New Issue - Book-Entry Only

INSURED RATINGS: Moody's: Aaa
S & P: AAA
Fitch: AAA
UNDERLYING RATINGS: Moody's: Aa3
S & P: AA
Fitch: AA-
(See "Ratings" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and The Law Offices of Elizabeth C. Green, San Francisco, California, Co-Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds 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-Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

$66,565,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2006-R2

Dated: Date of Delivery **Due: June 15, as shown below**

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

The $66,565,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2006-R2 (the "Bonds"), are being issued under the Charter of the City and County of San Francisco (the "City") and the Administrative Code of the City. The issuance of the Bonds has been authorized by Resolution No. 272-04 adopted by the Board of Supervisors of the City (the "Board") on May 11, 2004 and duly approved by the Mayor of the City (the "Mayor") on May 13, 2004. The distribution of this Official Statement has been authorized by Resolution No. 466-06, adopted by the Board of Supervisors of the City on August 8, 2006, and duly approved by the Mayor on August 11, 2006. See "THE BONDS—Authority for Issuance; Purpose." The proceeds of the Bonds will be used to refund a portion of certain outstanding general obligation bonds of the City as described herein and to pay for certain costs related to the issuance of the Bonds. See "PLAN OF REFUNDING." The Bonds will be issued in accordance with the terms and conditions of a Declaration of Trust to be executed by the Treasurer of the City.

The Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by the Treasurer of the City, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "APPENDIX E—DTC and the Book-Entry Only System." The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds will be payable semiannually on June 15 and December 15 of each year, commencing June 15, 2007. **The Bonds will be subject to redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption Provisions."**

The Bonds represent the general obligation of the City. The Board has the power and is obligated to levy *ad valorem* taxes upon all property within the City subject to taxation by the City without limitation as to rate or amount (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon.

MATURITY SCHEDULE
(Base CUSIP Number: 797646)

Maturity Date (June 15)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix	Maturity Date (June 15)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2007	$ 4,500,000	4.00%	3.330%	GM2	2014	$4,650,000	3.55%	3.550%	GU4
2008	4,105,000	4.00	3.440	GN0	2015	4,785,000	3.50	3.600	GV2
2009	10,535,000	4.00	3.420	GP5	2016	4,945,000	3.50	3.740	GW0
2010	4,090,000	4.00	3.430	GQ3	2017	5,120,000	3.60	3.790	GX8
2011	4,210,000	4.00	3.450	GR1	2018	5,300,000	3.75	3.840	GY6
2012	4,340,000	4.00	3.470	GS9	2019	5,500,000	4.00	3.940	GZ3
2013	4,485,000	4.15	3.500	GT7					

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation. See "THE BOND INSURER AND THE FINANCIAL GUARANTY INSURANCE POLICY" and "APPENDIX G – SPECIMEN AMBAC FINANCIAL GUARANTY INSURANCE POLICY."

Ambac

The Bonds are offered when, as and if issued by the City and accepted by the initial purchasers, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Law Offices of Elizabeth C. Green, San Francisco, California, Co-Bond Counsel, with respect to the Bonds, and certain other conditions. Certain legal matters will be passed upon for the City by its City Attorney. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about December 18, 2006.

Dated: November 30, 2006.

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 shall there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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 shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. Such forward-looking statements include, but are not limited to, statements contained in "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES" and "APPENDIX B—CITY AND COUNTY OF SAN FRANCISCO—ECONOMY AND GENERAL INFORMATION." The achievement of certain results or other expectations or performance contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements described or implied by such forward-looking statements. Such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results, performance or achievements to differ materially from those that have been forecast, estimated or projected. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Aaron Peskin, *Board President, District 3*

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

CITY AND COUNTY OFFICIALS

José Cisneros, *Treasurer*

Edward M. Harrington, *Controller*

Edwin Lee, *City Administrator*

Dennis J. Herrera, *City Attorney*

SPECIAL SERVICES

Paying Agent and Registrar

Treasurer of the City and County of San Francisco

Co-Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Law Offices of Elizabeth C. Green
San Francisco, California

Co-Financial Advisors

Montague DeRose and Associates LLC
Walnut Creek, California

Robert Kuo Consulting, LLC
San Francisco, California

Escrow Agent

Wells Fargo Bank, N. A.
Los Angeles, California

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

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OFFICIAL STATEMENT

$66,565,000
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2006-R2

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 $66,565,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds**,** Series 2006-R2 (the "Bonds"). The Bonds represent the general obligation of the City. The Board of Supervisors of the City (the "Board") has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein. For information on the City's tax base, tax collection system and property tax revenues, see "SECURITY FOR THE BONDS" and "APPENDIX A—CITY AND COUNTY OF SAN FRANCISCO—ORGANIZATION AND FINANCES."

THE BONDS

Authority for Issuance; Purpose

The Bonds are issued under the Charter of the City (the "Charter") and the Administrative Code of the City. The issuance of the Bonds has been authorized by Resolution No. 272-04 (the "Authorizing Resolution") adopted by the Board of Supervisors of the City (the "Board") on May 11, 2004 and duly approved by the Mayor of the City (the "Mayor") on May 13, 2004. The distribution of this Official Statement has been authorized by Resolution No. 466-06, adopted by the Board of Supervisors of the City on August 8, 2006, and duly approved by the Mayor on August 11, 2006 (collectively, together with the Authorizing Resolution, the "Resolution"). The Bonds will be issued in accordance with the terms and conditions of a Declaration of Trust of the Treasurer of the City (the "Treasurer"), dated as of November 1, 2006 (the "Declaration of Trust").

The Bonds are being issued to refund a portion of certain outstanding general obligation bonds of the City in order to reduce overall debt service payments of the City, and to pay certain costs associated with the issuance of the Bonds. See "PLAN OF REFUNDING." Pursuant to the Authorizing Resolution, the City issued its $21,930,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2004-R1 on June 16, 2004 and its $90,690,000 City and County of San Francisco General Obligation Refunding Bonds, Series 2006-R1 on October 31, 2006.

Description of the Bonds

The Bonds are issued in the principal amounts set forth on the front cover hereof, in the denomination of $5,000 each or any integral multiple thereof, and will be dated and bear interest from their date of delivery. The Bonds are issued as fully registered bonds, without coupons, with interest payable on each June 15 and December 15 in each year, commencing June 15, 2007. The Bonds will mature on June 15 of each year, commencing June 15, 2007, subject to redemption prior to their respective stated maturity dates as provided herein. The Treasurer will act as paying agent and registrar for the Bonds. Payments of principal of and interest on the Bonds will be made by the Treasurer, as paying agent, to the registered owners whose names appear on the bond registration books of the Treasurer as of the close of business on the last day of the month immediately preceding each interest payment date (the "Record Date"), whether or not such day is a business day. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "APPENDIX E–DTC AND THE BOOK–ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption

The Bonds maturing on or before June 15, 2013 will not be subject to redemption prior to their respective stated maturities. Bonds maturing on and after June 15, 2014 are subject to optional redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity), on or after December 15, 2013, at the par amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption.

Optional redemption of Bonds and notice thereof may be rescinded under certain circumstances. See "Conditional Notice; Right to Rescind Notice of Optional Redemption" herein.

Selection of Bonds for Redemption

Whenever less than all the outstanding Bonds that are maturing on any one date are called for redemption on any one date, the Treasurer will select the Bonds or portions thereof, in denominations of $5,000 or any integral multiple thereof, to be redeemed from the outstanding Bonds maturing on such date not previously selected for redemption, by lot, in any manner which the Treasurer deems fair.

Notice of Redemption

So long as DTC or its nominee is the registered owner of the Bonds, the City will mail notice of redemption to DTC not less than 30 days and not more than 60 days prior to any redemption date. If for any reason DTC or any other securities depository will not be engaged by the City with respect to some or all of the Bonds so called for redemption, the Treasurer, or any agent appointed by the Treasurer, will give notice of any redemption of the Bonds by mail, postage prepaid, to the respective registered owners thereof at the addresses appearing on the bond registration books not less than 30 and not more than 60 days prior to any redemption date. See "APPENDIX E– DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The actual receipt by the registered owner of any Bond of such notice of redemption will not be a condition precedent to redemption of such Bond, and failure to receive such notice, or any defect in such notice, will not affect the validity of the proceedings for the redemption of such Bond or the cessation of the accrual of interest on such Bond on the redemption date.

Conditional Notice; Right to Rescind Notice of Optional Redemption

The City may provide a conditional notice of redemption and may rescind any optional redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption prior to the date fixed for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Defeasance

Payment of all or any portion of the Bonds may be provided for prior to their respective stated maturities by irrevocably depositing in an irrevocable escrow with the Treasurer (or any commercial bank or trust company designated by the Treasurer to act as escrow agent with respect thereto): (a) an amount of cash which together with amounts then on deposit in the Bond Account created under the Declaration of Trust for the Bonds (the "Bond Account") is sufficient, without reinvestment, to pay and discharge all of the Bonds to be defeased (including all principal and interest) at or before their stated maturity, provided that in the case of Bonds which are to be redeemed prior to their respective stated maturities, notice of such redemption will have been given as provided in the applicable provisions of the Declaration of Trust or an irrevocable election to give such notice has been made by the City; or (b) Defeasance Obligations (as defined in the Declaration of Trust) not subject to call, except as provided in the definition thereof as described below, maturing and paying interest at such times and in such amounts, together with cash, if required, as will, without reinvestment, as certified by an independent certified public accountant, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the redemption date, as the case may be, due on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption will have been given as provided in the applicable provisions of the Declaration of Trust or an irrevocable election to give such notice has been made by the City; then, notwithstanding that any of such Bonds will not have been surrendered for payment, all obligations of the City with respect to such Bonds will cease and terminate, except only the obligation of the City to pay or cause to be paid from the funds deposited pursuant to the provisions of the Declaration of Trust described in subparagraphs (a) and (b) above, to the owners of said Bonds not so surrendered and paid all sums due with respect thereto; provided, that the City will have received an opinion of bond counsel to the effect that said Bonds have been defeased.

For purpose of the above-described provisions of the Declaration of Trust, "Defeasance Obligations" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Treasurer or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and "pre-refunded" municipal obligations rated in the highest rating category by Moody’s and S&P or any security issued by an agency or instrumentality of the United States of America which is selected by the Director of Finance that results in escrow fund being rated AAA by S&P and Aaa by Moody's at the time of initial deposit to the escrow fund and upon any substitutions or subsequent deposit to the escrow fund.

PLAN OF REFUNDING

As of November 1, 2006, the City had $1,234,255,000 in outstanding aggregate principal amount of general obligation bonds (“Outstanding General Obligation Bonds”), which were issued pursuant to voter authorizations and bond resolutions or ordinances passed by the Board. Pursuant to the Authorizing Resolution, the City has authorization to issue not to exceed $800,000,000 aggregate principal amount of general obligation refunding bonds. Pursuant to the Authorizing Resolution, the City issued its $21,930,000 aggregate principal amount of City and County of San Francisco General Obligation Refunding Bonds, Series 2004-R1 on June 16, 2004 and refunded $21,525,000 in outstanding general obligation bonds. On October 31, 2006, pursuant to the Authorizing Resolution, the City issued its $90,690,000 City and County Of San Francisco General Obligation Refunding Bonds, Series 2006-R1 and refunded $88,640,000 in outstanding general obligation bonds.

Pursuant to the Escrow Agreement dated as of November 1, 2006 between the City and Wells Fargo Bank, N. A., Los Angeles, California (the “Escrow Agreement”), the City will refund $64,685,000 in aggregate principal amount of Outstanding General Obligation Bonds (as further described in the table set forth below, the “Refunded Bonds”). All principal, premium and interest with respect to the Refunded Bonds will be refunded on June 15, 2007 at a redemption price of 102% of the principal amount of the Refunded Bonds. Following the issuance of the Bonds, the total amount of Outstanding General Obligation Bonds will be $1,236,135,000.

Description of Refunded Bonds	Original Principal Amount	Maturities to be Refunded	Amount to be Refunded	Amount Remaining Outstanding**
General Obligation Bonds, Series 1999 A ▪(Educational Facilities Bonds, 1997 - Community College District)	$20,395,000	2009 - 2019	$13,490,000	$1,795,000
General Obligation Bonds, Series 1999 B ▪(Educational Facilities Bonds, 1997 - San Francisco Unified School District)	60,520,000	2009 - 2019	40,045,000	5,325,000
General Obligation Bonds, Series 1999 C ▪(Zoo Facilities Bonds, 1997)	16,845,000	2009 - 2019	11,150,000	1,480,000
Total	$97,760,000		$64,685,000	$8,600,000

**Total amount of series of bonds, of which the series of Refunded Bonds are a part, that would remain outstanding after refunding.

Pursuant to the Escrow Agreement, the net proceeds of the Bonds, together with certain other funds, will be applied to purchase certain direct obligations of the United States of America (the "Escrow Securities"). The Escrow Securities will be deposited into the escrow account established under the Escrow Agreement, to be separately held and maintained by the Escrow Agent. The Escrow Securities and other amounts held in the escrow account for the Refunded Bonds will be irrevocably pledged to pay the principal, redemption premium, and interest due on the Refunded Bonds relating thereto on the redemption date. The Escrow Agent shall withdraw funds from the Escrow Fund on each interest payment date to and including the redemption date, for transfer to the Treasurer of the City, for payment of principal of and interest on each such date, and on the redemption date of the Refunded Bonds, to pay principal of and any premium, if any, due upon redemption and payment of the respective series of Refunded Bonds.

For information on mathematical verification of the sufficiency of the scheduled payments with respect to the Escrow Securities and other funds held in the escrow accounts to make such payments, see "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Bonds:

Sources	
Principal Amount of Bonds………………………………….	$ 66,565,000.00
Original Issue Premium…………………………………………..	409,383.40
TOTAL SOURCES OF FUNDS……………………………...	$66,974,383.40
Uses	
Deposit to Escrow Fund……………………………………..	$66,494,400.90
Underwriter's Discount……………………………………	116,736.35
Cost of Issuance [(1)]………………………………………......	363,246.15
TOTAL USES OF FUNDS………………………………	$66,974,383.40

(1) Includes fees for services of rating agencies, Co-Financial Advisors and Co-Bond Counsel, the premium for the Financial Guaranty Insurance Policy (paid out of the compensation to the Underwriter), costs of the City, printer, escrow agent, verification agent and other miscellaneous costs associated with the issuance of the Bonds.

DEBT SERVICE SCHEDULE

Debt service payable with respect to the Bonds is as follows:

City and County of San Francisco
General Obligation Refunding Bonds, Series 2006-R2

Date	Principal	Interest Rate	Interest	Total Principal & Interest	Fiscal Year Total
6/15/2007	$4,500,000.00	4.00%	$1,261,627.73	$5,761,627.73	-
6/30/2007	-	-	-	-	$5,761,627.73
12/15/2007	-	-	1,193,011.25	1,193,011.25	-
6/15/2008	4,105,000.00	4.00%	1,193,011.25	5,298,011.25	-
6/30/2008	-	-	-	-	6,491,022.50
12/15/2008	-	-	1,110,911.25	1,110,911.25	-
6/15/2009	10,535,000.00	4.00%	1,110,911.25	11,645,911.25	-
6/30/2009	-	-	-	-	12,756,822.50
12/15/2009	-	-	900,211.25	900,211.25	-
6/15/2010	4,090,000.00	4.00%	900,211.25	4,990,211.25	-
6/30/2010	-	-	-	-	5,890,422.50
12/15/2010	-	-	818,411.25	818,411.25	-
6/15/2011	4,210,000.00	4.00%	818,411.25	5,028,411.25	-
6/30/2011	-	-	-	-	5,846,822.50
12/15/2011	-	-	734,211.25	734,211.25	-
6/15/2012	4,340,000.00	4.00%	734,211.25	5,074,211.25	-
6/30/2012	-	-	-	-	5,808,422.50
12/15/2012	-	-	647,411.25	647,411.25	-
6/15/2013	4,485,000.00	4.15%	647,411.25	5,132,411.25	-
6/30/2013	-	-	-	-	5,779,822.50
12/15/2013	-	-	554,347.50	554,347.50	-
6/15/2014	4,650,000.00	3.55%	554,347.50	5,204,347.50	-
6/30/2014	-	-	-	-	5,758,695.00
12/15/2014	-	-	471,810.00	471,810.00	-
6/15/2015	4,785,000.00	3.50%	471,810.00	5,256,810.00	-
6/30/2015	-	-	-	-	5,728,620.00
12/15/2015	-	-	388,072.50	388,072.50	-
6/15/2016	4,945,000.00	3.50%	388,072.50	5,333,072.50	-
6/30/2016	-	-	-	-	5,721,145.00
12/15/2016	-	-	301,535.00	301,535.00	-
6/15/2017	5,120,000.00	3.60%	301,535.00	5,421,535.00	-
6/30/2017	-	-	-	-	5,723,070.00
12/15/2017	-	-	209,375.00	209,375.00	-
6/15/2018	5,300,000.00	3.75%	209,375.00	5,509,375.00	-
6/30/2018	-	-	-	-	5,718,750.00
12/15/2018	-	-	110,000.00	110,000.00	-
6/15/2019	5,500,000.00	4.00%	110,000.00	5,610,000.00	-
6/30/2019	-	-	-	-	5,720,000.00
Total	**$ 66,565,000.00**	**-**	**$ 16,140,242.73**	**$ 82,705,242.73**	**$ 82,705,242.73**

SECURITY FOR THE BONDS

General

The Bonds represent the general obligation of the City. The Board has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) in an amount sufficient for the payment of the principal of and interest on the Bonds. At the option of the Board, other available funds of the City not restricted by law to specific uses may be used to pay debt service on the Bonds.

The annual tax rate will be based on the assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City may cause the annual tax rate for the Bonds to fluctuate. Economic and other factors beyond the City's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, including, without limitation, earthquake, flood, toxic dumping, and similar events or occurrences, could cause a reduction in the assessed value of taxable property within the City and necessitate a corresponding increase in the annual tax rate. See "APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Assessed Valuations, Tax Rates and Tax Delinquencies" for information on the City's tax base, tax collection system, and property tax revenues.

For a discussion of the City's overall organization, finances and economic information, see, generally "APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES" and "APPENDIX B–CITY AND COUNTY OF SAN FRANCISCO–ECONOMY AND GENERAL INFORMATION."

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 (the "SBE"). See Table A-5 "Principal Property Taxpayers—Fiscal Year Ending June 30, 2006", set forth in "APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES." 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 SBE, 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.

Outstanding Indebtedness

Issuance of general obligation bonds of the City is limited under Section 9.106 of the City Charter to 3% of the assessed value of all real and personal property within the City's boundaries which is subject to City taxes. Pursuant to this provision of the Charter, the City's general obligation debt limit for Fiscal Year 2006-07 is $3,596,129,381, based on a net assessed valuation of $119,870,979,379. As of November 1, 2006, the City had outstanding $1,234,255,000 in aggregate principal amount of general obligation bonds, which equals 1.03% of the net assessed valuation for fiscal year 2006-07. As of November 1, 2006, the City had voter approval to issue up to $346,065,000 in aggregate principal amount of new general obligation bonds. See "APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Statement of Direct and Overlapping Bonded Debt" and "–Tax Supported Debt Service."

The City has also entered into a number of long-term lease obligations secured by revenues of the General Fund with respect to outstanding lease revenue bonds and certificates of participation. As of November 1, 2006, the aggregate amount of principal payments and the total amount of payments due on outstanding lease obligations through fiscal year 2036-37 was $693,423,731 and $1,134,896,855, respectively. See “APPENDIX A–CITY AND COUNTY OF SAN FRANCISCO–ORGANIZATION AND FINANCES–Statement of Direct and Overlapping Bonded Debt” and “–Lease Payments and Other Long-Term Obligations.”

THE BOND INSURER AND THE FINANCIAL GUARANTY INSURANCE POLICY

Ambac Assurance Corporation (“Ambac”) has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information. Reference is made to Appendix G for a specimen of Ambac’s financial guaranty insurance policy (the “Ambac Policy”). No representation is made by the City or Co-Bond Counsel as to the accuracy or completeness of the following information.

Payment Pursuant to Ambac Policy

Ambac has made a commitment to issue a Ambac Policy (the "Ambac Policy") relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Ambac Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Ambac Policy). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Treasurer of the City, as Paying Agent and Registrar for the Bonds (the “Paying Agent”). The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac's obligations under the Ambac Policy shall be fully discharged.

In the event the Paying Agent has notice that any payment of principal of or interest on an Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Policy does not insure any risk other than Nonpayment (as set forth in the Ambac Policy). Specifically, the Ambac Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Ambac Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Policy. Payment of interest pursuant to the Ambac Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bond and will be fully subrogated to the surrendering holder's rights to payment.

In the event that Ambac were to become insolvent, any claims arising under the Ambac Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $9,699,000,000 (unaudited) and statutory capital of approximately $6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in the Ambac Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac and presented under the heading "AUTHORIZATION OF AND SECURITY FOR THE BONDS-- Bond Insurance for Refunding Bonds Maturing on October 1, 2027 Only."

Available Information

The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;

4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;

5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;

6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;

7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006; and

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

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. While not affecting the City's general obligation bonds, these constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the 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 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.

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

Article XIII B of the California Constitution

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

See APPENDIX C–"EXCERPTS FROM COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2005" for information on the City's appropriations limit.

Articles XIII C and XIII D of the California Constitution

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes on voter-approved debt once such debt has been approved by the voters. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

With respect to the City's general obligation bonds, the State Constitution and the laws of the State impose a duty on the Board 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 cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

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

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 Brawle*y (1997) 59 Cal. App. 4th 1441, the Fourth District Court of Appeal concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

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

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

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

Proposition 1A

Proposition 1A, proposed by the State's legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. 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.

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

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

Future Initiatives

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

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and The Law Offices of Elizabeth C. Green, San Francisco, California, ("Co-Bond Counsel"), subject, however to the qualifications set forth below, under existing law, the interest on the Bonds 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 (the "Code") that must be satisfied subsequent to the issuance of the Bonds 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 such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond 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 each Bond 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. Deminimis original issue discount is disregarded.

Under the 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 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of Bonds with original issue discounts should consult their own tax advisors with respect to the tax consequences of ownership of Bonds 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 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond'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 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, 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 Bonds.

In the further opinion of Co-Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

Co-Bond Counsel expect to deliver an opinion at the time of issuance of the Bonds in substantially the same form set forth in Appendix F hereto.

LEGAL OPINIONS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and The Law Offices of Elizabeth C. Green, San Francisco, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX F hereto, and will be made available to the original purchasers of the Bonds at the time of the original delivery of the Bonds. Co-Bond Counsel undertake no 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.

PROFESSIONALS INVOLVED IN THE OFFERING

Montague DeRose and Associates, LLC, Walnut Creek, California, and Robert Kuo Consulting, LLC, San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. 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 Bonds. 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 will receive compensation from the City contingent upon the sale and delivery of the Bonds. Co-Bond Counsel will also receive compensation from the City contingent upon the sale and delivery of the Bonds. The Treasurer of the City is acting as paying agent and registrar with respect to the Bonds.

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, the ability of the City to levy the *ad valorem* tax required to pay debt service on the Bonds, 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 Bonds and other documents and certificates in connection therewith. The City will furnish to the initial purchaser or purchasers of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds 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 2005-06, which is due not later than March 27, 2007, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. The notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in "APPENDIX D–FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchasers 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 Controller's web site at www.sfgov.org/controller.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, ("S&P"), and Fitch Ratings ("Fitch") are expected to assign municipal bond ratings of "Aaa," "AAA," and "AAA" respectively, to the Bonds, conditioned upon the delivery of the Ambac Policy by Ambac. Moody's, S&P and Fitch have assigned underlying municipal bond ratings of "Aa3," "AA," and "AA-" respectively, to the Bonds. Certain information was supplied by the City to the rating agencies to be considered in evaluating the Bonds. 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 99 Church Street, New York, NY 10007, telephone: (212) 553-0882; S&P, at 55 Water Street, New York, NY 10041, telephone: (212) 208-1022; and Fitch, at One State Street Plaza, New York, NY 10004, telephone (212) 908-0500. 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 Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Causey Demgen & Moore Inc., Denver, Colorado, independent certified public accountants (the “Verification Agent”), will deliver a report stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of the Escrow Securities and the interest thereon to pay, when due, the redemption price and interest on the Refunded Bonds on and prior to the specified redemption dates thereof, the yield on the Bonds and the yield of the Escrow Securities.

SALE OF THE BONDS

The Bonds were sold at competitive bid on November 30, 2006. The Bonds were awarded to Morgan Stanley & Co. Incorporated (the “Underwriter”), at a purchase price of $66,746,647.05 and a true interest cost of 3.73856%, as defined in the Official Notice of Sale relating to the Bonds, which amount is equal to the aggregate principal amount of the Bonds, plus a net original issue premium in the amount of $409,383.40, less: (a) an underwriter’s discount in the amount of $116,736.35, and (b) the premium for the Ambac Policy paid to Ambac by the Underwriter in the amount of $111,000.00. The Official Notice of Sale provides that all Bonds will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel, and certain other conditions. The Underwriter has represented to the City that the Bonds have been re-offered to the public at the prices or yields stated on the front cover hereof. Based on such representation, the Underwriter’s compensation with respect to the Bonds (including the amount applied to the Ambac Policy premium payment) is $227,736.35.

MISCELLANEOUS

References made herein to certain documents, reports and laws are brief summaries thereof that do not purport to be complete or definitive, and the reader is referred to the complete contents of each such document, report and laws.

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 Bonds. The preparation and distribution of this Official Statement have been authorized by the City.

The issuance and delivery of this Official Statement have been duly authorized by the Board of the City.

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward M. Harrington
Controller

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APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

Government and Organization

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), the only consolidated city and county in the State. San Francisco can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted to the City and County of San Francisco (the "City"). Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. The San Francisco International Airport ("SFO"), although located 14 miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their respective dates of original acquisition.

In November 1995, the voters of the City approved a new charter, which went into effect in most respects on July 1, 1996 (the "Charter"). As compared to the previous charter, the Charter generally expands the roles of the Mayor and the Board of Supervisors (the "Board") in setting policy and determining budgets, while reducing the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor's appointment of commissioners is subject to approval by a two-thirds vote of the Board. The Mayor appoints department heads from nominations submitted by the commissioners.

The City has an elected Board of Supervisors consisting of eleven members and an elected Mayor who serves as chief executive officer, each serving a four-year term. The Mayor and members of the Board of Supervisors are subject to term limits as established by the City 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 second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer-Tax Collector, Sheriff and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. School functions are carried out by the San Francisco Unified School District and the San Francisco Community College District: each is a separate legal entity with a separately elected governing board. The Charter provides a civil service system for City employees.

Gavin Newsom was elected the 42nd Mayor of the City on December 9, 2003 and was sworn into office on January 8, 2004. Mayor Newsom had been elected to the Board of Supervisors three times and served on the Board of Supervisors from 1997 until he was elected Mayor. Mayor Newsom grew up in the San Francisco Bay Area and graduated from Santa Clara University in 1989 with a Bachelor of Arts degree in Political Science.

Aaron Peskin, president of an environmental non-profit organization, was elected to the Board of Supervisors in 2000 and re-elected in November 2004. He was elected President of the Board of Supervisors by a majority of the Supervisors in January 2005. Tom Ammiano, former member of the Board of Education, was elected to the Board of Supervisors in 1994 and re-elected in 1998, 2000 and 2004. The following Supervisors were also elected in November 2000: Jake McGoldrick, a college English teacher; Chris Daly, an affordable housing organizer; Sophenia (Sophie) Maxwell, an electrician; and Gerardo Sandoval, a deputy public defender. Of these, Chris Daly and Sophie Maxwell were elected to two year terms in 2000 and were re-elected in November 2002. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, was elected to four-year terms on the Board of Supervisors on December 10, 2002. Michela Alioto-Pier was appointed to the Board of Supervisors in January 2004.

She previously served on the San Francisco Port Commission. Sean Elsbernd was appointed to the Board of Supervisors in August 2004. He previously served as liaison to the Board of Supervisors in the Mayor's Office, a legislative aide to the Board of Supervisors, and Co-Director of the Congressional Human Rights Caucus. Jake McGoldrick, Michela Alioto-Pier, Sean Elsbernd and Gerardo Sandoval were elected to additional four-year terms in November 2004 along with Ross Mirkarimi, an investigator for the District Attorney's Office. The following Supervisors are currently serving their second successive four-year term of office and are ineligible to run in the next election for their respective districts in November 2008: Jake McGoldrick, Aaron Peskin, Tom Ammiano, and Gerardo Sandoval. Ed Jew, a neighborhood activist, was elected to the Board of Supervisors on November 7, 2006. Chris Daly and Sophie Maxwell were reelected to the Board of Supervisors on November 7, 2006.

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

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a 10-year term as Controller in March 1991 by then-Mayor Art Agnos and was re-appointed to a new ten-year term in 2000, by then-Mayor Willie L. Brown, Jr. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the $5.7 billion fiscal year 2006-07 budget. The Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a certified public accountant.

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

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

Under the Charter, the City Administrator (formerly the Chief Administrative Officer) is a non-elective office appointed by the Mayor for a five-year term and confirmed by the Board of Supervisors. On April 26, 2005, Mr. Edwin Lee, then the City's Director of Public Works, was appointed by Mayor Gavin Newsom as the City Administrator. He has previously worked as the City's Director of Purchasing and as the Director of the Human Rights Commission. Mr. Lee has also served as the Deputy Director of the Employee Relations Division and coordinator for the Mayor's Family Policy Task Force.

City Budget and Finances

General

The Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. No obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available in the current fiscal year to meet such obligation as it becomes due. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or "budget" due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. The Controller issues a Six-Month and Nine-Month Budget Status Report to apprise the City's policy makers of the current budgetary status and projected year-end revenues and expenditures. The City's Charter and Administrative Code require the Controller, the Mayor's Budget Director and the Budget Analyst for the Board of Supervisors to issue annually a Three-Year Budget Projection to report on the City's financial condition. The most recent reports can be viewed at Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

Forward-Looking Statements

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

Budget Process

The City's budget process begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approval thereof by the applicable City board or commission. Departmental budgets are consolidated by the Controller, and then transmitted to the Mayor no later than the first working day of March. Next the Mayor is required to submit a proposed budget for selected departments, based on criteria set forth in the Administrative Code, to the Board of Supervisors on the first working day of May. On or before the first working day of June, the Mayor is required to submit the complete (all departments) budget to the Board of Supervisors. The Mayor presented the complete fiscal year 2006-07 proposed budget on May 31, 2006.

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

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

Following the adoption of the budget, the City makes various revisions throughout the fiscal year (the "Original Budget" plus any changes made are collectively referred to as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year reflecting the year-end's final revenue and expenditure appropriation for such fiscal year. The Mayor presented the fiscal year 2006-07 proposed budget to the Board of Supervisors on May 31, 2006. The Board of Supervisors adopted the fiscal year 2006-07 Original Budget on July 25, 2006. The Mayor approved the Original Budget on July 28, 2006.

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

Overall, the fiscal year 2005-06 and 2006-07 budgets have assumed a gradual recovery in discretionary General Fund revenues from prior-year levels. The achievement of the revenue estimates is dependent upon a variety of known and unknown factors, including the general economy of the San Francisco Bay Area and the State, and certain State budget decisions, which could have either a positive or negative economic impact on City revenues. These conditions and circumstances may cause the actual results achieved by the City to be materially different from the estimates and projections described herein.

Under the Charter, the Treasurer-Tax Collector, upon recommendation of the Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer-Tax Collector has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. On a related note, the City has not issued tax and revenue anticipation notes ("TRANs") to finance cash flow needs since fiscal year 1996-97. The City does not anticipate issuing TRANs for fiscal year 2006-07. See "—Investment Policy" below.

Additionally, in November 2003, voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Whenever the Controller projects that the General Fund revenues for a given fiscal year exceed the prior year's revenues by more than 5%, the Rainy Day Reserve provisions require a portion of such excess be set aside in an economic stabilization reserve. This reserve is subject to a 10% cap of actual total General Fund revenues as stated in the City's most recent independent annual audit. Monies in this reserve are available to provide a cushion during economic downturns when revenues decline and are discussed further in the General Fund Results section below.

Capital Plan

In October 2005 the Board of Supervisors adopted, and the Mayor approved, an ordinance that established a new capital planning process for the City. The City Administrator, in conjunction with a capital planning committee composed of other City finance and capital project officials (the "Capital Planning Committee"), is directed to develop and submit an annual ten-year capital plan (the "Capital Plan") 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. The Capital Plan will be updated annually in parallel with the budget process. The Capital Planning Committee is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to any such proposal's compliance with the adopted Capital Plan.

The 2006 Capital Plan was submitted to the Board of Supervisors on May 1 and was approved on June 20, 2006. In future years the Capital Plan is required to be submitted to the Board of Supervisors by March 1 and is due to be adopted by the Board of Supervisors and the Mayor on or before May 1.

General Fund Results

The fiscal year 2005-06 Original Budget totaled approximately \$5.3 billion, of which approximately \$2.5 billion was allocated to the General Fund and approximately \$2.9 billion was allocated to all other funds. Such other funds include expenditures of other governmental funds and enterprise fund departments such as the SFO, the Municipal Transportation Agency, the Public Utilities Commission (the Water Enterprise, the Wastewater Enterprise, and the Hetch Hetchy Water and Power System), the Port, and the City owned Hospitals (San Francisco General and Laguna Honda).

