 215,412 | 225,547 | 221,883 | 217,647 | 241,750 | 263,994 | 273,057 | 288,689 | 280,407 | 243,128 |
| Other | 31,119 | 26,405 | 27,092 | 57,144 | 57,487 | 61,565 | 44,084 | 81,321 | 30,318 | 51,023 |
| Total revenues | 2,814,938 | 2,776,238 | 2,809,192 | 2,883,462 | 3,062,383 | 3,357,584 | 3,584,102 | 3,672,587 | 3,680,785 | 3,790,725 |
| **Expenditures** | | | | | | | | | | |
| Public protection | 672,119 | 690,050 | 734,811 | 706,758 | 738,494 | 787,398 | 865,556 | 1,018,212 | 999,518 | 1,021,505 |
| Public works, transportation and commerce | 299,949 | 296,411 | 267,034 | 165,555 | 195,896 | 274,669 | 280,907 | 236,569 | 248,161 | 243,454 |
| Human welfare and neighborhood development | 557,242 | 613,133 | 670,670 | 662,948 | 644,899 | 697,102 | 740,171 | 828,903 | 886,686 | 918,301 |
| Community health | 454,975 | 484,826 | 524,771 | 512,914 | 501,050 | 471,741 | 509,844 | 543,046 | 578,828 | 581,392 |
| Culture and recreation | 233,863 | 238,326 | 252,477 | 273,163 | 239,022 | 256,979 | 286,135 | 309,612 | 313,442 | 303,134 |
| General administration and finance | 150,482 | 164,745 | 163,748 | 153,709 | 135,118 | 161,195 | 167,505 | 215,054 | 190,680 | 187,221 |
| General City responsibilities | 109,753 | 54,628 | 53,323 | 74,623 | 62,799 | 53,763 | 57,532 | 71,205 | 73,147 | 86,498 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 69,870 | 69,536 | 100,902 | 78,831 | 80,306 | 86,970 | 98,169 | 106,580 | 126,501 | 154,051 |
| Interest and fiscal charges | 68,367 | 68,111 | 64,243 | 61,886 | 61,524 | 75,975 | 71,266 | 75,844 | 74,466 | 89,946 |
| Bond issuance costs | 7,368 | 2,987 | 1,646 | 1,350 | 4,842 | 1,933 | 3,683 | 1,090 | 4,746 | 2,145 |
| Capital outlay | 170,472 | 276,662 | 248,928 | 165,872 | 130,224 | 153,493 | 283,370 | 133,155 | 152,473 | 182,448 |
| Total expenditures | 2,794,460 | 2,959,415 | 3,082,553 | 2,857,609 | 2,794,174 | 3,021,218 | 3,364,138 | 3,539,270 | 3,648,648 | 3,770,095 |
| Excess (deficiency) of revenues over expenditures | 20,478 | (183,177) | (273,361) | 25,853 | 268,209 | 336,366 | 219,964 | 133,317 | 32,137 | 20,630 |



## CITY AND COUNTY OF SAN FRANCISCO

### Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years (Continued)
(Modified accrual basis of accounting)
(In Thousands)

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2001 (1) | 2002 (2) | 2003 (3) | 2004 | 2005 (4) | 2006 | 2007 | 2008 (5) | 2009 (5) | 2010 |
| **Other financing sources (uses):** | | | | | | | | | | |
| Transfer in | 261,957 | 267,107 | 226,520 | 204,660 | 271,553 | 224,523 | 217,298 | 244,770 | 352,693 | 302,790 |
| Transfer out | (365,178) | (536,680) | (423,936) | (456,852) | (513,423) | (555,155) | (668,847) | (724,172) | (746,178) | (740,349) |
| Issuance of bonds and loans: | | | | | | | | | | |
| Face value of bonds issued | 394,040 | 249,995 | 71,310 | 116,645 | 346,225 | 219,120 | 312,955 | 310,155 | 456,935 | 393,010 |
| Face value of loans issued | 803 | 3,095 | 323 | 2,156 | 500 | 5,359 | 141 | 1,829 | - | 599 |
| Premium on issuance of bonds | - | - | - | 1,411 | 11,989 | 10,233 | 3,521 | 13,071 | 12,875 | 16,647 |
| Discount on issuance of bonds | (2,773) | (238) | - | - | - | - | (1,856) | - | - | - |
| Payment to refunded bond escrow agent | - | (136,230) | - | (65,802) | (38,913) | - | (159,610) | (283,494) | (120,000) | - |
| Other financing sources - capital leases | - | 92,373 | 33,520 | 6,165 | 4,542 | 6,882 | 12,789 | 24,254 | 24,881 | 20,746 |
| Total other financing sources (uses) | 288,849 | (60,578) | (92,263) | (191,617) | 82,473 | (89,038) | (283,609) | (413,587) | (18,794) | (6,557) |
| Net change in fund balances | $ 309,327 | $ (243,755) | $ (365,624) | $ (165,764) | $ 350,682 | $ 247,328 | $ (63,645) | $ (280,270) | $ 13,343 | $ 14,073 |
| Debt service as a percentage of noncapital expenditures | 5.31% | 5.12% | 5.84% | 5.25% | 5.31% | 5.71% | 5.51% | 5.34% | 5.79% | 6.90% |
| Debt service as a percentage of total expenditures | 4.95% | 4.65% | 5.36% | 4.92% | 5.08% | 5.39% | 5.04% | 5.15% | 5.51% | 6.47% |

Notes:

(1) Prior to fiscal year 2000-2001, bond issuance discounts and premiums were included in the face values of bonds issued.

(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) 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.

(4) 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.

(5) In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

## CITY AND COUNTY OF SAN FRANCISCO

### Assessed Value of Taxable Property (1)(3)(4) – Last Ten Fiscal Years
(In Thousands)

| Fiscal | Assessed Value | | | Exemptions (2) | | | Total Taxable | Total |
|---|---|---|---|---|---|---|---|---|
| Year (4) | Real Property | Personal Property | Total | Non-reimbursable | Reimbursable | Redevelopment Tax Increments | Assessed Value | Direct Tax Rate |
| 2001....... | $ 73,712,384 | $ 7,807,032 | $ 81,519,416 | $ 2,800,943 | $ 670,468 | $ 3,175,792 | $ 74,872,213 | 1.00% |
| 2002....... | 88,866,299 | 4,686,951 | 93,553,250 | 3,129,961 | 665,145 | 5,291,437 | 84,466,707 | 1.00% |
| 2003....... | 93,467,166 | 4,639,579 | 98,106,745 | 3,407,736 | 671,640 | 3,777,328 | 90,250,041 | 1.00% |
| 2004....... | 99,878,960 | 3,848,851 | 103,727,811 | 3,706,357 | 689,558 | 3,892,143 | 95,439,753 | 1.00% |
| 2005....... | 106,805,910 | 3,736,998 | 110,542,908 | 4,017,052 | 678,120 | 5,199,856 | 100,647,880 | 1.00% |
| 2006....... | 114,767,252 | 3,465,752 | 118,233,004 | 4,246,112 | 657,834 | 6,453,299 | 106,875,759 | 1.00% |
| 2007....... | 126,074,101 | 3,524,897 | 129,598,998 | 4,617,851 | 657,144 | 7,333,916 | 116,990,087 | 1.00% |
| 2008....... | 136,887,654 | 3,807,362 | 140,695,016 | 5,687,576 | 652,034 | 10,134,313 | 124,221,093 | 1.00% |
| 2009....... | 152,150,004 | 3,943,357 | 156,093,361 | 6,193,368 | 657,320 | 8,860,502 | 140,382,171 | 1.00% |
| 2010....... | 164,449,745 | 4,093,813 | 168,543,558 | 6,751,558 | 660,435 | 9,289,538 | 151,842,027 | 1.00% |

Source: Controller, City and County of San Francisco

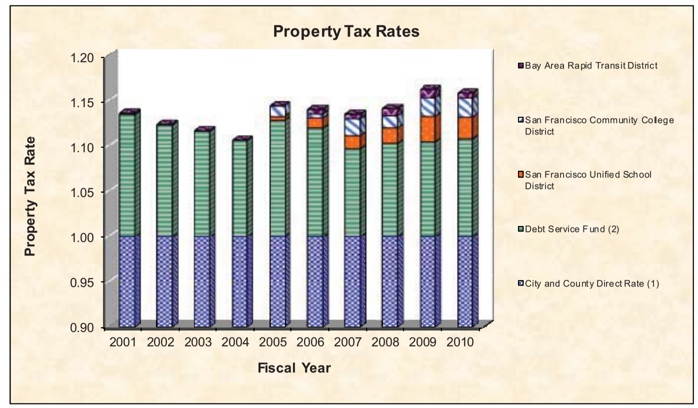
Notes:
(1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or $1/$100 of the assessed value, excluding the tax rate for debt service.
(2) Exemptions are summarized as follows:
  (a) Non-reimbursable exemptions are revenues 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 |
| 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 |
| 2007 | 1.00000000 | 0.09657879 | 0.01532351 | 0.01809770 | 0.00500000 | 1.1350 |
| 2008 | 1.00000000 | 0.10365766 | 0.01666683 | 0.01307551 | 0.00760000 | 1.1410 |
| 2009 | 1.00000000 | 0.10532566 | 0.02737873 | 0.02129561 | 0.00900000 | 1.1630 |
| 2010 | 1.00000000 | 0.10839903 | 0.02336031 | 0.02154066 | 0.00570000 | 1.1590 |




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
(Dollar in Thousands)

| | | Fiscal Year 2010 | | | Fiscal Year 2001 | | |
|---|---|---|---|---|---|---|---|
| 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) |
| HWA 555 Owners LLC | Office, Commercial | $ 899,842 | 1 | 0.59% | $ - | | - |
| EOP - One Market LLC | Office, Commercial | 451,012 | 2 | 0.30 | - | | - |
| Mission Street Development LLC | Office, Commercial | 444,253 | 3 | 0.29 | - | | - |
| SHC Embarcadero LLC | Office, Commercial | 380,721 | 4 | 0.25 | 298,489 | 7 | 0.38% |
| Post-Montgomery Associates | Office, Commercial | 370,325 | 5 | 0.24 | 257,555 | 10 | 0.33 |
| SHR St. Francis LLC | Hotel | 368,964 | 6 | 0.24 | | | |
| One Embarcadero Center Venture | Office, Commercial | 328,539 | 7 | 0.22 | | | |
| Broadway Partners | Office, Commercial | 312,120 | 8 | 0.21 | | | |
| Three Embarcadero Center Venture | Office, Commercial | 308,931 | 9 | 0.20 | | | |
| Embarcadero Center Associates | Office, Commercial | 307,683 | 10 | 0.20 | 1,304,438 | 1 | 1.67 |
| Pacific Gas and Electric Company | Utilities | | | | 973,576 | 2 | 1.24 |
| 555 California Street Partners | Office, Commercial | | | | 856,044 | 3 | 1.09 |
| Pacific Bell | Utilities, Communications | | | | 612,461 | 4 | 0.78 |
| YBG Associates LLC | Hotel | | | | 359,856 | 5 | 0.46 |
| Knickerbocker Properties | Office | | | | 298,713 | 6 | 0.38 |
| 101 California Venture | Office | | | | 283,847 | 8 | 0.36 |
| ZML One Market Ltd Partnership | Office, Commercial | | | | 269,595 | 9 | 0.34 |
| Total | | $ 4,172,390 | | 2.74% | $ 5,514,574 | | 7.03% |

Source: Assessor, City and County of San Francisco

Notes:
(1) Data for fiscal year 2009-2010 updated as of July 1, 2009.
(2) Assessed values for fiscal years 2009-2010 and 2000-2001 are from the tax rolls of calendar years 2009 and 2000, respectively.



## CITY AND COUNTY OF SAN FRANCISCO

### Property Tax Levies and Collections (1)(2) – Last Ten Fiscal Years
(Dollar In Thousands)

| | | Collected within the Fiscal Year of the Levy | | | Total Collections to Date | |
|---|---|---|---|---|---|---|
| Fiscal Year | Total Adjusted Levy | Amount | Percentage of Original Levy | Collections in Subsequent Years (3) | Amount | Percentage of Adjusted Levy |
| 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 |
| 2007 | 1,411,316 | 1,372,174 | 97.23 | 5,959 | 1,378,133 | 97.65 |
| 2008 | 1,530,484 | 1,487,715 | 97.21 | 20,781 | 1,508,496 | 98.56 |
| 2009 | 1,731,668 | 1,658,599 | 95.78 | 21,463 | 1,680,062 | 97.02 |
| 2010 | 1,868,098 | 1,787,809 | 95.70 | 40,111 | 1,827,920 | 97.85 |


Source: Controller, City and County of San Francisco

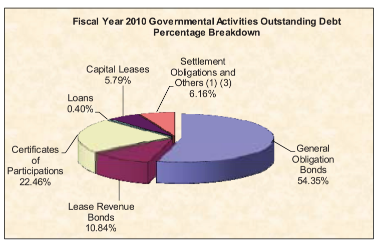
Notes:
(1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District and San Francisco Redevelopment Agency.
(2) Does not include SB-813 supplemental property taxes.
(3) Collections in subsequent years reflect assessment appeals reduction.

## CITY AND COUNTY OF SAN FRANCISCO

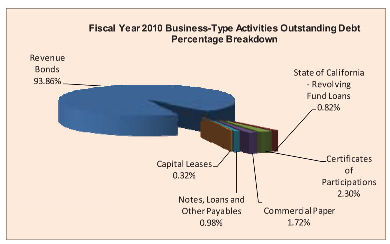
### Ratios of Outstanding Debt by Type – Last Ten Fiscal Years
(In Thousands, except Per Capita Amounts)

| | Governmental Activities (1) | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | General Obligation Bonds | Lease Revenue Bonds | Certificates of Participations | Loans | Capital Leases | Settlement Obligations and Others (3) | Subtotal |
| 2001...... | $ 954,274 | $ 302,450 | $ 223,004 | $ 15,816 | $ 232,485 | $ - | $ 1,728,029 |
| 2002...... | 915,122 | 293,881 | 255,682 | 13,007 | 226,541 | 54,820 | 1,759,053 |
| 2003...... | 857,983 | 252,148 | 292,702 | 9,278 | 212,649 | 49,470 | 1,674,230 |
| 2004...... | 843,499 | 245,826 | 287,483 | 9,515 | 194,815 | 94,196 | 1,675,334 |
| 2005...... | 1,097,050 | 230,738 | 280,561 | 7,961 | 198,703 | 188,602 | 2,003,615 |
| 2006...... | 1,252,217 | 231,497 | 273,522 | 12,377 | 190,279 | 182,899 | 2,142,791 |
| 2007...... | 1,172,363 | 250,095 | 416,258 | 11,640 | 185,736 | 177,062 | 2,213,154 |
| 2008...... | 1,120,688 | 283,469 | 408,020 | 12,495 | 174,149 | 170,577 | 2,169,398 |
| 2009...... | 1,193,927 | 293,326 | 564,110 | 11,329 | 164,383 | 163,905 | 2,390,980 |
| 2010...... | 1,429,899 | 285,085 | 591,049 | 10,607 | 152,273 | 162,114 | 2,631,027 |

| | Business-Type Activities (1) (2) | | | | | | | | Total Primary Government | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Revenue Bonds | General Obligation Bonds | State of California - Revolving Fund Loans | Certificates of Participations | Commercial Paper | Notes, Loans and Other Payables | Capital Leases | Subtotal | Total Primary Government | Percentage of Personal Income (4) | Per Capita (4) |
| 2001.... | $ 4,429,525 | $ 3,200 | $ 193,597 | $ - | $ 472,541 | $ 12,267 | $ 779 | $ 5,111,909 | $ 6,839,938 | 15.39% | $ 8,720 |
| 2002.... | 5,104,133 | 2,000 | 179,591 | - | 90,000 | 4,076 | 1,342 | 5,381,142 | 7,140,195 | 16.76 | 9,169 |
| 2003.... | 5,230,828 | 800 | 165,125 | - | - | 33,388 | 4,210 | 5,434,351 | 7,108,581 | 16.85 | 9,180 |
| 2004.... | 5,105,883 | 400 | 150,196 | - | 25,000 | 30,995 | 4,891 | 5,317,365 | 6,992,699 | 15.60 | 9,053 |
| 2005.... | 5,017,292 | - | 134,783 | - | 80,000 | 27,278 | 4,754 | 5,264,107 | 7,267,722 | 14.80 | 9,358 |
| 2006.... | 5,450,963 | - | 118,868 | - | - | 22,962 | 5,522 | 5,598,315 | 7,741,106 | 14.36 | 9,844 |
| 2007.... | 5,321,564 | - | 102,438 | - | 50,000 | 18,447 | 4,499 | 5,496,948 | 7,710,102 | 13.43 | 9,647 |
| 2008.... | 5,239,031 | - | 89,101 | - | 68,000 | 13,749 | 3,843 | 5,413,724 | 7,583,122 | 12.91 | 9,374 |
| 2009.... | 4,803,640 | - | 75,339 | - | 435,880 | 324,042 | 2,635 | 5,641,536 | 8,032,516 | 14.00 | 9,852 |
| 2010.... | 7,009,485 | - | 61,140 | 171,562 | 128,660 | 73,322 | 23,966 | 7,468,135 | 10,099,162 | 17.19 | 12,289 |



Fiscal Year 2010 Governmental Activities Outstanding Debt Percentage Breakdown



Fiscal Year 2010 Business-Type Activities Outstanding Debt Percentage Breakdown

Notes:

(1) The amount of obligations for the governmental and business-type activities include unamortized bond discount, bond premium and bond refunding loss. The amount of obligations for both activities from fiscal years 2001 through 2009 have been adjusted accordingly.

(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 by San Francisco County Transportation Authority and the City for the Moscone Convention Center project.

(4) See Demographic and Economic Statistics, 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 Amounts)

| Fiscal Year | General Obligation Bonds (1) | Less: Amounts Restricted for Debt Service (1) | Total | Per Capita (2) | Percentage of Taxable Assessed Value (3) |
|---|---|---|---|---|---|
| 2001 | $ 954,274 | $ 14,809 | $ 939,465 | $ 1,198 | 1.19% |
| 2002 | 915,122 | 20,395 | 894,727 | 1,149 | 0.99 |
| 2003 | 857,983 | 13,304 | 844,679 | 1,091 | 0.89 |
| 2004 | 843,499 | 1,533 | 841,966 | 1,090 | 0.84 |
| 2005 | 1,097,050 | 33,774 | 1,063,276 | 1,369 | 1.00 |
| 2006 | 1,252,217 | 46,929 | 1,205,288 | 1,533 | 1.06 |
| 2007 | 1,172,363 | 35,249 | 1,137,114 | 1,423 | 0.91 |
| 2008 | 1,120,688 | 31,883 | 1,088,805 | 1,346 | 0.81 |
| 2009 | 1,193,927 | 40,907 | 1,153,020 | 1,414 | 0.77 |
| 2010 | 1,429,898 | 36,901 | 1,392,997 | 1,695 | 0.86 |

(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements. The amounts of general obligation bonds include unamortized bond discounts, bond premiums, and bond refunding loss. The obligation amounts have been adjusted from fiscal year 2001 through fiscal year 2009 to include unamortized bond discounts, bond premiums and bond refunding losses.

(2) Population data can be found in Demographic and Economic Statistics.

(3) Taxable property data can be found in Assessed Value of Taxable Property.