The Controller's Nine-Month Budget Status Report for fiscal year 2005-06 was released on May 3, 2006 (the "Controller's Nine Month Report"). This Report projected the General Fund year-end balance available for the subsequent year's budget to be \$95.2 million. The projected year-end balance results from two factors - higher than expected prior-year fund balances and better than anticipated current-year financial results. The fiscal year 2004-05 fund balance was also larger than previously assumed due to both revenue growth and expenditure savings. The fiscal year 2005-06 results were better than originally estimated, due to continuing revenue growth coupled with expenditure savings, net of supplemental appropriations. As published in the Controller's Nine-Month Report, fiscal year 2005-06 General Fund revenues and transfers were projected to be \$145.9 million (or 6.1 percent) better than revised budget. The projected revenue surplus is primarily due to higher property tax, real property transfer tax, business taxes, interest income, and utility users tax revenues as offset by weakness or delays in realization of revenues in connection with State social service subventions and property sales.

As a result of the strong revenue performance in the City's General Fund, the City is projected to deposit an additional \$28.9 million into the Rainy Day Reserve by fiscal year ended 2005-06, bringing the total projected balance up to \$77.0 million. These Rainy Day Reserves represent budgetary resources above and beyond the \$95.2 million of projected year-end fund balance also noted in the Controller's Nine-Month Report.

The fiscal year 2005-06 budget included an annual service payment from the Airport to the City of $21.9 million for indirect services. However, separate from this indirect service payment, on March 31, 2004, the Office of the Inspector General (the “OIG”) of the U.S. Department of Transportation released the results of its audit of certain payments made by the Airport to the City for direct services during fiscal years 1997-98 through 2001-02. The OIG’s audit found that the City had received approximately $12.5 million of excess revenue from the Airport during fiscal years 1997-98 through 2001-02 with respect to reimbursement for direct services from the City to the Airport. On August 31, 2004, the Airport responded to the Federal Aviation Administration (the “FAA”), which was charged with closing out the Audit. On December 14, 2005, the Airport submitted the Citys Corrective Action Plan to the FAA, which included the transfer of $4.6 million to the airlines, implementation of new interdepartmental billing procedures and submission of a Certificate of Compliance when all items were completed. At the close of fiscal year 2004-05, the City transferred $4.6 million to the Airport to settle the Audit. On January 25, 2006 the Airport submitted its Certificate of Compliance to the FAA.

The adopted fiscal year 2006-07 Original Budget totaled approximately $5.7 billion, of which approximately $2.7 billion is allocated to the General Fund. Table A-1 shows final revised budgeted revenues and appropriations for the City’s General Fund for fiscal years 2002-03, 2003-04 and 2004-05, and the Original Budgets for fiscal year 2005-06 and 2006-07.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2002-03 through 2006-07
(000s)

	FY 2002-03 Final Revised Budget	FY 2003-04 Final Revised Budget	FY 2004-05 Final Revised Budget	FY 2005-06 Original Budget	FY 2006-07 Original Budget
Prior-Year Actual Budgetary Fund Balance	$385,027	$207,167	$222,611	$120,483	$125,125
Budgeted Revenues					
Property Taxes	$513,203	$527,767	$645,495	$696,660	$837,543
Business Taxes	282,230	288,619	295,230	288,320	332,168
Other Local Taxes	387,955	371,251	381,389	413,712	455,509
Licenses, Permits and Franchises	16,982	17,074	16,132	19,128	20,917
Fines, Forfeitures and Penalties	4,497	31,843	12,196	11,475	4,899
Interest and Investment Earnings	17,323	12,579	6,490	11,307	33,989
Rents and Concessions	17,833	19,316	21,902	19,583	20,138
Grants and Subventions	686,566	663,997	612,970	680,729	664,547
Charges for Services	102,801	107,847	119,637	130,984	133,972
Other	24,278	19,296	29,657	13,241	18,850
Total Budgeted Revenues	$2,053,668	$2,059,589	$2,141,098	$2,285,139	$2,522,532
Proceeds from Issuance of Bonds and Loans	$13,451	$31,207	$0	$0	$0
Expenditure Appropriations					
Public Protection	$695,409	$668,872	$699,088	$729,356	$800,885
Public Works, Transportation & Commerce	59,646	60,467	63,250	39,054	38,734
Human Welfare & Neighborhood Development	517,334	507,740	525,887	552,926	589,681
Community Health	461,958	445,236	419,404	432,600	424,786
Culture and Recreation	102,354	93,017	92,245	95,205	98,969
General Administration & Finance	135,449	131,959	122,666	165,719	201,970
General City Responsibilities	61,416	83,406	62,541	53,684	$50,192
Total Expenditure Appropriations	$2,033,566	$1,990,697	$1,985,081	$2,068,545	$2,205,217
Budgetary reserves and designations	$83,595	$9,301	$13,487	$54,117	$70,286
Transfers In	$137,672	$150,354	$161,840	$107,570	$57,159
Transfers Out	(313,341)	(292,664)	(339,436)	(390,531)	(429,313)
Net Transfers In/Out	($175,669)	($142,310)	($177,596)	($282,960)	($372,154)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$159,316	$155,655	$187,545	$0	$0
Variance of Actual vs. Budget	47,851	66,956	137,179		
Total Actual Budgetary Fund Balance	$207,167	$222,611	$324,724	$0	$0

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, worker's 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, 2005 was $307.7 million prepared on a GAAP basis. Audited General Fund balances as of June 30, 2005 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively with comparative financial information for the fiscal year ended June 30, 2004.

TABLE A-2

General Fund Balances
Fiscal Year Ended June 30
(000s)

	June 30, 2004	June 30, 2005
Reserved for rainy day (economic stabilization)	$55,139	$48,139
Reserved for encumbrances	42,501	57,762
Reserved for appropriation carryforward	32,813	36,198
Reserved for subsequent years' budgets		
Reserved for baseline appropriation funding mandates	-	6,223
Reserved for budget savings incentive program (citywide)	2,588	2,628
Reserved for budget savings incentive program (Recreation & Park)	-	3,075
Reserved for salaries and benefits (MOU)	3,654	9,150
Reserved for litigation	2,940	-
Total Reserved Fund Balance	$139,635	$163,175
Unreserved - designated for litigation & contingency	$27,970	$24,370
Unreserved - available for appropriation	55,006	137,179
Total Unreserved Fund Balance	$82,976	$161,549
Total Fund Balance, Budget Basis	$222,611	$324,724
Budget Basis to GAAP Basis Reconciliation		
Total Fund Balance - Budget Basis	$222,611	$324,724
Unrealized gain on investment	277	224
Reserved for assets not available for appropriation	7,142	9,031
Cumulative excess property tax revenues recognized on Budget basis	(19,882)	(24,419)
Deferred Charges and Other	287	(1,880)
Total Fund Balance, GAAP Basis	$210,435	$307,680

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

Table A-3, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s audited financial statements (Comprehensive Annual Financial Reports) for the five most recent fiscal years for which audits are available. Excerpts from audited financials for the fiscal year ended June 30, 2005 are included herein as Appendix C—“EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2005.” Prior years’ audited financials can be obtained from the Controller’s website of the City and County of San Francisco at www.sfgov.org/controller. (These reports are not incorporated by reference herein.) Excluded from these General Fund statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City, each of which prepares separate audited financial statements.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenditures and Changes in General Fund Balances (000s)

	Fiscal Year Ended June 30				
	2001	2002	2003	2004	2005
Revenues:					
Property Taxes	$462,171	$507,308	$516,955	$547,819	$705,949
Business Taxes	277,094	274,125	276,126	264,351	292,172
Other Local Taxes	448,132	334,357	345,735	403,549	428,244
Licenses, Permits and Franchises	17,714	19,548	16,217	17,501	19,427
Fines, Forfeitures and Penalties	9,097	8,591	5,595	22,158	9,536
Interest and Investment Income	27,693	20,737	7,798	3,222	8,374
Rents and Concessions	19,298	17,636	17,576	17,497	20,468
Intergovernmental	636,430	661,396	667,172	660,243	604,535
Charges for Services	100,325	102,782	93,840	95,951	115,812
Other	17,395	10,338	11,880	29,564	12,277
Total Revenues	$2,015,349	$1,956,818	$1,958,894	$2,061,855	$2,216,794
Expenditures:					
Public Protection	$626,136	$650,019	$695,693	$670,729	$697,450
Public Works, Transportation & Commerce	95,486	103,579	57,458	58,711	60,628
Human Welfare and Neighborhood Development	431,266	467,688	492,083	488,853	503,874
Community Health	365,290	395,465	424,302	413,725	413,110
Culture and Recreation	106,728	108,810	96,959	92,978	87,023
General Administration & Finance	127,366	136,143	130,786	128,135	120,400
General City Responsibilities	45,380	50,105	52,308	74,631	62,185
Total Expenditures	$1,797,652	$1,911,809	$1,949,589	$1,927,762	$1,944,670
Excess of Revenues over Expenditures	$217,697	$45,009	$9,305	$134,093	$272,124
Other Financing Sources (Uses):					
Transfers In	$134,983	$109,941	$105,211	$121,491	$152,288
Transfers Out	(257,317)	(316,691)	(303,216)	(277,464)	(330,230)
Other Financing Sources	-	63,121	4,621	36,003	3,063
Other Financing Uses	-	(176)	-	-	-
Total Other Financing Sources (Uses)	($122,334)	($143,805)	($193,384)	($119,970)	($174,879)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$95,363	($98,796)	($184,079)	$14,123	$97,245
Fund Balance at Beginning of Year, as restated before valuation of investments	$275,640	$479,187	$380,391	$196,312	$210,435
Cumulative Effect of Change in Accounting Principles	108,184	-	-	-	-
Fund Balance at Beginning of Year, as restated	$383,824	$479,187	$380,391	$196,312	$210,435
Fund Balance at End of Year -- GAAP Basis [1]	$479,187	$380,391	$196,312	$210,435	$307,680
Unreserved and Undesignated Balance at End of Year -- GAAP Basis	$207,467	$136,664	$44,718	$63,657	$134,199
Unreserved & Undesignated Balance, Year End -- Budget Basis	$198,953	$130,200	$47,851	$55,006	$137,179

[1] Fund Balances include amounts reserved for rainy day (economic stabilization), 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).

Source: Comprehensive Annual Financial Report for the Years Ended June 30, 2005 and prior. Office of the Controller, City & County of San Francisco

Impact of September 11, 2001

Following the events of September 11, 2001 in New York City and Washington, D.C., both business and tourist travel in San Francisco declined significantly, including passenger loads and revenues at SFO and hotel and sales tax revenues to the City. In fiscal year 2001-02, significant year to year losses occurred in hotel tax revenues, which fell 29.8% ($56.2 million), sales tax revenues, which declined 15.5% ($21.5 million), and SFO's transfer of concession revenue to the City's General Fund, which declined 28.4% ($7.0 million). Tables A-6 and A-7 illustrate the trends since 2001-02.

Impact of State Budget

Each year the Governor releases two primary proposed budget documents: 1) the January Proposed Budget; and, 2) the May Revise (that is, the revise to the January Proposed Budget). The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the Legislature adopts, then the Governor signs what becomes known as the State's Adopted Budget. Given the City's revenue dependency on State funding, each year City policymakers review and consider the budgetary impact of projected changes related to both the January and May Revise publications prior to the City adopting its own budget. Revenues from the State represented 19.3% of the City's fiscal year 2005-06 General Fund Budget and 17.6% of the fiscal year 2006-07 General Fund Budget.

For fiscal year 2005-06, the State's Adopted Budget was significantly better for San Francisco than previously proposed by the Governor in either the January Proposed Budget or the May Revise publication. Program revenues were largely left whole by the Legislature, and the full Vehicle License Fee gap loan repayment was included for local governments. While in fiscal year 2005-06 the State's Adopted Budget continued to shift property taxes, sales taxes and VLF revenues these shifts were already assumed in the City's projections and ultimately the City's fiscal year 2005-06 Adopted Budget. These shifts included a $25.2 million reduction in discretionary funding for Property Tax Educational Revenue Augmentation Fund (ERAF) III, the additional two-year property tax diversion affecting fiscal years 2004-05 and 2005-06.

In addition to this $25.2 million reduction, shifts from the City's General Fund of approximately $268.1 million continued for ERAF I and II. On a related note, this shift was also included as an on-going item in the Governor's Proposed Fiscal Year 2006-07 Budget released on January 10, 2006. The repayment of the Vehicle License Fee revenues diverted by the State in fiscal year 2003-04 was received in fiscal year 2005-06 creating a one-time surge in Motor Vehicle revenues of $29.7 million. Additionally, 0.25% of the one percent Local Sales Tax continued to be shifted from the City's General Fund to cover debt service on the State's Economic Recovery Bonds. Both this Sales Tax shift and the permanent rollback of Vehicle License Fees are backfilled by Property Taxes, as assumed in the City's fiscal year 2006-07 Original Budget. Programmatic funding changes included in the State's Adopted Budget have been reflected in the City's fiscal year 2006-07 Original Budget and backfilled with discretionary funding where applicable.

As noted above, the State's fiscal year 2005-06 Adopted Budget was significantly better for San Francisco than the Governor's Proposed Budget, which had been previously analyzed and discussed in the Three-Year Budget Projection, dated March 21, 2005, and the Controller's Discussion of the Mayor's Fiscal Year 2005-06 Proposed Budget, dated June 15, 2005. These reports are available at Controller's website at www.sfgov.org/controller. (These reports are not incorporated by reference herein.)

The Governor's fiscal year 2006-07 Proposed Budget, as issued in January 2006, appeared to have largely offsetting positive and negative changes for the City's Original Budget, resulting in a projected net revenue increase from fiscal year 2005-06 of $0.9 million for the General Fund and $3.3 million for the City's transportation funds. The May Revise, issued on May 12, 2006, reflected continued improvement in State revenues as well as additional early repayment of State indebtedness. The early repayment by the State of prior-years' obligations, including monies owed to local governments for reimbursable State-mandated program costs, further improved the City's projected revenue impact. Based on the City's review of the May Revise, that document reflected further improvement over and above the January Proposed Budget in the form of additional projected revenues of $5.2 million for the General Fund and $1.5 million for the City's transportation funds. The State's budget was finally adopted by the Legislature on June 27, 2006 and signed by the Governor on June 30, 2006. While final allocations are still unknown for some revenues, the City is projected to benefit from additional transportation and social service program funding above and beyond what was assumed in the fiscal year 2005-06 budget. Depending on final allocations and program requirements the General Fund is projected to receive up to $19.0 million in additional funding. Additionally, the Municipal Transportation Agency is projected to receive up to $32.9 million of additional funding.

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Total assessed value has increased on average by 7.5% per year since fiscal year 2000-01. Recent increases were 6.7% for fiscal year 2006-07 and 7.6% for fiscal year 2006-07. On a related note, the City's fiscal year 2006-07 budget assumed this level of assessed valuation growth. Property tax delinquencies, based on the weighted average of the secured and unsecured delinquency rates, have averaged 1.5% over the five-year period ending with fiscal year 2004-05.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property [1]
Fiscal Years 2000-01 through 2006-07
($000s)

Fiscal Year	Assessed Valuation: Land	Assessed Valuation: Improvements on Land	Assessed Valuation: Personal Property	Total Assessed Valuation	% Change from Prior Year	Exclusions[2]	Total Tax Rate per $100[3]	Total Tax Levy (000s)[4]	Current Levy Delinquent June 30
2000-01	$ 30,294,991	$ 46,572,658	$ 4,198,154	$ 81,065,803	10.1%	$ 3,416,264	$ 1.136	$ 892,675	1.48%
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	1,010,960	1.79%
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,051,921	1.83%
2003-04	40,778,606	57,505,939	3,808,383	102,092,928	4.7%	3,947,660	1.107	1,100,951	1.38%
2004-05	44,383,604	60,741,259	3,675,195	108,800,058	6.6%	4,328,770	1.144	1,208,044	1.20%
2005-06	48,278,509	64,291,494	3,476,725	116,046,728	6.7%	4,640,538	1.140	1,270,314	n/a [5]
2006-07	53,027,801	68,286,422	3,506,008	124,820,231	7.6%	4,949,252	n/a	n/a	n/a [5]

[1] For comparison purposes, all years show full cash value as assessed value.

[2] Exclusions include non-reimbursable exemptions and homeowner exemptions.

[3] Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, Bay Area Rapid Transit District, and San Francisco Redevelopment Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate. The fiscal year 2006-07 tax rate will be adopted by the Board of Superviors by the end of September 2006. The projected rate is 1.135 per $100 of Assessed Value.

[4] Final levy as of year end up through fiscal 2004-05. The tax levy for fiscal year 2005-06 is based on the Certificate of Assessed Valuation. The fiscal year 2006-07 levy will be known after the Board of Supervisors adopts the Tax Rate by end of September 2006.

[5] Fiscal year 2005-06 and 2006-07 delinquency rates are not yet available.

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

For fiscal year 2005-06 (the most recent year for which an adopted tax rate is available as of August 31, 2006), total assessed valuation of property within the City is $116,046,728,299. After deducting non-reimbursable and homeowner exemptions, net assessed valuation is $111,406,190,157. Of this total, $104,321,489,311 (93.6%) represents secured valuations and $7,084,700,846 (6.4%) represents unsecured valuations. (See below for a further discussion of secured and unsecured property valuations.) The net valuation will result in total budgeted property tax revenues of $1,270,313,956 before reflecting delinquencies. The City's General Fund, which accrues about half of all property taxes, budgeted property tax revenue of $696.7 million for fiscal year 2005-06. The San Francisco Community College District, the San Francisco Unified School District and the Educational Revenue Augmentation Fund (also known as "ERAF") are estimated to receive $15.3 million, $81.6 million and $293.3 million (before adjusting for the State's Triple Flip sales tax and vehicle license fee backfill shifts) respectively. The San Francisco Redevelopment Agency will receive approximately $70.0 million. The remaining portion is allocated to various special funds and other taxing entities. As of the Controller's Nine-Month Report, the City projected an additional $68.0 million in General Fund revenue in large part due to lower assessment appeals, higher supplementals, and increased State sales and vehicle license fees backfill revenues. Additionally, property taxes are levied in order to pay all or part of the debt service for general obligation bonds issued by the City, the San Francisco Unified School District, the San Francisco Community College District and the Bay Area Rapid Transit District.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments. Property owners in the City filed 1,090 new applications for assessment appeal during fiscal year 2005-06. Taxpayers had until November 30, 2005 to file assessment appeal for secured property for fiscal year 2005-06. As in every year, some appeals are multiple-year or retroactive in nature. With respect to the fiscal year 2005-06 levy, property owners representing approximately

14.0% of the total assessed valuation in the City filed appeals for a partial reduction of their assessed value. This reflects a decrease in the amount appealed from the prior year, fiscal year 2004-05, where property owners representing approximately 23.6% of total assessed valuation filed for a partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices and hotels.

The City experiences changes in assessment appeals activity during economic cycles. Historically during economic downturns, partial reductions of approximately 20.0% to 30.0% of the assessed valuations appealed have been granted on average, varying with the severity of the economic downturn. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. For example, if the appeals totaling 14.0% of assessed valuation pertaining to the fiscal year 2005-06 levy were to be granted at an average reduction to 25.0%, the City would expect revenue refunds equal to 3.5% of total property tax revenue. To mitigate the financial risk of potential assessment appeal refunds, the City funds refund reserves for its share of property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the subsequent year's budget projection. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

Generally, property taxes levied by the City on real property become a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City taxing authority. Real estate tax liens have priority over all other liens against the same property regardless of the time of their creation by virtue of express provision of law.

Property subject to ad valorem taxes is entered on separate parts of the assessment roll maintained by the County Assessor. The secured roll is that part of the assessment roll containing State-assessed property and property on which liens are sufficient, in the opinion of the Assessor, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (1) pursuing civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts, including the date of mailing a copy thereof to the affected taxpayer, in order to obtain a judgment against the taxpayer; (3) filing a certificate of delinquency for recording in the County Recorder's Office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10.0% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer-Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board of Supervisors passed a resolution, which adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the Controller to allocate to the City's taxing agencies 100.0% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This reserve has been funded at $8.1 million as of June 30, 2001, $9.1 million as of June 30, 2002, $9.0 million as of June 30, 2003, $8.9 million as of June 30, 2004, and $10.1 million as of June 30, 2005.

Assessed valuations of the ten largest assessees in the City for the fiscal year ending June 30, 2006 are shown in Table A-5.

TABLE A-5

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

Assessee	Type of Business	AV ($000s)	% Total AV
Embarcadero Center Venture	Offices, Commercial	$1,221,354	1.09%
Pacific Gas & Electric Co.	Utilities	1,039,357	0.93%
555 California St. Partners	Offices, Commercial	885,795	0.79%
SBC California	Utilities, Communications	407,735	0.36%
EOP-One Market LLC	Offices, Commercial	390,845	0.35%
Marriott Hotel	Hotels	389,795	0.35%
China Basin Ballpark Company LLC	Possesory Interest-Stadium	383,007	0.34%
Post-Montgomery Associates	Offices, Commercial	342,123	0.31%
BRE-St Francis LLC	Hotels	321,971	0.29%
101 California Venture	Offices, Commercial	281,980	0.25%
Ten Largest Assessees		$5,663,962	5.05%
All Other Assessees		106,387,378	94.95%
Total Taxable Assessed Valuation - All Taxpayers		$112,051,340	100.00%

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

Other City Tax Revenues

In addition to property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

The following is a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City.

Business Taxes

Businesses in the City may be subject to two types of tax. The first is a payroll expense tax, assessed at a rate of 1.5%. The City levies a tax on businesses with respect to payroll expenses that are attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The City also levies a registration tax on businesses.

The fiscal year 2005-06 Original Budget projected $7.1 million in business registration revenues and $281.2 million in payroll tax revenues. As of the Nine-Month Report, the City projected business registration and payroll tax revenues to be $29.8 million better than budget due mainly to higher total wage growth than was assumed in the 2005-06 budget on top of a better than expected prior-year actual base of receipts. The fiscal year 2006-07 Original Budget projected business registration revenues of $8.2 million and payroll tax revenues of $323.9 million.

Prior to April 23, 2001, the City imposed an alternative-measure tax pursuant to which a business tax liability was calculated as the greater of a percentage of either its gross receipts or its payroll expense. Between 1999 and 2001, approximately 325 businesses filed claims with the City and/or lawsuits against the City arguing that the alternative-measure tax scheme violated the Commerce Clause of the United States Constitution.

In 2001, the City entered into a settlement agreement resolving most of these lawsuits and claims for considerably less than the total amount of outstanding claims. Concurrently with the settlement of the lawsuits, the City repealed the alternative-measure tax in 2001, curing any alleged constitutional defects. All claims had to be filed by November 2001, and at this time any payments related to lawsuits or claims already filed that remain unsettled are expected to be covered by contingency reserves, judgment bonds or some combination thereof.

Sales and Use Tax

The State collects the City's local sales tax on retail transactions (currently 1.0 percent less the 0.25% shifted by the State pursuant to the Triple Flip as further discussed below) along with State and special district sales taxes, and then remits the local sales tax collections to the City. The local sales tax is deposited in the City's General Fund. The fiscal year 2005-06 Original Budget projected $102.8 million in sales and use tax revenues. As of the Controller's Nine-Month Report, the City projected sales and use tax revenues to be $102.8 million, on budget. The 0.25% reduction of the local sales tax allocation (related to the Triple Flip) is backfilled by increased property tax allocations to the City. The fiscal year 2006-07 Original Budget projected $106.2 million in sales and use tax revenue.

A history of sales and use tax actual revenues through fiscal year 2004-05 is presented in Table A-6 and reflects how this revenue was impacted during the recent economic downturn when tourism, business travel and jobs all declined. In addition, Fiscal Year 2004-05 figures show both actuals collected as well as what would have been collected, i.e. the adjusted amount, had there been no State Triple Flip shift. Beginning in fiscal year 2004-05, the General Fund local portion was reduced from 1.00% to 0.75%, reflecting a 0.25% shift by the State pursuant to the Triple Flip. The 0.25% is dedicated to pay debt service pertaining to the $15 billion of bonds authorized under the California Economic Recovery Bond Act (Proposition 57), which voters approved in March 2004. This loss in sales tax revenue is backfilled through an offsetting increase in local property tax revenue.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Receipts ($000's)
Fiscal Years 2000-01 through 2004-05

Fiscal Year	Tax Rate	City Share	Revenue	% Change
2000-01	8.25%	1.00%	$138,281	3.7%
2001-02	8.50%	1.00%	116,827	-15.5%
2002-03	8.50%	1.00%	115,578	-1.1%
2003-04	8.50%	1.00%	120,642	4.4%
2004-05	8.50%	0.75%	94,689	-21.5%
2004-05 adj.	8.50%	1.00%	118,287	-2.0%

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

Transient Occupancy Tax

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2004-05, revenue from transient occupancy tax grew 6.6 percent (or approximately $9.7 million) over prior fiscal year 2003-04. Budgeted revenue, across all funds, from transient occupancy tax for fiscal year 2005-06 was $170.1 million, including $5.5 million allocated to the Redevelopment Agency and $121.5 to the City's General Fund. As of the Nine-Month Report, the City projected total hotel room tax revenues to be $4.3 million better than budget, all of which accrued to the City's General Fund during fiscal year 2005-06. The fiscal year 2006-07 Original Budget projected total hotel tax revenues of $182.6 million. Table A-7 sets forth a history of actual transient occupancy tax receipts through fiscal year 2004-05. As illustrated in the table below, this revenue was significantly impacted by events of September 11, 2001 and the associated economic downturn, where San Francisco witnessed a decline in both tourism and business travel during fiscal years 2001-02 and 2002-03. Signs of recovery are evident since fiscal year 2002-03.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Receipts ($000's)
Fiscal Years 2000-01 through 2004-05

Fiscal Year	Tax Rate	Revenue	% Change
2000-01	14.00%	$188,377	3.4%
2001-02	14.00%	132,226	-29.8%
2002-03	14.00%	128,590	-2.7%
2003-04	14.00%	148,231	15.3%
2004-05	14.00%	157,945	6.6%

Revenues are adjusted so underlying tax revenue is reflected in the same fiscal year as the occupancy activity.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less, $6.80 per $1,000 for properties valued more than $250,000 or less than $999,999; and $7.50 per $1,000 for properties valued at $1.0 million or more. The fiscal year 2005-06 Original Budget for the General Fund projected $83.0 million in real property transfer tax revenue. As of the Nine-Month Report, the City projected real property transfer tax revenues to be $119.2 million, which was $36.2 million better than budget, representing a new peak for this revenue source. The fiscal year 2006-07 Original Budget for the General Fund projected $105.0 million in transfer tax revenue. This revenue is one of the more volatile for the General Fund, because it is more sensitive to economic cycles and interest rates than most other City revenue sources. Since 2004, the City has experienced an unprecedented level of commercial building sales; such sale levels cannot be assumed to be sustained in future years.

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. The fiscal year 2005-06 Original Budget for the General Fund included $70.9 million in utility users tax revenue. As of the Nine-Month Report, the City is projecting utility users tax revenues to be $5.8 million better than budget due largely to higher natural gas commodity prices than assumed in the budget. The fiscal year 2006-07 Original Budget for the General Fund projects $79.4 million in utility users tax revenue.

A recent Internal Revenue Service Notice has the potential to affect the scope of services to which the City may apply its telephone user tax (TUT), with the potential result of a substantial reduction in the revenues the City receives from this source on an annual basis. The City's TUT is linked in certain respects to the Federal Excise Tax (FET), and the IRS has announced that it will no longer apply the FET to telephone toll services and to bundles of telephone services that include toll services. An ordinance adopted by the Board of Supervisors on August 15, 2006 and that went into effect on August 25, 2006 without the Mayor's signature amended the City's Business and Tax Regulations Code to address this recent change in interpretation of federal law. This ordinance clarifies that the City levies its utility users tax under the City's inherent powers as a charter city and that federal law is not the basis or authority for the City's imposition of the utility users tax. This ordinance also provides that the City will continue to apply its TUT to all types of telephone communication services, including toll service. In addition, on July 27, 2006, the City's Treasurer/Tax Collector gave notice to the over 340 telecommunications carriers doing business in the City that the City will continue to apply its TUT to all types of telephone communication services. To date, the City has not received any response to this notice. Lawsuits have been filed challenging the authority of California cities, including Palo Alto and Los Angeles, to impose similar taxes on cellphone usage and seeking refunds. Total TUT revenues were budgeted at $34.0 million in fiscal year 2005-06 and $37.5 million for fiscal year 2006-07. The City and its attorneys will continue to monitor the situation as it develops and any taxpayer or carrier challenges as they are filed.

Parking Tax

A 25.0% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code paid by the occupants of the spaces and remitted monthly by the operators of the parking facilities. The fiscal year 2005-06 Original Budget for the General Fund projected $33.1 million in parking tax revenue. As of the Nine-Month Report, the City projected parking tax revenues to be $1.9 million better than budget. The fiscal year 2006-07 Original Budget for the General Fund projected $36.1 million of parking tax revenue.

Intergovernmental Revenues, Grants and Subventions

The fiscal year 2005-06 Original Budget projected $1,072.2 million of intergovernmental revenues, grants and subventions. This amount included $375.7 million from the Federal government, $640.4 million from the State, and $56.1 million from other intergovernmental sources across all City funds. In the General Fund, the 2005-06 Original Budget projected a total of $680.7 million in revenues from such sources, including $206.3 million from the Federal government and $474.4 million from the State. As of the Nine-Month Report, the City projected General Fund intergovernmental revenues, grants and subventions to be $3.3 million under budget. The fiscal year 2006-07 Original Budget projected $1,074.2 million in intergovernmental revenues, grants and subventions, of which $664.5 million is budgeted in the General Fund. The various components of this revenue category are described in greater detail below.

Health and Welfare Realignment

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees. These sources were assumed to provide $219.6 million to the City's General Fund and its two county hospitals for fiscal year 2005-06. As of the Controller's Nine-Month Report, the City projected health and welfare realignment revenues to be on budget. The fiscal year 2006-07 Original Budget projected $224.5 million in Health and Welfare Realignment revenues.

Motor Vehicle License Fees

The City's budget reflects the permanent roll-back of the vehicle license fee revenues, along with the associated backfill shift made by the State wherein they partially reduced the amount of property taxes shifted from the City to the Education Revenue Augmentation Fund to make up the difference. After factoring in all State shifts and the repayment for prior-year diverted revenues by the State, the fiscal year 2005-06 Original Budget for the General Fund projected $36.7 million of vehicle license fee revenues. As of the Nine-Month Report, the City projected motor vehicle license fee revenues to be $2.1 million under budget due to lower city direct allocations from the State than previously assumed. This shortfall was more than offset by the additional backfill allocations which are reflected in property tax revenues being projected as better than budget, as reported in the Nine-Month Report. The fiscal year 2006-07 Original Budget for the General Fund projected $5.6 million of motor vehicle license fee revenue.

Public Safety Sales Tax

State Proposition 172, passed by the voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. The fiscal year 2005-06 Original Budget for the General Fund projected $70.0 million in public safety sales tax revenue. As of the Nine-Month Report, the City projected public safety sales tax revenues to be $0.5 million better than budget due to improving statewide sales tax collections. The fiscal year 2006-07 Original Budget for the General Fund projected $74.0 million of public safety sales tax revenue.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds the City projected $745.9 million in social service subventions from the State and Federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services and transportation projects in the fiscal year 2005-06 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. As of the Controller's Nine-Month Report, the City projected other intergovernmental grants and subventions revenues to be $1.7 million under budget in the General Fund. The fiscal year 2006-07 Original Budget projected $770.1 million of other intergovernmental grants and subventions.

Charges for Services

The fiscal year 2005-06 Original Budget for the General Fund projected revenues of $131.0 million for fiscal year 2005-06 for charges for services. This included $27.1 million of general government service charges (primarily planning fees), $21.6 million of public safety service charges (including, for example, boarding of prisoners and safety inspection fees), $5.8 million of recreation charges, $48.0 million of MediCal, MediCare and health service charges, $8.8 million of other miscellaneous service charges, and $19.7 million in cost recoveries for services provided by the General Fund to other funds. As of the Nine-Month Report, the City projected charges for services revenues to be $8.4 million under budget, mainly due to lower internal service charge recoveries as well as lower health service charges. The fiscal year 2006-07 Original Budget for the General Fund projected $134.0 million of charges for service revenue, reflecting updated projections and legislated fee increases.

Investment Policy

The management of the City's surplus cash is governed by an Investment Policy administered by the Treasurer. In order of priority, the objectives of this Investment Policy are the preservation of capital, liquidity and yield. The preservation of capital is the foremost goal of any investment decision, and investments generally are made so that securities can be held to maturity. Once safety and liquidity objectives have been achieved, the Treasurer then attempts to generate a favorable return by maximizing interest earnings without compromising the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly.

The investment portfolio is sufficiently flexible to enable the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of September 30, 2006 the City's surplus investment fund consisted of the investments classified in Table A-8, and had the investment maturity distribution presented in Table A-9.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Investment Portfolio
Pooled Funds
As of November 1, 2006

Type of Investment	Par Value	Book Value	Market Value
Treasury Bills	$ 314,000,000	$ 306,675,205	$ 307,930,313
Treasury Notes	960,000,000	953,747,134	956,220,312
FNMA Discount Notes	398,000,000	387,189,844	390,332,200
Federal Home Loan Disc Notes	250,000,000	246,971,715	249,277,614
FMC Discount Notes	422,000,000	409,694,013	413,966,425
Negotiable C.D.'s	725,000,000	725,000,000	724,992,909
Commercial Paper Disc	425,000,000	415,776,871	418,563,683
Public Time Deposit	10,200,000	10,200,000	9,827,580
Total	$ 3,504,200,000	$ 3,455,254,782	$ 3,471,111,036

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

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Investment Maturity Distribution
Pooled Funds
November 1, 2006

Maturity In Months			Cost	Percentage
1	to	2	$1,077,969,038	31.2%
2	to	3	451,965,742	13.1%
3	to	4	299,834,312	8.7%
4	to	5	422,208,184	12.2%
5	to	6	373,353,083	10.8%
6	to	12	311,572,746	9.0%
12	to	18	518,351,677	15.0%
18	to	24	-	-
24	to	36	-	-
36	to	48	-	-
48	to	60	-	-
			$3,455,254,782	100.00%

Weighted Average Maturity: 149 Days

Source: Office of the Treasurer, City and County of San Francisco
From Bank of New York-Custodial Safekeeping, SunGard-Inventory Control Program

Statement of Direct and Overlapping Bonded Debt

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the “Debt Report”), presented in Table A-10 has been compiled by the Office of Public Finance.