## CITY AND COUNTY OF SAN FRANCISCO

### Legal Debt Margin Information – Last Ten Fiscal Years
(In Thousands)

| | Fiscal Year 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Debt limit | $ 2,361,554 | $ 2,712,699 | $ 2,840,970 | $ 3,000,644 | $ 3,195,776 |
| Total net debt applicable to limit (1) | 953,535 | 917,220 | 859,625 | 844,350 | 1,086,355 |
| Legal debt margin | $ 1,408,019 | $ 1,795,479 | $ 1,981,345 | $ 2,156,294 | $ 2,109,421 |
| Total net debt applicable to the limit as a percentage of debt limit | 40.38% | 33.81% | 30.26% | 28.14% | 33.99% |

| | Fiscal Year 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Debt limit | $ 3,419,607 | $ 3,749,434 | $ 4,050,223 | $ 4,497,000 | $ 4,853,760 |
| Total net debt applicable to limit | 1,232,205 | 1,155,944 | 1,098,913 | 1,165,141 | 1,386,640 |
| Legal debt margin | $ 2,187,402 | $ 2,593,490 | $ 2,951,310 | $ 3,331,859 | $ 3,467,120 |
| Total net debt applicable to the limit as a percentage of debt limit | 36.03% | 30.83% | 27.13% | 25.91% | 28.57% |

**Legal Debt Margin Calculation for Fiscal Year 2010**

| | |
|---|---|
| Total assessed value | $ 168,543,558 |
| Less: non-reimbursable exemptions (2) | 6,751,558 |
| Assessed value (2) | $ 161,792,000 |
| Debt limit (three percent of valuation subject to taxation (3)) | $ 4,853,760 |
| Debt applicable to limit - general obligation bonds | 1,386,640 |
| Legal debt margin | $ 3,467,120 |

Notes:
(1) Per outstanding bonds, net of unamortized bond discount, bond premium and bond refunding loss.
(2) Source: Assessor, City and County of San Francisco
(3) 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, 2010

| District | Total General Debt Outstanding | Estimated Percentage Applicable to City and County (1) | Estimated Share of Overlapping Debt |
|---|---|---|---|
| Bay Area Rapid Transit District | $ 420,000,000 | 30.00% | $ 126,000,000 |
| San Francisco Unified School District | 643,490,000 | 100.00 | 643,490,000 |
| San Francisco Community College District | 385,690,000 | 100.00 | 385,690,000 |
| Subtotal, overlapping debt | | | 1,155,180,000 |
| City and County of San Francisco direct debt (2) | | | 1,386,640,429 |
| Total net direct and overlapping debt | | | $ 2,541,820,429 |
| Population - 2010 (3) | | | 821,790 |
| Estimated direct and overlapping debt per capita | | | $ 3,093.03 |

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: US Census Bureau.

## 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 |
|---|---|---|---|---|---|---|---|
| 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 |
| 2007 | 540,186 | 284,692 | 255,494 | 79,415 | 192,746 | 272,161 | 0.94 |
| 2008 | 565,139 | 295,849 | 269,290 | 75,510 | 214,839 | 290,349 | 0.93 |
| 2009 | 574,088 | 315,823 | 258,265 | 88,205 | 178,372 | 266,577 | 0.97 |
| 2010 | 597,429 | 305,995 | 291,434 | 97,715 | 190,490 | 288,205 | 1.01 |

(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 and amortization.

### San Francisco Water Department (4)

| Fiscal Year | Gross Revenues (5) | Less: Operating Expenses (6) | Adjustments(8) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|---|
| 2001 | $ 161,585 | $ 152,045 | $ 84,205 | $ 93,745 | $ 6,956 | $ 14,411 | $ 21,367 | 4.39 |
| 2002 | 156,110 | 148,430 | 104,662 | 112,342 | 7,350 | 18,686 | 26,036 | 4.31 |
| 2003 | 181,275 | 167,523 | 89,747 | 103,499 | 11,789 | 21,655 | 33,444 | 3.09 |
| 2004 | 174,528 | 187,378 | 122,180 | 109,330 | 13,345 | 24,537 | 37,882 | 2.89 |
| 2005 | 189,928 | 176,453 | 83,078 | 96,553 | 14,055 | 23,939 | 37,994 | 2.54 |
| 2006 | 213,499 | 186,934 | 110,638 | 137,203 | 14,790 (7) | 20,585 | 35,375 | 3.88 |
| 2007 | 241,078 | 202,498 | 119,122 | 157,702 | 16,160 | 48,955 | 65,115 | 2.42 |
| 2008 | 246,885 | 223,052 | 125,739 | 149,572 | 19,170 | 45,023 | 64,193 | 2.33 |
| 2009 | 272,869 | 248,315 | 122,082 | 146,636 | 25,520 | 44,065 | 69,585 | 2.11 |
| 2010 | 275,041 | 277,970 | 141,615 | 138,686 | 26,605 | 43,016 | 69,621 | 1.99 |

(4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(5) Gross Revenue consists of charges for services, rental income and other income, investing activities and capacity fees.
(6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest.
(7) Principal payment was restated to exclude principal refunding in FY 2006.
(8) Adjustments column included adjustment to investing activities, depreciation & non-cash expenses, changes in working capital and other available funds presented in the published Annual Disclosure Reports.

### Municipal Transportation Agency

| Fiscal Year | Base Rental Payment and Gross Meter Revenue Charges (9) | Less: Operating Expenses (10)(11) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 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 | 2,573 | 7,766 | 1.49 |
| 2006 | 31,116 | 14,960 | 16,156 | 5,471 | 2,317 | 7,788 | 2.07 |
| 2007 | 31,801 | 16,907 | 14,894 | 5,734 | 1,989 | 7,723 | 1.93 |
| 2008 | 33,091 | 18,038 | 15,053 | 6,017 | 1,747 | 7,764 | 1.94 |
| 2009 | 33,970 | 18,879 | 15,091 | 5,165 | 1,395 | 6,560 | 2.30 |
| 2010 | 39,538 | 19,018 | 20,520 | 2,680 | 1,149 | 3,829 | 5.36 |

(9) 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.
(10) 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.
(11) 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 and amortization expenses.





## Pledged-Revenue Coverage – Last Ten Fiscal Years (Continued)
(In Thousands)

### San Francisco Wastewater Enterprise (12)

| Fiscal Year | Gross Revenues (13) | Less: Operating Expenses (14) | Adjustments (15) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|---|
| 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 | 138,842 | 129,916 | 54,929 | 63,855 | - | 18,506 | 18,506 | 3.45 |
| 2005 | 151,981 | 139,290 | 37,224 | 49,915 | - | 17,742 | 17,742 | 2.81 |
| 2006 | 170,518 | 140,954 | 35,357 | 64,921 | - | 17,219 | 17,219 | 3.77 |
| 2007 | 199,160 | 151,600 | 49,601 | 97,161 | 33,445 | 17,267 | 50,712 | 1.92 |
| 2008 | 206,648 | 165,245 | 54,341 | 95,744 | 34,500 | 17,159 | 51,659 | 1.85 |
| 2009 | 210,646 | 169,300 | 58,474 | 99,820 | 35,665 | 15,215 | 50,880 | 1.96 |
| 2010 | 211,899 | 185,512 | 86,880 | 113,267 | 37,130 | 13,183 | 50,313 | 2.25 |

(12) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(13) Gross revenue consists of charges for services, rental income and other income.
(14) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest.
(15) Adjustments includes Depreciation and Non-Cash Expense, Changes, in Working Capital, Investment Income, SRF Loan Payments, Other available Funds that are printed in published Annual Disclosure Reports.

### Port of San Francisco (16)

| Fiscal Year | Total Operating Revenues (17) | Less: Operating Expenses (18) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|
| 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 |
| 2007 | 65,416 | 50,887 | 14,529 | 3,975 | 453 | 4,428 | 3.28 |
| 2008 | 68,111 | 56,406 | 11,705 | 4,070 | 348 | 4,418 | 2.65 |
| 2009 | 68,722 | 57,574 | 11,148 | 4,185 | 222 | 4,407 | 2.53 |
| 2010 | 68,892 | 58,756 | 10,136 | 4,320 | 75 | 4,395 | 2.31 |

(16) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(17) Total revenues consist of operating revenues and interest and investment income.
(18) 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.

### Hetch Hetchy Water and Power (19) (20)

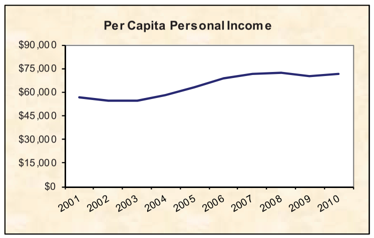
| Fiscal Year | Gross Revenues (21) | Less: Operating Expenses (22) | Adjustments (23) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Debt Service Total | Coverage |
|---|---|---|---|---|---|---|---|---|
| 2001 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | - |
| 2002 | - | - | - | - | - | - | - | - |
| 2003 | - | - | - | - | - | - | - | - |
| 2004 | - | - | - | - | - | - | - | - |
| 2005 | - | - | - | - | - | - | - | - |
| 2006 | - | - | - | - | - | - | - | - |
| 2007 | - | - | - | - | - | - | - | - |
| 2008 | - | - | - | - | - | - | - | - |
| 2009 | 97,671 | 49,337 | 4,907 | 53,241 | 422 | - | 422 | 126.16 |
| 2010 | 105,711 | 86,334 | 14,521 | 33,898 | 422 | - | 422 | 80.33 |

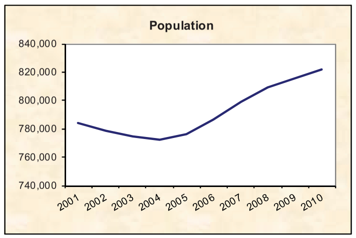
(19) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(20) There were no Hetch Hetchy bonds from 2000 to 2008.
(21) Gross Revenue consists of charges for power services, rental income and other income.
(22) Operating Expenses only include power operating expense.
(23) Adjustments include adjustments to investment income, depreciation, non-cash items and changes to working capital.

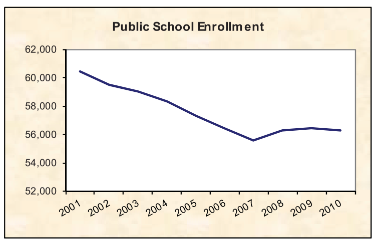
## CITY AND COUNTY OF SAN FRANCISCO

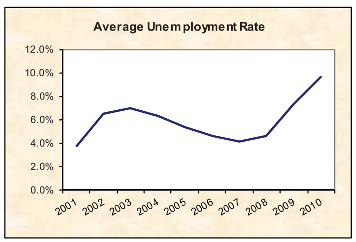
### Demographic and Economic Statistics – Last Ten Fiscal Years

| Fiscal Year | Population (1) | Personal Income (In Thousands) (2) | Per Capita Personal Income (3) | Median Age (4) | Public School Enrollment (5) | Average Unemployment Rate (6) |
|---|---|---|---|---|---|---|
| 2001 | 784,385 | $44,437,458 | $56,653 | 37.3 | 60,421 | 3.8% |
| 2002 | 778,773 | 42,607,364 | 54,711 | 38.3 | 59,521 | 6.5% |
| 2003 | 774,359 | 42,189,447 | 54,483 | 38.3 | 59,015 | 7.0% |
| 2004 | 772,417 | 44,835,371 | 58,046 | 39.2 | 58,323 | 6.3% |
| 2005 | 776,614 | 49,100,105 | 63,223 | 39.4 | 57,276 | 5.4% |
| 2006 | 786,367 | 53,917,048 | 68,565 | 39.4 | 56,459 | 4.6% |
| 2007 | 799,185 | 57,416,990 | 71,844 | 40.0 | 55,590 | 4.1% |
| 2008 | 808,976 | 58,751,518 | 72,625 | 40.4 | 56,315 | 4.6% |
| 2009 | 815,358 (7) | 57,355,348 (8) | 70,344 (9) | 38.5 (10) | 56,454 | 7.4% |
| 2010 | 821,790 (7) | 58,733,861 (8) | 71,519 (9) | 39.5 (10) | 56,299 | 9.7% |




Source:
(1) US Census Bureau.
(2) US Bureau of Economic Analysis. Fiscal years 2001 - 2009 is updated from last year's CAFR with newly available data.
(3) US Bureau of Economic Analysis. Fiscal years 2001 - 2009 is updated from last year's CAFR with newly available data.
(4) US Census Bureau, American Community Survey
(5) California Department of Education
(6) California Employment Development Department.