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

TABLE A-10

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

2005-2006 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 119,870,979,379		
DIRECT GENERAL OBLIGATION BOND DEBT	**Outstanding 11/1/2006**		
General City Purposes Carried on the Tax Roll	$1,234,255,000		
GROSS DIRECT DEBT	$1,234,255,000		
DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS			
San Francisco COPs, Series 1997 (2789 25th Street Property)	$6,955,000		
San Francisco COPs, Series 1999 (555-7th Street Property)	6,985,000		
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	7,115,000		
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	130,710,000		
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	11,245,000		
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1	32,955,000		
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	34,375,000		
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	41,185,000		
San Francisco Finance Corporation	252,710,000		
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	2,340,000		
San Francisco Redevelopment Agency Moscone Convention Center 1992	27,038,731	[1]	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	66,895,000		
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004	33,565,000		
San Francisco Courthouse Corporation COPs, Refunding Bonds, Series 2004	39,350,000		
LONG-TERM OBLIGATIONS	$693,423,731		
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	$1,927,678,731		
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS			
Bayshore Hester Assessment District	$855,000		
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	132,918,333		
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds	25,283,650		
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	272,480,000		
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	20,150,000		
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	9,040,000		
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	53,260,000		
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	595,894,178		
San Francisco Unified School District General Obligation Bonds - Election of 2003 (2004A, 2005B & 2006C)	272,445,000		
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	8,277,844		
San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999	16,015,000		
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$1,406,619,005		
GROSS COMBINED TOTAL OBLIGATIONS	$3,334,297,736	[2]	
Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**	
Gross Direct Debt (General Obligation Bonds)	1.03%	< 3.00%	[3]
Gross Direct Debt & Long-Term Obligations	1.61%	n/a	
Gross Combined Total Obligations	2.78%	n/a	
STATE SCHOOL BUILDING AID REPAYMENT FOR FY 06-07	$52,307		

[1] The accreted value as of July 1, 2006 is $87,966,857.

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

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

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

Tax Supported Debt Service

Under the State Constitution and the Charter, general obligation bonds can only be authorized through voter approval. As of November 1, 2006, the City had $1.2 billion general obligation bonds outstanding.

Table A-11 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Direct Tax Supported Debt Service
As of November 1, 2006[1] [2]

Fiscal Year	Principal	Interest	Annual Debt Service
2007	$77,635,000	$62,055,504	$139,690,504
2008	85,425,000	58,376,098	143,801,098
2009	89,290,000	52,247,227	141,537,227
2010	90,285,000	48,010,896	138,295,896
2011	92,045,000	43,077,853	135,122,853
2012	80,615,000	38,504,773	119,119,773
2013	71,805,000	34,323,815	106,128,815
2014	66,535,000	30,809,891	97,344,891
2015	59,695,000	27,624,443	87,319,443
2016	62,540,000	23,403,047	85,943,047
2017	52,720,000	20,702,225	73,422,225
2018	51,475,000	19,436,732	70,911,732
2019	52,145,000	16,958,666	69,103,666
2020	43,580,000	14,469,298	58,049,298
2021	39,965,000	16,281,031	56,246,031
2022	34,575,000	21,573,753	56,148,753
2023	33,810,000	19,941,921	53,751,921
2024	31,815,000	18,959,691	50,774,691
2025	27,175,000	17,784,639	44,959,639
2026	16,765,000	17,109,822	33,874,822
2027	17,530,000	16,959,143	34,489,143
2028	18,330,000	16,744,103	35,074,103
2029	18,840,000	16,191,382	35,031,382
2030	19,660,000	15,914,880	35,574,880
TOTAL[3]	$1,234,255,000	$667,460,833	$1,901,715,833

[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 direct tax supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

[2] Totals reflect rounding to nearest dollar.

[3] For purposes of this table, the interest payment on the general obligation bonds, Series 2005 BCD (Laguna Honda Hospital) are assumed to be 4.3% which is the approximate historical average of the Bond Market Association plus a spread. These bonds are in variable rate mode.

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

General Obligation Bond Authorizations

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 Seismic Safety Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 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. The City intends to issue a second series of aggregate principal amount of $35 million in taxable general obligation bonds through a private placement to fund the Loan Program in January 2007.

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, 2005. The 2004 Resolution authorized the issuance of not to exceed $800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's outstanding General Obligation Bonds. On June 16, 2004, the City issued $21.9 million of General Obligation Refunding Bonds Series 2004-R1 (the "Refunding Bonds"), to refund $21.5 million of outstanding general obligation bonds. As a result of the issuance of the Refunding Bonds, the City reduced the total general obligation bond debt service by $0.9 million on a present value basis. The City issued the second series, pursuant to the 2004 Resolution, of $90.1 million of General Obligation Refunding Bonds, Series 2006-R1 in October 2006. The City is issuing the third series under the 2004 Resolution authorization under the current bond offering.

In June 1997, voters approved Proposition C, which authorized the issuance of up to $48.0 million in general obligation bonds for the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The City issued an aggregate total of $48.0 million in four series of such bonds. The City issued the fourth and final tranche of the zoo facilities bonds in the principal amount of $7.5 million in July 2005.

In November 1999, voters approved Proposition A, which authorized the issuance of up to $299.0 million in bonded debt, other evidences of debt and/or lease financing for the reconstruction, improvement and expansion of a new health care, assisted living and/or other type of continuing care facility or facilities to replace facilities at Laguna Honda Hospital. The City issued $230.0 million of the Laguna Honda Hospital general obligation bonds in May 2005. The City issued the final series of the Laguna Honda Hospital general obligation bonds in the principal amount of $69.0 million in September 2005.

In March 2000, voters approved Proposition A which authorized the issuance of up to $110.0 million in general obligation bonds to acquire, construct, or reconstruct recreation and park facilities and properties. The City issued three series of Neighborhood Recreation and Park Bonds in June 2000, February 2001, and in July 2003 comprising a total of $41.2 million. The City issued the fourth and final series in October 2004 in the principal amount of $68.8 million.

In March 2000, voters approved Proposition B which authorized the issuance of up to $87.4 million in general obligation bonds to acquire, construct, or reconstruct the facilities of the California Academy of Sciences. In November 1995, the voters approved Proposition C, which authorizes the issuance of up to $29.2 million to pay the cost of acquisition, construction and/or reconstruction of certain improvements to the Steinhart Aquarium and related facilities. Proposition B and Proposition C proceeds will be used together with other monies of the California Academy of Sciences to reconstruct the California Academy of Science Building and the Steinhart Aquarium. The City issued the first series of the California Academy of Sciences Bonds in October 2004 for a total of $8.0 million. The City issued the second and final installment of the California Academy of Sciences and Steinhart Aquarium bonds in July 2005 in the principal amounts of $29.2 million and $79.4 million respectively.

In November 2000, voters approved Proposition A, which authorized the issuance of up to $105.9 million in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City issued two series of library bonds in July 2001 and October 2002 for a total of $40.8 million. The City issued a third installment of the branch library facilities improvement bonds in July 2005 in the principal amount of $34.0 million.

Table A-12 below lists the City's voter-authorized general obligation bonds including authorized programs for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of November 1, 2006, the City had authorized and unissued general obligation bond authority of $346.1 million.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of November 1, 2006)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Golden Gate Park Improvements (6/2/92)	1997A	$25,105,000	$1,180,000	
	2001A	17,060,000	13,970,000	
Seismic Safety Loan Program (11/3/92)	1994A	35,000,000	-	$315,000,000
School District Facilities Improvements (6/7/94)	1997B	22,050,000	1,035,000	
Asian Art Museum Relocation Project (11/8/94)	1999D	16,730,000	3,075,000	
Steinhart Aquarium Improvement (11/7/95)	2005F	29,245,000	28,180,000	
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	14,780,000	
	1999A	20,000,000	15,765,000	
	2000D	20,000,000	4,440,000	
	2001C	17,000,000	14,100,000	
	2001D	23,000,000	19,640,000	
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	15,285,000	
	2000A	29,605,000	2,440,000	
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	45,370,000	
	2003B	29,480,000	26,105,000	
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	12,630,000	
	2000B	17,440,000	1,435,000	
	2002A	6,210,000	5,295,000	
	2005H	7,505,000	7,230,000	
Laguna Honda Hospital (11/2/99)	2005A	110,000,000	110,000,000	
	2005B	40,000,000	40,000,000	
	2005C	40,000,000	40,000,000	
	2005D	40,000,000	40,000,000	
	2005I	69,000,000	69,000,000	
Neighborhood Recreation and Park (3/7/00)	2000C	6,180,000	505,000	
	2001B	14,060,000	11,510,000	
	2003A	20,960,000	18,560,000	
	2004A	68,800,000	64,130,000	
California Academy of Sciences Improvement (3/7/00)	2004B	8,075,000	7,525,000	
	2005E	79,370,000	76,480,000	
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	14,590,000	
	2002B	23,135,000	19,730,000	
	2005G	34,000,000	32,765,000	31,065,000
SUB TOTALS		**$1,004,435,000**	**$776,750,000**	**$346,065,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$261,390,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$96,065,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		$21,930,000	$9,360,000	
General Obligation Refunding Bonds Series 2006-R1 issued 10/17/06		$90,690,000	$90,690,000	
TOTALS		**$1,685,085,000**	**$1,234,255,000**	**$346,065,000**

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

Lease Payments and Other Long-Term Obligations

Under the Charter, most lease financing structures can only be authorized with the approval of the voters. Table A-13 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of November 1, 2006. Note that the annual payment obligations reflected in Table A-13 include the fully-accreted value of any capital appreciation obligations that will accrue as of the final payment dates and does not include general obligation bonds.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Lease Payment and Other Long-Term Obligations
As of 11/1/2006

Fiscal Year	Principal	Interest	Annual Payment Obligation
2007	$27,140,000	$18,323,665	$45,463,665
2008	41,768,666	36,557,936	78,326,602
2009	40,275,247	35,525,771	75,801,018
2010	31,567,024	34,576,700	66,143,724
2011	31,513,573	33,794,883	65,308,456
2012	23,905,763	32,978,649	56,884,412
2013	24,471,157	32,335,941	56,807,098
2014	23,596,550	31,620,011	55,216,561
2015	29,190,751	25,963,080	55,153,831
2016	35,860,000	19,335,174	55,195,174
2017	35,120,000	17,712,429	52,832,429
2018	35,585,000	16,028,411	51,613,411
2019	36,025,000	14,315,406	50,340,406
2020	21,280,000	12,947,400	34,227,400
2021	21,440,000	11,948,221	33,388,221
2022	21,835,000	10,931,672	32,766,672
2023	22,215,000	9,893,704	32,108,704
2024	22,630,000	8,842,848	31,472,848
2025	19,180,000	7,774,143	26,954,143
2026	17,910,000	6,908,934	24,818,934
2027	22,400,000	6,001,748	28,401,748
2028	19,785,000	5,046,429	24,831,429
2029	20,605,000	4,085,579	24,690,579
2030	21,760,000	3,131,436	24,891,436
2031	11,855,000	2,123,898	13,978,898
2032	12,470,000	1,505,656	13,975,656
2033	10,740,000	913,544	11,653,544
2034	11,300,000	349,856	11,649,856
TOTAL [1][2]	$693,423,731	$441,473,124	$1,134,896,855

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest payments on the Lease Revenue Bonds, Series 2000-1, 2, 3 (Moscone Center Expansion Project) are assumed to be 4.3% - the approximate historical average of the Bond Market Association Index plus a spread. These bonds are in variable rate mode.

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.0 million, such amount increasing by five percent each fiscal year. As of June 30, 2006, the total authorized amount for such financings was $43.6 million. The total principal amount outstanding as of November 1, 2006 was $23.4 million. It is anticipated that the Corporation will issue approximately $11.0 million in equipment lease revenue bonds in April 2007.

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, but the Corporation has no current plans to utilize the remaining $14.0 million in authorization.

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 Point, 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 revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued $27.0 million of such Open Space Fund lease revenue bonds in October 2006.

Overlapping Debt

In November 2001, voters approved Proposition A. Proposition A authorizes the issuance of up to $195.0 million in general obligation bonds to finance construction of new Chinatown and North Beach campuses of the San Francisco Community College District (the "SFCCD") and to make improvements to existing facilities. The SFCCD issued $38.0 million of such authorization in March 2002 and $110.0 million in October 2004. On November 8, 2005, voters approved an additional issuance of up to $246.3 million in general obligation bonds to improve, construct and equip existing and new facilities of the SFCCD. SFCCD issued an aggregate principal amount of $137.0 million in June 2006 consisting of the remaining $47.0 million of the November 2001 authorization and $90.0 million of the November 2005 authorization.

On November 4, 2003, voters approved Proposition A. Proposition A authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295.0 million of general obligation bonds to repair and rehabilitate its facilities. The SFUSD issued $58.0 million of such authorization in October 2004 and they issued $130.0 million of such authorization in October 2005. The SFUSD issued an additional $92.0 million in October 2006.

On November 7, 2006, voters approved Proposition A. Proposition A authorizes the San Francisco Unified School District (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 to health, safety, instructional and accessibility standards, and various other improvements. The SFUSD has not issued any bonds under the Proposition A authorization.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorizes the Bay Area Rapid Transit District ("BART") to issue general obligation bonds in series over time in an aggregate principal amount not to exceed $980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City and County of San Francisco. Of the $980 million, the City's portion is approximately 29.0% or $282.0 million. BART issued $100.0 million of such authorization in May 2005. Of the $100.0 million issued, the City's portion is approximately $29.0 million.

Labor Relations

The Mayor's fiscal year 2006-07 budget includes approximately 30,000 full time personnel, excluding employees in the San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union (Locals United Health Workers – West, 535 and 790); International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law and Charter. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have gone on a union-authorized strike.

Wages, hours and working conditions of nurses and transit workers are not subject to interest arbitration, but are subject to Charter-mandated economic caps.

The City's employee selection procedures are established and maintained through a civil service system. In general, selection procedures and other "merit system" issues are not subject to arbitration. However, disciplinary actions are generally subject to grievance arbitration, with the exception of police and fire employees.

The City's retirement benefits are established directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefit formulae require a voter-approved Charter amendment. Currently, most miscellaneous employees are in a "2.0% at 60" plan, and the uniformed police and fire employees are in a "3.0% at 55" plan.

In 2006, the City negotiated three-year successor agreements (July 1, 2006 through June 30, 2009) with all groups covered under Charter Section A8.409. Based on the MOUs that expired June 30, 2006, the City was to resume paying the employees' contribution to retirement. However, in the newly negotiated fiscal years 2006-07 through 2008-09 agreements, most groups agreed to continue paying their own retirement contribution in exchange for an additional base wage increase. In general, employees agreed to pay their employee contribution to either the CalPERS (either 7% or 9%, depending on the plan) or SFERS (7.5%) retirement plans for all three years. In exchange for the employees' agreement to resume payment of their retirement contribution, the City will increase employees' base pay by a cost-equivalent post-tax amount. Additionally, employees will receive some general wage increases in each year of the contract. A few bargaining units opted not to continue paying the employee contribution and therefore did not receive the additional increase.

In 2006, the City negotiated one-year contracts (July 1, 2006 through June 30, 2007) with the Staff Nurses and Nurse Managers. Given the national nursing shortage, and the City's commitment to provide quality public health and meet State-mandated nurse-patient ratios, these agreements reflect wage and staffing increases to address market conditions for Registered Nurses.

Of the unions covered under Charter Section A8.590-1, the City negotiated a successor agreement with the Deputy Sheriffs, effective July 1, 2005 through June 30, 2009. Employees covered by this agreement will pay their retirement contribution and receive general wage increase each year of the agreement. The Police, Police Management, Fire and Fire Management contracts do not have reopener provisions and will expire on June 30, 2007.

Pursuant to Charter Section 8A.104, the Municipal Transportation Agency (the "MTA") is responsible for negotiating contracts for the transit operators and employees in service critical bargaining units. These contracts are subject to approval by the MTA Board. The current contract covering transit operators expires on June 30, 2008.

In addition, the City adopts an annual "Unrepresented Employees' Ordinance" for employees who are not exclusively represented by a union. The ordinance for fiscal year 2006-07 provides for employer pick-up of the employees' retirement contribution and a general wage increase.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Employee Organizations as of June 30, 2006

Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	414	June 30, 2009
Bricklayers, Local 3/Hod Carriers, Local 36	17	June 30, 2009
Building Inspectors Association	72	June 30, 2009
Carpenters, Local 22	106	June 30, 2009
CIR-SEIU (Interns & Residents)	204	June 30, 2009
Cement Masons, Local 580	24	June 30, 2009
Deputy Sheriffs Association	865	June 30, 2009
District Attorney Investigators Association	67	June 30, 2009
Electrical Workers, Local 6	785	June 30, 2009
Glaziers, Local 718	12	June 30, 2009
International Alliance of Theatrical Stage Employees, Local 16	14	June 30, 2009
Ironworkers, Local 377	18	June 30, 2009
Laborers International Union, Local 261	1,052	June 30, 2009
Municipal Attorneys' Association	413	June 30, 2009
Municipal Executives Association	863	June 30, 2009
MEA - Police Management	2	June 30, 2007
MEA - Fire Management	8	June 30, 2007
Operating Engineers, Local 3	59	June 30, 2009
Painters, Local 1176	105	June 30, 2009
Pile Drivers, Local 34	17	June 30, 2009
Plumbers, Local 38	336	June 30, 2009
Probation Officers Association	150	June 30, 2009
Professional & Technical Engineers, Local 21	4,012	June 30, 2009
Roofers, Local 40	13	June 30, 2009
S.F. Institutional Police Officers Association	4	June 30, 2009
S.F. Firefighters, Local 798	1,730	June 30, 2007
S.F. Police Officers Association	2,498	June 30, 2007
SEIU - UHW (250)	1,816	June 30, 2009
SEIU, Local 535	1,422	June 30, 2009
SEIU, Local 790	7,356	June 30, 2009
SEIU, Local 790 (Staff Nurse)	1,445	June 30, 2007
SEIU, Local 790 (H-1 Rescue Paramedics)	20	June 30, 2005
Sheet Metal Workers, Local 104	48	June 30, 2009
Stationary Engineers, Local 39	629	June 30, 2009
Supervising Probation Officers, Operating Engineers, Local 3	19	June 30, 2009
Teamsters, Local 350	2	June 30, 2009
Teamsters, Local 853	162	June 30, 2009
Teamsters, Local 856 (multi-unit)	117	June 30, 2009
Teamsters, Local 856 (Supervising Nurses)	128	June 30, 2007
TWU, Local 200 (SEAM multi-unit & claims)	303	June 30, 2009
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2009
TWU, Local 250-A TWU - Miscellaneous	93	June 30, 2009
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2008
Union of American Physicians & Dentists	178	June 30, 2009
Unrepresented Employees	135	June 30, 2009
	29,989 [1]	

[1] Budgeted positions do not include SFUSD, SFCCD, or Superior Court personnel.

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

Risk Management

The City uses both insured and self-insured programs to manage its risks, with the majority of its property, liability and workers' compensation risk exposures being self-insured. Citywide risk management is coordinated by the City's Risk Manager.

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

Through coordination with the Controller and the City Attorney's Office, the City's general liability risk exposure is addressed through reserves set aside in the City's budget as well as being reflected in the Comprehensive Annual Financial Report, plus the City's annually audited financial statements. The reserves are sized based on both anticipated claim payments and projected timing of disbursement.

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

The remainder of the insured program is made up of insurance for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for art at City-owned museums and statutory requirements for bonding of various public officials.

Retirement System

The City Employee's Retirement System (the "Retirement System") was initially established in the late 1880s and was constituted in its current form by the 1932 charter and retained under the 1996 Charter. The Retirement System provisions may be revised only by a charter amendment, which requires an affirmative vote at a duly called election. The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors. To aid in the administration of the Retirement System, the Retirement Board appoints an Actuary and an Executive Director. The Executive Director's responsibility extends to all divisions of the system consisting of Administration, Investment, Retirement Services/Accounting, and Deferred Compensation.

The Retirement System estimates that the total active membership as of June 30, 2005 was 32,760, including 2,833 vested members and 763 reciprocal members, compared to 33,382 members a year earlier. Vested members are members who (i) worked for the City for five or more years, (ii) have separated from City Service and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are members who have established membership in a reciprocal pension plan and may be eligible to receive a reciprocal pension in the future. The total new enrollees for fiscal year 2004-05 were approximately 1,444. Checks are mailed to approximately 19,573 benefit recipients monthly.

Net assets held in trust for pension benefits by the Retirement System as of June 30, 2005 were $13.1 billion compared to $11.9 billion as of June 30, 2004. As of June 30, 2005, the actuarial accrued liability was $11.8 billion and the actuarial value of assets was $12.7 billion, reflecting funding at 108.0%.

Table A-15 shows Retirement System actual contributions for fiscal years 2000-01 through 2004-05.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System $000s)
Fiscal Years 2000-01 through 2004-05

Fiscal Years Ending June 30	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]
2001	$11,246,080	$10,797,024	$8,371,843	129.0%	$145,203
2002	10,415,950	11,102,516	9,415,905	118.0	155,918
2003	10,533,013	11,173,636	10,249,896	109.0	182,069
2004	11,907,358	11,299,997	10,885,455	104.0	170,550
2005	13,135,263	12,659,698	11,765,737	108.0	248,029

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

Year	Rate
2004-2005	4.48%
2005-2006	6.58%

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

The assets of the Retirement System are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the fund holds international equities, global sovereign and corporate debt, public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in various areas of investments.

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an outside actuarial firm employed under contract. A valuation of the Retirement System is conducted each year and an experience study is performed periodically. The latest report as of June 30, 2005 was issued in January 2006.

In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded. That method is the entry age normal cost method with a level percentage supplemental cost element, supplemental costs to be fully amortized over no more than 20 years. Actuarial gains and losses are amortized over a 15-year period. The actuarial value of assets is calculated based on a five-year smoothing methodology.

From fiscal year 1996-97 through fiscal year 2003-04, the City's dollar contribution decreased to zero due to lowered funding requirements as determined by the actuary of the Retirement System. However, in fiscal year 2004-05, the City contributed $83.7 million in employer contribution, which is 4.5% of pensionable salary. This includes $38.6 million in General Fund contribution. In fiscal year 2005-06, the City budgeted an estimated $127.0 million in employer contribution, which is 6.6% of pensionable salary. This amount includes $58.0 million in General Fund contribution. The contribution rate approved to be effective July 1, 2006 is 6.2% of pensionable salary.

Medical Benefits

Medical benefits for eligible active City employees, for retired City employees and for surviving spouses and domestic partners of covered City retirees (the "System 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. The plans for providing medical care to System Beneficiaries (the "HSS Medical Plans") are determined by the Health Service Board and approved by the Board of Supervisors pursuant to City Charter Section A8.422.

The Health Service System also administers medical benefits to the San Francisco Unified School District, the San Francisco Community College District and the San Francisco Superior Court. The City is not required to fund medical benefits for employees of these other agencies. The financial obligations relating to the provision of medical benefits to the System Beneficiaries are summarized below.

Pursuant to City Charter Section A8.423, in January of each year, the Health Service System conducts a survey of the 10 most populous counties in California (other than the City and County of San Francisco) to determine "the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." Pursuant to City Charter Section A8.428, the City is required to contribute "the average contribution" described in the preceding sentence to the Health Service Trust Fund established pursuant to City Charter Sections 12.203 and A8.428, from which the HSS Medical Plans are partially funded. In addition to "the average contribution," individual City bargaining units have negotiated additional City contributions for enhanced single coverage, dependent coverage and for additional benefits such as dental care for the members of such bargaining units. Additional amounts that are needed to fund HSS Medical Plans that are not paid from the Health Service Trust Fund or from City contributions negotiated with City bargaining units are paid by covered employees.

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

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

The above list is provided as a summary only and is qualified in all respects by the laws, regulations and agreements applicable to the specific situation of each employee. Additional information may be obtained by contacting the Health Service System at the address and phone number listed in the final paragraph of this section.

Contribution amounts for retired City employees for medical care are determined pursuant to Charter Section A8.428; contribution amounts are made 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." Further adjustments are then made, pursuant to Section A8.428, including (i) a City contribution of 50% of retired persons' remaining monthly contributions, (ii) a decrease in contributions for Medicare-eligible retired participants and (iii) a contribution of "50% of the monthly contributions required for the first dependent" of a retired participant.

Annual benefits costs are budgeted and funded on a current basis during each fiscal year, primarily from contributions made during that year by the City and other participating agencies and System Beneficiaries. The City contributions are funded from available resources on a pay-as-you-go basis (after taking into account any amounts available from the Health Service Trust Fund).

For fiscal year 2004-05, the City contributed approximately $312.7 million for Health Service System benefit costs. Of this amount, approximately $86.0 million were for post-retirement health care benefits for approximately 16,500 retired City employees and their eligible dependents.

The City will be required to begin reporting the liability and related information for unfunded post-retirement medical benefits in the City's financial statements for the fiscal year ending June 30, 2008. This new reporting requirement is defined under Governmental Accounting Standards Board (GASB) Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 does not require that the City actually fund any portion of this post-retirement health benefit liability—rather it requires that government agencies start to record and report a portion of the liability in each year if they do not fund it.

To help plan for the implementation of GASB 45, the City requested that Towers Perrin prepare a preliminary actuarial valuation of this liability. Towers Perrin's entire report is posted at www.sfgov.org/site/uploadedfiles/controller/reports/GASB_45_Memo_Report.pdf and illustrates what the effect of GASB 45 would be if the City were to report the cost and liability as of June 30, 2006. The statements herein merely summarize Towers Perrin's report. (This report is not incorporated by reference herein.)

Towers Perrin's report provided calculation results based on two different investment return assumptions. Assuming a 4.5% return on invested assets, Towers Perrin estimated that the City would have a post-employment medical benefit liability of $4.9 billion and an annual required contribution for fiscal year 2006-07 (i.e. the amount that would be payable by the City to amortize the liability over 30 years in an actuarially sound manner) of $455,881,165. Towers Perrin also calculated post-employment medical benefit liability and fiscal year 2006-07 annual required contribution amounts using an assumed 8.0% investment return and a 30 year amortization period, which resulted in estimates of $3.0 billion and $290,209,863, respectively.

As stated above, the City is not required to include such information in its financial statements until the 2007-08 fiscal year. As part of the planning for how the City will address this issue, Memoranda of Understanding negotiated this year with the City's labor unions included a provision calling for a Citywide committee to develop recommendations on how to fund retiree health benefits.

The Health Service System issues a publicly available 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.

APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO
ECONOMY AND GENERAL INFORMATION

Area and Economy

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

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

Population and Income

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit, at 798,680 as of January 1, 2006, ranking it the fourth largest city in California after Los Angeles, San Diego and San Jose. The table below reflects the population and per capita income of the City and the State between 2002 and 2006.

TABLE B-1

POPULATION AND INCOME
2002-2006

As of 1-Jan Year	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
2002	793,633	35,301,000	54,908	32,989
2003	789,700	35,612,000	55,720	33,749
2004	792,700	36,271,091	N/A *	N/A *
2005	799,263	36,810,358	N/A *	N/A *
2006	798,680	37,172,015	N/A *	N/A *

* Note: Information not available. County data are compiled from numerous sources by the U.S. Department of Commerce, Bureau of Economic Analysis and are typically released with a significant time lag.

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

Conventions and Tourism

During the calendar year 2004 approximately 15.1 million people (118,600 average per day) visited the City, generating approximately $6.7 billion. On average, these visitors spent about $156 per day and stayed three to four nights. The figures for calendar year 2005 are not yet available.

Hotel occupancy rates in the City averaged 76.4% in calendar year 2005, an increase of 4.1% over the previous year. Average daily San Francisco room rates increased about 5.2% to an annual average of $153, compared to the same period in the prior year.

Although visitors who stay in the City hotels accounted for only 35.0% of total out-of-town visitors, they generated 65.0% of total spending by visitors from outside the Bay Area. It is estimated that 40.0% of visitors to the City are on vacation, 35.0% are convention and trade show attendees, 22.0% are individual business travelers and the remaining 3.0% are en route elsewhere. International visitors make up 36.0% of all visitors. Approximately 45.0% of the City's international visitors are from Europe and the United Kingdom, 31.0% are from Asia, 9.0% are from Canada, 5.0% are from Australia and New Zealand, 5.0% are from Central and South America, 3.0% are from Mexico, and 2.0% are from Africa and the Middle East. The following illustrates hotel occupancy and related spending from calendar years 2000 through 2004.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO
San Francisco Overnight Hotel Guests ($000s)

Calendar Year	Annual Average Hotel Occupancy	Visitors Staying in Hotels or Motels	Hotel Visitor Spending
2000	81.9%	4,300	$4,288,000
2001	67.0	3,550	3,700,000
2002	65.4	3,470	3,500,000
2003	68.1	3,860	3,680,000
2004 [1]	73.2	4,200	4,070,000

[1] Information for calendar year 2005 is not yet available.

Source: San Francisco Convention & Visitor Bureau.

According to the San Francisco Convention and Visitor Bureau, as of June 1, 2006, convention business is almost at full capacity at the Moscone Convention Center and is at strong levels at individual hotels providing self-contained convention services. The City completed construction of an expansion to the Moscone Convention facilities in spring 2003. With the expansion, the Moscone Convention Centers offer over 700,000 square feet of exhibit space covering more than 20 acres on three adjacent blocks.

Employment

The City has the benefit of a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the State Employment Development Department, the unemployment rate for the City was 5.7% for year-end 2004, a nearly 20.0% decline from 2003. This rate is in comparison with an adjusted unemployment rate of 6.1% for California and 5.5% for the nation during the same period.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO Reported Employment by Land Use Activities 2001-2005					
	2001	2002 [1]	2003 [1]	2004 [1]	2005 [1]
Office	236,959	213,813	201,492	193,180	193,569
Retail	101,505	96,561	95,599	95,006	95,736
Industrial	107,837	97,860	93,726	89,037	85,492
Hotel	17,962	16,477	17,438	18,090	18,473
Cultural/Insti	122,222	122,254	124,882	127,962	128,762
Other	67	165	65	65	74
Total	586,552	547,130	533,202	523,340	522,106

[1] 2002 through 2005 Office Land use activity group includes Government employment.

Source: San Francisco Planning Department - California Employment Development Department.

Based on 2005 data, total citywide employment is 522,106 indicating a loss of approximately 2.3% of jobs from 2004.

Table B-4 below lists the ten largest employers in the City as of December 2005.

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO
Largest Employers in San Francisco
As of December 30, 2005

Employer	Number of Employees	Nature of Business
City and County of San Francisco	28,220	Local government
University of California, San Francisco	19,138	Health services
Wells Fargo & Co. Inc.	7,581	Banks
San Francisco Unified School District	7,241	Education
State of California	6,115	State government
United States Postal Service, San Francisco District	5,324	Mail delivery
California Pacific Medical Center	4,886	Health care
PG&E Corp.	4,629	Energy
Gap Inc.	4,180	Retail
Kaiser Permanente	3,860	Health care

Source: San Francisco Business Times, Book of Lists 2006.

Taxable Sales

The following table reflects a breakdown of taxable sales for the City from 2000-2004. Total retail sales increased in 2004 by approximately $647.3 million compared to 2003. When business and personal services and other outlet sales are included, taxable sales increased by approximately $709.9 million in 2004.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO
Taxable Sales 2000-2004
($000s)

	2000	2001	2002	2003	2004[1]
Retail Stores					
Apparel	$792,508	$749,391	$737,396	$760,715	$826,686
General Merchandise	1,166,524	1,078,664	1,051,122	1,065,160	1,143,657
Food Stores	416,735	413,650	403,163	405,673	419,286
Speciality Stores	2,277,432	1,998,450	1,889,144	1,910,757	2,084,323
Eating/Drinking	1,977,854	1,883,762	1,844,385	1,879,879	2,067,418
Household	637,662	513,618	459,529	484,455	527,519
Building Materials	321,632	313,277	310,111	320,316	353,002
Automotive	1,006,818	889,936	803,109	804,964	850,984
Other Retail Stores	153,291	149,638	143,999	135,582	141,906
Retail Stores Total	$8,750,456	$7,990,386	$7,641,958	$7,767,501	$8,414,781
Business and					
Personal Services	$1,226,650	$1,107,028	$1,043,019	$945,689	$937,411
All Other Outlets	4,112,820	3,357,822	2,904,463	2,784,369	2,855,315
Total All Outlets	$14,089,926	$12,455,236	$11,589,440	$11,497,559	$12,207,507

[1] Most recent annual data available.

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

Building Activity

Table B-6 shows a summary of building activity in the City for Fiscal Years 2000-01 through 2004-05, during which time approximately 10,809 housing units were authorized in the City (both market rate and "affordable housing"). The total value of building permits was $434.0 million in Fiscal Year 2004-05.

TABLE B-6

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

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

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

Banking and Finance

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

Commercial Real Estate

According to the 2nd Quarter 2006 Report from CB Richard Ellis ("CBRE"), the San Francisco office market continues to improve "with approximately 650,000 square feet of positive absorption this quarter, bringing year to date absorption totals close to one million square feet and marking the twelfth consecutive quarter of positive absorption for the San Francisco market. According to the CBRE report, the City wide vacancy rate has decreased to 10.7%. The average Class A asking rent City wide is $34.23, with Civic Center average Class A asking rate at $31.00.

Major Development Projects

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

After three years of construction, the $460.0 million Westfield San Francisco Centre (including the largest Bloomingdale's outside of downtown Manhattan) opened September 28, 2006. The 1.2 million square foot retail, office, and entertainment complex on the site of the former Emporium building between Market Street and Mission Street and 4th and 5th Streets is expected to draw 25 million visitors annually and generate $600 million annually in taxable retail sales. During the construction period, about 770 union construction jobs were created, and 1,950 permanent jobs will be provided by the various tenants in the new center. The Project is estimated to generate $17.5 million per year to the City's General Fund and related public service providers.

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

Development is continuing at the Mission Bay redevelopment project area, portions of which are owned by the City and the Port of San Francisco. The development utilizes 303 acres of land and consists of 6,000 residential units, (28.0% of which will be affordable units), office and commercial space, 863,637 square feet of retail space, a new public school, 51-acres of parks and recreational areas, and a 500-room hotel. In addition, the University of California is constructing a 2,650,000 square foot biotechnology campus on a 43-acre site in Mission Bay, and has already completed several buildings, including the Bakar recreation center, and several lab buildings. Alexandria Real Estate, the REIT that acquired most of Mission Bay's entitled land from Catellus, will complete its first lab building, currently under construction next door to the Gladstone Institutes, in late 2006. Sirna Therapeutics will occupy 40,000 square feet of a 155,000 square foot speculative building.

The Octavia Boulevard Project, a ground-level six-lane boulevard between Market and Hayes Streets, opened in Fall 2005. The redevelopment of this roadway system has opened up approximately 7.2 acres of property to be used for the construction of 750-900 housing units.

Redevelopment of the former Hunters Point Naval Shipyard on San Francisco's southern waterfront began in September 2005, with the demolition of existing buildings, clearing the way for new infrastructure development, currently underway. The 90-acre first phase of development is expected to comprise approximately 1,600 housing units, 50,000 square feet of commercial uses, 34 acres of open space and other community amenities. Future phases of this 500-acre redevelopment effort will include additional residential and commercial development.

Significant progress has been made on planning for the redevelopment of Treasure Island, including development of a revised land use plan that furthers the project's commitment to creating a model of environmentally sustainable development. The City is on track for endorsement of a Term Sheet for the overall project by the Board of Supervisors by Fall 2006.

Hotel Development. The City added 476 rooms in 2005: the 200-room Hotel Vitale in March and the 276-room St.Regis in November. In addition, a total of 2,288 hotel rooms are under construction, entitled, or in the planning stage in San Francisco.

Notable projects include the following:

- The 86-room Orchard Garden is currently under construction at 466 Bush Street (at Grant) with an opening scheduled for Fall 2006.
- The 550-room, 32-story InterContinental Hotel near Moscone West at 888 Howard Street recently secured financing and has a planned groundbreaking December 2006, with an opening scheduled for November 2007.
- Chelsea Development plans to erect a $30 million, 10-story, 132-room boutique hotel at 144 King Street, across from AT&T Park.
- Farallon Capital Management controls a parcel near Third and Channel Streets, entitled for 500 hotel rooms, where Larkspur Hospitality of Corte Madera is considering building a lodge.
- Developer Circe Sher is in the process of entitling the Hotel SoMa, a 70-room boutique hotel at Fifth and Townsend.
- Early-stage plans call for the renovation of the upper floors of Ghiradelli Square and converting the existing uses to residential uses, which may include 90 interval ownership units. Plans are very preliminary.

- A 100-room boutique hotel is in the early planning stage at The Presidio – Main Post.
- The Transbay Terminal project, part of the Transbay Redevelopment Plan, includes a 260-room full service hotel.
- Preliminary plans call for 400 to 500 hotel rooms in two separate hotel projects on Treasure Island.

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO"), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2004 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers. SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. In fiscal year 2005-06, the Airport served over 33 million passengers and handled 598.5 thousand metric tons of cargo and U.S. mail.

During fiscal year 2004-05, 63 airlines served the Airport with non-stop and one-stop service to 91 destinations in the United States. In addition, 27 airlines provided nonstop and one-stop scheduled passenger service to over 45 international destinations.

United Airlines operates one of its five major U.S. hubs at SFO. During Fiscal Year 2005-06, United Airlines (including Ted) handled approximately 42% of the total enplaned passengers at the Airport and accounted for approximately 23% of the Airport's total revenues. On December 9, 2002, UAL Corp. ("UAL"), the parent company of United Airlines, and numerous of its subsidiaries including United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Since the Chapter 11 filing, United Airlines has continued flight operations at the Airport and since January 1, 2003 it has remained current with its payments to the Airport for rents and landing fees.

The San Francisco Bay Area Rapid Transit District ("BART") extension to the Airport opened for full operation on June 22, 2003. The extension creates a convenient connection between the Airport and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals.

The AirTrain system, which opened for full operation on March 24, 2003, provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex. The AirTrain stations are located at the north and south sides of the International Terminal, at Terminals 1, 2 and 3, at the two short-term International Terminal Complex ("ITC") parking garages, on Lot "D" to serve the rental car facility, and on McDonnell Road to serve the West Field area of the Airport.

Table B-7 presents certain data regarding SFO for the last five fiscal years.

TABLE B-7

SAN FRANCISCO INTERNATIONAL AIRPORT
Passenger, Cargo and Mail Data for
Fiscal Years ending June 30, 2002 through 2006

	Passengers		Cargo Traffic	
Fiscal year Ended June 30,	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
2002	30,932,889	-20.1%	467,301	93,953
2003	29,174,229	-5.7%	517,420	89,533
2004	30,771,464	5.5%	472,953	79,154
2005	32,648,635	6.1%	512,857	74,778
2006 *	32,987,672	1.0%	524,856	68,715

* Preliminary

Source: San Francisco Airport Commission.

Port of San Francisco

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

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

The Port posted an increase in net assets of $21.5 million for fiscal year ending June 30, 2005. Operating income totaled $3.8 million for the year. Port properties generated $57.5 million in operating revenue in fiscal year 2004-05 as shown in the table below.

TABLE B-8

PORT OF SAN FRANCISCO FISCAL YEARS 2005 AND 2004 REVENUES ($000s)				
Business Line	FY 03-04 Audited Revenue	Percentage of 2004 Revenue	FY 04-05 Audited Revenue	Percentage of 2005 Revenue
Commercial & Industrial Rent	$33,489	59.1%	$34,791	60.5%
Parking	8,154	14.4%	8,600	15.0%
Cargo	5,561	9.8%	5,277	9.2%
Fishing	1,454	2.6%	1,520	2.6%
Ship Repair	867	1.5%	1,021	1.8%
Harbor Services	991	1.7%	997	1.7%
Cruise	1,578	2.8%	1,679	2.9%
Other Maritime	1,319	2.3%	1,206	2.1%
Other	3,289	5.8%	2,428	4.2%
TOTAL	$56,702	100%	$57,519	100%
Source: Port of San Francisco Audited Financial Statements.				

In June 1997, the Port Commission adopted a Waterfront Land Use Plan (the "Port Plan") which established the framework for determining acceptable uses for Port property. The Port Plan calls for a wide variety of land uses which retain and expand historic maritime activities at the Port, provide revenue to support new maritime and public improvements, and significantly increase public access.

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

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

Major development projects currently in negotiation and/or construction include: a mixed use recreation and historic preservation project at Piers 27-31; a mixed use historic preservation and reuse of Piers 1½-5; a historic rehabilitation of Piers 15-17; a restaurant development located at the south end of Rincon Park; and an international cruise terminal and mixed use office/retail complex in the South Beach area of San Francisco. This latter project involves the construction of a condominium tower project, a new cruise terminal, an office and retail development, and a new waterfront park known as Brannan Street Wharf.

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

Other Transportation Facilities

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

Other transportation services connect the Bay Area to the State, national and global economy. In addition to the San Francisco International Airport, the Bay Area is served by two other major airports: the Oakland International Airport in Alameda County, and the San Jose International Airport in Santa Clara County. These airports provide the Bay Area's air passengers with service to all major domestic cities and many international cities and are important cargo transportation facilities.

The Port of Oakland is an important cargo and transportation facility for the Bay Area providing a strong link to the Pacific Rim. The Port of Oakland is served by three major railroads with rail lines and/or connections to the Midwest and beyond.

Education

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

Colleges and Universities

Within the City, the University of San Francisco and California State University, San Francisco offer full four-year degree programs of study as well as graduate degree programs. The University of California, San Francisco is a health science campus consisting of the schools of medicine, dentistry, nursing, pharmacy and graduate programs in health science. The Hastings College of the Law is affiliated with the University of California. The University of the Pacific's School of Dentistry and Golden Gate University are also located in the City. City College of San Francisco offers two years of college-level study leading to associate degrees.

The nine-county Bay Area region includes approximately 20 public and private colleges and universities. Most notable among them are the University of California, Berkeley and Stanford University. Both institutions offer full curricula leading to bachelors, masters and doctoral degrees, and are known worldwide for their contributions to higher education.

APPENDIX C

EXCERPTS* FROM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY AND COUNTY OF SAN FRANCISCO
FOR THE YEAR ENDED JUNE 30, 2005

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

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CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2005

Prepared by:
Office of the Controller

Edward Harrington
Controller

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CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

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Photo by San Francisco Convention & Visitors Bureau

December 29, 2005

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2005, with the Independent Auditor's Report, submitted in compliance with City Charter Sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The CAFR has been prepared by the Controller's Office in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City, and is based on a comprehensive structure of internal accounting controls. Since the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. I believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the changes in the City's financial position as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the City's financial affairs.

The City's Charter requires an annual audit of the Controller's records. They are presented in this CAFR and have been audited by a consortium led by Macias, Gini & Company LLP, and include Louie & Wong LLP and the QBIS Group, Inc. They have issued an unqualified ("clean") opinion of our financial statements, and their report is presented at the beginning of the Financial Section. The CAFR also incorporates financial statements of the San Francisco International Airport, the Water Department, Hetch Hetchy Water and Power, Municipal Transportation Agency, the Clean Water Program, the Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Health Services System, Employees' Retirement System, and the Redevelopment Agency, which have been separately audited. The City has received clean audit opinions for all of these statements.

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

Our CAFR is divided into the following sections:

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

The Financial Section 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 present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary, and other funds. Also included in this section is the independent auditors' report on the Basic Financial Statements.

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

Profile of San Francisco's Government

The City and County of San Francisco (the City) was established by Charter in 1850 and is a legal subdivision of the State of California with the governmental powers of both a city and a county under California law. The City's powers are exercised through a Board of Supervisors serving as the legislative authority, and a Mayor and other independent elected officials serving as the executive authority. Services provided by the City include public protection, public transportation, construction and maintenance of all public facilities, water, parks, public health systems, social services, planning, tax collection and many others.

The elected Mayor of San Francisco appoints the heads of most City departments. Many departments are also advised by commissions or boards whose members are appointed either by the Mayor, or, in some cases, by a combination of the Mayor, the Board of Supervisors, and other elected officials. Elected officials include the Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff, Superior Courts, and Treasurer. Beginning in November 2000, the Board of Supervisors was elected by district for the first time since the 1970s. The City has eleven districts, with staggered elections for five and six seats at a time held in even numbered years. Board members serve four-year terms and any vacancies are filled by Mayoral appointment.

The financial activities of the primary government, which encompasses several enterprise activities, as well as all of its component units, are included in this CAFR. Component units include legally separate entities for which the primary government is financially accountable and that have substantially the same board as the City or provide services entirely to the City. For reporting purposes, the operations of the San Francisco County Transportation Authority, the San Francisco Finance Corporation, and the San Francisco Parking Authority are blended with the City. In addition, there are two component units, the San Francisco Redevelopment Agency and the Treasure Island Development Authority, which are legally separate entities but have some financial interdependency with the City. For reporting purposes, these entities are shown as discretely presented component units.

Budgetary Process

The City adopts annual budgets for all governmental funds and generally 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, making the department level the legal level of budgetary control. Note 2(c) to the basic financial statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

San Francisco's Local Economy and Economic Development

San Francisco is the economic and cultural hub of the Bay Area, the fourth-largest city in the state of California and geographically the smallest county in California. It occupies just forty-seven square miles of land, surrounded by the Pacific Ocean and San Francisco Bay, but is the most densely populated in the state. The City's population dropped from a peak in 2000 but has stabilized in the last two years at about 745,000. San Francisco is a racially and ethnically diverse city, with minority groups combining to represent just over 56 percent of the population and no single group forming a majority.[i]

In 2005, San Francisco continued its economic recovery from the multiyear downturn that began in 2001, during which the United States economy as a whole experienced significant stock market losses, rising unemployment, and decreasing consumer confidence. With its high concentration of technology and internet companies, the Bay Area was hit hard by this slowdown. San Francisco lost approximately 65,000 to 75,000 jobs in the period from 2001 to 2003, nearly twice as many were lost in the last significant recession of 1991 to 1993.[ii] The unemployment rate in the City reached a peak of 7.9 percent in July 2002, but has gradually improved. By June of 2005, San Francisco's unemployment rate had decreased to

[i] Source: United States Census Bureau
[ii] Source: San Francisco Quarterly Economic Briefing, April 2003

5.2 percent, slightly better than California's statewide rate of 5.4 percent. San Francisco's unemployment rate continues its decline and was 4.8 percent in November 2005.[iii]

While the technology sector as a whole remains soft, the developing field of electronic digital arts could become a significant factor in San Francisco's economy. In 2005, George Lucas' new Digital Arts Center opened in the Presidio—the former military base in San Francisco's northwest corner that is now part of the Golden Gate National Recreation Area. The center is home to more than 1,500 jobs and is expected to be a catalyst for other electronic game, licensing, promotion, and online ventures in the City.

Commercial Real Estate

San Francisco's downtown office real estate market has been showing gradual and consistent improvement since June 2003, when vacancy rates were at an all time high of 22.9 percent. At the end of June 2005, the overall vacancy rate was 17.3 percent, a 5.6 percent improvement over the two years. Since June 2004, the average asking price for office space rents rose from approximately $22 to $28 per square foot—a 27.3 percent increase.[iv] While still considerably less than the June 2000 high of $80 per square foot[v], the substantially lower office rental rates have made it more economical to locate in San Francisco and have contributed to the recovery in professional service jobs in the City.

Activity in the City's commercial real estate investment market was strong in fiscal year 2004-2005, resulting in a 48.1 percent increase, an amount of $38 million, in property transfer tax revenue. Forty-one properties worth $3.9 billion were sold during this period at an average price of $260 per square foot. These properties included the landmark One Market building at $495 per square foot, One Montgomery Street at $447 per square foot, and 555 California Street at $444 per square foot.[vi] Transfer tax is a volatile revenue source, and in 2005 was driven in part by the mortgage market's low rates and concern over potential rate increases; therefore, the City does not expect increases of this magnitude in the future. However, San Francisco's selection in May 2005 as the future headquarters for California's $3 billion stem cell program should contribute to a continuing healthy real estate investment market.

Residential Property, Housing and Property Tax

Despite weaknesses in areas of the economy, residential property values in San Francisco remain among the highest in the nation. As of June 2005, the median price for an average single family home in California was $542,720, while in the City it was $734,610. This median price represents a steady rise—increasing 12 percent over June 2004 and a 288.7 percent increase since 1995.[vii] Despite steady construction, including 3,293 units under construction as of July 2005 [viii], a housing shortage continues and the Bay Area's ongoing housing need keeps upward pressure on the City's residential real estate market. The gap between demand and supply has contributed to a widening affordability gap in the City, with home ownership remaining out of reach for most residents and workers. As of July 2005, the average assessed valuation in the City stood at $368,804 for a single family home.[ix] Average assessed valuations tend to be lower than market norms would indicate because the limits on property tax increases under California's Proposition 13 have generally motivated owners to buy and hold property. Partly due to these affordability hurdles and market conditions 65 percent of the City's residents rent their homes and only 35 percent own,[x] substantially below the national average of 68.8 percent ownership.[xi] As of June 2005, average occupancy rate for market-rate apartments in San Francisco was about 96%, 2.9% higher than the same period in 2004. Average rental rates increased slightly in June 2005 to about $1,817 per month, compared to $1,790 during the same period in the prior year.[xii]

The City's property tax revenues, the single largest source of tax revenue for the City's general fund, grew by 30 percent over the past year. Approximately two-thirds of that growth was attributable to a State-wide property tax revenue shift to local governments as part of a larger package which reduced local revenues

[iii] Source: California Employment Development Department
[iv] Source: Cushman & Wakefield, Inc., Marketbeat Mid-Year 2005
[v] Source: Newmark, Office Market Report, Second Quarter, 2004
[vi] Source: Cushman & Wakefield, Inc., Marketbeat Mid-Year 2005
[vii] Source: California Association of Realtors
[viii] Source: Sedway Group, July 2005
[ix] Source: Assessor-Recorder, City and County of San Francisco
[x] Source: San Francisco Quarterly Economic Briefing, April 2003
[xi] Source: U.S. Census Bureau Housing Vacancy Survey Third Quarter 2003
[xii] Source: RealFacts, Quarterly 2004-2005

from motor vehicle license fees and sales taxes in a similar amount. The remaining growth reflects the steady rise in property values and prices during the period.

Certain other local tax revenues in the general fund also increased while others were flat or decreased slightly over the last fiscal year. Payroll tax revenue rose 10.5 percent, or $27.8 million, reflecting the improved employment rates in the City and a growth in wages. Hotel room tax revenues increased by $10.5 million, reaching a 10.6 percent increase over June 2004. While recovery in this sector seems underway, many tax revenues are still less than the high of fiscal year 2000-2001, representing a funding loss for local cultural institutions and general city services which the government has had to absorb.

Travel and Tourism

San Francisco's travel and tourism sector, a main driving force of the City's economy, showed consistent improvements in 2004 and 2005 after a three year period marked by flat or declining returns. The City's Convention and Visitors Bureau estimates that 15.1 million people visited San Francisco in 2004 and spent approximately $6.7 billion, a 11.7 percent increase over the 2003 visitor spending of $6 billion and a 13.6 percent over the $5.9 billion spent in 2002. Hotel occupancy rates also moved up, reaching 82.4 percent in June 2005. The average daily hotel room rate rose to $153.67 in June 2005, a 13 percent increase over the $135.91 rate in June 2003.[xiii] Overall, the growth including room rates and occupancy gains was 6 percent for fiscal year 2004-2005. Bookings for Moscone Convention Center have risen consistently every year, with the fiscal year bookings at a record high of 104, and 357 more bookings scheduled out until the year 2028.[xiv]

Increases in passenger traffic at San Francisco International Aiport (SFO) also demonstrate the upswing in travel and tourism. In the past fiscal year, 33.2 million passengers arrived at SFO, 6.0 percent more than the year ended in June 2004, and 11.4 percent more than the 2003 low of 29.8 million. United Airlines and Icelandic Air each expanded their international flights from SFO during the fiscal year, and Cathay Pacfic returned its North American headquarters to San Francisco in February 2005.[xv]

Hotel Development on Municipal Transportation Authority (MTA) Land

In March 2005, the Hotel Vitale opened between Mission and Steuart Street across the Embarcadero from the recently renovated Ferry Building. Built on a former bus layover yard owned by the MTA, the Hotel Vitale is privately operated and maintained. It is expected to provide an average of $4.8 million a year to the MTA over the term of the 65-year lease, for a total of more than $300 million. The site also includes a rent-free location for a combination transit museum and retail shop operated by the Market Street Railway, a non-profit group that is dedicated to the acquisition, restoration and operation of historic transit vehicles in San Francisco.

MAJOR INITIATIVES, FUTURE OUTLOOK, AND LONG-TERM FINANCIAL PLANNING

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

Biotech, Stem Cell Research, and Mission Bay Development

In May 2005, San Francisco won a competitive bid to house the California Institute for Regenerative Medicine (CIRM), making it the epicenter for California stem cell research. CIRM was created with the passage of state Proposition 71 in November 2004. The taxpayer-funded agency is charged with distributing $3 billion over the next decade in state funds for the advancement of stem cell research. Scientists hope that this development will lead to therapies and cures for a wide range of degenerative diseases, including cancer and mutiple sclerosis. The City's successful bid for CIRM was built on a unique public-private partnership, combining tax incentives, 46,000 square feet of privately donated lab space, an international stem cell conference to benefit the CIRM, and a stem cell exhibit at the San Francisco Exploratorium, in addition to the 10 years of free rent required of all bidders.

xiii Source: PKFConsulting
xiv Source: Moscone Center Administrative Office
xv Source: San Francisco International Airport, June 2005

CIRM will be headquarted in Mission Bay, the 303-acre site of former warehouses and rail yards southeast of downtown San Francisco that is becoming the City's newest neighborhood and emerging biotech center. Since winning the bid, the City has seen numerous companies move or announce their intent to move to Mission Bay, including Five Prime Therapeutics, Inc., the first biotechnology company to move in; Alexandria Real Estate Equities, with plans to develop a state-of-the-art laboratory facility; Sirna Therapeutics, Keryx Biopharmaceuticals and many others. Together, these companies are expected to bring thousands of jobs to the City in the coming years.

When complete, Mission Bay will include 6,000 residential units, including 1,700 affordable housing units, 6 million square feet of commerical space, a new research campus for the University of California at San Francisco (UCSF), 43 acres of open space, a new public school, public library, and new fire and police stations. To date, construction has been completed on 1,079 residential units, 110,000 square feet of neighborhood-serving retail, 565,000 square feet of commercial and laboratory space, and over 1 million square feet of life science research space and other facilities for UCSF. An additional 1,179 housing units are now in construction.

UCSF has completed Phase 1 of its Mission Bay development. The UCSF campus is now home to three biomedical research buildings, a Community Center, and a housing complex, together totaling 1.3 million square feet. With UCSF as an anchor and the CIRM as an international focal point, Mission Bay is expected to realize more than 30,000 new permanent jobs in life sciences, biotech, and related fields over the next 20 to 30 years. In preparation for the growing demand for skilled workers, the City has embarked on new initiatives for job training to help prepare low-income and under-represented minorities for jobs in the biotechnology industry. Currently, there are 80,000 bioscience jobs in the Bay Area, and this figure is expected to grow to 120,000 by the end of the decade.[xvi]

Hunters Point Shipyard Redevelopment Project

In May 2005, environmental cleanup funded by the U.S. Navy was completed, and construction began on the 500-acre Hunters Point Shipyard Redevelopment Project. By 2008, the City expects the former shipyard development to include 1,600 housing units, with up to 44 percent set aside as affordable, 300,000 square feet of commercial space, five acres of multi-purpose community campus space, and 17 acres for parks and open space. Approximately 430 construction jobs are forecast for this work and an additional 1,000 full-time jobs are expected in future phases.[xvii] Funding for this multi-use development project will be provided from sales proceeds from U.S. Navy land given to the City according to the conveyance agreement signed in April 2004. Spending for the project could reach $500 million when complete.

Port of San Francisco

Work continued in 2005 on a residential condominium tower that is part of the Port's $400 million mixed-use development of the Bryant Street Pier and International Cruise Terminal Project. This project, begun in March 2004, will feature a 100,000 square foot state-of-the-art international cruise terminal, offices, retail space and a new waterfront park in addition to the residential tower. The new cruise terminal will be able to berth two large cruise ships simultaneously with thousands of passengers. Completion of the entire project is anticipated in 2008.

Work also continued on the Port's $44 million rehabilitation and development project at three of its historic piers, Piers 1½, 3, and 5. Restaurants, office space, public access to the Bay, boat docks, and a water taxi landing are all part of this project, targeted for completion in spring 2006.

Transportation and Infrastructure

The MUNI Metro (MUNI) is San Francisco's light rail system. It serves the City's downtown with underground transit along Market Street and provides above ground service in the western and southern neighborhoods of the City. The City's public transportation infrastructure also includes an extensive bus network, cable cars, other regional bus and rail providers, and related services.

xvi Source: Building and Construction Trades Council of San Francisco, April 2005
xvii Source: Building and Construction Trades Council of San Francisco, April 2005

MUNI's Third Street Light Rail Project is nearing completion - now scheduled for the spring of 2006. At that time the new line will connect the South of Market, Mission Bay and the southeast sectors of San Francisco to the rest of MUNI, providing new, fast, clean, efficient service to areas currently underserved by public transportation. Testing and training of this $1 billion addition to the rail system will take place through next summer, and passenger service is slated to start in 2006.

Another major MUNI expansion project, the Central Subway, is now underway with the planning and conceptual engineering phases in process. When complete, this project will provide a transit link between 4th and King Streets north to Union Square and Chinatown. MUNI also has plans to roll out a $52 million fleet of cleaner hybrid-electric buses, replacing 56 of MUNI's oldest diesel buses by the end of 2006, as part of the policy goal to eliminate all of its bus emissions by 2020. The hybrid versions will emit 90 percent less soot and 30 percent less greenhouse gases.[xviii]

Replacing the Central Freeway
The City's Octavia Boulevard project was completed shortly after the end of fiscal year 2004-2005. The new tree-lined boulevard replaces an elevated freeway that was severely damaged during the 1989 Loma Prieta Earthquake. A street level intersection to the Boulevard crosses Market Street, providing a gateway from the Bay Bridge and the Highway 101 corridors to the western areas of the City. The four lanes of the two-way boulevard provide both arterial and local access, are separated by a central median, and are flanked by on-street parallel parking. The City's newest recreational area, Hayes Green Park, has been developed along one edge of the boulevard on land once occupied by the freeway.

Rebuilding the Hetch Hetchy Water System (Hetch Hetchy)
San Francisco's water system delivers water to approximately 2.4 million people in the City and surrounding communities. The system includes the Hetch Hetchy reservoir in Yosemite, other reservoirs in the Bay Area and the Sierras, and a vast network of pipelines, tunnels and other facilities. In November of 2002, San Francisco voters passed measures that effectively repealed a rate freeze, authorized a $1.6 billion bond to be financed by retail water rate charges and gave the Public Utilities Commission (PUC) more control over contracting, employment, and financial management practices. Together, these improvements gave the PUC the basis to move forward with plans to seismically upgrade and rebuild the water system. This important project is projected to span 13 years and cost approximately $4 billion.

Currently, PUC is moving forward on 73 critical projects to improve the water enterprise system both locally and regionally including upgrading the Hetch Hetchy water system. By the end of the fiscal year 2004-2005, construction was underway for 13 projects, and planning or design processes were in progress for another 50 projects.

Homeless Housing Outreach Efforts
In October 2004, the City launched Project Homeless Connect, a local outreach effort to address the City's on-going homeless crisis. With the collaboration of volunteers, city staff, and non-profit service providers, the program has linked more than 5,500 homeless clients to vital city services and resulted in 509 direct and immediate placements from the street to shelter or stabilization housing. One year later, Project Homeless Connect marked its first anniversary with 1,274 volunteers serving 1,320 homeless clients in a single day. The accomplishments and achievements of Project Homeless Connect have resulted in a nation-wide civic movement that was observed nationally on December 8, 2005. Twenty-one cities participated: Bridgeport, CT; Chattanooga, TN; Chicago, IL; Columbia, SC; Denver, CO; Knoxville, TN; Miami, FL; Nashua, NH; New York, NY; Norfolk, VA; Philadelphia, PA; Pittsburgh, PA; San Diego, CA; San Francisco, CA; San Jose, CA; San Juan, Puerto Rico; St. Louis, MO; Tallahassee, FL; Warwick, RI; West Hollywood/Hollywood, CA; and Winston-Salem, NC. Through this inaugural national event organized by the United States Interagency Council on Homelessness (USICH), volunteers, civic leaders, and business organizations joined with social service agencies, non-profits, and faith-based entities to create for homeless citizens a single point of engagement and entry to local services, housing, and support in their cities.

[xviii] Source: Municipal Transportation Agency

In May 2005, the City marked the one-year anniversary of its Care Not Cash program, a concerted approach to combat chronic homelessness approved by a voter initiative of the same name. Instead of issuing cash grants to homeless individuals, the program redirects those local dollars to provide housing. During the first 17 months of the Care Not Cash program, the homeless caseload decreased by 80% or by 1,986 persons. Also during the 2004-2005 fiscal year, the City developed a 10-year plan to end chronic homelessness in San Francisco entitled "Changing Direction." The plan's central strategy is a "housing first" model emphasizing immediate placement in permanent housing with access to on-site services necessary to stabilize the individuals and keep them housed. To accomplish this, the plan calls for the creation of 3,000 units of new permanent supportive housing and the phasing out of ineffective shelter-based programs.

Affordable Housing and Homeownership Program
The City's Affordable Housing and Homeownership Program, a $100 million bond approved in 1996 combined with federal, state and local funds, produced 240 units of affordable housing for the City's homeless, seniors, and low- and moderate-income families over the last year. In the two-year fiscal period of 2003-2005, a total of 1,277 units were completed.

Working Families Tax Credit Program
San Francisco issued the first payments under the Working Families Tax Credit Program shortly after the end of the 2004-2005 fiscal year. By November 2005, close to 10,000 families received payments totaling about $2.2 million dollars under this unique program, first announced in 2004. Funded by public monies and private donations, the Working Families Tax Credit Program is modeled after the Federal Earned Income Tax Credit, designed to support and encourage work by supplementing the income of low-wage workers. It is the only local program of its kind in the country.

Laguna Honda Hospital

In 1999, the voters of San Francisco approved a $299 million general obligation bond measure to support construction of "a health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital." The project plan included constructing 1,200 beds in four buildings. Total cost of construction was estimated at approximately $401 million, to be supported by the bonds, an allocation of tobacco settlement funds, and interest earnings. In the last six years, construction costs have escalated considerably and in May 2005, cost estimates were increased to over $600 million for completion. While the City has identified other funding sources that can help meet these future costs, there are also discussions taking place that would reduce the size of the hospital and provide alternative, community-based care for the same population. The hospital will be built to modern environmental and seismic standards and will provide for a technologically advanced and flexible facility serving the City's growing need for rehabilitation facilities and residential care. In March 2005, bids were made for the first phase of the replacement project and the new facilities are scheduled to open in 2011.

Emergency Preparedness
Significant work was underway on various security and emergency preparedness projects funded largely by $80 million in Department of Homeland Security grants. These funds will help the City meet the training, planning, and equipment needs as it develops and enhances its ability to prevent, respond to, and recover from threats and acts of terrorism. The City is also a key leader in developing a first-of-its-kind regional emergency response plan, bringing together the 10 Bay Area counties, Oakland, San Jose, and the State Office of Emergency Services.

In September 2005, shortly after the end of the fiscal year, the City launched a new automated warning system named SF Alert, designed to allow top emergency officials to respond more quickly to a disaster. It may eventually be used to warn city residents of an impending tsunami, flood or other emergencies. SF Alert replaces an antiquated and time-consuming system formerly used to notify City officials and call fire, police, traffic, and health officials reporting to the City's emergency command center. The new web-based system will allow all of the City's top 90 emergency officials to be informed at once with a detailed message describing the disaster. The message is transmitted to the official's phone, email, pager or hand-held device simultaneously.

311 Call Center
The City further moved toward improving customer service and public safety for City residents with the development and deployment of a 311 Call Center. The 311 Call Center will provide a single point of contact for all non-emergency City services, and allow customers to call one easy-to-remember number to receive information and access City services. Staffed 24 hours a day, 7 days a week, the 311 Call Center will connect callers to a staff of trained customer service agents who will function as customer service representatives from all City departments. It is expected the 311 Call Center will go live in 2006.

Museums and Cultural Facilities
Public arts, educational and recreational institutions in San Francisco have been the recipients in the 1990s and 2000s of both significant voter-approved bond funding and private and community financial support for capital campaigns. Construction was completed for the dramatic new de Young Museum by the end of the 2004-2005 fiscal year, and the museum opened in October 2005.

Golden Gate Park is the site of both the de Young Museum and the Academy of Sciences. The de Young Museum includes a 293,000 square foot main building, a sculpture garden, and a unique copper-clad observation tower that rises 144 feet above the treetops of Golden Gate Park, designed by the architects Herzog & de Meuron and Fong & Chan. This new facility houses more than double the previous gallery space for exhibition of the de Young's collections of American art from the 17th to 20th centuries and art of the native Americas, Africa and the Pacific. Across the concourse, the City's Academy of Sciences closed in December 2003 for construction and relocated its 18 million-specimen collection to a temporary exhibit and research facility at 10th and Howard Street in downtown San Francisco. The construction of the new Academy of Sciences, supported by a local bond issue, state funding, and private gifts, will cost approximately $370 million, with a 2008 opening planned. The Academy's aquarium, planetarium and natural history collection will be housed in a new building that incorporates green design principals including a "living roof" of landscaped areas, glass facings and a piazza blending it with the park surroundings.

Library Improvement Program
The City's 2000 Branch Library Improvement Program, funded by a $105.9 million local bond, state grants, and private funding continued its project to renovate, expand or acquire 24 neighborhood libraries by 2010. In September 2004, work on the Glen Park Branch Library began in the multi-use building near the Glen Park Bart station (Glen Park Marketplace). The Glen Park Marketplace will house a library, residential housing, and a grocery all on the same site. Construction is expected to be complete by January 2006. Planning and design were also underway on an additional twelve other branch library renovations and new construction projects.

City Services
In early 2005, the Controller's Office conducted its tenth annual City Survey, measuring residents' satisfaction with local government and their opinions on the quality of public services over time. The survey results show that:

- San Franciscans feel safer walking alone in their neighborhoods this year than in any prior survey year. Half of survey respondents feel safe or very safe both day and night; another third feel safe in the daytime but not at night; and one in six feels less than safe at both times. Feelings of safety crossing the street have also improved.

- MUNI's approval ratings are down slightly in some areas, including the convenience of routes and timeliness and reliability. Muni's performance is still rated higher than it was in years 1997-2001.

- As in previous years, almost half of survey respondents, choose "fair" in assessing how well local government provides services overall.