Notes:
(7) 2009 is updated from last year's CAFR with newly available data. 2010 population was estimated by multiplying the 2009 population by the 2008-09 population growth rate.
(8) Personal income was estimated by assuming that its percentage of state personal income in 2009 and 2010 remained at the 2008 level of 3.6 percent.
(9) Per capita personal income for 2009 and 2010 was estimated by dividing the estimated personal income for 2009 and 2010 by the reported and estimated population in 2009 and 2010, respectively.
(10) Median age in 2010 was estimated by averaging the median age in 2008 and 2009. 2009 is updated from last year's CAFR with newly available data.



## CITY AND COUNTY OF SAN FRANCISCO

### Principal Employers – Current Year and Eight Years Ago

| | Year 2009 (1) | | | Year 2001 | | |
|---|---|---|---|---|---|---|
| Employer | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| City and County of San Francisco....... | 26,554 | 1 | 5.06% | 29,610 | 1 | 5.85% |
| University of California, San Francisco.. | 24,759 | 2 | 4.72 | 13,835 | 2 | 2.95 |
| Wells Fargo & Co............................ | 9,214 | 3 | 1.76 | 6,366 | 5 | 1.36 |
| California Pacific Medical Center......... | 6,800 | 4 | 1.30 | - | - | - |
| Kaiser Permanente........................... | 5,629 | 5 | 1.07 | - | - | - |
| State of California............................ | 5,555 | 6 | 1.06 | 11,296 | 3 | 2.41 |
| San Francisco Unified School District.. | 5,313 | 7 | 1.01 | 5,579 | 6 | 1.19 |
| United States Postal Service............. | 4,697 | 8 | 0.90 | 4,500 | 10 | 0.96 |
| PG&E Corporation........................... | 4,394 | 9 | 0.84 | 5,000 | 8 | 1.07 |
| Gap, Inc........................................ | 3,804 | 10 | 0.73 | - | - | - |
| Charles Schwab & Co. Inc................ | - | - | - | 9,873 | 4 | 2.10 |
| AT&T........................................... | - | - | - | 5,200 | 7 | 1.11 |
| Pacific Bell/SBC Communications....... | - | - | - | 4,600 | 9 | 0.98 |
| Total............................................ | 96,719 | | 18.45% | 95,859 | | 19.98% |

Source:
Total City and County of San Francisco employee count is obtained from the State of California Employee Development Department. All other data is obtained from the San Francisco Business Times Book of Lists.

Note:
(1) The latest data as of calendar year-end 2009 is presented. San Francisco Unified School District employment based on 2008 data.

## CITY AND COUNTY OF SAN FRANCISCO

### Full-Time Equivalent City Government Employees by Function (1) – Last Ten Fiscal Years

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Public Protection | | | | | | | | | | |
| Fire Department | 1,864 | 1,909 | 1,899 | 1,835 | 1,752 | 1,706 | 1,665 | 1,726 | 1,602 | 1,532 |
| Police | 2,785 | 2,748 | 2,688 | 2,669 | 2,616 | 2,664 | 2,765 | 2,870 | 2,949 | 2,757 |
| Sheriff | 892 | 921 | 920 | 937 | 929 | 944 | 939 | 951 | 1,016 | 1,048 |
| Other | 1,013 | 998 | 982 | 954 | 930 | 958 | 978 | 1,019 | 996 | 981 |
| Total Public Protection | 6,554 | 6,576 | 6,489 | 6,395 | 6,227 | 6,272 | 6,347 | 6,566 | 6,563 | 6,318 |
| Public Works, Transportation and Commerce | | | | | | | | | | |
| Municipal Transportation Agency | 4,525 | 4,629 | 4,569 | 4,518 | 4,386 | 4,232 | 4,374 | 4,358 | 4,528 | 4,358 |
| Airport Commission | 1,578 | 1,537 | 1,306 | 1,214 | 1,203 | 1,248 | 1,220 | 1,228 | 1,248 | 1,233 |
| Department of Public Works | 1,065 | 1,081 | 1,077 | 1,053 | 1,059 | 1,035 | 1,040 | 1,060 | 1,030 | 822 |
| Public Utilities Commission | 1,404 | 1,411 | 1,513 | 1,589 | 1,513 | 1,573 | 1,596 | 1,609 | 1,580 | 1,549 |
| Other | 537 | 569 | 546 | 507 | 505 | 532 | 538 | 543 | 565 | 490 |
| Total Public Works, Transportation and Commerce | 9,109 | 9,227 | 9,011 | 8,881 | 8,666 | 8,620 | 8,768 | 8,798 | 8,951 | 8,452 |
| Community Health | | | | | | | | | | |
| Public Health | 6,068 | 6,192 | 6,309 | 6,093 | 5,928 | 5,956 | 5,988 | 6,196 | 6,023 | 5,838 |
| Total Community Health | 6,068 | 6,192 | 6,309 | 6,093 | 5,928 | 5,956 | 5,988 | 6,196 | 6,023 | 5,838 |
| Human Welfare and Neighborhood Development | | | | | | | | | | |
| Human Services | 1,807 | 1,724 | 1,744 | 1,735 | 1,697 | 1,663 | 1,745 | 1,812 | 1,810 | 1,662 |
| Other | 269 | 305 | 316 | 317 | 312 | 306 | 313 | 312 | 309 | 296 |
| Total Human Welfare and Neighborhood Development | 2,076 | 2,029 | 2,060 | 2,052 | 2,009 | 1,969 | 2,058 | 2,124 | 2,119 | 1,958 |
| Culture and Recreation | | | | | | | | | | |
| Recreation and Park Commission | 998 | 1,014 | 976 | 1,001 | 954 | 916 | 922 | 942 | 919 | 898 |
| Public Library | 599 | 612 | 613 | 617 | 616 | 606 | 631 | 641 | 649 | 649 |
| War Memorial | 94 | 94 | 95 | 95 | 96 | 95 | 96 | 96 | 97 | 63 |
| Other | 120 | 130 | 149 | 156 | 149 | 200 | 199 | 204 | 203 | 199 |
| Total Culture and Recreation | 1,811 | 1,850 | 1,833 | 1,869 | 1,815 | 1,817 | 1,848 | 1,883 | 1,868 | 1,809 |
| General Administration and Finance | | | | | | | | | | |
| Administrative Services | 426 | 420 | 401 | 405 | 383 | 378 | 438 | 505 | 539 | 647 |
| City Attorney | 334 | 329 | 321 | 319 | 308 | 321 | 324 | 327 | 318 | 306 |
| Telecommunications and Information Services | 352 | 333 | 324 | 313 | 276 | 261 | 270 | 307 | 265 | 252 |
| Controller | 165 | 156 | 155 | 141 | 170 | 179 | 184 | 188 | 198 | 180 |
| Human Resources | 211 | 215 | 213 | 188 | 172 | 151 | 156 | 155 | 144 | 138 |
| Treasurer/Tax Collector | 182 | 184 | 185 | 192 | 197 | 199 | 208 | 208 | 212 | 220 |
| Mayor | 77 | 75 | 72 | 56 | 51 | 48 | 51 | 57 | 55 | 49 |
| Other | 467 | 470 | 466 | 466 | 454 | 491 | 520 | 571 | 547 | 554 |
| Total General Administration and Finance | 2,214 | 2,182 | 2,137 | 2,080 | 2,011 | 2,028 | 2,151 | 2,318 | 2,278 | 2,346 |
| General City Responsibility | 2 | 3 | 4 | 4 | 4 | 3 | - | - | - | - |
| Subtotal annually funded positions | 27,834 | 28,059 | 27,843 | 27,374 | 26,660 | 26,665 | 27,160 | 27,885 | 27,802 | 26,721 |
| Capital project funded positions | 1,776 | 1,857 | 1,875 | 1,567 | 1,597 | 1,588 | 1,628 | 1,750 | 1,519 | 1,928 |
| Total annually funded positions | 29,610 | 29,916 | 29,718 | 28,941 | 28,257 | 28,253 | 28,788 | 29,635 | 29,321 | 28,649 |

Source: Controller, City and County San Francisco

(1) Data represent budgeted and funded full-time equivalent positions.