- Residents of the southeast and Supervisorial District 6 feel less safe than those in the rest of the City. In many categories, southeast residents rate City services lower than other City residents, but overall as of July 2005, violent crimes in the City have dropped by 10% as compared to the prior year.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty-third consecutive year (fiscal years ended June 30, 1982 – 2004) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

The City also received the Award for Outstanding Financial Reporting, issued by the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 2004. The award was issued in recognition of the City meeting the professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the report was prepared.

Acknowledgments
I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication and efficiency are responsible for the preparation of this report. I would also like to thank Macias Gini & Company LLP for their invaluable professional support in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City's financial operations.

Respectfully submitted,

Edward Harrington
Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and County of San Francisco, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

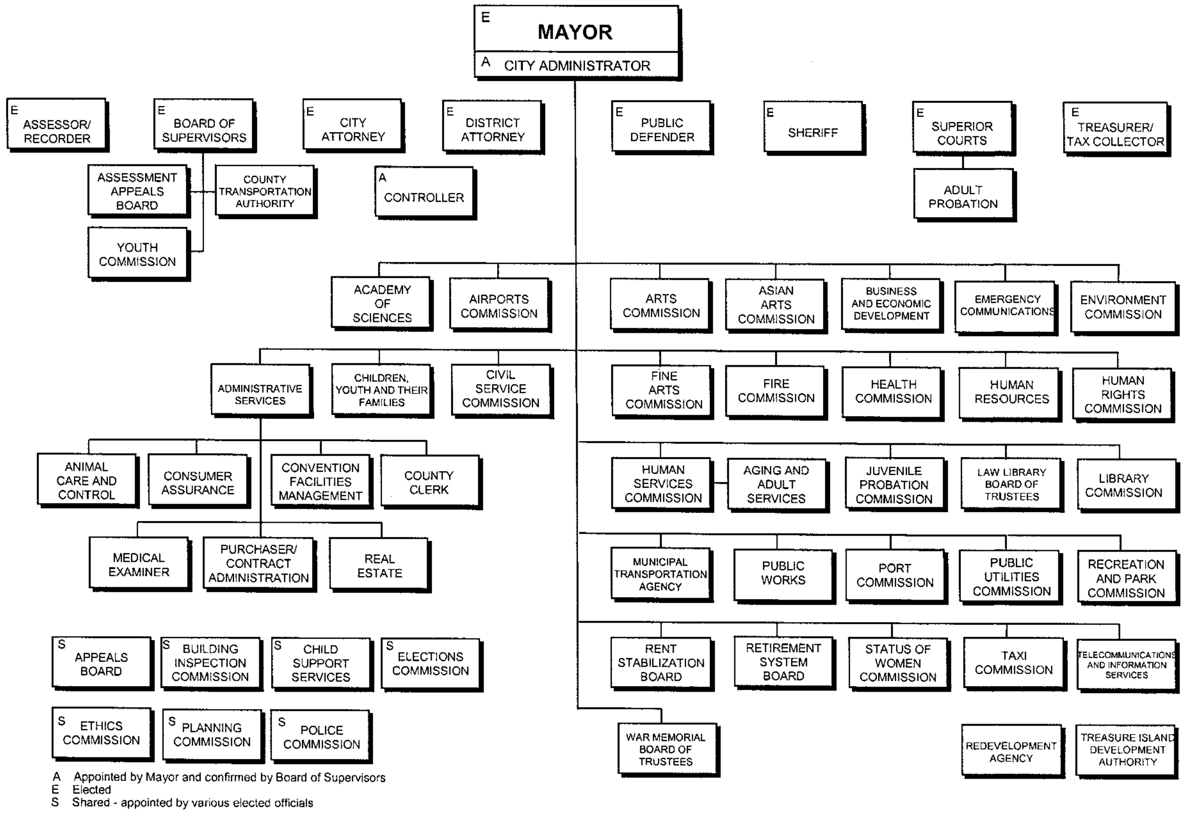
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

City and County of San Francisco Organization Chart

(As of June 30, 2005)



California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of San Francisco

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

February24, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

List of Principal Officials
As of June 30, 2005

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Administrator	Edwin M. Lee
Controller	Edward Harrington

DEPARTMENT DIRECTORS/ADMINISTRATORS

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

DEPARTMENT DIRECTORS/ADMINSTRATORS *(Continued)*

Arts Commission	Richard Newirth
Asian Arts Commission	Emily J. Sano
Building Inspection Commission	Amy Lee (Acting)
Board of Supervisors	Gloria L. Young
Assessment Appeals Board	Dawn Duran
County Transportation Authority	José Luis Moscovich
Business and Economic Development	Jesse Blout
Child Support Services	Karen M. Roye
Children, Youth and Their Families	Margaret Brodkin
Civil Service Commission	Kate Favetti
Elections Commission	John Arntz
Emergency Communications	Chistopher H. Cunnie
Ethics Commission	John St. Croix
Environment Commission	Jared Blumenfeld
Fine Arts Commission	Harry S. Parker III
Fire Commission	Joanne Hayes-White
Health Commission	Mitchell Katz, M.D.
Human Resources	Philip A. Ginsburg
Human Rights Commission	Virginia Harmon
Human Services Commission	Trent Rohrer
Juvenile Probation Commission	Bill Johnston
Law Library Board of Trustees	Marcia Bell
Library Commission	Luis Herrera
Municipal Transportation Agency	Michael Burns
Municipal Railway	Fred Stephens
Department of Parking and Traffic	Bond M. Yee (Acting)
Planning Commission	Dean Macris (Interim)
Police Commission	Heather Fong
Port Commission	Monique Moyer
Public Utilities Commission	Susan Leal
Public Works	Edwin M. Lee
Recreation and Park Commission	Yomi Agunbiade
Rent Stabilization Board	Delene Wolf (Acting)
Retirement System Board	Clare M. Murphy
Status of Women Commission	Emily Murase
Superior Court	Gordon Park-Li
Taxi Commission	Kelly Castagnaro (Acting)
Telecommunications and Information Services	Lewis Loeven
War Memorial Board of Trustees	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency	Marcia Rosen
Treasure Island Development Authority	Tony Hall

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Financial Section

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

Photo by San Francisco Convention & Visitors Bureau

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California, (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Clean Water Program, Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues as of and for the year ended June 30, 2005:

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues
Governmental activities	0.6%	15.2%	0.0%
Business-type activities	97.2%	96.9%	71.5%
Discretely presented component units	99.8%	96.5%	93.8%
Municipal Transportation Agency enterprise fund	96.4%	100.0%	89.3%
Aggregate remaining fund information	88.7%	92.4%	39.4%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2004 basic financial statements and, in our report dated November 30, 2004, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, 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(q) to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*.

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 financial statements for the year ended June 30, 2004, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining fund financial statements and schedules and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Walnut Creek, California
December 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2003-2004 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2004-2005 basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately $5.77 billion (net assets). Of this amount, approximately $245.6 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased during fiscal year 2004-2005 by approximately $148.8 million, a significant improvement over the 2003-2004 net asset increase of about $8 million. This year's increase is due in part to improvements in property, business, and other local tax revenues, increases in grants and contribution revenues while governmental activities expenses increased less than one percent.

- Total revenues for governmental funds were approximately $3.06 billion for the current fiscal year, an increase of approximately 6.8 percent over the prior fiscal year. Expenditures for governmental funds totaled $2.79 billion, a 1.7 percent decrease over the same period. Overall, governmental funds revenues exceeded expenditures by approximately $268.2 million in fiscal year 2004-2005, a significant improvement over last year's $25.9 million.

- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of $1.07 billion. Approximately 16.5 percent of this total amount, $176.1 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds. This increase is about 83 percent more than 2004 unreserved fund balance of $96.1 million. Improvements in property, business, and other local tax revenues as well as the expenditure reductions in community health, culture and recreation, and public works services were important factors in this year's increase.

- At the end of the fiscal year, the general fund unreserved fund balance was $134.2 million, about two times more than the 2003-2004 amount of $63.7 million and 6.9 percent of 2004-2005 general fund expenditures of $1.94 billion. Significant contributing factors were the increases in property, business, local tax revenues, improvement in charges for services revenues and the less than one percent increase in general fund expenditures over 2003-2004.

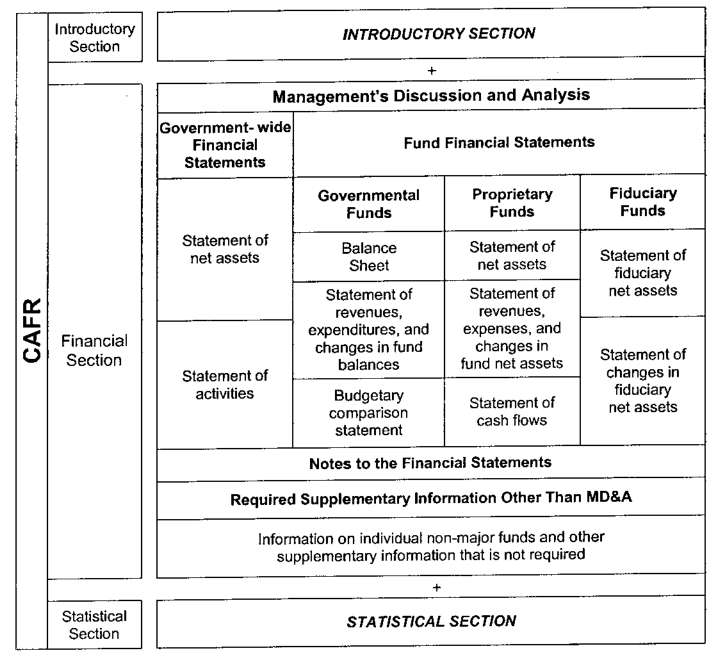
- The City's total long-term debt, which includes all bonds, loans, and commercial paper, increased $275 million, or approximately 3.9 percent, this fiscal year. This was primarily due to the City issuing general obligation bonds of $230 million for the improvement of Laguna Honda Hospital, $68.8 million for improvements to recreation and park facilities, and $8.1 million for improvements to the Academy of Sciences. During the year, the Airport and the Port issued refunding bonds for $311.6 million and $19.9 million, respectively, and the City issued $39.4 million to refund certificates of participation for the City courthouse building.

- The City's revenues from various local taxes including property, hotel, utility, parking and sales taxes were greater than budgeted in fiscal year 2004-2005, consistent with improvements in most sectors of the City's economy. Citywide, charges for services revenue also increased and included increases from water, power and sewer fees, MUNI passenger fares, net patient revenues at San Francisco General Hospital (SFGH), the City's acute care hospital, and rent and concession fees at the Port of San Francisco.

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

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



The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic governmental services	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements - i.e. most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers - either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (Airport), Port of San Francisco (Port), Water Department (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency, Laguna Honda Hospital, General Hospital Medical Center, and Clean Water Program (Clean Water), all of which are considered to be major funds of the City.

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

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Combining Statements and Schedules

The combining statements and schedules referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2005 (in thousands)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other assets	$ 1,942,426	$ 1,445,923	$ 1,757,114	$ 1,823,724	$ 3,699,540	$ 3,269,647
Capital assets	2,371,726	2,314,563	8,417,813	8,483,325	10,789,539	10,797,888
Total assets	4,314,152	3,760,486	10,174,927	10,307,049	14,489,079	14,067,535
Liabilities:						
Long-term liabilities outstanding	2,017,494	1,820,415	5,319,853	5,426,655	7,337,347	7,247,070
Other liabilities	795,576	633,330	587,595	567,417	1,383,171	1,200,747
Total liabilities	2,813,070	2,453,745	5,907,448	5,994,072	8,720,518	8,447,817
Net assets:						
Invested in capital assets, net of related debt	1,159,696	1,096,834	3,391,450	3,416,154	4,551,146	4,512,988
Restricted	541,853	535,054	429,990	432,165	971,843	967,219
Unrestricted (deficit)	(200,467)	(325,147)	446,039	464,658	245,572	139,511
Total net assets	$ 1,501,082	$ 1,306,741	$ 4,267,479	$ 4,312,977	$ 5,768,561	$ 5,619,718

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City assets exceeded liabilities by $5.77 billion at the close of the fiscal year 2004-2005.

The largest portion of the City's net assets reflects its $4.6 billion (78.9 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities.

Another portion of the City's net assets, $971.8 million (16.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net assets, $245.6 million (4.3 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these two categories of net assets totaled 21.1 percent, a slight increase from the prior year's total of 19.7 percent.

At the end of the fiscal year 2004-2005, the City had positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of $200.5 million related in part to $131.8 million in debt from general obligation bonds for the San Francisco Unified School District and San Francisco Community College District, which are recorded with no corresponding assets.

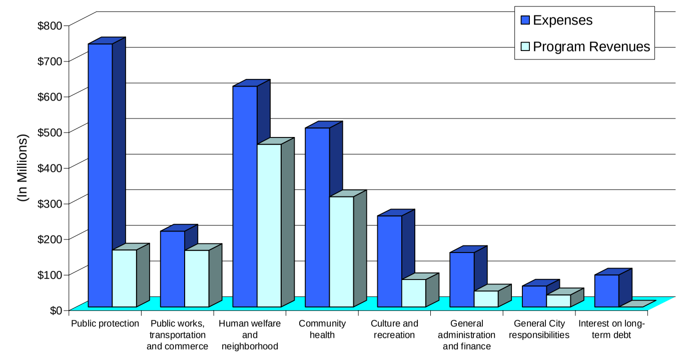
Changes in Net Assets
June 30, 2005 (in thousands)

	Governmental activities 2005	Governmental activities 2004	Business-type activities 2005	Business-type activities 2004	Total 2005	Total 2004
Revenues						
Program revenues:						
Charges for services	$ 351,029	$ 327,998	$ 1,683,830	$ 1,614,784	$ 2,034,859	$ 1,942,782
Operating grants and contributions	834,607	823,784	180,807	169,767	1,015,414	993,551
Capital grants and contributions	55,435	39,209	93,724	94,818	149,159	134,027
General revenues:						
Property taxes	920,314	723,786	-	-	920,314	723,786
Business taxes	292,763	264,832	-	-	292,763	264,832
Other local taxes	538,085	509,455	-	-	538,085	509,455
Interest and investment income	29,490	11,856	33,268	17,620	62,758	29,476
Other	47,153	170,163	237,102	237,692	284,255	407,855
Total revenues	3,068,876	2,871,083	2,228,731	2,134,681	5,297,607	5,005,764
Expenses						
Public protection	738,688	718,488	-	-	738,688	718,488
Public works, transportation and commerce	213,335	169,179	-	-	213,335	169,179
Human welfare and neighborhood development	619,753	651,102	-	-	619,753	651,102
Community health	503,259	517,066	-	-	503,259	517,066
Culture and recreation	256,336	232,187	-	-	256,336	232,187
General administration and finance	152,850	177,544	-	-	152,850	177,544
General City responsibilities	59,024	73,530	-	-	59,024	73,530
Unallocated Interest on long-term debt	89,690	86,131	-	-	89,690	86,131
Airport	-	-	628,445	618,301	628,445	618,301
Transportation	-	-	711,733	660,650	711,733	660,650
Port	-	-	54,897	61,185	54,897	61,185
Water	-	-	197,848	206,211	197,848	206,211
Power	-	-	116,683	121,629	116,683	121,629
Hospitals	-	-	598,160	562,188	598,160	562,188
Sewer	-	-	160,650	150,586	160,650	150,586
Market	-	-	1,055	949	1,055	949
Total expenses	2,632,935	2,625,227	2,469,471	2,381,699	5,102,406	5,006,926
Increase/(decrease) in net assets before special items and transfers	435,941	245,856	(240,740)	(247,018)	195,201	(1,162)
Special items	-	-	(46,358)	9,245	(46,358)	9,245
Transfers	(241,600)	(251,937)	241,600	251,937	-	-
Change in net assets	194,341	(6,081)	(45,498)	14,164	148,843	8,083
Net assets at beginning of year	1,306,741	1,312,822	4,312,977	4,298,813	5,619,718	5,611,635
Net assets at end of year	$ 1,501,082	$ 1,306,741	$ 4,267,479	$ 4,312,977	$ 5,768,561	$ 5,619,718

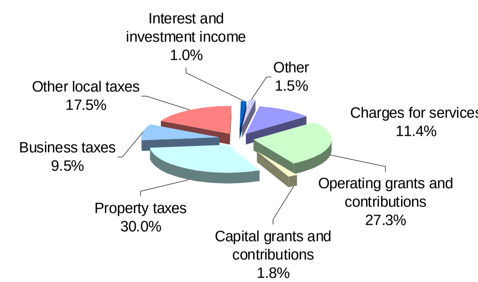
Analysis of Changes in Net Assets

The City's net assets overall increased by $148.8 million during fiscal year 2004-2005, compared to an $8.1 million increase last fiscal year. The governmental activities component of this change was a $194.3 million increase, a significant improvement from the prior year's decrease of $6.1 million. The City's business-type activities' decrease of $45.5 million was largely due to the Airport's one time write off of approximately $50 million capitalized costs associated with a runway development project due to asset impairment. A discussion of these changes is presented in the government and business-type activities below.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities increased the City's total net assets by $194.3 million during fiscal year 2004-2005, compared to decreasing the City's total net assets by $8.1 million during fiscal year 2003-2004. Key factors contributing to this year's change are as follows:

- Overall, governmental activities' revenues increased by approximately $197.8 million while expenses increased by less than one percent or $7.7 million, and net transfers decreased by $10.3 million. The governmental activities achieved a total improvement of $194.3 million in net assets in fiscal year 2004-2005 over fiscal year 2003-2004.

- Property tax revenue increased by $196.5 million or 27.2 percent during this fiscal year. Approximately two-thirds of this improvement was due to the State shifting property tax revenue to local governments as part of a package, which also reduced local revenues from motor vehicle and sales taxes by a similar amount. The remainder of the increase in property tax revenues was attributable to growth in assessed valuation and a slight improvement in assessment appeals activity.

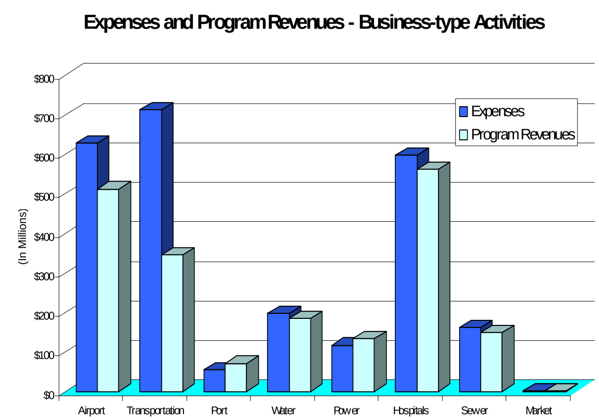
- Revenues from business taxes increased in fiscal 2004-2005 by $27.9 million, or 10.6 percent, due to a growth in wages with moderate employment growth. In addition, revenues from other local taxes, which includes hotel, parking and utility users tax, had a total growth of $28.6 million, or 5.6 percent. This is consistent with stronger hotel occupancy rates and average daily room rates in the City, increases in parking rates and continued improvements in the City's economy. Fees and service charges also increased this year, improving approximately 7 percent to $23 million.

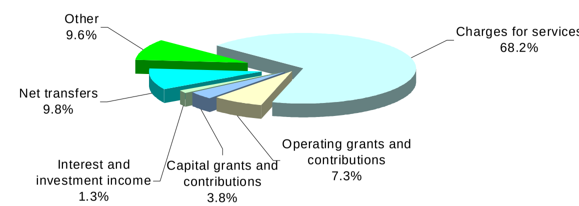
- Interest and investment income improved by about $17.6 million, or 148.7 percent, during the year primarily due to higher interest rates and average daily cash balances during the fiscal year. The earned yield on City pooled investments increased from 1.86 percent to 2.31 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with the slightly higher interest rates from the Federal Reserve. At the fiscal year end, deposits and investments for governmental activities with the City Treasury were approximately $1,238.3 million, a 69.7 percent increase over the previous year.

- Capital grants and contributions increased by $16.2 million, or approximately 41.4 percent, largely due to increases in federal grants for human welfare and neighborhood development, community health, and public protection, which included homeland security funds.

Net transfers to business-type activities were $241.6 million in fiscal year 2004-2005, a $10.3 million decrease from fiscal year 2003-2004. This was due in part to a $25 million decrease to the MTA for transportation projects from non-major governmental funds, and an increase in net general fund support to the Laguna Honda Hospital of about $14.9 million.

The charts on the previous page illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (28 percent), followed by human welfare and neighborhood development (23.5 percent), and community health (19 percent). General revenues such as property, business, and sales taxes are not shown by program, but are essentially used to support program activities citywide. For governmental activities overall, without regard to program, property taxes were the largest single source of funds (30.0 percent) in fiscal year 2004-2005, up from 25.2 percent in fiscal year 2003-2004, due in part to the State-wide property tax revenue allocation shift noted above. The ratios for other revenue categories were essentially the same for 2005 as they were for 2003-2004: operating grants and contributions (27.3 percent), other local taxes (17.5 percent), and charges for services (11.4 percent).





Business-type activities. Business-type activities decreased the City's net assets by $45.5 million. This decrease was more than offset by the governmental-type activities increase of $194.3 million, bringing the government-wide increase to $148.8 million. Key factors of this contribution to this change are:

- The Municipal Transportation Agency (MTA) had net assets of $1.75 billion at June 30, 2005. Of this, 98.4 percent, or $1.72 billion, belong to the MUNI, the City's transportation department. The remainder represents the combined net assets of the Department of Parking and Traffic and the Parking Authority. Between the end of fiscal year 2003-2004 and 2004-2005, MUNI's net assets increased by approximately $20 million, primarily due to continued work on the Third Street Light Rail Line, a major expansion project for the MUNI funded by federal, state and local capital contributions. At the MTA level, this increase was essentially offset by a like amount for the one-time recognition of depreciation expenses for the Parking Garages. MUNI's total operation revenues of $127.4 million were essentially the same for fiscal year 2004-2005 and non-operating revenues increased slightly to $229.7 million from $221.1 million, primarily due to increases in federal and state operating grants. The City's General Fund subsidy to the MTA for 2004-2005 was $101.7 million to MUNI and $36.1 million for DPT, slightly more than the fiscal 2003-2004 amounts of $99.3 million and $34.4 million, respectively.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by $22.5 million. This was largely due to a $9.7 million increase in construction projects and a $12.7 million decrease in total liabilities. Hetchy's total revenues were $137.5 million this fiscal year, a $2.0 million increase over fiscal year 2003-2004. This included $10.4 million increase in settlement proceeds offset partially by a $5.8 million decrease in State grants and a $2.6 million decrease in revenue from enterprise customers due to a rate decrease. Operating expenses decreased to $116.7 million in fiscal year 2004-2005, a drop of $4.9 million from 2003-2004, due in part to a decrease in transmission costs.

- The Water Department's had $8.4 million of operating income this year, compared to a $19.1 million loss in fiscal year 2003-2004. This $27.5 million improvement is primarily due to a $17.2 million increase in water sales revenue in 2004-2005 and a decrease of about $10 million in the write-off of capitalized costs. At the same time, the department's positive operating income was offset by non-operating expenses of $14.8 million, largely net interest expense, resulting in a $6.4 million decrease to net assets this year. The Water Department's net capital asset increase of approximately $60.0 million was funded primarily through proceeds from $55 million of commercial paper and other resources.

- San Francisco International Airport's net assets decreased in 2004-2005 by $99 million to $357.6 million, a 21.7 percent decline since the end of prior fiscal year. Slightly more than half of this, or $50 million, was due to the recognition of an asset impairment expense associated with a runway development project. The Airport's operating expenses also increased by $18.4 million, due to the increase in repairs and maintenance of the Airport's infrastructure and contracting expenses. Total aviation operating revenues decreased as well, by approximately $22.2 million, due to a drop in aviation revenues attributable to a decrease in costs recovered from airline landing fees and terminal rentals. At the same time, income from rent, concessions, parking, and transportation revenues increased by $10.1 million, primarily due to an increase in percentage rent and the elimination of the grace period in the parking garage. The transfer from the Airport to the City's General Fund was $19.7 million, an 8 percent increase from 2003-2004.

As shown in the charts on the previous page, the two largest of San Francisco's business-type activities - the San Francisco International Airport and the Municipal Transportation Agency each had total expenses over $600 million in fiscal year 2004-2005. The City's long-term and acute care hospitals together recorded expenses of over $598 million. Together, these four enterprises make up almost 78.5 percent of the total expenses of the business-type activities. As in prior years, charges for services provide the largest share of revenues, 75.6 percent, for business-type activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Fund.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately $1,068.3 million, an increase of $350.7 million over the end of the prior year. The increase is due to a general increase in major revenues as reflected in the City's improving economy and a reduction in expenditures in fiscal year 2004-2005.

Approximately $176.1 million of the total ending fund balance in the governmental funds constitutes unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, an indication that it is not available for new spending because it has already been committed. These commitments include: (1) to support a general fund "rainy day" reserve ($48.1 million), (2) to liquidate existing contracts and purchase orders ($155.7 million), (3) to fund continued programs or projects in future fiscal periods ($616.1 million), (3) to pay debt service ($45.5 million), and (4) for a limited number of other purposes ($26.7 million).

The general fund is the chief operating fund of the City and had an unreserved fund balance of $134.2 million at the end of fiscal year 2004-2005, a $70.5 million increase over the 2003-2004 unreserved fund balance of $63.7 million. The general fund's total fund balance was $307.7 at fiscal year end, a 46.2 percent improvement over the 2003-2004 comparable balance of $210.4 million. This rise was mainly due to a general increase in major revenues including property, business, other local taxes and charges for services, along with only a slight increase in expenditures. Overall, the general fund's performance resulted in revenues in excess of expenditures for the fiscal year ended June 30, 2005 of $272.1 million, before transfers and other items are considered.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For 2004-2005, the unreserved fund balance of $134.2 million represents 6.9 percent of total general fund expenditures of $1.94 billion, and the total fund balance represents approximately 15.8 percent of that amount. For 2003-2004, the general fund's unreserved fund balance of $63.7 million was 3.3 percent of the total expenditures of $1.93 billion, and the total fund balance represented approximately 10.9 percent of expenditures.

Proprietary funds

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

At the end of fiscal year 2004-2005, the unrestricted net assets for the San Francisco International Airport were $288.9 million, the Water Department $106 million, the Hetch Hetchy Water and Power $103.4 million, the Clean Water Program $44.1 million, the Port of San Francisco $39.3 million, and the San Francisco Market Corporation $2.2 million. Three proprietary funds had a deficit in unrestricted net assets: the Municipal Transportation Agency had a deficit of $123.4 million, General

Hospital Medical Center $2.5 million, and Laguna Honda Hospital $12 million. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $5 million.

The total decline in net assets for the enterprise funds was $45.5 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Airport's decrease in net assets is partly related to its major capital assets being depreciated faster than the repayment of its bonded debt.

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

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions Special Items, and Others	Interfund Transfers	Change In Net Assets
Airport	$ 477,314	$ 418,993	$ 58,321	$ (127,121)	$ (15,150)	$ (15,066)	(99,016)
Water	184,835	176,453	8,382	(14,789)	-	-	(6,407)
Hetch Hetchy	132,303	116,683	15,620	5,220	-	1,628	22,468
Municipal Transportation Agency	187,913	707,049	(519,136)	248,702	45,330	220,378	(4,726)
General Hospital	377,069	441,999	(64,930)	79,446	-	(4,746)	9,770
Clean Water	148,888	139,290	9,598	(17,829)	-	246	(7,985)
Port	57,519	53,753	3,766	510	17,186	-	21,462
Laguna Honda Hospital	116,527	154,838	(38,311)	17,654	-	39,160	18,503
Market Corporation	1,462	1,055	407	26	-	-	433
Total	$ 1,683,830	$ 2,210,113	$ (526,283)	$ 191,819	$ 47,366	$ 241,600	$ (45,498)

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2004-2005, the net assets of the Retirement System and Health Service System totaled $13.2 billion, representing an increase of $1.23 billion in total net assets since June 30, 2004. This 10.3 percent increase is primarily due to a second year of improved performance of the Retirement Trust's investments. The Investment Trust Fund's net assets totaled $320.5 million, an increase in net assets of $115.4 million or 56.2 percent since June 30, 2004 due to the increase in addition over withdrawals and distributions to external participants of the fund.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2004-2005, the one significant supplemental appropriation was for $6 million to the Human Services Agency for In-Home Supportive Services (IHSS), Medi-cal, and California Work Opportunity and Responsibility to Children (CalWORKS) programs. These programs are supported by federal grants that flow through the general fund.

During the year, actual revenues and other resources were $68.5 million more that budgeted. While the City realized $121.2 million more revenue than budgeted for property taxes, other local taxes, franchises, interest and investment income, this was offset by shortfalls in other areas. These shortfalls included $18.9 million less in federal subvention revenues, $11.1 million less in business taxes, fines and forfeitures, concession and charges for service revenues, and $17.9 million less in transfers from the San Francisco General Hospital Fund for the City's participation in the State's cost-

sharing program among county hospitals. The City also received approximately $11.6 million less than budgeted for motor vehicle license fees because the State reduced the allocation of this revenue to local government. In return, this decrease was offset by a similar increase in the property tax allocation.

Differences between the final budget and the actual (budgetary basis) resulted in a $68.7 million decrease in total charges to appropriations. This is primarily due to the following factors:

- A decrease in expenditures by the Human Services Agency of approximately $21.2 million related to reduced costs under programs such as IHSS, County Adult Assistance Programs (CAAP), Personal Assisted Employment Services (PAES), CalWORKS Aid and Operations, and various aid programs. These expense reductions are partly offset by decreases in the federal and state funds that the City is able to claim under these programs.

- A decrease in expenditures of approximately $2.3 million in Fire Department, due to personnel, worker's compensation and work order savings.

- A decrease in expenditures of approximately $5.6 million in Recreation and Park Department is mainly due to planned reductions by rotating closures of recreation centers one day a week and savings due to position vacancies.

- The General Fund was able to reduce its transfers to other funds by $11.4 million from budget, primarily through improved revenue performance at San Francisco General Hospital.

- Budgetary reserves and designations of $12.8 million for various programs and payments that had been anticipated and included in the budget were not used due to management restrictions on spending and were able to be liquidated at the close of the fiscal year.

The net effect of the under-utilization of appropriations and the receipt of some actual revenues greater than estimates resulted in a positive budgetary fund balance variance of $ 137.2 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2006, the City used an estimated budgetary fund balance of $118 million (see Note 4 to the Basic Financial Statements).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2005, decreased by $8.4 million to $10.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The increase of $57.2 million, or 2.5 percent, in capital assets for governmental activities was offset by a $65.5 million decrease for business-type activities for 2004-2005. Details are shown in the table below.

Capital Assets , Net of Accumulated Depreciation
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 143,640	$ 143,640	$ 193,781	$ 193,781	$ 337,421	$ 337,421
Facilities and Improvement	1,704,266	1,695,198	6,081,285	6,149,996	7,785,551	7,845,194
Machinery and equipment	46,021	52,674	847,935	912,707	893,956	965,381
Infrastructure	185,223	176,838	485,043	494,671	670,266	671,509
Property held under lease	536	536	2,667	2,248	3,203	2,784
Easements	-	-	85,534	89,153	85,534	89,153
Construction in progress	292,040	245,677	721,568	640,769	1,013,608	886,446
Total	$ 2,371,726	$ 2,314,563	$ 8,417,813	$ 8,483,325	$ 10,789,539	$ 10,797,888

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

- The Municipal Transportation Agency's (MTA) net capital assets increased by $2.9 million this fiscal year. This was primarily due to ongoing construction work on the Third Street Light Rail project, a major expansion of the MUNI Metro system in the City's southeast neighborhoods.

- The Water Department's net capital assets increased by $60 million. This included improvements at the Lombard Reservoir Seismic Upgrade, Sunset Pipeline, East Bay Fluoride, Third Street Light Rail and Alemany Water Main totaling approximately $35 million, and an increase in structure, buildings, and equipment totaling approximately $24 million.

- Hetch Hetchy Water and Power increased net capital assets by $6.7 million. This included the capital additions for O'Shaughnessy Dam discharge modifications, Early Intake Fire Emergency improvement, Holm Powerhouse Generator rehabilitation, and Priest Reservoir By-Pass improvements, totaling $15.8 million.

- The Airport reported a decrease in net capital assets of $140.9 million or 3.6 percent for fiscal year 2004-2005 due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. This plan includes the new International Terminal (completed in 2001), the Bay Area Rapid Transit (BART) Station at SFO and Air Train people mover (completed in 2003) and new parking facilities, roadways, runway improvements, and other Airport facilities. In addition, as noted above, approximately $50 million capitalized costs of a runway development project were expensed due to asset impairment.

- Under governmental activities, net capital assets increased by $57.2 million. This included construction in progress of Harding Park Club House, the North Beach Recreation Center and pool, Page Street Community Garden, Excelsior Branch Library renovation, and various street improvement and traffic signal upgrades.

At the end of the year, the City's business type activities had approximately $196 million in commitments for various capital projects. Of this, MTA had approximately $50 million, Water Department had $73 million, Hetch Hetchy had $16 million, Clean Water had $40 million, and the Airport had $17 million. In addition, there was approximately $41 million reserved for encumbrances in capital project funds for the general government.

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

For governmental activities, no net infrastructure assets were recorded in fiscal year 2000-2001 - the first year of presentation in the GASB 34 format, because the historical costs did not meet the threshold established by GASB. Beginning in fiscal year 2001-2002, newly completed projects are capitalized and ongoing infrastructure projects are accounted for in construction in progress.

Additional information about the City's capital assets can be found in note 7 to the Basic Financial Statements.

Debt Administration

At the end of the current fiscal year, the City had total long-term debt outstanding of $7.3 billion. Of this amount, $1.1 billion is general obligation bonds backed by the full faith and credit of the City and $6.2 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 papers and capital leases increased by $275 million during fiscal year 2004-2005, primarily due to issuance of bonded debt in the governmental activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing $371 million in refunding bonds. Of this amount, the Airport issued $311.6 million and the Port Commission $19.9 million in refunding revenue bonds; the City issued the remaining $39.4 million to refund certificates of participation. The City also issued $68.8 million and $8.1 million in general obligation bonds for improvements to the City's recreation and park facilities and the Academy of Sciences respectively. In addition, the City issued $230 million in general obligation bonds for the improvement of Laguna Honda Hospital.

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 $106.5 billion in value (net of unreimbursable exemptions) as of the close of the fiscal year. As of June 30, 2005, the City had $1.1 billion in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.98 percent of gross (1.02 percent of net) taxable assessed value of property. As of June 30, 2005, there were an additional $565.2 million in bonds that were authorized but un-issued. If all of these bonds were issued and outstanding in full, the total debt burden would be approximately 1.49 percent of gross (1.55 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2005 were:

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

During the fiscal year, Moody's Investors Service and Standard and Poor's affirmed their ratings and revised the outlook to stable from negative reflecting the City's continued economic recovery and efforts to improve finances. In addition, Fitch Ratings affirmed its ratings and outlook on the City's outstanding bonds.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. The Airport's underlying debt ratings were upheld by Moody's Investors Service, Standard & Poor's, and Fitch Ratings at A1, A, and A, respectively, with a stable rating outlook. At fiscal year end 2004-2005, the San Francisco Water Department carried underlying ratings of A1 and A+ from Moody's Investor Service and Standard and Poor's respectively.

Since the close of the 2004-2005 fiscal year, the City has issued additional debt of $150.1 million in general obligation bonds for improvements to the California Academy of Sciences, the Steinhart Aquarium, the Branch Library facilities and the Zoo facilities. In addition, general obligation bonds for $69 million were issued for the improvement of Laguna Honda Hospital.

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

Economic factors and next year's budget and rates

- San Francisco faced a projected General Fund shortfall of $102.2 million at the beginning of its fiscal 2005-2006 annual budget process. The shortfall was significantly lower than previous years as the economy had begun to recover, resulting in increasing revenues, and expenditure growth had been further controlled. Most San Francisco public employees' unions agreed in labor contracts to continue to contribute up to 7.5 percent of salary to fund the employee-share cost of pension benefits, helping to constrain expenditure growth. Further, the improving revenues and savings strategies implemented by the City resulted in additional available fund balance at the end of fiscal year. The City was able to appropriate $120.5 million in estimated available fund balance and reserves in the General Fund budget for fiscal year 2005-2006. The general improvement in revenues as well as the use of one-time sources, including the use of fund balance, prior year reserves and the State's early repayment of the vehicle license fee gap loan, meant that the City was able to avoid making even further reductions in public safety, health and human services, and many other critical programs in the 2005-2006 budget year.

- As noted in our transmittal letter, San Francisco's unemployment rate has gradually improved over the last two years, dropping to 5.2 percent in June 2005 from 6.1 percent in June 2004 after a peak of 7.7 percent in June 2003. While the unemployment rate has decreased, this is generally attributed to two factors: 1) that unemployed workers have moved to less expensive areas to live, or 2) that they are no longer included in the California Economic Development Department's count because they are not actively seeking new employment. Employers have been slow to expand their employee ranks given the lagging recovery in our region; however, the reduced unemployment rate is one sign that some improvements are emerging. Additionally, the San Francisco metro area experienced year-over-year jobs growth of 0.8 percent (7,300 jobs) from June 2004 through June 2005. On a related note, as of the third quarter of 2005, San Francisco saw 9 consecutive quarters of net positive absorption (i.e. declining office vacancy rates) in our commercial office sector. This reflects significant improvement from the second quarter of 2003 peak in office vacancy rates.

- During the fiscal 2005-2006 budget cycle, the City's budget continued to reflect the State's negotiated, two-year agreement with local governments to close the State's budgetary shortfall, in part, by shifting an additional $25.2 million in property taxes (ERAF III) to fund the State's public education obligation. On-going shifts related to the State's permanent rollback of vehicle license

fees and the State's issuance of Economic Recovery Bonds backed by local sales taxes were budgeted along with an offsetting backfill in property taxes. City management continues to closely monitor all State funding.

- A gradual economic recovery is continuing as noted in improving local tax revenue growth, including property, real property transfer, business, hotel room, sales, and parking taxes. After a three-plus year downturn, these signs are encouraging news. Jobs growth is positive, though still weaker than we would like to see at this point in the recovery, as employers have been cautious in their hiring.

- While the above factors were considered in preparing the City's budget for fiscal year 2005-2006, voters rejected the proposed ¼ percent increase to sales tax (Proposition J) and the temporary (four-year) 0.1 percent gross receipts tax (Proposition K) in November 2004. Immediately following the election, the Mayor's Office implemented an 18-month savings plan to cover the resulting 18-month shortfall. This savings plan, in part, helped to further improve the fund balance, which ended fiscal year 2004-2005 with an $19 million surplus over and above the $118 million assumed in the City's adopted fiscal year 2005-2006 budget.

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

San Francisco Water Department
Hetch Hetchy Water and Power
San Francisco Clean Water Program
Director of Accounting Financial Services
1155 Market Street, 5th Floor
San Francisco, CA 94103

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

Municipal Transportation Agency
MTA Finance and Administration
875 Stevenson Street, Room 260
San Francisco, CA 94103

Health Service System
Department of Human Resources
44 Gough Street
San Francisco, CA 94103

San Francisco General Hospital Medical Center
Chief Financial Officer
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
Finance Department
770 Golden Gate Avenue, Third Floor
San Francisco, CA 94102

Blended Component Units Financial Statements

San Francisco County Transportation Authority
Deputy Director for Administration and Finance
100 Van Ness Avenue, 25th Floor
San Francisco, CA 94102

San Francisco Finance Corporation
Mayor's Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

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Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets
June 30, 2005
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury	$ 1,238,350	$ 651,311	$ 1,889,661	$ -	$ 1,516
Deposits and investments outside City Treasury	62,157	8,017	70,174	157,675	-
Receivables (net of allowance for uncollectible amounts of $51,982 for the primary government):					
Property taxes and penalties	33,031	-	33,031	-	-
Other local taxes	161,532	-	161,532	-	-
Federal and state grants and subventions	150,971	52,907	203,878	-	-
Charges for services	14,248	148,463	162,711	-	-
Interest and other	8,589	42,255	50,844	5,615	9
Loans receivable	-	130	130	163	-
Capital lease receivable from primary government	-	-	-	14,476	
Due from component unit	537	-	537	-	-
Inventories	-	52,874	52,874	-	-
Deferred charges and other assets	9,333	3,644	12,977	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	45,285	45,285	-	-
Deposits and investments outside City Treasury	-	51,750	51,750	60,704	186
Grants and other receivables	-	1,115	1,115	985	-
Total current assets	1,678,748	1,057,751	2,736,499	239,618	1,711
Noncurrent assets:					
Loans (net of allowance for uncollectible amounts of $165,273 and $144,983 for the primary government and component units, respectively) receivable	242,902	587	243,489	9,047	-
Advance to component unit	2,838	-	2,838	-	-
Capital lease receivable from primary government	-	-	-	183,751	-
Deferred charges and other assets	17,938	65,054	82,992	9,120	-
Restricted assets:					
Deposits and investments with City Treasury	-	383,439	383,439	-	-
Deposits and investments outside City Treasury	-	216,687	216,687	30,199	-
Grants and other receivables	-	33,596	33,596	-	-
Property held for resale	-	-	-	13,634	-
Capital assets:					
Land and other assets not being depreciated	435,680	915,349	1,351,029	127,260	-
Facilities, infrastructure, and equipment, net of depreciation	1,936,046	7,502,464	9,438,510	139,627	-
Total capital assets	2,371,726	8,417,813	10,789,539	266,887	-
Total noncurrent assets	2,635,404	9,117,176	11,752,580	512,638	-
Total assets	$ 4,314,152	$ 10,174,927	$14,489,079	$ 752,256	$ 1,711

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets *(Continued)*

June 30, 2005

(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	$ 143,096	$ 123,029	$ 266,125	$ 7,598	$ 3,727
Accrued payroll	49,926	40,412	90,338	352	-
Accrued vacation and sick leave pay	63,098	41,624	104,722	1,092	-
Accrued workers' compensation	44,624	38,005	82,629	-	-
Estimated claims payable	37,487	22,503	59,990	-	-
Bonds, loans, capital leases, and other payables	249,815	185,612	435,427	28,581	-
Capital lease payable to component unit	14,476	-	14,476	-	-
Accrued interest payable	7,599	11,631	19,230	17,448	-
Unearned grant and subvention revenues	3,571	-	3,571	-	-
Due to primary government	-	-	-	537	-
Internal balances	36,498	(36,498)	-	-	-
Deferred credits and other liabilities	145,386	84,043	229,429	887	-
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	16,578	16,578	-	-
Accrued interest payable	-	32,240	32,240	-	-
Other	-	28,416	28,416	-	186
Total current liabilities	795,576	587,595	1,383,171	56,495	3,727
Noncurrent liabilities:					
Accrued vacation and sick leave pay	61,939	33,694	95,633	1,609	-
Accrued workers' compensation	170,181	138,618	308,799	-	-
Estimated claims payable	46,050	46,215	92,265	-	-
Bonds, loans, capital leases, and other payables	1,555,573	5,061,917	6,617,490	670,389	-
Advance from primary government	-	-	-	2,838	-
Capital lease payable to component unit	183,751	-	183,751	-	-
Accrued interest payable	-	-	-	75,597	-
Deferred credits and other liabilities	-	39,409	39,409	6,339	-
Total noncurrent liabilities	2,017,494	5,319,853	7,337,347	756,772	-
Total liabilities	2,813,070	5,907,448	8,720,518	813,267	3,913
NET ASSETS					
Invested in capital assets, net of related debt	1,159,696	3,391,450	4,551,146	67,426	-
Restricted for:					
Reserve for rainy day	48,139	-	48,139	-	-
Debt service	46,575	202,006	248,581	47,067	-
Capital projects	25,101	161,231	186,332	-	-
Community development	208,532	-	208,532	-	-
Transportation Authority activities	75,282	-	75,282	-	-
Other purposes	138,224	66,753	204,977	13,634	-
Unrestricted (deficit)	(200,467)	446,039	245,572	(189,138)	(2,202)
Total net assets (deficit)	$ 1,501,082	$ 4,267,479	$ 5,768,561	$ (61,011)	$ (2,202)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Activities

Year ended June 30, 2005

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$ 738,688	$ 54,805	$ 105,522	$ -	$ (578,361)	$ -	$ (578,361)	$ -	$ -
Public works, transportation and commerce	213,335	95,081	17,415	46,032	(54,807)	-	(54,807)	-	-
Human welfare and neighborhood development	619,753	21,375	435,176	-	(163,202)	-	(163,202)	-	-
Community health	503,259	44,850	264,833	-	(193,576)	-	(193,576)	-	-
Culture and recreation	256,336	64,614	3,390	9,403	(178,929)	-	(178,929)	-	-
General administration and finance	152,850	41,348	3,186	-	(108,316)	-	(108,316)	-	-
General City responsibilities	59,024	28,956	5,085	-	(24,983)	-	(24,983)	-	-
Unallocated Interest on long-term debt	89,690	-	-	-	(89,690)	-	(89,690)	-	-
Total governmental activities	2,632,935	351,029	834,607	55,435	(1,391,864)	-	(1,391,864)	-	-
Business-type activities:									
Airport	628,445	477,314	-	34,893	-	(116,238)	(116,238)	-	-
Transportation	711,733	187,913	111,603	45,330	-	(366,887)	(366,887)	-	-
Port	54,897	57,519	-	13,501	-	16,123	16,123	-	-
Water	197,848	184,835	112	-	-	(12,901)	(12,901)	-	-
Power	116,683	132,303	334	-	-	15,954	15,954	-	-
Hospitals	598,160	493,596	68,758	-	-	(35,806)	(35,806)	-	-
Sewer	160,650	148,888	-	-	-	(11,762)	(11,762)	-	-
Market	1,055	1,462	-	-	-	407	407	-	-
Total business-type activities	2,469,471	1,683,830	180,807	93,724	-	(511,110)	(511,110)	-	-
Total primary government	$ 5,102,406	$ 2,034,859	$ 1,015,414	$ 149,159	(1,391,864)	(511,110)	(1,902,974)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 141,389	$ 41,978	$ 14,364	$ -				(85,047)	-
Treasure Island Development Authority	12,980	8,783	-	-				-	(4,197)
Total component units	$ 154,369	$ 50,761	$ 14,364	$ -				(85,047)	(4,197)
General Revenues:									
Taxes:									
Property taxes					920,314	-	920,314	53,302	-
Business taxes					292,763	-	292,763	-	-
Other local taxes					538,085	-	538,085	5,620	-
Interest and investment income					29,490	33,268	62,758	10,760	-
Other					47,153	237,102	284,255	6,568	-
Special item					-	(46,358)	(46,358)	-	-
Transfers - internal activities of primary government					(241,600)	241,600	-	-	-
Total general revenues, special item, and transfers					1,586,205	465,612	2,051,817	76,250	-
Change in net assets					194,341	(45,498)	148,843	(8,797)	(4,197)
Net assets (deficit) - beginning					1,306,741	4,312,977	5,619,718	(52,214)	1,995
Net assets (deficit) - ending					$ 1,501,082	$ 4,267,479	$ 5,768,561	$ (61,011)	$ (2,202)

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

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet
Governmental Funds
June 30, 2005
(with comparative financial information as of June 30, 2004)
(In Thousands)

	General Fund 2005	General Fund 2004	Other Governmental Funds 2005	Other Governmental Funds 2004	Total Governmental Funds 2005	Total Governmental Funds 2004
ASSETS						
Deposits and investments with City Treasury	$ 314,607	$ 158,248	$ 915,547	$ 564,795	$ 1,230,154	$ 723,043
Deposits and investments outside City Treasury	355	361	45,745	74,065	46,100	74,426
Receivables:						
Property taxes and penalties	26,141	28,020	6,890	6,575	33,031	34,595
Other local taxes	148,744	150,856	12,788	12,161	161,532	163,017
Federal and state grants and subventions	61,412	63,002	89,559	98,840	150,971	161,842
Charges for services	7,416	7,568	6,832	6,163	14,248	13,731
Interest and other	4,406	2,230	3,726	1,917	8,132	4,147
Due from other funds	29,743	52,917	12,303	5,384	42,046	58,301
Due from component unit	2,416	849	959	-	3,375	849
Loans receivable (net of allowance for uncollectible amount of $165,336 in 2005; $173,367 in 2004)	1,174	1,221	241,728	213,429	242,902	214,650
Deferred charges and other assets	6,797	6,598	1,570	1,625	8,367	8,223
Total assets	$ 603,211	$ 471,870	$ 1,337,647	$ 984,954	$ 1,940,858	$ 1,456,824
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 82,524	$ 83,934	$ 53,335	$ 58,894	$ 135,859	$ 142,828
Accrued payroll	39,729	34,278	8,812	7,068	48,541	41,346
Deferred tax, grant and subvention revenues	26,880	30,151	19,371	31,620	46,251	61,771
Due to other funds	1,857	892	77,614	88,969	79,471	89,861
Agency obligations	-	-	40	138	40	138
Deferred credits and other liabilities	144,541	112,180	267,899	241,126	412,440	353,306
Bonds, loans, capital leases, and other payables	-	-	150,000	50,000	150,000	50,000
Total liabilities	295,531	261,435	577,071	477,815	872,602	739,250
Fund balances:						
Reserved for rainy day	48,139	55,139	-	-	48,139	55,139
Reserved for assets not available for appropriation	9,031	7,142	17,683	17,443	26,714	24,585
Reserved for debt service	-	-	45,540	18,800	45,540	18,800
Reserved for encumbrances	57,762	42,501	97,920	142,784	155,682	185,285
Reserved for appropriation carryforward	36,198	35,754	549,571	287,690	585,769	323,444
Reserved for subsequent years' budgets	22,351	6,242	8,004	8,005	30,355	14,247
Unreserved (deficit), reported in:						
General fund	134,199	63,657	-	-	134,199	63,657
Special revenue funds	-	-	30,809	19,043	30,809	19,043
Capital project funds	-	-	7,193	10,048	7,193	10,048
Permanent fund	-	-	3,856	3,326	3,856	3,326
Total fund balances	307,680	210,435	760,576	507,139	1,068,256	717,574
Total liabilities and fund balances	$ 603,211	$ 471,870	$ 1,337,647	$ 984,954	$ 1,940,858	$ 1,456,824

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, 2005
(In Thousands)

Fund balances - total governmental funds	$ 1,068,256
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,367,571
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	13,200
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,040,886)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(6,517)
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.	311,076
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.	(211,618)
Net assets of governmental activities	$ 1,501,082

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, 2005
(with comparative financial information as of June 30, 2004)

(In Thousands)

	General Fund 2005	General Fund 2004	Other Governmental Funds 2005	Other Governmental Funds 2004	Total Governmental Funds 2005	Total Governmental Funds 2004
Revenues:						
Property taxes	$ 705,949	$ 547,819	$ 212,696	$ 173,618	$ 918,645	$ 721,437
Business taxes	292,172	264,351	591	481	292,763	264,832
Other local taxes	428,244	403,549	109,841	105,906	538,085	509,455
Licenses, permits and franchises	19,427	17,501	6,515	6,287	25,942	23,788
Fines, forfeitures and penalties	9,536	22,158	2,973	3,025	12,509	25,183
Interest and investment income	8,374	3,222	19,894	8,408	28,268	11,630
Rents and concessions	20,468	17,497	28,982	26,528	49,450	44,025
Intergovernmental:						
Federal	165,739	163,047	183,025	181,108	348,764	344,155
State	438,697	497,196	84,240	133,757	522,937	630,953
Other	99	-	25,684	18,259	25,783	18,259
Charges for services	115,812	95,951	125,938	121,696	241,750	217,647
Other	12,277	29,564	45,210	27,580	57,487	57,144
Total revenues	2,216,794	2,061,855	845,589	806,653	3,062,383	2,868,508
Expenditures:						
Current:						
Public protection	697,450	670,729	41,044	26,937	738,494	697,666
Public works, transportation and commerce	60,628	58,711	135,268	106,844	195,896	165,555
Human welfare and neighborhood development	503,874	488,853	141,025	173,947	644,899	662,800
Community health	413,110	413,725	87,940	99,189	501,050	512,914
Culture and recreation	87,023	92,978	151,999	180,185	239,022	273,163
General administration and finance	120,400	128,135	14,718	19,860	135,118	147,995
General City responsibilities	62,185	74,257	614	366	62,799	74,623
Debt service:						
Principal retirement	-	-	80,306	78,831	80,306	78,831
Interest and fiscal charges	-	-	61,524	61,886	61,524	61,886
Bond issuance costs	-	374	4,842	976	4,842	1,350
Capital outlay	-	-	130,224	165,872	130,224	165,872
Total expenditures	1,944,670	1,927,762	849,504	914,893	2,794,174	2,842,655
Excess (deficiency) of revenues over expenditures	272,124	134,093	(3,915)	(108,240)	268,209	25,853
Other financing sources (uses):						
Transfers in	152,288	121,491	119,265	98,123	271,553	219,614
Transfers out	(330,230)	(277,464)	(183,193)	(194,342)	(513,423)	(471,806)
Issuance of bonds and loans						
Face value of bonds issued	-	29,480	346,225	87,165	346,225	116,645
Face value of loans issued	-	-	500	2,156	500	2,156
Premium on issuance of bonds	-	358	11,989	1,053	11,989	1,411
Payment to refunded bond escrow agent	-	-	(38,913)	(65,802)	(38,913)	(65,802)
Other financing sources-capital leases	3,063	6,165	1,479	-	4,542	6,165
Total other financing sources (uses)	(174,879)	(119,970)	257,352	(71,647)	82,473	(191,617)
Net change in fund balances	97,245	14,123	253,437	(179,887)	350,682	(165,764)
Fund balances at beginning of year	210,435	196,312	507,139	687,026	717,574	883,338
Fund balances at end of year	$ 307,680	$ 210,435	$ 760,576	$ 507,139	$ 1,068,256	$ 717,574

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

City and County of San Francisco

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2005

(In Thousands)

Net change in fund balances - total governmental funds	$ 350,682
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	55,963
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.	(1,553)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,669
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.	4,573
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. Governmental funds also defer recognition of revenues that do not provide current financial resources.	14,278
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the principal amount of property rent payments expended in the governmental funds in the current period.	17,689
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.	4,290
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.	(227,506)
Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums capitalized during the current period.	(11,989)
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.	(21,643)
The net revenues of certain activities of internal service funds is reported with governmental activities.	7,888
Changes in net assets of governmental activities	$ 194,341

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund

Year ended June 30, 2005

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 62,830	$ 222,611	$ 222,611	$ -
Resources (inflows):				
Property taxes	645,495	645,495	710,486	64,991
Business taxes	295,230	295,230	292,171	(3,059)
Other local taxes:				
Sales tax	90,930	90,930	94,689	3,759
Hotel room tax	94,422	94,421	108,913	14,492
Utility users tax	66,290	66,290	72,574	6,284
Parking tax	32,130	32,074	33,090	1,016
Other local taxes	97,674	97,674	118,978	21,304
Licenses, permits, and franchises:				
Licenses and permits	5,839	5,839	6,637	798
Franchise tax	10,293	10,293	12,790	2,497
Fines, forfeitures, and penalties	12,111	12,196	9,536	(2,660)
Interest and investment income	6,300	6,490	12,590	6,100
Rents and concessions:				
Garages - Recreation and Park	7,786	7,831	8,061	230
Rents and concessions - Recreation and Park	12,590	12,590	10,938	(1,652)
Other rents and concessions	1,482	1,481	1,469	(12)
Intergovernmental:				
Federal subventions:				
Health and social service subventions	172,399	180,994	165,004	(15,990)
Other grants and subventions	3,656	3,736	735	(3,001)
State subventions:				
Social service subventions	92,899	83,230	92,592	9,362
Health and welfare realignment	99,553	103,346	102,547	(799)
Health/mental health subventions	145,089	144,864	156,090	11,226
Public safety sales tax	62,870	62,870	65,671	2,801
Motor vehicle in-lieu - county	15,240	15,240	3,675	(11,565)
Other grants & subventions	18,465	18,541	17,819	(722)
Other	-	149	83	(66)
Charges for services:				
General government service charges	41,281	41,196	40,143	(1,053)
Public safety service charges	17,632	17,632	17,841	209
Recreation charges - Recreation and Park	8,389	8,389	6,254	(2,135)
MediCal, MediCare and health service charges	52,490	52,420	51,885	(535)
Other financing sources:				
Transfers from other funds	155,643	161,840	143,907	(17,933)
Proceeds from issuance of bonds and loans	597	596	-	(596)
Other resources (inflows)	28,952	29,061	14,276	(14,785)
Total amounts available for appropriation	$ 2,356,557	$ 2,525,549	$2,594,055	$ 68,506

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2005

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to appropriations (outflows):				
Public Protection				
Administrative Services - Animal Care and Control	$ 3,050	$ 3,052	$ 3,013	$ 39
Administrative Services - Consumer Assurance	183	232	232	-
Administrative Services - Medical Examiner	4,545	4,578	4,458	120
Adult Probation	9,376	9,351	9,351	-
District Attorney	23,899	23,622	23,445	177
Fire Department	190,335	192,216	189,908	2,308
Juvenile Probation	29,100	30,489	30,070	419
Mayor - Office of the Emergency Services	-	152	152	-
Police Department	251,814	263,045	262,559	486
Public Defender	16,337	17,117	17,101	16
Sheriff	128,657	120,905	120,313	592
Trial Courts	33,737	34,329	34,284	45
Public Works Transportation and Commerce				
Board of Appeals	466	467	452	15
Business and Economic Development	1,913	1,563	1,377	186
Clean Water	196	192	139	53
Department of Public Works	24,591	26,001	24,398	1,603
Emergency Communications	30,641	33,555	32,932	623
Parking and Traffic Commission	-	52	35	17
Telecommunications and Information Services	1,315	1,420	1,210	210
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	11,567	11,875	11,343	532
Commission on the Status of Women	2,115	2,131	2,016	115
County Education Office	69	69	69	-
Environment	861	1,778	1,530	248
Human Rights Commission	1,177	1,241	1,187	54
Human Services	508,847	508,793	487,624	21,169
Public Health	426,848	419,404	413,110	6,294
Culture and Recreation				
Academy of Sciences	1,673	1,673	1,668	5
Art Commission	5,773	5,698	5,696	2
Asian Art Museum	5,837	5,772	5,657	115
Fine Arts Museum	5,075	5,077	4,999	78
Law Library	518	537	479	58
Administrative Services - Grants for the Arts	12,976	12,731	12,032	699
Recreation and Park Commission	62,945	60,757	55,119	5,638
General Administration and Finance				
Administrative Services	13,173	12,415	12,415	-
Assessor/Recorder	9,238	8,928	8,433	495
Board of Supervisors	9,323	8,694	8,429	265

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2005

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	6,454	5,477	4,986	491
City Planning	15,623	14,169	14,168	1
Civil Service	549	555	553	2
Controller	18,416	18,885	18,750	135
Elections	7,109	10,324	10,322	2
Ethics Commission	1,722	1,809	1,777	32
Human Resources	15,692	16,337	16,184	153
Mayor	6,502	6,216	6,216	-
Retirement Services	342	190	190	-
Treasurer/Tax Collector	18,465	18,667	17,881	786
General City Responsibilities				
General City Responsibilities	59,365	62,400	62,375	25
Other financing uses:				
Debt Service	2,439	141	-	141
Transfers to other funds	309,304	339,436	328,010	11,426
Budgetary reserves and designations	66,405	13,487	684	12,803
Total charges to appropriations	2,356,557	2,338,004	2,269,331	68,673
Budgetary fund balance, June 30	$ -	$ 187,545	$ 324,724	$ 137,179

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$2,594,055
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	(222,611)
Property tax revenue - Teeter Plan	(4,537)
Unrealized loss on investment	(53)
Interest revenue reclassified as transfers and other revenues	(4,162)
Other revenues reclassified	(1,991)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(143,907)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$2,216,794
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$2,269,331
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation	3,859
Other budget to GAAP differences	(510)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(328,010)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$1,944,670

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets - Proprietary Funds

June 30, 2005

(with comparative financial information as of June 30, 2004)

(In Thousands)

Business-type Activities - Enterprise Funds

	Major Funds								Other Fund			Governmental Activities-Internal Service Funds	
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2005	Total 2004	2005	2004
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 264,061	$ 136,065	$ 92,966	$ 19,596	$ 26,360	$ 46,167	$ 66,096	$ -	$ -	$ 651,311	$ 674,887	$ 8,196	$ 6,705
Deposits and investments outside City Treasury	10	40	10	5,380	10	-	5	1	2,561	8,017	8,295	16,057	25,725
Receivables (net of allowance for uncollectible amounts of $29,030 and $18,185 in 2005 and 2004, respectively):													
Federal and state grants and subventions	-	125	126	49,362	1,388	-	1,906	-	-	52,907	47,026	-	-
Charges for services	27,791	24,604	16,210	3,386	27,689	22,044	3,504	23,227	8	148,463	139,538	-	-
Interest and other	2,418	874	262	18,200	20,320	181	-	-	-	42,255	45,815	457	583
Loans receivable	-	-	130	-	-	-	-	-	-	130	85	18,862	19,046
Due from other funds	-	2,593	14,335	36,411	-	-	-	-	-	53,339	60,501	2,301	-
Inventories	48	1,860	270	42,959	5,122	-	1,174	1,441	-	52,874	47,864	-	-
Deferred charges and other assets	1,902	-	-	1,137	-	-	581	-	24	3,644	17,615	148	149
Restricted assets:													
Deposits and investments with City Treasury	11,590	-	-	-	-	-	4,344	29,351	-	45,285	15,732	-	-
Deposits and investments outside City Treasury	46,667	-	-	-	-	-	5,038	-	45	51,750	47,121	-	-
Grants and other receivables	1,115	-	-	-	-	-	-	-	-	1,115	740	-	-
Total current assets	355,602	166,161	124,309	176,431	80,889	68,392	82,648	54,020	2,638	1,111,090	1,105,219	46,021	52,208
Noncurrent assets:													
Deferred charges and other assets	52,127	3,888	-	2,111	-	3,209	3,719	-	-	65,054	69,069	2,403	2,592
Loans receivable	-	-	587	-	-	-	-	-	-	587	768	212,958	227,766
Restricted assets:													
Deposits and investments with City Treasury	166,572	80,767	-	32,844	-	103,256	-	-	-	383,439	407,740	-	-
Deposits and investments outside City Treasury	172,833	14,316	-	26,591	12	2	2,023	828	82	216,687	278,665	-	-
Grants and other receivables	27,472	286	-	5,313	-	302	-	223	-	33,596	22,764	-	-
Capital assets:													
Land and other assets not being depreciated	47,358	139,792	55,121	405,448	3,225	55,726	139,846	68,833	-	915,349	834,550	-	-
Facilities, infrastructrure, and equipment, net of depreciation	3,712,665	672,373	211,888	1,485,779	50,225	1,243,219	113,125	8,142	5,048	7,502,464	7,648,775	4,155	2,955
Total capital assets	3,760,023	812,165	267,009	1,891,227	53,450	1,298,945	252,971	76,975	5,048	8,417,813	8,483,325	4,155	2,955
Total noncurrent assets	4,179,027	911,422	267,596	1,958,086	53,462	1,405,714	258,713	78,026	5,130	9,117,176	9,262,331	219,516	233,313
Total assets	4,534,629	1,077,583	391,905	2,134,517	134,351	1,474,106	341,361	132,046	7,768	10,228,266	10,367,550	265,537	285,521

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2005
(with comparative financial information as of June 30, 2004)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2005	Total 2004	Governmental Activities-Internal Service Funds 2005	Governmental Activities-Internal Service Funds 2004
Operating revenues:													
Aviation	$ 303,015	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 303,015	$ 325,256	$ -	$ -
Water and power service	-	173,884	121,604	-	-	-	-	-	-	295,488	280,903	-	-
Passenger fees	-	-	-	120,193	-	-	-	-	-	120,193	114,232	-	-
Net patient service revenue	-	-	-	-	363,594	-	-	116,061	-	479,655	438,107	-	-
Sewer service	-	-	-	-	-	144,348	-	-	-	144,348	133,160	-	-
Rents and concessions	74,496	7,898	236	25,855	2,273	-	46,491	-	-	157,249	150,864	-	-
Parking and transportation	56,686	-	-	33,942	-	-	8,600	-	-	99,228	93,751	-	-
Charges for services	-	-	-	2,028	-	-	-	-	-	2,028	571	92,150	97,416
Other revenues	43,117	3,053	10,463	5,895	11,202	4,540	2,428	466	1,462	82,626	77,940	-	-
Total operating revenues	477,314	184,835	132,303	187,913	377,069	148,888	57,519	116,527	1,462	1,683,830	1,614,784	92,150	97,416
Operating expenses:													
Personal services	141,092	53,683	21,044	417,118	247,248	37,782	43,786	131,041	-	1,092,794	1,082,546	40,203	40,643
Contractual services	48,661	5,235	4,905	42,916	109,574	6,227	-	4,856	376	222,750	204,426	28,861	32,596
Light, heat and power	18,474	-	49,283	1,103	-	-	-	-	74	68,934	80,599	-	-
Materials and supplies	6,527	8,293	1,754	32,417	50,514	8,283	-	11,776	-	119,564	108,019	14,421	14,958
Depreciation and amortization	161,641	40,112	10,759	118,440	6,655	37,800	9,967	1,023	282	386,679	351,854	1,119	1,218
General and administrative	2,619	28,376	19,544	58,292	752	22,249	-	-	216	132,048	114,449	450	537
Services provided by other departments	12,335	32,146	3,099	33,729	27,065	23,234	-	5,743	-	137,351	128,647	4,088	3,598
Other	27,644	8,608	6,295	3,034	191	3,715	-	399	107	49,993	46,147	2,279	1,294
Total operating expenses	418,993	176,453	116,683	707,049	441,999	139,290	53,753	154,838	1,055	2,210,113	2,116,687	91,421	94,844
Operating income (loss)	58,321	8,382	15,620	(519,136)	(64,930)	9,598	3,766	(38,311)	407	(526,283)	(501,903)	729	2,572
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	-	211	23,565	-	-	-	-	-	23,776	18,870	-	-
State / other	-	112	123	88,038	68,758	-	-	-	-	157,031	150,897	-	-
Interest and investment income	19,171	5,093	1,423	2,221	14	3,093	1,698	529	26	33,268	17,620	6,468	5,340
Interest expense	(209,452)	(21,395)	-	(4,684)	(850)	(21,360)	(1,144)	(473)	-	(259,358)	(265,012)	(6,523)	(5,467)
Other, net	63,160	1,401	3,463	139,562	11,524	438	(44)	17,598	-	237,102	237,692	8	-
Total nonoperating revenues (expenses)	(127,121)	(14,789)	5,220	248,702	79,446	(17,829)	510	17,654	26	191,819	160,067	(47)	(127)
Income (loss) before capital contributions, transfers and special items	(68,800)	(6,407)	20,840	(270,434)	14,516	(8,231)	4,276	(20,657)	433	(334,464)	(341,836)	682	2,445
Capital Contributions	34,893	-	-	45,330	-	-	13,501	-	-	93,724	94,818	-	-
Transfers in	4,611	-	1,628	232,676	78,940	1,922	-	39,239	-	359,016	349,192	270	255
Transfers out	(19,677)	-	-	(12,298)	(83,686)	(1,676)	-	(79)	-	(117,416)	(97,255)	-	-
Net income (loss) before special item	(48,973)	(6,407)	22,468	(4,726)	9,770	(7,985)	17,777	18,503	433	860	4,919	952	2,700
Special item	(50,043)	-	-	-	-	-	3,685	-	-	(46,358)	9,245	-	-
Change in net assets	(99,016)	(6,407)	22,468	(4,726)	9,770	(7,985)	21,462	18,503	433	(45,498)	14,164	952	2,700
Net assets (deficit) at beginning of year	456,611	439,422	347,934	1,753,449	38,665	923,052	275,960	70,909	6,975	4,312,977	4,298,813	(2,429)	(5,129)
Net assets (deficit) at end of year	$ 357,595	$ 433,015	$ 370,402	$ 1,748,723	$ 48,435	$915,067	$ 297,422	$ 89,412	$ 7,408	$4,267,479	$4,312,977	$ (1,477)	$ (2,429)