## CITY AND COUNTY OF SAN FRANCISCO

### Operating Indicators by Function – Last Ten Fiscal Years

| Function | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 8:04 | 7:36 | 7:06 | 7:10 |
| Police | | | | | | | | | | |
| Average time from dispatch to arrival on scene for highest priority calls (1) | 2:34 | 2:36 | 2:45 | 2:58 | 3:07 | 3:09 | 3:15 | 4:08 | 3:49 | 3:33 |
| Number of homicides per 100,000 population (2) | N/A | N/A | N/A | 10.8 | 9.8 | 12.8 | 9.6 | 12.0 | 8.2 | 5.5 |
| Percentage of San Franciscans who report feeling safe or very safe crossing the street (3) | 34% | 42% | 45% | 45% | 51% | N/A | 48% | N/A | 56% | 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 (4) | 38% | 45% | N/A | 52% | 49% | N/A | 49% | N/A | 50% | N/A |
| Number of blocks of City streets repaved | 252 | 324 | 292 | 154 | 186 | 267 | 243 | 334 | 310 | 312 |
| Municipal Transportation Agency | | | | | | | | | | |
| Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good) (3) | 2.70 | 2.92 | 3.21 | 3.20 | 3.13 | N/A | 2.84 | N/A | 2.98 | 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 (5) | 55.4% | 69.9% | 70.4% | 68.8% | 71.0% | 69.2% | 70.8% | 70.6% | 74.4% | 73.5% |
| Percentage of scheduled service hours delivered (6) | 94.4% | 96.3% | 96.5% | 97.2% | 95.3% | 94.2% | 94.3% | 95.9% | 96.9% | 96.6% |
| Airport | | | | | | | | | | |
| Percent change in air passenger volume | -3.6% | -20.1% | -5.9% | 5.3% | 5.5% | 1.5% | 2.8% | 8.4% | -0.8% | 4.8% |
| **Human Welfare and Neighborhood Development** | | | | | | | | | | |
| Environment | | | | | | | | | | |
| Percentage of total solid waste materials diverted in a calendar year | 42% | 46% | 52% | 63% | 67% | 67% | 69% | 70% | 72% | 77% |
| **Culture and Recreation** | | | | | | | | | | |
| Recreation and Park | | | | | | | | | | |
| Percentage of San Franciscans who rate the quality of the City's park grounds (landscaping) (landscaping) as good or very good (3) | 65% | 64% | 67% | 67% | 60% | N/A | 57% | NA | 65% | N/A |
| Citywide percentage of park maintenance standards met for all parks inspected | N/A | N/A | N/A | N/A | N/A | 83% | 86% | 88% | 89% | 91% |
| 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 | 75% | N/A | 79% | 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 | 7,685,892 | 8,334,391 | 9,638,160 | 10,849,582 |
| Asian and Fine Arts Museums | | | | | | | | | | |
| Number of visitors to City-owned art museums (7) | 962,090 | 453,117 | 727,437 | 763,242 | 696,271 | 1,546,617 | 1,879,868 | 1,739,096 | 2,693,469 | 2,599,322 |

Source: Controller, City and County of San Francisco

(1) Measure changed from median time to average time in FY 2008. Values for FY 2001 through FY 2007 reflect median time, FY 2008 reflects average time.

(2) Value for FY 2009 is based on a different source for population data than prior fiscal years.

(3) Value for FY 2005 has been restated to be consistent with City Survey data.

(4) Value for FY 2002 has been restated to be consistent with City Survey data.

(5) Values for FY 2002 through FY 2005 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.

(6) Values for FY 2002 and FY 2006 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.

(7) The California Academy of Sciences opened on September 27, 2008.

N/A = Information is not available. Note that in most cases this is due to the fact that the City Survey, which was administered annually until 2005, then biennially afterwards, is the data source.

## CITY AND COUNTY OF SAN FRANCISCO

### Capital Asset Statistics by Function – Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Function** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| Police protection (1) | | | | | | | | | | |
| Number of stations | 11 | 11 | 11 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Number of police officers | 2,321 | 2,449 | 2,388 | 2,170 | 2,180 | 2,070 | 2,304 | 2,455 | 2,356 | 2,261 |
| Fire protection (2) | | | | | | | | | | |
| Number of stations | 45 | 45 | 45 | 45 | 45 | 48 | 42 | 42 | 42 | 42 |
| Number of firefighters | 1,804 | 1,800 | 1,795 | 1,690 | 1,675 | 1,333 | 1,012 | 978 | 809 | 768 |
| Public works | | | | | | | | | | |
| Mile of street (3) | 989 | 1,044 | 1,252 | 1,050 | 1,050 | 1,051 | 1,051 | 1,291 | 1,318 | 1,317 |
| Number of streetlights (4) | 41,066 | 42,363 | 41,042 | 41,031 | 41,431 | 41,571 | 42,029 | 42,957 | 43,492 | 43,973 |
| Water (4) | | | | | | | | | | |
| Number of services | 168,516 | 168,905 | 169,251 | 169,689 | 169,975 | 170,471 | 170,873 | 172,471 | 172,885 | 172,680 |
| Average daily consumption (million gallons) | 251.8 | 245.9 | 243.2 | 257.2 | 239.7 | 236.3 | 247.1 | 247.5 | 236.6 | 219.9 |
| Mile of water mains | 1,449 | 1,450 | 1,450 | 1,450 | 1,453 | 1,457 | 1,457 | 1,457 | 1,465 | 1,465 |
| Sewers (4) | | | | | | | | | | |
| Mile of collecting sewers | 993 | 993 | 993 | 993 | 993 | 993 | 993 | 993 | 993 | 993 |
| Mile of transport/storage sewers | 16.5 | 15 | 15 | 15 | 15 | 15 | 15 | 17 | 17 | 17 |
| Recreation and cultures | | | | | | | | | | |
| Number of parks (5) | 228 | 230 | 230 | 209 | 210 | 220 | 209 | 222 | 222 | 220 |
| Number of libraries (6) | 27 | 27 | 27 | 27 | 27 | 27 | 28 | 28 | 28 | 28 |
| Number of library volumes (million) (6) | 2.2 | 2.2 | 2.3 | 2.1 | 2.4 | 2.6 | 2.7 | 2.8 | 2.9 | 3.3 |
| Public school education (7) | | | | | | | | | | |
| Attendance centers | 116 | 113 | 118 | 118 | 119 | 117 | 112 | 112 | 112 | 115 |
| Number of classrooms | 3,200 | 3,428 | 3,418 | 3,439 | 3,434 | 3,390 | 3,256 | 3,269 | 2,723 | 2,779 |
| Number of teachers, full-time equivalent | 3,260 | 3,272 | 3,362 | 3,138 | 3,171 | 3,103 | 3,103 | 3,113 | 3,167 | 3,312 |
| Number of students | 62,569 | 60,421 | 59,521 | 57,805 | 57,144 | 56,236 | 55,497 | 56,259 | 55,272 | 55,779 |

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 C

## SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Trust Agreement, the Project Lease and the Property Lease. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. All capitalized terms not defined in the Official Statement have the meanings set forth in the Trust Agreement.

## DEFINITIONS

"Additional Certificates" means any additional certificates of participation executed and delivered pursuant to the Trust Agreement.

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

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

"Certificates" means the 2011 Certificates and all Additional Certificates under the Trust Agreement.

"Defeasance Securities" means (i) Government Obligations and (ii) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or Government Obligations; (c) the principal of and interest on the Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the Government Obligations are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (f) the municipal obligations are rated AAA by S&P and Aaa by Moody's.

"Facilities" means the improvements, structures and fixtures related thereto and located on the Site, together with all other works, property or structures located from time to time on the Site. The Facilities will initially be the property generally known as "Moscone South" on the Site.

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

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

"Government Obligations" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon) if held by a custodian on behalf of the Trustee, obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, and prerefunded municipal obligations rated in the highest rating category by Moody's and S&P.

"Leased Property" means the Site and the Facilities, as the same may be modified, substituted or supplemented in accordance with the terms of the Project Lease.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City and only to the extent that the same are acquired at Fair Market Value:

(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 and any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the full faith and credit of the United States of America;

(c) 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;

(d) 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 one of the two highest short-term letter and numerical ratings, at the time of purchase, of Moody's and S&P;

(e) Savings accounts or money market deposits that are fully insured by FDIC;

(f) 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, at the time of purchase, in one of the two highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates;

(g) Commercial paper of "prime" quality rated, at the time of purchase, in one of the two 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;

(h) Bonds or notes issued by any state or municipality which are rated, at the time of purchase, by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) 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;

(j) 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, at the time of purchase, 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;

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

(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 rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, including prerefunded municipal obligations;

(m) The Local Agency Investment Fund administered by the State of California; and

(n) Any investment, with confirmation from the Rating Agencies that the ratings on the Certificates will not be lowered as a result of such investment.

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

"Project" means the capital improvements and related improvements and equipment to be refinanced with the 2011 Certificates, and any facilities financed with Additional Certificates, as the same may be amended, modified or supplemented in accordance with the Trust Agreement.

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

"Reserve Requirement" means, with respect the 2011 Certificates, as of any date of calculation, the least of (1) an amount equal to the maximum annual payments of principal and interest with respect to the 2011 Certificates, (2) 125% of average annual payments of principal and interest with respect to the 2011 Certificates, (3) 10% of the initial principal amount represented by the 2011 Certificates or (4) $5,000,000. The Reserve Requirement for a series of Additional Certificates will be determined in a supplement to the Trust Agreement entered into in connection with such Additional Certificates. The Reserve Requirement may be applied separately for each future series of Certificates or on an aggregate basis if the Reserve Fund or any account therein secures more than one series of Certificates on a parity basis.

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

"2011 Certificates" means the 2011A Certificates and the 2011B Certificates.

"2011 Reserve Account" means the account within the Reserve Fund established pursuant to the Trust Agreement in connection with the 2011 Certificates.

"2011A Certificates" means the City and County of San Francisco Refunding Certificates of Participation, Series 2011A (Moscone South Refunding Project), authorized by the Trust Agreement and at any time Outstanding thereunder.

"2011B Certificates" means the City and County of San Francisco Refunding Certificates of Participation, Series 2011B (Moscone North Refunding Project), authorized by the Trust Agreement and at any time Outstanding thereunder.

## TRUST AGREEMENT

Although certain provisions of the Trust Agreement are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Authorization and Designation

The Trustee is authorized and directed under the Trust Agreement to execute and deliver the 2011 Certificates to the original purchaser or purchasers thereof. The Certificates evidence proportionate interests in the right to receive Base Rental payments under the Project Lease, as more particularly described therein, in the Trust Agreement and in the Certificates. The 2011A Certificates will be designated "City and County of San Francisco Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project)" and the 2011B Certificates will be designated "City and County of San Francisco Refunding Certificates of Participation, Series 2011B (Moscone Center North Refunding Project)."

Application of Insurance Proceeds

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

The proceeds of any insurance, including the proceeds of any self-insurance, remaining after the Leased Property or any portion thereof which was damaged or destroyed is restored to and made available to the City in substantially the same condition and fair rental value as that which existed prior to the damage or destruction or the prepayment, or provision for the prepayment, of Certificates as required in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, will be applied as provided in the following two sentences. Such amounts will, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it will so notify the Trustee in writing, and then any excess amounts will be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Eminent Domain

If the Leased Property or any portion thereof will be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) then the provisions set forth in the Project Lease pertaining to eminent domain will apply. Notwithstanding the provisions of the Project Lease, the City will, with the prior written consent of a City Representative, within 90 days of the conclusion of the eminent domain proceeding, notify the Trustee in writing of whether the Leased Property will be replaced or the Certificates prepaid. The proceeds of any condemnation award will as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund and made available for and, to the extent necessary, will be applied to prepay Certificates in accordance with the Trust Agreement or applied to the cost of replacement of the Leased Property, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed (and the Trustee may conclusively rely on the City Representative's directions with respect thereto).

The proceeds of any condemnation award remaining after the Leased Property has been replaced by property available to the City in substantially the same condition and fair rental value as that which existed prior to the eminent domain proceedings or the prepayment, or provision for the prepayment, in part, of Certificates as required under the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, will be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (proportionately among any Reserve Accounts in the Reserve Fund). Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence will, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property (including any replacement property) is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it will so notify the Trustee in writing, and then any excess amounts will be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City directs in writing that such amounts are to be transferred to the Rebate Fund.

Title Insurance

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

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental payable by the City under the Project Lease, upon written direction of the City such proceeds will be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence will, if there is first delivered to the Trustee a written certificate of a City Representative to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts will be transferred to the Base Rental Fund and used to prepay Certificates pursuant to the special mandatory prepayment provisions of the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

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

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

(d) In the event of any defect in title, the City shall have the option, but not the obligation, to additional Leased property or substitute Leased Property, but only in compliance with the applicable provisions of the Property Lease.

Amendments to Trust Agreement

The Trust Agreement may be amended in writing by agreement between the parties thereto, but no such amendment will become effective as to the Owners unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners upon the written agreement of a City Representative and the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement, (b) in regard to questions arising under the Trust Agreement which the City and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and which will not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to preserve and maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates, (d) to qualify the Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect, (e) to execute and deliver Additional Certificates in accordance with the Trust Agreement, or (f) for any other reason, provided such modification or amendment does not materially adversely affect the interests of the Owners of the Certificates then Outstanding; provided that the City and the Trustee may rely, in entering into any such amendment or modification thereof, upon the opinion of Independent Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

No amendment may impair the right of any Owner to receive principal and interest with respect to his or her Certificate without the consent of the affected Owner. No such amendment or supplement may (1) extend the payment date of any Certificate or reduce the rate of interest with respect thereto or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or any supplement to the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the section of the Trust Agreement pertaining to Amendments to the Trust Agreement, without the prior written consent of the Owners of all Certificates then Outstanding.

Amendments to Property Lease or Project Lease

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

Notwithstanding anything in the Trust Agreement to the contrary, no amendment to the Property Lease or the Project Lease for the purpose of adding, substituting or releasing property and/or improvements described in clause (c) above will be effective unless and until the City will have satisfied the requirements set forth in the Project Lease.

City to Perform Property Lease and Project Lease

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

Compliance with Trust Agreement

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

General

The City certifies, declares, recites and warrants that upon the date of execution and delivery of any of the Certificates, all conditions, acts and things required by law and the Trust Agreement to exist, to have happened and to have been performed precedent to the execution and delivery of the Project Lease do exist, have happened and have been performed in due time, form and manner as may be required by law, and that the City is now duly authorized to execute and deliver the Project Lease and the Certificates upon execution and delivery by the Trustee will be entitled to the benefit, protection and security of the provisions of the Trust Agreement and will comply in all respects with the applicable laws of the State.

Performance

The City will faithfully observe all covenants and other provisions contained in the Financing Documents to which it is a party.

Prosecution and Defense of Suits

The City will promptly take such action as may be necessary to cure any defect in the title to the Leased Property or any part thereof, whether now existing or hereafter occurring, and will prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

Further Assurances

The City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming to the Owners the rights and benefits provided in the Trust Agreement.

Continuing Disclosure

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

Events of Default

Any one or more of the following events are an "Event of Default" under the Trust Agreement: the City defaults under the Project Lease by failing to deposit with the Trustee any Base Rental payment required to be so deposited by the related Interest Payment Date; or the City breaches any other provision of the Project Lease or fails to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement, other than such failure as may constitute an Event of Default under the Trust Agreement pertaining to the failure to pay Base Rental, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee or to the City and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding, provided, that failure to comply with the Continuing Disclosure Certificate 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 60-day period, then such period will be extended so long as corrective action is instituted by the City within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner.

Remedies on Default

Upon the occurrence and continuance of any Event of Default specified in the Trust Agreement, pertaining to the failure to deposit with the Trustee any Base Rental payment required to be so deposited, 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 Certificates then Outstanding, and after being indemnified to its satisfaction, will proceed) to exercise the remedies set forth in the Project Lease to the extent an Event of Default has occurred under the Project Lease.

Notice of Events of Default

If an Event of Default occurs under the Trust Agreement, the Trustee will give notice, at the expense of the City of such Event of Default to the Owners. Such notice will state that an Event of 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 interests of the Owners. The notice provided for in the Trust Agreement will be given by first-class mail, postage prepaid, to the Owners within 30 days of the Trustee's receipt of knowledge 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 Certificates then Outstanding; provided, however, that no default in the payment of the principal, premium, if any, or interest with respect to any Certificate 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 City and the Owners will be restored to their former positions and rights under the Trust Agreement, 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 under the Trust Agreement, the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding may institute 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 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 Certificate 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 with respect to all Outstanding Certificates, 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 Project Lease will be deposited by the Trustee into the Base Rental Fund and used first to pay interest with respect to the Certificates and then to pay the principal with respect to the Certificates. If the amount deposited into the Base Rental 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 Base Rental 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 Base Rental 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: (i) deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement; and (ii) any remaining amounts will deposited into and retained in the Base Rental Fund for application to the payments due with respect to the Certificates on the next succeeding payment dates thereof.

## THE PROJECT LEASE

Although certain provisions of the Project Lease are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Project Lease.

Rental Payments

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

Budget

The City covenants under the Project Lease to take such action as may be necessary to include all Rental Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Rental Payments, subject to the rental abatement provisions of the Project Lease. The requirement to include the Rental Payments in the annual budget and to make the necessary appropriations therefor are deemed to be, and will be construed as, ministerial duties imposed by law. Notwithstanding the foregoing, the obligation of the City to make Base Rental or Additional Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Hotel Tax Receipts are not pledged, assigned or required to be set aside in any manner for the payment of Base Rental or Additional Rental. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Payment; Credit

Amounts necessary to pay Base Rental will be deposited by the City on the dates set forth in the Project Lease, in lawful money of the United States of America, at the Principal Office of the Trustee, or at such other place or places as may be established in accordance with the Trust Agreement. Except as provided in the provisions of the Project Lease regarding rental abatement, any amount necessary to pay any Base Rental or portion thereof that is not so deposited will remain due and payable until received by the Trustee. Notwithstanding any dispute between the City and the Trustee under the Project Lease, the City will make all Rental Payments when due and will not withhold any Rental Payments pending the final resolution of such dispute or for any reason whatsoever. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified under the Project Lease will be absolute and unconditional without any right of set-off or counterclaim, and without abatement, subject only to the applicable provisions of the Project Lease. Amounts required to be deposited with the Trustee pursuant to the Project Lease on any date set forth in the Project Lease will be reduced as permitted in the Project Lease.

Rental Abatement

Except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for payments in respect of the Project Lease or to the

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

Triple Net Lease

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

Insurance

The City will maintain or cause to be maintained, throughout the Project Lease Term (but during the period of construction of any Facilities financed with the proceeds of any Additional Certificates only the insurance described in paragraphs (i) and (vi) below will be required with respect to such Facilities and Additional Certificates and may be provided by the contractor under the construction contract for such Facilities):

(i) General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Leased Property. Such liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City.

(ii) All risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates (to the extent commercially available). Said insurance will, as nearly as practicable, cover loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

(iii) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates; provided that no such earthquake insurance will be required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies.

(iv) Rental interruption insurance with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project

Lease for a period of at least 24 months (such amount to be adjusted annually on or prior to September 1 of each year, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months), to insure against loss of rental income from the Leased Property caused by perils covered by the insurance required by clauses (ii) and (iii) above. Such insurance will not be subject to any deductible.

(v) Boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment.

(vi) In the case of construction of any Facilities financed with the proceeds of Additional Certificates, builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Additional Certificates, or the replacement cost of such Facilities, which insurance will be outstanding until Final Completion of such Facilities.

Notwithstanding anything in the Project Lease to the contrary, the City will have the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under the Project Lease, including a program of self-insurance (other than rental interruption insurance and title insurance), in whole or in part.

The City will deliver to the Trustee, on the date of execution and delivery of the Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance (with no survey required), in an amount at least equal to the initial aggregate principal amount of the Certificates, showing a leasehold interest in the Leased Property in the name of the Trustee, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates.

Eminent Domain

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

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

Assignment

The City will not sell, mortgage, pledge, assign or transfer any interest of the City in the Project Lease or in the Leased Property by voluntary act or by operation of law, or otherwise; provided, however, that the City may grant concessions (including by sublease) to others involving the use of any portion of the Leased Property whether or not such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Property. Any such concession will be, and will specifically state that it is, subject and subordinate in all respects to the Project Lease. Subject to the limitations set forth in the Project Lease, the City will at all times remain liable for the performance of the covenants and conditions on its part to be performed under the Project Lease, notwithstanding any granting of concessions which may be made. Nothing contained in the Project Lease will be construed to relieve the City of its primary obligation to pay Rental Payments as provided in the Project Lease or to relieve the City of any other obligations contained therein. In no event will the City sublease to or permit the use of all or any part of the Leased Property by any person so as to cause the interest component with respect to the Certificates to be includable in gross income for federal income tax purposes or to be subject to State personal income tax.

The City expressly approves and consents to the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Project Lease, including the right to receive Base Rental Payments thereunder.

Right of Entry

Representatives of the Trustee will, subject to reasonable security precautions, have the right (but not the duty) to enter upon the Leased Property during reasonable business hours (and in emergencies at all times) (i) to inspect the same, (ii) for any purpose connected with the rights or obligations of the Trustee under the Project Lease, or (iii) for all other lawful purposes.

Quiet Enjoyment

The Trustee covenants and agrees that the City, upon keeping and performing the covenants and agreements contained in the Project Lease, will, at all times during the Project Lease Term, peaceably and quietly have, hold, and enjoy the Leased Property.