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, 2005
(with comparative financial information as of June 30, 2004)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2005	Total 2004	Governmental Activities-Internal Service Funds 2005	Governmental Activities-Internal Service Funds 2004
LIABILITIES													
Current liabilities:													
Accounts payable	20,064	10,169	12,638	49,535	17,548	4,323	3,971	4,565	216	123,029	128,728	7,237	5,466
Accrued payroll	5,098	4,221	772	14,860	8,538	1,553	754	4,616	-	40,412	35,024	1,385	1,265
Accrued vacation and sick leave pay	5,928	4,755	988	13,810	8,167	2,173	922	4,881	-	41,624	40,694	1,828	1,808
Accrued workers' compensation	1,339	2,159	500	25,289	4,550	967	547	2,654	-	38,005	40,108	241	263
Estimated claims payable	812	1,225	432	16,836	-	2,241	957	-	-	22,503	15,463	-	-
Due to other funds	1,052	2,655	-	3,457	1,140	-	-	8,537	-	16,841	28,082	1,374	859
Deferred credits and other liabilities	37,100	18,813	1,177	4,627	19,024	-	2,605	652	45	84,043	117,002	19,731	27,205
Accrued interest payable	-	4,240	-	451	-	6,801	139	-	-	11,631	11,756	1,082	986
Bonds, loans, capital leases, and other payables	65,938	94,790	101	7,637	653	15,914	80	499	-	185,612	128,851	18,310	18,910
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	13,188	-	-	-	-	-	3,390	-	-	16,578	17,013	-	-
Accrued interest payable	31,938	-	-	-	-	-	302	-	-	32,240	34,807	-	-
Other	10,728	10,767	-	861	12	455	4,673	920	-	28,416	30,390	-	-
Total current liabilities	193,185	153,794	16,608	137,363	59,632	34,427	18,340	27,324	261	640,934	627,918	51,188	56,762
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,562	4,829	881	10,290	6,069	1,922	770	3,371	-	33,694	33,196	1,894	1,875
Accrued workers' compensation	3,780	8,192	1,950	90,063	18,349	3,707	2,179	10,398	-	138,618	143,388	910	953
Estimated claims payable	33	4,061	1,570	32,930	-	6,851	770	-	-	46,215	32,168	-	-
Deferred credits and other liabilities	-	2,245	-	34,260	-	9	2,796	-	99	39,409	46,402	-	-
Bonds, loans, capital leases, and other payables	3,974,474	471,447	494	80,888	1,866	512,123	19,084	1,541	-	5,061,917	5,171,501	213,022	228,360
Total noncurrent liabilities	3,983,849	490,774	4,895	248,431	26,284	524,612	25,599	15,310	99	5,319,853	5,426,655	215,826	231,188
Total liabilities	4,177,034	644,568	21,503	385,794	85,916	559,039	43,939	42,634	360	5,960,787	6,054,573	267,014	287,950
NET ASSETS													
Invested in capital assets, net of related debt	(112,954)	296,107	267,009	1,801,930	50,931	772,188	236,256	74,935	5,048	3,391,450	3,421,410	3,561	1,511
Restricted:													
Debt service	163,758	13,791	-	23,650	-	807	-	-	-	202,006	242,537	-	-
Capital projects	17,877	17,149	-	3,887	-	98,002	-	24,316	-	161,231	128,387	-	-
Other purposes	-	-	-	42,658	8	-	21,848	2,112	127	66,753	61,241	-	-
Unrestricted (deficit)	288,914	105,968	103,393	(123,402)	(2,504)	44,070	39,318	(11,951)	2,233	446,039	459,402	(5,038)	(3,940)
Total net assets (deficit)	$ 357,595	$ 433,015	$ 370,402	$ 1,748,723	$ 48,435	$915,067	$297,422	$ 89,412	$ 7,408	$4,267,479	$4,312,977	$ (1,477)	$ (2,429)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005
(with comparative financial information as of June 30, 2004)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund			Governmental Activities-Internal Service Funds	
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2005	Total 2004	2005	2004
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 489,079	$ 167,267	$ 121,138	$ 215,223	$ 400,373	$ 146,111	$ 9,064	$ 106,043	$ 1,462	$ 1,655,760	$ 1,608,828	$ 107,964	$ 113,158
Cash received from tenants for rent	-	8,463	236	2,233	2,273	-	46,760	-	-	59,965	59,682	-	-
Cash paid to employees for services	(140,238)	(51,805)	(20,375)	(420,059)	(245,121)	(36,230)	(19,575)	(131,522)	(189)	(1,065,114)	(1,058,130)	(40,109)	(41,609)
Cash paid to suppliers for goods and services	(102,363)	(72,387)	(90,216)	(166,037)	(187,195)	(56,166)	(22,144)	(21,251)	(523)	(718,282)	(704,686)	(52,464)	(57,248)
Cash paid for judgements and claims	-	(4,223)	(2,158)	(7,490)	-	(1,421)	-	-	-	(15,292)	(13,334)	-	-
Net cash provided by (used in) operating activities	246,478	47,315	8,625	(376,130)	(29,670)	52,294	14,105	(46,730)	750	(82,963)	(107,640)	15,391	14,301
Cash flows from noncapital financing activities:													
Operating grants	-	112	2,691	218,650	68,784	180	-	32	-	290,449	300,462	-	-
Transfers in	4,611	-	1,628	154,019	78,940	1,922	-	38,883	-	280,003	246,788	270	255
Transfers out	(19,677)	-	-	(12,298)	(83,686)	(1,676)	-	(79)	-	(117,416)	(98,385)	-	-
Transit Impact Development fees received	-	-	-	426	-	-	-	-	-	426	559	-	-
Other noncapital increases	-	-	-	16,404	-	-	-	3,428	-	19,832	10,775	-	-
Other noncapital decreases	(3,555)	-	-	(10,568)	(3,317)	-	-	-	-	(17,440)	(3,104)	-	-
Net cash provided by (used in) noncapital financing activities	(18,621)	112	4,319	366,633	60,721	426	-	42,264	-	455,854	457,095	270	255
Cash flows from capital financing activities:													
Capital grants	21,840	-	-	57,157	-	-	2,404	17,566	-	98,967	129,830	-	-
Transfers in	-	-	-	78,657	-	-	-	-	-	78,657	103,246	-	-
Bond sale proceeds and loans received	2,002	-	-	-	-	-	20,311	-	-	22,313	1,643	-	9,530
Proceeds from sale of capital assets	-	91	15	17	-	-	113	-	-	236	9,033	-	-
Proceeds from commercial paper borrowings	-	55,000	-	-	-	-	-	-	-	55,000	25,000	-	-
Proceeds from passenger facility charges	63,385	-	-	-	-	-	-	-	-	63,385	56,326	-	-
Acquisition of capital assets	(85,391)	(106,484)	(20,821)	(133,181)	(2,543)	(29,582)	(10,554)	(12,140)	(74)	(400,770)	(419,037)	(1,850)	(188)
Retirement of capital leases, bonds and loans	(78,555)	(14,055)	-	(7,032)	(1,312)	(15,413)	(28,058)	(62)	-	(144,487)	(147,600)	(15,910)	(18,289)
Bond issue costs paid	(3,743)	-	-	(41)	-	-	(308)	-	-	(4,092)	(988)	(74)	(112)
Interest paid on debt	(207,897)	(24,750)	-	(4,535)	(850)	(21,937)	(1,386)	(117)	-	(261,472)	(260,888)	(6,216)	(5,320)
Other capital financing increases	3,225	-	-	-	-	-	4,650	-	-	7,875	72,984	-	-
Other capital financing decreases	(5,473)	-	(98)	(672)	-	-	(1,054)	-	-	(7,297)	(83,651)	-	-
Net cash provided by (used in) capital financing activities	(290,607)	(90,198)	(20,904)	(9,630)	(4,705)	(66,932)	(13,882)	5,247	(74)	(491,685)	(514,102)	(24,050)	(14,379)
Cash flows from investing activities:													
Purchases of investments with trustees	(1,842,811)	(38,469)	-	(302)	-	(17,756)	(2,018)	-	-	(1,901,356)	(1,694,790)	-	-
Proceeds from sale of investments with trustees	1,876,940	37,994	-	1,285	-	50,286	-	-	-	1,966,505	1,720,079	-	-
Proceeds from sale of restricted deposits and investments	-	-	-	-	-	-	-	-	-	-	19,933	-	-
Interest income received	8,985	4,908	2,614	2,161	14	2,837	1,586	529	26	23,660	25,532	423	(7)
Other investing activities	-	2,614	3,459	(389)	-	1,006	-	(212)	-	6,478	8,306	(211)	-
Net cash provided by (used in) investing activities	43,114	7,047	6,073	2,755	14	36,373	(432)	317	26	95,287	79,060	212	(7)
Net increase (decrease) in cash and cash equivalents	(19,636)	(35,724)	(1,887)	(16,372)	26,360	22,161	(209)	1,098	702	(23,507)	(85,587)	(8,177)	170
Cash and cash equivalents-beginning of year	461,099	252,596	94,863	74,602	10	127,262	74,931	28,254	1,986	1,115,603	1,201,190	32,430	32,260
Cash and cash equivalents-end of year	$ 441,463	$ 216,872	$ 92,976	$ 58,230	$ 26,370	$ 149,423	$ 74,722	$ 29,352	$ 2,688	$ 1,092,096	$ 1,115,603	$ 24,253	$ 32,430

(Continued)

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 76,672	$ 321,101	$ 110,466
Deposits and investments outside City Treasury	13,230,007	-	-
Receivables:			
Payroll contribution	13,775	-	29,925
Interest and other	95,854	1,251	99,354
Invested securities lending collateral	1,600,111	-	-
Deferred charges and other assets	78	-	25,658
Total assets	15,016,497	322,352	$ 265,403
Liabilities			
Accounts payable	12,042	1,867	$ 44,518
Estimated claims payable	10,067	-	-
Agency obligations	-	-	220,885
Obligations under fixed coupon dollar reverse repurchase agreements	85,000	-	-
Payable to brokers	98,585	-	-
Securities lending collateral	1,600,111	-	-
Deferred credits and other liabilities	28,704	-	-
Total liabilities	1,834,509	1,867	$ 265,403
Net Assets			
Held in trust for pension and other employee benefits and external pool participants	$ 13,181,988	$ 320,485	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows *(Continued)*

Proprietary Funds

Year ended June 30, 2005
(with comparative financial information as of June 30, 2004)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2005	Total 2004	Governmental Activities-Internal Service Funds 2005	Governmental Activities-Internal Service Funds 2004
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 58,321	$ 8,382	$ 15,620	$ (519,136)	$ (64,930)	$ 9,598	$ 3,766	$ (38,311)	$ 407	$ (526,283)	$ (501,709)	$ 729	$ 2,572
Adjustments for non-cash activities:													
Depreciation and amortization	168,315	40,112	10,759	118,440	6,655	37,800	9,967	1,023	282	393,353	355,443	1,119	1,218
Provision for uncollectibles	1,167	-	871	1,404	-	2	918	-	-	4,362	29,057	-	-
Write-off of capital assets	9,193	14,074	3,303	-	-	-	-	-	-	26,570	187	-	-
Other	6,033	(5,634)	-	10,242	-	1,702	(366)	-	-	11,977	5,968	8	-
Changes in assets/liabilities:													
Receivables, net	6,684	2,767	(9,242)	2,276	21,195	(2,776)	(201)	(8,796)	-	11,907	(10,586)	15,187	15,741
Due from other funds	-	-	(29)	-	26	-	-	-	-	(3)	(10,292)	-	-
Inventories	52	(300)	(7)	(3,806)	(982)	-	96	(63)	-	(5,010)	746	-	-
Deferred charges and other assets	(617)	-	-	3,729	-	-	2,935	-	2	6,049	2,379	(26)	146
Accounts payable	8,330	2,252	(12,678)	862	1,883	1,057	(3,696)	1,587	80	(323)	18,267	1,384	236
Accrued payroll	976	755	135	1,266	1,549	366	(56)	246	-	5,237	(29,626)	120	(1,199)
Accrued vacation and sick leave pay	(86)	454	71	(119)	(94)	339	147	(972)	-	(260)	3,364	39	96
Accrued workers' compensation	(36)	(1,344)	174	(4,088)	672	(126)	387	245	-	(4,116)	14,341	(65)	137
Estimated claims payable	-	(3,253)	1,833	15,922	-	4,331	560	-	-	19,393	11,665	-	-
Due to other funds	-	380	(528)	372	-	-	(598)	(1,689)	-	(2,063)	(4,155)	-	-
Deferred credits and other liabilities	(11,854)	(11,330)	(1,657)	(3,494)	4,356	1	246	-	(21)	(23,753)	7,311	(3,104)	(4,646)
Total adjustments	188,157	38,933	(6,995)	143,006	35,260	42,696	10,339	(8,419)	343	443,320	394,069	14,662	11,729
Net cash provided by (used in) operating activities	$ 246,478	$ 47,315	$ 8,625	$ (376,130)	$ (29,670)	$ 52,294	$ 14,105	$ (46,730)	$ 750	$ (82,963)	$ (107,640)	$ 15,391	$ 14,301
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 264,061	$ 136,065	$ 92,966	$ 19,596	$ 26,360	$ 46,167	$ 66,096	$ -	$ -	$ 651,311	$ 674,889	$ 8,196	$ 6,705
Restricted	177,582	80,767	-	32,844	-	103,256	4,344	29,351	-	428,144	422,574	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	5,380	10	-	5	1	2,561	8,017	8,294	16,057	25,725
Total deposits and investments	441,653	216,872	92,976	57,820	26,370	149,423	70,445	29,352	2,561	1,087,472	1,105,757	24,253	32,430
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents	-	-	-	410	-	-	4,308	-	127	4,845	10,280	-	-
Less: Investments not meeting the definition of cash equivalents	(190)	-	-	-	-	-	(31)	-	-	(221)	(434)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 441,463	$ 216,872	$ 92,976	$ 58,230	$ 26,370	$ 149,423	$ 74,722	$ 29,352	$ 2,688	$ 1,092,096	$ 1,115,603	$ 24,253	$ 32,430

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, 2005

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 226,522	$ -
Employer contributions	465,831	-
Contributions to pooled investments	-	2,487,745
Total contributions	692,353	2,487,745
Investment income:		
Interest	189,926	7,714
Dividends	121,030	-
Net increase in fair value of investments	1,245,892	-
Securities lending income	34,183	-
Fixed coupon dollar reverse repurchase agreement income	4,923	-
Total investment income	1,595,954	7,714
Less investment expenses:		
Securities lending borrower rebates and expenses	(27,135)	-
Fixed coupon dollar reverse repurchase finance charges and expenses	(4,556)	-
Other expenses	(28,228)	-
Total investment expenses	(59,919)	-
Total additions, net	2,228,388	2,495,459
Deductions:		
Benefit payments	975,976	-
Refunds of contributions	8,565	-
Distribution from pooled investments	-	2,380,091
Administrative expenses	10,593	-
Total deductions	995,134	2,380,091
Change in net assets	1,233,254	115,368
Net assets at beginning of year	11,948,734	205,117
Net assets at end of year	$ 13,181,988	$ 320,485

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

(1) THE FINANCIAL REPORTING ENTITY

San Francisco is a city and county chartered by the State of California and as such can exercise the powers as both a city and a county under state law. As required by generally accepted accounting principles, the accompanying financial statements present the City and County of San Francisco (the City or Primary Government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As a government agency, the City is exempt from both federal income taxes and California State franchise taxes.

Blended Component Units

Following is a description of those legally separate component units for which the City is financially accountable that are blended with the Primary Government because of their individual governance or financial relationships to the City.

San Francisco County Transportation Authority (Authority) - The voters of the City created the Authority in 1989 to impose a voter-approved sales and use tax of one-half of one percent to fund essential traffic and transportation projects. A Board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The operations of the Authority are reported within other governmental funds. Financial statements for the Authority can be obtained from their administrative offices at 100 Van Ness Avenue, 25th Floor, San Francisco, CA 94102.

San Francisco Finance Corporation (Finance Corporation) - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase $20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. 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 (Parking Authority) - The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from their administrative offices at 25 Van Ness Avenue, San Francisco, CA 94102.

Discretely Presented Component Units

San Francisco Redevelopment Agency (Agency) - The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

In fiscal year 2001-2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, PIDC is reported as a blended component unit of the Agency. Activities during the year are predevelopment activities including design and financing of a 106 affordable units mixed-use development, expected to be complete by December 2005.

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's administrative offices at 770 Golden Gate Avenue, San Francisco, CA 94102.

Treasure Island Development Authority (TIDA) - The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern the TIDA. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse, and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare, and common benefit of the inhabitants of the City. The TIDA has adopted as its mission the creation of affordable housing and economic development opportunities on Treasure Island.

The TIDA's governing body is not substantively the same as that of the City it 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 (BART) and the Bay Area Air Quality Management District (BAAQM), which are also excluded from the City's reporting entity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The basic financial statements include certain prior-year summarized comparative information. This information is presented only to facilitate financial analysis.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, report only assets and liabilities and cannot be said to have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. It is the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within the first or second quarter of the following fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, grants and subventions, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental fund:

The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major proprietary (enterprise) funds:

The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.

The ***Water Department Fund*** accounts for the activities of the San Francisco Water Department. The department is engaged in the distribution of water to the City and certain suburban areas.

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

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

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

The ***Clean Water Program Fund*** accounts for the activities of the Clean Water Program (CWP). It was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.

The ***Port of San Francisco Fund*** accounts for the activities of the Port of San Francisco. This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

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

Additionally, the City reports the following fund types:

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

The ***Internal Service Funds*** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.

The ***Pension and Other Employee Benefit Trust Funds*** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries.

The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, and the Trial Courts are accounted for within the Investment Trust Fund.

The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of: the State of California, human welfare, community health and transportation programs.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

(c) Budgetary Data

The City adopts annual budgets for all governmental funds on a substantially modified accrual basis of accounting except for capital project funds and certain debt service funds which substantially adopt project length budgets.

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

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

Original Budget

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

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

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

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

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

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

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

Final Budget

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

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

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

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

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

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors through a supplemental appropriation.

(d) Deposits and Investments

Investment in the Treasurer's Pool

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issuance of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees' Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2005, $321 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 11.35%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2005 to support the value of shares in the pool.

For reports on the external investment pool, contact the Office of the Treasurer, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Investment Valuation

Treasurer's Pool - Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund. Certain U.S. government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

Employees' Retirement System (Retirement System) - Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate holdings are estimated primarily on appraisals prepared by third-party appraisers. The fair values of venture capital investments are estimated based primarily on audited financial statements provided by the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of these investments can only be determined by negotiation between independent third parties in a sales transaction.

The City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans is sixty-five days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of fifty-one days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of fourteen days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan. Cash received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2005 was approximately $95 thousand.

Other funds - Non-pooled investments are also generally carried at fair value. However, money market investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less are carried at amortized cost, which approximates market value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

Component Unit - San Francisco Redevelopment Agency - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2005.

Investment Income

Income from pooled investments is allocated at month end to the individual funds or external participants based on the fund or participant's average daily cash balance in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service Funds, and Trust and Agency Funds.

It is the City's policy to charge interest at month end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other governmental funds, MTA, Laguna Honda Hospital, General Hospital Medical Center, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

(e) Loans Receivable

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account.

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting deferred credit account.

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

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. 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 is recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Facilities and Improvements	15 to 175
Infrastructure	15 to 70
Machinery and Equipment	2 to 75
Easements	20

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

(i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination.

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 to at least June 30, 2005.
This Program provides:

> Effective July 1, 2002, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment for a portion of sick leave earned but unused at the time of separation. The amount of this payment shall be equal to 2.5% of sick leave balances earned but unused at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums of supplements, at the time of separation. Vested sick leave hours as described by Civil Service Commission rules, shall not be included in this computation.

The City accrues for all salary-related items, including the Program, in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

(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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide and proprietary fund financial statements.

(k) Fund Equity

Reservations of Fund Equity

Reservations of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

Reserve for rainy day - The City's Charter requires that the City set aside funds into a reserve account in years in which revenue growth exceeds five percent compared to the year before. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent.

Reserve for assets not available for appropriation - Certain assets, primarily cash and investments outside City Treasury and deferred charges, do not represent expendable available financial resources. Therefore, a portion of fund equity is reserved to offset the balance of these assets.

Reserve for debt service - The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent year.

Reserves for encumbrances - Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.

Reserve for appropriation carryforward - At the end of the fiscal year, certain budgeted expenditures are authorized to be carried over and expended in the ensuing year. A reserve of fund balance is established in the amount of these budget authorizations.

Reserve for subsequent years' budgets - A portion of fund balance is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments.

Restricted Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* - This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2005.

Designation for litigation and contingencies - This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year.

Deficit Net Assets/Fund Balances

The Telecommunications and Information Internal Service Fund had a $2.1 million deficit in total net assets as of June 30, 2005. Approximately $0.8 million of this deficit is due to current year depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a $0.3 million deficit as of June 30, 2005. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

The Culture and Recreation Fund had a $0.4 million deficit as of June 30, 2005. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a $5.2 million deficit as of June 30, 2005. The deficit will be covered as hotel tax revenues are realized.

(l) Interfund Transfers

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

(1) Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.

(2) Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

(n) Cash Flows

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

(o) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) Reclassifications

Certain amounts presented as 2003-2004 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2004-2005 basic financial statements.

(q) Effects of New Pronouncements

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The City implemented the new reporting requirements in the fiscal year 2004-2005 financial statements.

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

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006. However, the Airport Enterprise Fund early implemented this statement in fiscal year 2004-2005 and reported an impairment loss of $50 million.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Application of this statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting standards for termination benefits. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. Application of this statement is effective for the City in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. For all other termination benefits, application of this statement is effective for the City's fiscal year ending June 30, 2006.

(r) Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects. In addition, certain grant proceeds are restricted by the granting agency.

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

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

Total fund balances of the City's governmental funds, $1,068,256, differ from net assets of governmental activities, $1,501,082, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)

	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 1,230,154	$ -	$ 8,196	$ -	$ 1,238,350
Deposits and investments outside City Treasury	46,100	-	16,057	-	62,157
Receivables, net:					
Property taxes and penalties	33,031	-	-	-	33,031
Other local taxes	161,532	-	-	-	161,532
Federal and state grants and subventions	150,971	-	-	-	150,971
Charges for services	14,248	-	-	-	14,248
Interest and other	8,132	-	457	-	8,589
Due from other funds	42,046	-	2,301	(44,347)	-
Due from component unit	3,375	-	-	-	3,375
Loans receivable, net	242,902	-	-	-	242,902
Capital assets, net	-	2,367,571	4,155	-	2,371,726
Deferred charges and other assets	8,367	13,200	5,704	-	27,271
Total assets	1,940,858	2,380,771	36,870	(44,347)	4,314,152
Liabilities					
Accounts payable	135,859	-	7,237	-	143,096
Accrued payroll	48,541	-	1,385	-	49,926
Accrued vacation and sick leave pay	-	121,315	3,722	-	125,037
Accrued workers' compensation	-	213,654	1,151	-	214,805
Estimated claims payable	-	83,537	-	-	83,537
Accrued interest payable	-	6,517	1,082	-	7,599
Deferred tax, grant and subvention revenues	46,251	(42,680)	-	-	3,571
Due to other funds/internal balances	79,471	-	1,374	(44,347)	36,498
Deferred credits and other liabilities	412,480	(268,299)	1,205	-	145,386
Bonds, loans, capital leases, and other payables	150,000	1,622,283	231,332	-	2,003,615
Total Liabilities	872,602	1,736,327	248,488	(44,347)	2,813,070
Fund balances/net assets					
Total fund balances/net assets	1,068,256	644,444	(211,618)	-	1,501,082
Total liabilities and fund balances/net assets	$ 1,940,858	$ 2,380,771	$ 36,870	$ (44,347)	$ 4,314,152

(1) When capital assets (land, infrastructure, buildings, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets, net of accumulated depreciation, among the assets of the City as a whole.

Cost of capital assets	$ 2,995,050
Accumulated depreciation	(627,479)
	$ 2,367,571

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.	$ 13,200

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	$ (121,315)
Accrued workers' compensation	(213,654)
Estimated claims payable	(83,537)
Bonds, loans, capital leases, and other payables	(1,622,283)
Deferred credits and other liabilities	(97)
	$ (2,040,886)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid.	$ 6,517

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Deferred tax, grant and subvention revenue	$ 42,680
Deferred credits and other liabilities	268,396
	$ 311,076

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

Net deficit before adjustments	(1,477)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(231,820)
Deferred charges and other assets	3,153
Deferred credits and other liabilities	18,526
	$ (211,618)

In addition, intrafund receivables and payables among various internal service funds of $0.4 million are eliminated.

(b) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds, $350,682, differs from the change in net assets for governmental activities $194,341, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities (in thousands)

	Total Governmental Funds	Long-term Revenues/ Expenses(3)	Capital-related Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
Revenues						
Property taxes	$ 918,645	$ 1,669	$ -	$ -	$ -	$ 920,314
Business taxes	292,763	-	-	-	-	292,763
Other local taxes	538,085	-	-	-	-	538,085
Licenses, permits and franchises	25,942	-	-	-	-	25,942
Fines, forfeitures and penalties	12,509	-	-	-	-	12,509
Interest and investment income	28,268	971	-	251	-	29,490
Rents and concessions	49,450	1,880	-	-	-	51,330
Intergovernmental:						
Federal	348,764	-	-	-	-	348,764
State	522,937	763	-	-	-	523,700
Other	25,783	-	-	-	-	25,783
Charges for services	241,750	-	-	-	-	241,750
Other revenues	57,487	959	-	-	-	58,446
Total revenues	3,062,383	6,242	-	251	-	3,068,876
Expenditures/Expenses						
Current:						
Public protection	738,494	(5,200)	10,576	(5,182)	-	738,688
Public works, transportation and commerce	195,896	5,088	20,834	(8,483)	-	213,335
Human welfare and neighborhood development	644,899	(25,620)	581	(107)	-	619,753
Community health	501,050	1,252	957	-	-	503,259
Culture and recreation	239,022	11,438	27,684	(4,119)	(17,689)	256,336
General administration and finance	135,118	3,595	13,629	508	-	152,850
General City responsibilities	62,799	(3,278)	-	(1,049)	552	59,024
Debt service:						
Principal retirement	80,306	-	-	-	(80,306)	-
Interest and fiscal charges	61,524	-	-	6,523	21,643	89,690
Bond issuance costs	4,842	-	-	-	(4,842)	-
Capital outlay	130,224	-	(130,224)	-	-	-
Total expenditures/expenses	2,794,174	(12,725)	(55,963)	(11,909)	(80,642)	2,632,935
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(241,870)	-	-	270	-	(241,600)
Issuance of bonds and loans:						
Face value of bonds issued	346,225	-	-	-	(346,225)	-
Face value of loans issued	500	-	-	-	(500)	-
Premium on issuance of bonds	11,989	-	-	-	(11,989)	-
Payment to escrow for refunded debt	(38,913)	-	-		38,913	
Other financing sources - capital leases	4,542	-	-	(4,542)	-	-
Total other financing sources (uses)/changes in net assets	82,473	-	-	(4,272)	(319,801)	(241,600)
Net change for the year	$ 350,682	$ 18,967	$ 55,963	$ 7,888	$ (239,159)	$ 194,341

(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.	$ 1,669
	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.	4,573
		$ 6,242
	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	$ (1,553)
	Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenses are not reported in the statement of activites.	14,278
		$ 12,725
(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	$ 120,774
	Depreciation expense	(64,797)
	Loss on disposal of capital assets	(14)
	Difference	$ 55,963
(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 fund's costs for the year.	$ 7,888
(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	$ 17,689
	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	$ 4,842
	Amortization of bond issuance costs	(552)
	Difference	$ 4,290
	Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period	$ (11,989)
	Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.	
	Principal payments made	$ 80,306
	Payments to escrow for refunded debt	38,913
		$ 119,219

Bond proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt and entering into capital lease arrangements increase long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:

General obligation bonds	$ (306,875)
Refunding certificate of participation	(39,350)
Loans	(500)
	(346,725)
	$ (227,506)

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses which are expended within the fund statements, and (3) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

Increase in accrued interest	$ (318)
Interest payment on capital lease obligations on the Moscone Convention Center	(22,198)
Amortization of bond premiums, discounts and refunding losses	(214)
Reduction in arbitrage rebate liability	1,087
	$ (21,643)

(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP basis. The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis "actual" and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (note 6).

The fund balance of the General Fund as of June 30, 2005 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund Balance - Budget Basis	$ 324,724
Unrealized Gains on Investments	224
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(24,419)
Deferred Charges & Other	(1,880)
Reserved for Assets Not Available for Appropriation	9,031
Fund Balance - GAAP Basis	$ 307,680

General Fund Budget basis fund balance at June 30, 2005 is composed of the following (in thousands):

Reserved for Rainy Day - Economic Stabilization Reserve	$ 48,139	
Reserved for Encumbrances	57,762	
Reserved for Appropriation Carryforward	36,198	
Reserved for Subsequent Years' Budgets:		
Baseline Appropriation Funding Mandates	6,223	
Budget Savings Incentive Program	2,628	
Budget Savings Incentive Program - Recreation & Park	3,075	
Salaries & benefits costs (MOU)	9,150	
Total Reserved Fund Balance		$ 163,175
Designated for Litigation and Contingencies	24,370	
Unreserved, Undesignated Fund Balance - Available for Appropriation	137,179	
Total Unreserved Amounts		161,549
Fund Balance, June 30, 2005 - Budget basis		$ 324,724

Of the $137.2 million unreserved, undesignated fund balance - available for appropriation, $118 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2005-2006.

(5) DEPOSITS AND INVESTMENTS

(a) *Cash, Deposits and Investments Presentation*

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,238,350 [1]	$ 651,311	$ 508,239 [2]	$ 2,397,900	$ 1,516
Deposits and investments outside City Treasury	62,157 [3]	8,017	13,230,007	13,300,181	157,675
Restricted assets:					
Deposits and investments with City Treasury	-	428,724	-	428,724	-
Deposits and investments outside City Treasury	-	268,437	-	268,437	91,089
Invested securities lending collateral			1,600,111	1,600,111	-
Total deposits and investments	$ 1,300,507	$ 1,356,489	$ 15,338,357	$ 17,995,353	$ 250,280
Cash and deposits	$ (70,123)	$ 4,047	$ 17,986	$ (48,090)	$ 1,056
Investments	1,370,630	1,352,442	15,320,371	18,043,443	249,224
Total deposits and investments	$ 1,300,507	$ 1,356,489	$ 15,338,357	$ 17,995,353	$ 250,280

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,230,154) and internal service funds ($8,196).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($76,672), investment trust fund ($321,101) and agency funds ($110,466).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($46,100) and internal service funds ($16,057).

(b) *Cash and Deposits*

The City had cash and deposits at June 30, 2005, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 1,680	$ -	$ 483	$ -	$ -	$ -	$ 1	$ -
Federally insured deposits	500	500	377	828	100	100	268	468
Collateralized deposits*	(72,303)	32,873	170	60	3,752	3,752	787	2,002
Uninsured and uncollateralized	-	-	3,017	2,417	14,134	14,134	-	-
	$ (70,123)	$ 33,373	$ 4,047	$ 3,305	$ 17,986	$ 17,986	$ 1,056	$ 2,470

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2005, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $105.5 million. Of the $105.5 million of outstanding checks, $46.2 million relates to the San Francisco Unified School District and Community College District, which have been reflected in an investment trust fund.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The

California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2005, $2.4 million and $14.1 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

(c) *Investment Policies*

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 preservation of capital, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee), comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

Although the California Government Code and the City's investment policy do not limit the amount of City funds that may be invested in treasury bills and treasury notes, the investment policy requires the consideration of the City's anticipated cash requirements when purchasing treasury notes of longer maturities. Also, treasury notes with maturities that exceed five years are restricted to a maximum of 10 percent of the total portfolio at the time of purchase. In addition, purchases of treasury bonds are subject to an analysis of cash requirements and restricted to a maximum of five percent of the total portfolio at the time of purchase.

Further, the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments. However, the City's investment policy requires that investments in federal agencies should neither exceed 60 percent of the total portfolio at the time of purchase nor have a weighted average maturity in excess of 270 days. If it exceeds 270 days, the total should not exceed 30 percent of the total par value of the portfolio. The investment policy also limits each type of agency instrument.

The City's investment policy also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that they yield a minimum of 0.125% higher than equal maturity U.S. Treasury instruments. The investment policy restricts exposure to $100,000 for all savings institutions and requires that each deposit be fully guaranteed by the Federal Deposit Insurance Corporation. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

Also, the California State Government Code requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 270 days and that the issuer must be rated in the highest ranking by at least one of the national rating agencies. However, the Treasurer's investment policy is more restrictive in that it requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 180 days.