Events of Default

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

Remedies on Default

The Trustee will have the right, at its option or upon receiving the direction of the majority of the Owners in aggregate principal amount of the Certificates, without any further demand or notice (i) to reenter the Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, relet the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, in which event the rents received on such reletting will be applied as set forth in the Trust Agreement; provided, that if a sufficient sum will not be realized to pay such sums and other charges then the City will pay to the Trustee any net deficiency existing on the date when the Base Rental or Additional Rental is due under the Project Lease; provided, however, that such reentry and reletting will be done only with the consent of the City, which consent is irrevocably given; or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due under the Project Lease pursuant to Section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity, except as expressly provided therein. Any reentry pursuant to the Project Lease will be allowed by the City without hindrance, and the Trustee will not be liable in damages for any reentry or be guilty of trespass. The Trustee or any assignee of the rights of the Trustee thereunder will not exercise its remedies thereunder so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or the interest with respect to the Certificates to be subject to State personal income tax; provided that the Trustee or any assignee may rely upon an opinion of Independent Counsel in determining the impact of remedies on such tax matters. Notwithstanding any other provision of the Project Lease or the Trust Agreement, (i) in no event will the Trustee have the right to accelerate the payment of any Base Rental under the Project Lease and (ii) the foregoing remedies to reenter and relet the Leased Property will be subject to applicable laws regarding the use of such property (including but not limited to applicable laws relating to the use of property financed with general obligation bonds or federal or state grants).

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

All damages and other payments received by the Trustee pursuant to the provisions of the Project Lease pertaining to default will be applied in the manner set forth in the Trust Agreement.

Addition, Release and Substitution

If no Project Lease Event of Default has occurred and is continuing thereunder, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City will have delivered to the Trustee and to the Rating Agencies all of the following:

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

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

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

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

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

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

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

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

## THE PROPERTY LEASE

Although certain provisions of the Property Lease are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Property Lease.

<u>Lease of Leased Property</u>

The City leases to the Trustee the real property located in the City and County of San Francisco, California and described in Exhibit A attached to the Property Lease (the "Site"), together with all buildings and improvements then situated or thereafter constructed thereon (collectively, the "Leased Property"), subject (i) to the terms thereof and (ii) to Permitted Encumbrances.

<u>Assignment and Project Lease</u>

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

The City expressly approves and consents to the Project Lease and the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Project Lease, including the right to receive Base Rental Payments payable thereunder.

Right of Entry

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

Quiet Enjoyment

The Trustee at all times during the term of the Property Lease will peaceably and quietly have, hold and enjoy all of the Leased Property.

Default

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

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

ORO EN PAZ FIERRO EN GUERRA

## APPENDIX D

## FORM OF CONTINUING DISCLOSURE CERTIFICATE

**$86,480,000**
**CITY AND COUNTY OF SAN FRANCISCO**
**REFUNDING CERTIFICATES OF PARTICIPATION**

| | |
|---|---|
| **$23,105,000**<br>**(MOSCONE CENTER SOUTH REFUNDING PROJECT)**<br>**SERIES 2011A** | **$63,375,000**<br>**(MOSCONE CENTER NORTH REFUNDING PROJECT)**<br>**SERIES 2011B** |

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the delivery of the certificates of participation captioned above (the "Certificates"). The Certificates are issued pursuant to that certain Trust Agreement (the "Trust Agreement"), dated as of November 1, 2011, between the City and Deutsche Bank National Trust Company, as trustee (the "Trust Agreement"). Pursuant to Section 8.10 of the Trust Agreement and Section 4.8 of that certain Project Lease dated as of November 1, 2011, by and between the Trustee and the City, the City covenants and agrees as follows:

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

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

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

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

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

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

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

"MSRB" will mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at *http://emma.msrb.org.*

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

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

**SECTION 3. Provision of Annual Reports.**

(a) The City will, or will cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2010-11 Fiscal Year (which is due not later than March 27, 2012), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City will provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City will submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(b).

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

(c) The Dissemination Agent will (if the Dissemination Agent is other than the City), file a report with the City certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

**SECTION 4. Content of Annual Reports.** The City's Annual Report will contain or incorporate by reference the following information, as required by the Rule:

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;

(b) a summary of budgeted general fund revenues and appropriations;

(c) a summary of the assessed valuation of taxable property in the City;

(d) a summary of the ad valorem property tax levy and delinquency rate;

(e) a summary of aggregate annual scheduled lease payments or rental obligations with respect to outstanding certificates of participation and lease revenue bonds payable from the general fund of the City.

(f) a summary of outstanding and authorized but unissued general fund lease obligations, certificates of participation, and other long-term obligations payable from the general fund of the City.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

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

(1) Principal and interest payment delinquencies;
(2) Nonpayment related defaults, if material;
(3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
(7) Modifications to the rights of Certificate holders, if material;
(8) Certificate calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**SECTION 6. Termination of Reporting Obligation.** The City's obligations under this Disclosure Certificate will terminate upon the legal defeasance, prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final Certificate Payment Date of the Certificates, the City will give notice of such termination in the same manner as for a Listed Event under Section 5(b).

**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 will have only such duties as are specifically set forth in this Disclosure Certificate.

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the Certificates or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City will describe such amendment in the next Annual Report, and will 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 will be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Disclosure Certificate will 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 will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

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

**SECTION 12. Counterparts.** This Disclosure Certificate may be executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Date: November 17, 2011.

CITY AND COUNTY OF SAN FRANCISCO

________________________________
Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: ________________________________
Deputy City Attorney

**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

| | |
|---|---|
| Name of City: | CITY AND COUNTY OF SAN FRANCISCO |
| Name of Issue: | CITY AND COUNTY OF SAN FRANCISCO<br>REFUNDING CERTIFICATES OF PARTICIPATION<br>(MOSCONE CENTER SOUTH REFUNDING PROJECT),<br>SERIES 2011A<br>(MOSCONE CENTER NORTH REFUNDING PROJECT),<br>SERIES 2011B |
| Date of Delivery: | NOVEMBER 17, 2011 |

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

Dated: _______________

CITY AND COUNTY OF SAN FRANCISCO

By: _________[to be signed only if filed]________
Title: ____________________________________

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

ORO EN PAZ FIERRO EN GUERRA

## APPENDIX E

## DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in numbered paragraphs 1-11 of this Appendix E, concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements 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 or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this 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.*

**Information Furnished by DTC Regarding its Book-Entry Only System**

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the certificates (as used in this Section, the "Securities"). The Securities 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 Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities 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 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 is rated "AA+" by Standard & Poor's. 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.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the 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.

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 paying agent or bond 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 paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments 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 paying agent or bond 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

**APPENDIX F**

**PROPOSED FORM OF CO-SPECIAL COUNSEL OPINION**

November __, 2011

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

***OPINION:*** $23,105,000 City and County of San Francisco Refunding Certificates of Participation Series 2011A (Moscone Center South Refunding Project)
and
$63,375,000 City and County of San Francisco Refunding Certificates of Participation Series 2011B (Moscone Center North Refunding Project)

Ladies and Gentlemen:

We have acted as co-special counsel to the City and County of San Francisco (the "City") in connection with the delivery by the City of the Project Lease, dated as of November 1, 2011 (the "Project Lease") between Deutsche Bank National Trust Company, as trustee under the hereinafter defined Trust Agreement (the "Trustee"), as lessor, and the City, as lessee. Under the Trust Agreement dated as of November 1, 2011 (the "Trust Agreement") between the City and the Trustee, the Trustee has executed and delivered the above-captioned certificates of participation dated November __, 2011 (the "Certificates"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Certificates evidence the direct, undivided fractional interests of the owners thereof in base rental payments to be made by the City under the Project Lease (the "Base Rental Payments") to the Trustee. The City authorized execution and delivery of the Project Lease, the Trust Agreement and the Certificates pursuant to a resolution (the "Resolution") of the Board of Supervisors adopted on September 13, 2011 and duly approved by the Mayor of the City on September 21, 2011. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the City contained in the Project Lease, the Property Lease (as such term is defined in the Trust Agreement) and the Trust Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is duly created and validly existing as a charter city and county with the power to adopt the Resolution, to enter into the Project Lease and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Project Lease, the Property Lease and the Trust Agreement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the Trustee, and the Project Lease, the Property Lease and the Trust Agreement constitute the valid and binding obligations of the City, enforceable against the City in accordance with their terms.

3. Subject to the terms and provisions of the Project Lease, the Base Rental Payments are payable from all legally available funds of the City. By virtue of the Trust Agreement, the owners of the Certificates are entitled to receive their proportionate share of the Base Rental Payments in accordance with the provisions of the Trust Agreement.

4. The portion of the Base Rental Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the delivery of the Project Lease in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the Certificates in gross income for federal income tax purposes to be retroactive to the date of delivery of the Project Lease. We express no opinion regarding other federal tax consequences arising with respect to the Project Lease and the Certificates.

5. The portion of the Base Rental Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Project Lease, the Property Lease and the Trust Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

Rosales Law Partners LLP

# APPENDIX G

## CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

ORO EN PAZ FIERRO EN GUERRA

**CITY AND COUNTY OF SAN FRANCISCO**
**OFFICE OF THE TREASURER & TAX COLLECTOR**

# INVESTMENT POLICY

Effective October 2011

## 1.0 Policy

It is the policy of the Office of the Treasurer & Tax Collector of the City and County of San Francisco (Treasurer's Office) to invest public funds in a manner which will preserve capital, meet the daily cash flow demands of the City, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds.

## 2.0 Scope

This investment policy applies to all funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management.

## 3.0 Prudence

The standard of prudence to be used by the Treasurer's Office shall be the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 and 27000.3. The Section reads as follows: The Prudent Investor Standard states that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Treasurer's Office, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Treasurer's Office.

This standard of prudence shall be applied in the context of managing those investments that fall under the Treasurer's direct control. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## 4.0 Objective

The primary objectives, in priority order, of the Treasurer's Office's investment activities shall be:

> 4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Treasurer's Office shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Treasurer's Office will diversify its investments.
>
> 4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet cash flow needs which might be reasonably anticipated.

4.3 Return on Investments: The portfolio shall be designed with the objective of generating a market rate of return without undue compromise of the first two objectives.

**5.0 Delegation of Authority**

The Treasurer of the City and County of San Francisco (Treasurer) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 1. Any modification made by the Treasurer to this Investment Policy shall be ratified by the County Treasury Oversight Committee within five working days to stay in effect.

**6.0 Authorized Broker/Dealer Firms**

The City seeks to employ a fair and unbiased broker-dealer selection process, which culminates in an array of medium to large-sized firms that provide the best investment opportunities and service to the City.

The Treasurer's Office will evaluate and classify broker-dealers based on the qualifications of the firm and firm's assigned individual. Approved broker-dealers will be evaluated and may be classified into one of the following categories:

FULL ACCESS – Broker-dealers will have significant opportunity to present investment ideas to the investment team.

LIMITED ACCESS – Broker-dealers will have limited opportunity to present investment ideas to the investment team.

All others may apply for Provisional status appointment. Provisional appointments will be made for:

(1) Applicants who have changed firms;
(2) Applicants (firm and individual) who were not approved by the Treasurer's Office in the past year; and
(3) Broker-dealers who have been classified as Limited Access, but are seeking Full Access status.

Broker-dealers, who are granted Provisional status, will be treated as Full Access firms for a limited time period of up to six months. During the Provisional status period, the investment team will evaluate the applicant and provide a determination of status (Full Access, Limited Access or Not Approved). Broker-dealers may reapply for Provisional status every two years. A limited number of broker-dealers will be granted Provisional status concurrently.

All broker-dealers are encouraged to apply for consideration. All applicants will be evaluated and classified based on the qualifications of the firm and the firm's assigned individual. A score will be assigned to each applicant and will serve as the sole determinant for Full Access, Limited Access, or Not-Approved status.

All approved broker-dealers will be re-assessed annually. During the reassessment period, broker-dealers will be sent the City's most recent Investment Policy and are expected to respond with a policy acknowledgement letter, updated profile information and a completed questionnaire.

All securities shall be purchased and sold in a competitive environment.

The Treasurer's Office will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices.

## 7.0 Authorized & Suitable Investments

Investments will be made pursuant to the California Government Code (including Section 53601 et seq.) and this investment policy to ensure sufficient liquidity to meet all anticipated disbursements.

Unless otherwise noted, the maximum maturity from the trade settlement date can be no longer than five years.

Types of investment vehicles not authorized by this investment policy are prohibited.

In an effort to limit credit exposure, the Treasurer's Office will maintain Eligible Issuer, Eligible Counterparty and Eligible Money Market lists for security types where appropriate. These lists are intended to guide investment decisions. Investments, at time of purchase, are limited solely to issuers, counterparties and money market funds listed; however, investment staff may choose to implement further restrictions at any time.

In addition, the Treasurer's Office shall conduct an independent credit review, or shall cause an independent credit review to be conducted, of the collateralized CD issuers to determine the creditworthiness of the financial institution. The credit review shall include an evaluation of the issuer's financial strength, experience, and capitalization, including, but not limited to leverage and capital ratios relative to benchmark and regulatory standards (See Section 7.5).

The following policy shall govern unless a variance is specifically authorized by the Treasurer and ratified by the Treasury Oversight Committee pursuant to Section 5.0.

**7.1 U.S. Treasuries**

United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 100% of the portfolio value | 100% | 100% | 5 years |

**7.2 Federal Agencies**

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 70% of the portfolio value | 30% | 100% | 5 years |

**7.3 TLGP (Temporary Liquidity Guarantee Program)**

TLGP bonds, which are backed by the FDIC with a final maturity of less than 5 years, shall be limited to 30% of the portfolio.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 30% of the portfolio value | No Limit | No Limit | 5 years |

### 7.4 State and Local Government Agency Obligations

The Treasurer's Office may purchase bonds, notes, warrants, or other evidences of indebtedness of any local or State agency within the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or State, or by a department, board, agency, or authority of the local agency or State.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 20% of the portfolio value | 5% | No Limit | 5 years |

Issuer Minimum Credit Rating: Issuers must possess a long-term credit rating of the second highest ranking or better (irrespective of +/-) from two NRSROs. This limitation applies to all local and State agencies within the 50 United States with the exception of the State of California.

### 7.5 Public Time Deposits (Term Certificates Of Deposit)

The Treasurer's Office may invest in non-negotiable time deposits (CDs) that are FDIC insured or fully collateralized in approved financial institutions.

The Treasurer's Office will invest in FDIC-insured CDs only with those firms having at least one branch office within the boundaries of the City and County of San Francisco.

Collateralized CDs are required to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The Treasurer's Office, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The Treasurer's Office shall have a signed agreement with any depository accepting City funds per Government Code Section 53649.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| No Limit | None | N/A | 13 months |

Issuer Minimum Credit Rating (applies to collateralized CDs only): Maintenance of the minimum standards for "well-capitalized" status as established by the Federal Reserve Board. The current standards are as follows:

- Tier 1 risk-based capital ratio of 8% or greater
- Combined Tier 1 and Tier 2 capital ratio of 10% or greater
- Leverage ratio of 5% or greater

Failure to maintain minimum standards may result in early termination, subject to the discretion of the Treasurer's Office.

### 7.6 Negotiable Certificates Of Deposit / Yankee Certificates Of Deposit

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Yankee certificates of deposit are negotiable instruments that are issued by a branch of a foreign bank.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 30% of the portfolio value | No Limit | N/A | 5 years |

Issuer Minimum Credit Rating: Issuers must possess a long-term credit rating of the second highest ranking or better (irrespective of +/-) from two NRSROs.

### 7.7 Bankers Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 40% of the portfolio value | No Limit | No Limit | 180 days |

Issuer Minimum Credit Rating: None

### 7.8 Commercial Paper

Obligations issued by a corporation or bank to finance short-term credit needs, such as accounts receivable and inventory, which may be unsecured or secured by pledged assets.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 25% of the portfolio value | 10% | None | 270 days |

Issuer Minimum Credit Rating: Issuers must possess a short-term credit rating of the second highest ranking or better (irrespective of +/-) from two NRSROs.

**7.9 Medium Term Notes**

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S.

| Allocation Maximum | Issuer Limit Maximum | Issue Limit Maximum | Maturity/Term Maximum |
|---|---|---|---|
| 15% of the portfolio value | 10% | 5% | 13 months |

Issuer Minimum Credit Rating: Issuers must possess a long-term credit rating of the second highest ranking or better (irrespective of +/-) from two NRSROs.

**7.10 Repurchase Agreements**

The Treasurer's Office shall selectively utilize this investment vehicle with terms not to exceed 30 days, secured solely by government securities and said collateral will be delivered to a third party, so that recognition of ownership of the City and County of San Francisco is perfected.

**7.11 Reverse Repurchase and Securities Lending Agreements**

This procedure shall be limited to occasions when the cost effectiveness dictates execution, specifically to satisfy cash flow needs or when the collateral will secure a special rate. A reverse repurchase agreement shall not exceed 45 days; the amount of the agreement shall not exceed $75MM; and the offsetting purchase shall have a maturity not to exceed the term of the repo.

**7.12 Money Market Funds**

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

| Allocation Maximum | Issuer Limit Maximum | Percentage of Fund's Net Assets Maximum | Maturity/Term Maximum |
|---|---|---|---|
| No Limit | N/A | 5% | N/A |

Issuer Minimum Credit Rating: Fund rating must be rated in at least the second highest rating category from two NRSRO or independent investment research firms (e.g. Morningstar or Lipper).

### 7.13 Local Agency Investment Fund (LAIF)

Investments in LAIF, a California state investment fund available to California municipalities, are authorized.

## 8.0 Interest and Expense Allocations

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets, managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated and charged to the Pooled Investment Fund on a quarterly basis, with the exception of San Francisco International Airport costs which are charged directly through a work order.

The San Francisco Controller allocates the net interest earnings of the Pooled Investment Fund. The earnings are allocated monthly based on average balances.

## 9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer's Office shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

## 10.0 Deposit and Withdrawal of Funds

California Government Code Section 53684 et seq. provides criteria for outside local agencies, where the Treasurer does not serve as the agency's treasurer, to invest in the County's Pooled Investment Fund, subject to the consent of the Treasurer. Currently, no government agency outside the geographical boundaries of the City and County of San Francisco shall have money invested in City pooled funds.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration for the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

## 11.0 Limits on Receipt of Honoraria. Gifts and Gratuities

In accordance with California Government Code Section 27133(d) et seq., this Investment Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or others persons with whom the Treasurer conducts business. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of those limits must report the gifts, dates and firms to the Treasurer and complete the appropriate State disclosure.

These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the California Fair Political Practices Commission. Members of the Treasury Oversight Committee also must abide by the following sections of the Treasurer's Office Statement of Incompatible Activities: Section III(A)(l)(a), (b) and (c) entitled "Activities that Conflict with Official Duties," and Section III(C) entitled "Advance Written Determination".

## 12.0 Reporting

In accordance with the provisions of California Government Code Section 53646, which states that the Treasurer may render a quarterly report or a monthly report on the status of the investment portfolio to the Board of Supervisors, Controller and Mayor, the Treasurer regularly submits a monthly report. The report includes the investment types, issuer, maturity date, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a statement of compliance with the investment policy or an explanation for non-compliance; and a statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why moneys will not be available if that is the case.

## 13.0 Social Responsibility

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.

### 13.1 Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Prior to making investments, the Treasurer's Office will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.

**13.2 Community Investments**
Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

**13.3 City Ordinances**
All depository institutions are to be advised of applicable City contracting ordinances, and shall certify their compliance therewith, if required.

## 14.0 Treasury Oversight Committee

A Treasury Oversight Committee was established by the San Francisco Board of Supervisors in Ordinance No. 316-00. The duties of the Committee shall be the following:

(a) Review and monitor the investment policy described in California Government Code Section 27133 and prepared annually by the Treasurer.

(b) Cause an annual audit to be conducted to determine the Treasurer's compliance with California Government Code Article 6 including Sections 27130 through 27137 and City Administrative Code Section 10.80-1. The audit may examine the structure of the investment portfolio and risk. This audit may be a part of the County Controller's usual audit of the Treasurer's Office by internal audit staff or the outside audit firm reviewing the Controller's Annual Report.

(c) Nothing herein shall be construed to allow the Committee to direct individual decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the Treasurer. (See California Government Code, Section 27137.)

## APPENDIX I

### Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASK/OFFER: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY INSTITUTIONS: These institutions hold City and County moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

DERIVATIVES: (l) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FDIC DEPOSIT INSURANCE COVERAGE: The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance also covers the Treasury Liquidity Guarantee Program (TLGP). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.
Basic FDIC Deposit Insurance Coverage Limits*
Single Accounts (owned by one person) $250,000 per owner
Joint Accounts (two or more persons) $250,000 per co-owner
IRAs and certain other retirement accounts $250,000 per owner
Trust Accounts $250,000 per owner per beneficiary subject to specific limitations and requirements**
*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the $250,000 FDIC coverage limit permanent.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate.This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE l5(C))3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TLGP: Treasury Liquidity Guarantee Program. The FDIC has created the Treasury Liquidity Guaranty Program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies. The TLGP is expected to end on June 30, 2012.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

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