The table below identifies the investment types that are authorized for the City, along with the related interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	None	None
U.S. Agency Securities	N/A	60%	None
Commercial Paper Discounts	180 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Public Time Deposit	1 year	None	$100,000
Public Demand Accounts	N/A	None	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	45 days	None	$75 million

The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. Those instruments are valued at par, cost, or market 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.

Redevelopment Agency

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

Certain investments of the Redevelopment 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 market value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated market values. In addition, the Redevelopment Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

(d) *Investment Risks*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2005 (in thousands). The Employees' Retirement System's interest rate risk information begins on page 68.

		Investment Maturities		
	Fair Value	Less than 1 year	1 to 5 years	More than 10 years
Primary Government:				
Investments in City Treasury:				
U.S. Treasury Bills	$ 682,030	$ 682,030	$ -	$ -
U.S. Treasury Notes	54,791	-	54,791	-
U.S. Agencies - Coupon	1,431,791	1,431,791	-	-
Commercial paper	377,888	377,888	-	-
Negotiable certificates of deposits	357,975	357,975	-	-
Nonnegotiable certificates of deposits	100	100	-	-
Less: Treasure Island Development Authority Investments with City Treasury	(1,516)	(1,516)	-	-
Subtotal investments in City Treasury	2,903,059	$ 2,848,268	$ 54,791	$ -
Investments Outside City Treasury: (Governmental and Business-Type)				
U.S. Treasury Notes	4,896	$ -	$ 4,896	$ -
U.S. Treasury Bills	23,892	23,892	-	-
U.S. Agencies - Coupon	28,407	23,034	5,373	-
U.S. Agencies - Discount	222,700	222,700	-	-
Money market mutual funds	46,791	46,791	-	-
Equity securities	828	828	-	-
Commercial paper	738	738	-	-
Subtotal investments outside City Treasury	328,252	$ 317,983	$ 10,269	$ -
Employees' Retirement System investments	14,812,132			
Total Primary Government	18,043,443			
Component Units:				
Redevelopment Agency:				
U.S. Agencies - Coupon	52,154	$ -	$ 52,154	$ -
U.S. Agencies - Discount	19,057	19,057	-	-
Commercial paper	13,981	13,981	-	-
Medium-term corporate notes	1,990	1,990	-	-
Repurchase agreements	1,834	1,834	-	-
State Local Agency Investment Fund	64,477	64,477	-	-
Money market mutual funds	71,324	71,324	-	-
Guaranteed investment contracts	22,705	-	988	21,717
Subtotal Redevelopment Agency	247,522	$ 172,663	$ 53,142	$ 21,717
Treasure Island Development Authority:				
Investments with City Treasury	1,516	$ 1,516	$ -	$ -
Investments Outside City Treasury:				
Certificates of deposits	186	186	-	-
Subtotal Treasure Island Development Authority	1,702	$ 1,702	$ -	$ -
Total Component Units	249,224			
Total Investments	$ 18,292,667			

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.

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 180 days. Investment in commercial paper will comprise not more than 30% of the Agency's portfolio if average maturity is no more than 31 days or 15% if average maturity is more than 31 days.
- The maximum maturity of corporate notes is five years. Investment in corporate notes may not exceed 15% of the Agency's portfolio.

CITY AND COUNTY OF SAN FRANCISCO
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Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2005 for each investment type.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Total Investment Portfolio
U.S. Treasury Bills	N/A	A-1+	24%
U.S. Treasury Notes	N/A	A-1	2%
U.S. Agencies	N/A	A-1+	18%
U.S. Agencies	N/A	A-1	31%
Commercial Paper	A-1	A-1	13%
Negotiable Certificates of Deposits	N/A	A-1+	12%

As a means of limiting its exposure to credit risk, the Agency's investment policy limits investments to high-quality securities with an investment grade of A or better, and maintaining a portfolio diversified by type and issuer.

Investment Type	Credit Ratings	Total Investment Portfolio
U.S. Agencies - Coupon	AAA	21%
U.S. Agencies - Discount	AAA	8%
Commercial paper	A-1/P-1	6%
Medium-term corporate notes	AAA	1%
Repurchase agreements	Not rated	1%
State Local Agency Investment Fund	Not rated	26%
Money market mutual funds	AAA	28%
Guaranteed investment contracts	AA or Higher	9%

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name.

The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2005, $1.8 million of the Agency's investments are uninsured and unregistered.

Concentration of Credit Risk

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to this limitation. More than 5 percent of the City's investments with City Treasurer are in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and the Federal National Mortgage Association. These investments represent 15.4 percent, 16.2 percent, and 17.7 percent, respectively, of the City's investments with the City Treasurer. In addition, more than five percent of the Airport's investments with its trustees are in Federal Home Loan Bank and Federal Nation Mortgage Association. These investments represent 51 percent and 48 percent, respectively, of the Airport's investments with its trustees. The Finance Corporation's investments with its trustee are held in Federal Home Loan Bank for 19 percent and Federal Nation Mortgage Association for 20 percent.

(e) Investment Gain

The types of investments made during the year were substantially the same as those held as of June 30, 2005. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment gain is comprised of the following at June 30, 2005 (in thousands):

Interest and dividends, net of amounts capitalized	$ 377,976
Net increase in the fair value of investments	1,244,537
Total investment gain	$ 1,622,513

The net increase in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year. The primary component of this figure is the net increase in fair value of pension investments.

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2005 was 2.31%.

(f) 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, 2005 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants........	$ 2,828,140
Equity of internal pool participants........................	2,507,655
Equity of external pool participants.......................	320,485
Total equity...	$ 2,828,140
Statement of Changes in Net Assets	
Net assets at July 1, 2004..................................	$ 2,222,788
Net change in investments by pool participants.......	605,352
Net assets at June 30, 2005...........................	$ 2,828,140

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2005 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities...............	2.64% - 4.56%	07/07/05-06/15/10	$ 745,000	$ 736,821
Federal agencies..............................	2.91% - 3.27%	07/05/05-10/18/05	1,442,000	1,431,791
Negotiable certificate of deposits........	3.09% - 3.31%	07/11/05-08/30/05	358,000	357,975
Commercial paper..............................	3.04% - 3.29%	07/05/05-08/29/05	380,000	377,888
Public time deposits..........................	3.00%	07/16/05	100	100
			$ 2,925,100	2,904,575
Carrying amount of deposits in Treasurer's Pool..				(76,435)
Total cash and investments in Treasurer's Pool..				$ 2,828,140

(g) Retirement System Investments

The Retirement System's investments as of June 30, 2005 are summarized as follows (in thousands):

Fixed Income Investments:	
Short-term bills and notes	$ 622,621
Debt securities:	
U.S. Government and agencies	1,372,895
U.S. Corporate	1,773,910
International government	319,682
International corporate	162,740
Subtotal debt securities	3,629,227
Total fixed income investments	4,251,848
Equity securites:	
Domestic	4,225,420
International	2,199,917
Total equity securities	6,425,337
Real estate holdings	1,084,786
Venture capital	1,436,796
Foreign currency contracts, net	13,254
Investment in lending agent's short-term investment pool	1,600,111
Total Retirement System Investments	$ 14,812,132

Interest Rate Risk

The Retirement System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board.

As of June 30, 2005, the Retirement System had the following fixed income investments subject to interest rate risk (amounts in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Asset Backed Securities	$ 136,564	0.791
Commercial Mortgage-Backed Securities	378,542	1.861
Corporate Bonds	1,302,916	1.175
Corporate Convertible Bonds	166,487	0.693
Government Agencies	45,552	0.143
Government Bonds	1,166,117	1.984
Government Mortgage-Backed Securities	395,979	1.669
Index Linked Government Bonds	75,017	0.310
Mortgages	10,207	0.023
Municipal/Provincial Bonds	11,041	0.015
Non-Government Backed Collateralized Mortgage Obligations	104,484	0.635
Other Fixed Income	3,000	0.001
Short-term Bills and Notes	94,678	0.003
Short-term Investment Funds	297,936	0.000
Total	$ 4,188,520	9.303

The 9.3 year weighted average maturity of the Retirement System's fixed income investments is based on the final maturity dates of all of the securities listed in the table. However, it is estimated that approximately 30% of the securities in the table contain embedded call options. Some of these "put back" options are explicit (such as call features attached to corporate bonds) and others are implicit (such as prepayment options on mortgage backed securities) which makes the expected life of these investments shorter than the stated maturity. For these reasons, actual maturities might differ from those reflected in the table.

Credit Risk

The Retirement System's fixed income managers are limited within their portfolios to no more than 10% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government as of June 30, 2005 (amounts in thousands):

Investment Type	Fair Value	A	AA	AAA	B	BB	BBB	C	Not Rated
Asset Backed Securities	$ 136,564	$ 77	$ -	$ 68,303	$ 2,346	$ 24,481	$ 33,008	$ 3,075	$ 5,274
Commercial Mortgage-Backed	378,542	1,842	19,186	117,862	17,214	101,633	36,209	3,889	80,707
Corporate Bonds	1,302,916	49,302	35,147	27,763	213,866	138,113	62,395	33,960	742,370
Corporate Convertible Bonds	166,487	18,548	3,592	-	21,411	36,457	65,683	3,068	17,728
Government Agencies	45,552	2,218	8,112	35,222	-	-	-	-	-
Government Bonds	296,424	72,018	27,837	79,718	41,783	14,056	51,523	170	9,319
Government Mortgage-Backed Securities	373,445	-	-	-	568	783	-	-	372,094
Index Linked Government Bonds	11,288	-	-	11,288	-	-	-	-	-
Mortgages	10,207	-	-	-	-	-	-	-	10,207
Municipal/Provincial Bonds	11,041	205	10,836	-	-	-	-	-	-
Non-Government Backed Collateralized Mortgage Obligations	104,484	1,048	490	53,784	14,630	11,276	3,491	514	19,251
Other fixed Income	3,000	-	3,000	-	-	-	-	-	-
Short-term bills and notes	89,082	-	-	-	-	-	-	-	89,082
Total	$ 2,929,032	$ 145,258	$ 108,200	$ 393,940	$ 311,818	$ 326,799	$ 252,309	$ 44,676	$ 1,346,032

The ratings are the lower of the ratings by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Investments not rated by either Moody's or S&P are shown as not rated in the above table.

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2005, $9,967 of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2005, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk is as follows (in thousands):

Currency	Cash	Fixed Income Securities	Equity Securities	Real Estate	Venture Capital	Total
Australian dollar	$ 39,325	$ -	$ 54,475	$ -	$ -	$ 93,800
Brazilian real	14,862	-	2,418	-	-	17,280
British pound sterling	29,845	12,584	357,972	-	3,660	404,061
Canadian dollar	(26,841)	12,853	58,149	-	-	44,161
Chilean peso	3,166	-	-	-	-	3,166
Chinese yuan renminbi	(3,266)	-	-	-	-	(3,266)
Danish krone	(778)	835	13,652	-	-	13,709
Egyptian pound	2,212	2,977	-	-	-	5,189
Euro currency	(471,992)	296,870	582,913	-	97,811	505,602
Hong Kong dollar	467	-	44,459	-	-	44,926
Hungarian forint	5,565	-	-	-	-	5,565
Iceland krona	(4,710)	6,548	-	-	-	1,838
Indian rupee	2,264	-	-	-	-	2,264
Japanese yen	(45,532)	95,978	404,855	5,048	-	460,349
Malaysian ringgit	6,146	-	-	-	-	6,146
Mexican peso	13,881	-	-	-	-	13,881
New Israeli shekel	-	2,741	-	-	-	2,741
Taiwan dollar	3,298	-	-	-	-	3,298
New Zealand dollar	(9,759)	7,996	5,085	-	-	3,322
Norwegian krone	674	-	11,918	-	-	12,592
Philippine peso	4,319	-	-	-	-	4,319
Polish zloty	10,298	-	-	-	-	10,298
Russian ruble (new)	13,366	6,076	-	-	-	19,442
Singapore dollar	8,870	-	15,215	-	-	24,085
Slovak koruna	7,942	-	-	-	-	7,942
South African rand	4,948	-	3,809	-	-	8,757
South Korean won	8,414	1,728	31,237	-	-	41,379
Swedish krona	3,878	2,575	32,741	-	-	39,194
Swiss franc	6,039	-	119,178	-	-	125,217
Turkish lira	1,523	15,366	-	-	-	16,889
Ukrainian hryvnia	2,404	3,115	-	-	-	5,519
Uruguayan peso	45	2,601	-	-	-	2,646
Total	$ (369,127)	$ 470,843	$ 1,738,078	$ 5,048	$ 101,471	$ 1,946,311

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2005, the fair value of open contracts can be summarized as follows (in thousands):

Purchase contracts	$ 1,132,367
Sales contracts	(1,119,113)
Net fair value	$ 13,254

The Retirement System utilized these contracts to hedge (or decrease) the currency risk of foreign investments, to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities, or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts. The impact on market risk of these contracts can be summarized as follows (in thousands):

Contracts used to hedge or to settle trades, net	$ (509,479)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	522,733
Net fair value	$ 13,254

Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and securities at 105% of the fair market value of domestic securities and non-domestic securities lent. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

The Retirement System lent $1,932,450 in securities and received collateral of $391,580 and $1,600,111 in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2005, are summarized in the following table (in thousands):

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities Loaned for Cash Collateral:			
International Corporate Fixed	$ 2,001	$ 2,092	$ -
International Equities	216,236	226,926	-
International Government Fixed	19,307	20,306	-
U.S. Agencies	605	616	-
U.S. Corporate Fixed	182,593	186,989	-
U.S. Equities	248,102	254,608	-
U.S. Government Fixed	888,303	908,574	-
Securities Loaned with Non-Cash Collateral:			
International Equities	268,163	-	281,856
International Government Fixed	10,611	-	11,008
International UK Gilt	11,069	-	11,414
U.S. Agencies	6,408	-	6,570
U.S. Corporate Fixed	18,988	-	19,401
U.S. Equities	1,289	-	1,319
U.S. Government Fixed	58,775	-	60,012
Total	$ 1,932,450	$ 1,600,111	$ 391,580

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2005, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

(h) Supplemental disclosure of non-cash investing and financing activities

San Francisco International Airport

During the fiscal year 2004-2005, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 31F and Issue 32 to refund previously issued debt. The $109.1 million in proceeds from Issue 31F and the $197.7 million in proceeds from Issue 32 were deposited immediately into irrevocable trusts for the defeasance of $306.8 million of Second Series Refunding Bonds.

Bond issuance costs of $8.4 million that were deducted from the proceeds of the Second Series Revenue Bonds were capitalized and will be amortized over the debt repayment period.

Other Non-Cash Transactions

The following represents the other non-cash transactions as of June 30, 2005 (in thousands):

	General Hospital Medical Center	Port of San Francisco	Laguna Honda Hospital	Internal Service Funds	Total 2005	Total 2004
Loss on abandonment of property and equipment.......	$ -	$ 11	$ -	$ -	$ 11	$ 39
Acquisition of capital assets on accounts payable and capital leases....................	958	2,313	409	313	3,993	3,750
Donated surplus................	-	5,000	-	-	5,000	-
Total	$ 958	$ 7,324	$ 409	$ 313	$ 9,004	$ 3,789

(6) PROPERTY TAXES

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are due on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the dates of the underlying transaction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $130 million for the year ended June 30, 2005.

Taxable valuation for the year ended June 30, 2005 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $100.6 billion, an increase of 5.5%. The secured tax rate was $1.144 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 $0.144 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.36% and 2.53%, respectively, of the current year tax levy, for an average delinquency rate of 1.44% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2005 was $11.3 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.

CITY AND COUNTY OF SAN FRANCISCO
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June 30, 2005

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2005, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 143,640	$ -	$ -	$ 143,640
Construction in progress	245,677	112,520	(66,157)	292,040
Total capital assets, not being depreciated	389,317	112,520	(66,157)	435,680
Capital assets, being depreciated:				
Facilities and improvements	2,092,382	48,216	-	2,140,598
Machinery and equipment	244,119	14,868	(2,550)	256,437
Infrastructure	180,976	13,490	-	194,466
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	2,522,293	76,574	(2,550)	2,596,317
Less accumulated depreciation for:				
Facilities and improvements	397,184	39,148	-	436,332
Machinery and equipment	191,445	21,507	(2,536)	210,416
Infrastructure	4,138	5,105	-	9,243
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	597,047	65,760	(2,536)	660,271
Total capital assets, being depreciated, net	1,925,246	10,814	(14)	1,936,046
Governmental activities capital assets, net	$ 2,314,563	$ 123,334	$ (66,171)	$ 2,371,726

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2005, was as follows (in thousands):

San Francisco International Airport

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	126,574	77,399	(158,931)	45,042
Total capital assets, not being depreciated	128,890	77,399	(158,931)	47,358
Capital assets, being depreciated:				
Facilities and improvements	4,670,864	102,009	(3,329)	4,769,544
Machinery and equipment	70,207	739	(5,077)	65,869
Easements	135,598	3,011	-	138,609
Total capital assets, being depreciated	4,876,669	105,759	(8,406)	4,974,022
Less accumulated depreciation for:				
Facilities and improvements	998,507	150,311	-	1,148,818
Machinery and equipment	59,702	4,700	(4,938)	59,464
Easements	46,445	6,630	-	53,075
Total accumulated depreciation	1,104,654	161,641	(4,938)	1,261,357
Total capital assets, being depreciated, net	3,772,015	(55,882)	(3,468)	3,712,665
Capital assets, net	$ 3,900,905	$ 21,517	$ (162,399)	$ 3,760,023

Water Department

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 17,929	$ -	$ -	$ 17,929
Construction in progress	85,755	110,342	(74,234)	121,863
Total capital assets, not being depreciated	103,684	110,342	(74,234)	139,792
Capital assets, being depreciated:				
Facilities and improvements	968,502	59,334	-	1,027,836
Machinery and equipment	99,905	4,704	(415)	104,194
Total capital assets, being depreciated	1,068,407	64,038	(415)	1,132,030
Less accumulated depreciation for:				
Facilities and improvements	359,118	32,088	-	391,206
Machinery and equipment	60,806	8,024	(379)	68,451
Total accumulated depreciation	419,924	40,112	(379)	459,657
Total capital assets, being depreciated, net	648,483	23,926	(36)	672,373
Capital assets, net	$ 752,167	$ 134,268	$ (74,270)	$ 812,165

Hetch Hetchy Water and Power

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	51,097	19,941	(20,132)	50,906
Total capital assets, not being depreciated	55,312	19,941	(20,132)	55,121
Capital assets, being depreciated:				
Facilities and improvements	426,665	16,707	-	443,372
Machinery and equipment	38,156	1,002	(100)	39,058
Total capital assets, being depreciated	464,821	17,709	(100)	482,430
Less accumulated depreciation for:				
Facilities and improvements	234,066	9,197	-	243,263
Machinery and equipment	25,806	1,562	(89)	27,279
Total accumulated depreciation	259,872	10,759	(89)	270,542
Total capital assets, being depreciated, net	204,949	6,950	(11)	211,888
Capital assets, net	$ 260,261	$ 26,891	$ (20,143)	$ 267,009

Municipal Transportation Agency

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	282,779	101,762	(5,338)	379,203
Total capital assets, not being depreciated	309,024	101,762	(5,338)	405,448
Capital assets, being depreciated:				
Facilities and improvements	376,851	6,746	-	383,597
Machinery and equipment	1,088,637	5,652	(5,023)	1,089,266
Infrastructure	703,673	13,052	-	716,725
Total capital assets, being depreciated	2,169,161	25,450	(5,023)	2,189,588
Less accumulated depreciation for:				
Facilities and improvements	123,396	32,317	-	155,713
Machinery and equipment	257,450	63,424	(4,461)	316,413
Infrastructure	209,003	22,680	-	231,683
Total accumulated depreciation	589,849	118,421	(4,461)	703,809
Total capital assets, being depreciated, net	1,579,312	(92,971)	(562)	1,485,779
Capital assets, net	$ 1,888,336	$ 8,791	$ (5,900)	$ 1,891,227

General Hospital Medical Center

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	3,555	717	(1,589)	2,683
Total capital assets, not being depreciated	4,097	717	(1,589)	3,225
Capital assets, being depreciated:				
Facilities and improvements	125,903	2,529	-	128,432
Machinery and equipment	45,930	2,512	-	48,442
Total capital assets, being depreciated	171,833	5,041	-	176,874
Less accumulated depreciation for:				
Facilities and improvements	83,369	4,248	-	87,617
Machinery and equipment	36,625	2,407	-	39,032
Total accumulated depreciation	119,994	6,655	-	126,649
Total capital assets, being depreciated, net	51,839	(1,614)	-	50,225
Capital assets, net	$ 55,936	$ (897)	$ (1,589)	$ 53,450

Clean Water Program

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ -	$ 22,168
Construction in progress	22,379	27,560	(16,381)	33,558
Total capital assets, not being depreciated	44,547	27,560	(16,381)	55,726
Capital assets, being depreciated:				
Facilities and improvements	1,923,515	13,891	-	1,937,406
Machinery and equipment	24,203	2,513	-	26,716
Total capital assets, being depreciated	1,947,718	16,404	-	1,964,122
Less accumulated depreciation for:				
Facilities and improvements	662,932	36,704	-	699,636
Machinery and equipment	20,171	1,096	-	21,267
Total accumulated depreciation	683,103	37,800	-	720,903
Total capital assets, being depreciated, net	1,264,615	(21,396)	-	1,243,219
Capital assets, net	$ 1,309,162	$ 6,164	$ (16,381)	$ 1,298,945

Port of San Francisco

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 119,452	$ -	$ -	$ 119,452
Construction in progress	12,056	12,250	(3,912)	20,394
Total capital assets, not being depreciated	131,508	12,250	(3,912)	139,846
Capital assets, being depreciated:				
Facilities and improvements	265,826	8,243	(790)	273,279
Machinery and equipment	13,368	921	(812)	13,477
Total capital assets, being depreciated	279,194	9,164	(1,602)	286,756
Less accumulated depreciation for:				
Facilities and improvements	157,300	8,963	(790)	165,473
Machinery and equipment	7,957	1,004	(803)	8,158
Total accumulated depreciation	165,257	9,967	(1,593)	173,631
Total capital assets, being depreciated, net	113,937	(803)	(9)	113,125
Capital assets, net	$ 245,445	$ 11,447	$ (3,921)	$ 252,971

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June 30, 2005

Laguna Honda Hospital

	Balance July 1, 2004	Increases *	Decreases *	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	56,574	11,345	-	67,919
Total capital assets, not being depreciated	57,488	11,345	-	68,833
Capital assets, being depreciated:				
Facilities and improvements	27,388	-	-	27,388
Machinery and equipment	12,619	288	-	12,907
Property held under lease	2,294	508	-	2,802
Total capital assets, being depreciated	42,301	796	-	43,097
Less accumulated depreciation for:				
Facilities and improvements	22,056	779	-	22,835
Machinery and equipment	11,830	155	-	11,985
Property held under lease	46	89	-	135
Total accumulated depreciation	33,932	1,023	-	34,955
Total capital assets, being depreciated, net	8,369	(227)	-	8,142
Capital assets, net	$ 65,857	$ 11,118	$ -	$ 76,975

Other Fund - San Francisco Market Corporation

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, being depreciated:				
Facilities and improvements	$ 9,483	$ 48	$ -	$ 9,531
Machinery and equipment	29	26	-	55
Total capital assets, being depreciated	9,512	74	-	9,586
Less accumulated depreciation for:				
Facilities and improvements	4,256	282	-	4,538
Machinery and equipment	-	-	-	-
Total accumulated depreciation	4,256	282	-	4,538
Total capital assets, being depreciated, net	5,256	(208)	-	5,048
Capital assets, net	$ 5,256	$ (208)	$ -	$ 5,048

Total Business-type Activities

	Balance July 1, 2004	Increases *	Decreases *	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 193,781	$ -	$ -	$ 193,781
Construction in progress	640,769	361,316	(280,517)	721,568
Total capital assets, not being depreciated	834,550	361,316	(280,517)	915,349
Capital assets, being depreciated:				
Facilities and improvements	8,794,997	209,507	(4,119)	9,000,385
Machinery and equipment	1,393,054	18,357	(11,427)	1,399,984
Infrastructure	703,673	13,052	-	716,725
Property held under lease	2,294	508	-	2,802
Easements	135,598	3,011	-	138,609
Total capital assets, being depreciated	11,029,616	244,435	(15,546)	11,258,505
Less accumulated depreciation for:				
Facilities and improvements	2,645,001	274,889	(790)	2,919,100
Machinery and equipment	480,347	82,372	(10,670)	552,049
Infrastructure	209,002	22,680	-	231,682
Property held under lease	46	89	-	135
Easements	46,445	6,630	-	53,075
Total accumulated depreciation	3,380,841	386,660	(11,460)	3,756,041
Total capital assets, being depreciated, net	7,648,775	(142,225)	(4,086)	7,502,464
Capital assets, net	$ 8,483,325	$ 219,091	$ (284,603)	$ 8,417,813

* The increases and decreases include transfers of categories of fixed assets from properties held under lease to facilities and improvements.

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

Governmental Activities	
Public protection	$ 10,224
Public works, transportation, and commerce	15,693
Human welfare and neighborhood development	551
Community health	916
Culture and recreation	23,915
General administration and finance	13,498
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis	963
Total depreciation expense - governmental activities	$ 65,760
Business-type activities:	
Airport	$ 161,641
Transportation	118,421
Port	9,967
Water	40,112
Power	10,759
Hospitals	7,678
Sewer	37,800
Market	282
Total depreciation expense - business-type activities	$ 386,660

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department (Water), Hetch Hetchy Water and Power (Hetch Hetchy), the Clean Water Program (CWP), the Municipal Transportation Agency (MTA), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.5 billion as of June 30, 2005. In addition, the Water Department had utility type assets with useful lives over 100 years, which totaled $4.5 million as of June 30, 2005.

During the fiscal year ended June 30, 2005, the City's enterprise funds incurred total interest expense and interest income of approximately $268 million and $33.3 million, respectively. Of these amounts, interest expense of approximately $8.3 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2005, Water, Hetch Hetchy, and CWP expensed $14.1 million, $3.3 million, and $1.7 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

Special items identify significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. During fiscal year ended June 30, 2005, the Airport recognized a loss due to asset impairment of approximately $50 million (including capitalized interest of $5 million) relating to potential runway reconfigurations, construction methods, and materials.

Component Unit - Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2005 was as follows (in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Property held under lease	$ 82,692	$ 22,276	$ -	$ 104,968
Construction in progress	31,568	17,494	(26,770)	22,292
Total capital assets, not being depreciated/amortized	114,260	39,770	(26,770)	127,260
Capital assets, being depreciated:				
Facilities and improvements	137,212	24,227	-	161,439
Leasehold improvements	21,602	-	-	21,602
Machinery and equipment	7,759	68	-	7,827
Total capital assets, being depreciated	166,573	24,295	-	190,868
Less accumulated depreciation and amortization for:				
Facilities and improvements	32,332	3,683	-	36,015
Leasehold improvements	7,354	432	-	7,786
Machinery and equipment	7,157	283	-	7,440
Total accumulated depreciation and amortization	46,843	4,398	-	51,241
Total capital assets, being depreciated, net	119,730	19,897	-	139,627
Redevelopment Agency capital assets, net	$ 233,990	$ 59,667	$ (26,770)	$ 266,887

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

The following is a summary of long-term obligations of the City as of June 30, 2005 (in thousands):

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing	2021	4.0 to 7.05%	$ 84,030
California Academy of Sciences	2024	3.0 to 5.25%	7,805
Library	2022	2.5 to 5.0%	35,940
Laguna Honda Hospital	2030	3.25 to 5.0%*	230,000
Museums	2019	4.5 to 5.5%	13,345
Parks and playgrounds	2024	2.4 to 5.75%	135,570
Schools	2023	2.4 to 5.75%	131,760
Zoo facilities	2022	2.5 to 5.75%	33,525
Refunding	2016	3.0 to 5.75%	414,380
General obligation bonds - governmental activities			1,086,355
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b) & (e)	2030	2.0 to 5.5%**	230,620
Lease revenue bonds - governmental activities			230,620
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2034	3.0 to 5.3%	283,320
Commercial Paper (c)	2006	1.85 to 2.85%	150,000
Loans (c), (d) & (f)	2015	2.0 to 6.7%	7,961
Capital leases payable (c) & (f)	2024	1.5 to 7.05%	198,703
Settlement Obligation Bonds (d)	2011	2.4 to 3.05%	38,670
Accrued vacation and sick leave (d) & (f)			125,037
Accrued workers' compensation (d) & (f)			214,805
Estimated claims payable (d) & (f)			83,537
Other long-term obligations - governmental activities			1,102,033
DEFERRED AMOUNTS:			
Bond issuance premiums			16,254
Bond issuance discounts			(2,425)
Bond refunding			(5,843)
Deferred amounts			7,986
Governmental activities total long-term obligations			$ 2,426,994

Debt service payments are made from the following sources:
(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Revenues recorded in the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Laguna Honda Hospital General Obligation Bonds Series 2005 A are fixed rate bonds and Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated are for Series 2005 A. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2005 was 2.42%. The rate at June 30, 2005 was 2.20%.

** Includes the Moscone Center West Expansion Project, which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2005 was 1.57%. The rate at June 30, 2005 was 2.21%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	1.55 to 8.0%*	$ 4,114,431
Water Department:			
Revenue bonds	2032	3.0 to 7.0%	486,970
Commercial paper	2006	2.58 to 2.75%	80,000
Accreted interest	2019	7.0%	2,749
Hetch Hetchy Water and Power:			
Notes, loans and other payables	2010	3.0%	595
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.0 to 5.0%	21,170
Lease revenue bonds	2022	3.7 to 6.0%	10,465
Capital leases	2008	3.41 to 5.11%	195
Notes, loans and other payables**	2010	3.0 to 5.25%	20,266
Downtown Parking - parking revenue refunding bonds	2018	3.0 to 5.375%	11,440
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	5,315
Japan Center Garage Corporation - notes, loans and other payables	2008	6.75%	309
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	18,425
General Hospital Medical Center:			
Capital leases	2010	5.7 to 8.5%	2,519
Clean Water Program:			
Revenue bonds	2026	3.0 to 5.25%	396,270
State of California - Revolving fund loans	2021	2.8 to 3.5%	134,783
Port of San Francisco:			
Revenue bonds	2010	2.25 to 4.0%	19,940
Notes, loans and other payables	2029	4.5%	3,359
Laguna Honda Hospital:			
Capital leases	2009	3.465%	2,040
Accrued vacation and sick leave			75,318
Accrued workers' compensation			176,623
Estimated claims payable			68,718
Deferred Amounts:			
Bond issuance premiums			45,420
Bond issuance discounts			(20,108)
Bond refunding			(92,446)
Business-type activities total long-term obligations			$ 5,584,766

* Includes Second Series Revenue Bonds Issue 31 and 32, which were issued in an auction mode. The average interest rates on the Issue 31 and 32 bonds were 1.8% and 2.36%, respectively, from the dates of issuance through June 30, 2005.

** Includes an unamortized loan premium of $0.9 million for Parking and Traffic.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective Enterprise Funds.

COMPONENT UNITS

Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2025	2.0 to 7.05%	$ 138,155
Hotel Tax Revenue Bonds (b)	2025	4.25 to 6.94%	67,220
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2031	2.0 to 8.3%	469,671
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (2.4% at 6/30/05)	10,000
Less deferred amounts:			
Bond issuance premiums			8,966
Refunding loss			(3,042)
Sub-total			690,970
California Department of Boating and Waterways Loan (e)	2037	4.5%	8,000
Accreted Interest payable			77,025
Accrued vacation and sick leave pay			2,701
Component unit total long-term obligations			$ 778,696

Debt service payments are made from the following sources:
(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.
(b) Hotel taxes from hotels located in the Redevelopment Project Areas.
(c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.
(d) South Beach Harbor Project cash reserves, property tax increments and project revenues.
(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2005, the City's debt limit (3% of valuation subject to taxation) was $3.2 billion. The total amount of debt applicable to the debt limit was $1.1 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was $2.1 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and has recognized an arbitrage liability of $0.4 million as of June 30, 2005. 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 $0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2005. 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, 2005, the aggregate outstanding obligation of such bonds was $130 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2005, are as follows (in thousands):

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 844,350	$ 306,875	$ (64,870)	$ 1,086,355	$ 67,805
Lease revenue bonds	245,680	-	(15,060)	230,620	17,780
Certificates of participation	290,635	39,350	(46,665)	283,320	7,160
Settlement obligation bond	44,275	-	(5,605)	38,670	5,715
Less deferred amounts:					
For issuance premiums	4,912	11,989	(647)	16,254	-
For issuance discounts	(2,509)	-	84	(2,425)	-
On refunding	(6,339)	(253)	749	(5,843)	-
Total Bonds payable	1,421,004	357,961	(132,014)	1,646,951	98,460
Commercial Paper	50,000	100,000	-	150,000	150,000
Loans	9,515	500	(2,054)	7,961	943
Capital leases	194,815	6,364	(2,476)	198,703	14,888
Accrued vacation and sick leave pay	128,417	72,900	(76,280)	125,037	63,098
Accrued workers' compensation	213,630	34,042	(32,867)	214,805	44,624
Estimated claims payable	79,805	29,360	(25,628)	83,537	37,487
Governmental activities long-term obligations	$ 2,097,186	$ 601,127	$ (271,319)	$ 2,426,994	$ 409,500

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2005, $230.7 million of lease revenue bonds, $0.5 million of capital leases, $0.1 million of loans, $3.7 million of accrued vacation and sick leave pay and $1.2 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2005, are as follows (in thousands):

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,173,170	$ 311,596	$ (370,335)	$ 4,114,431	$ 79,126
Less deferred amounts:					
For issuance premiums	17,544	-	(435)	17,109	-
For issuance discounts	(19,059)	-	1,709	(17,350)	-
On refunding	(53,004)	(13,281)	5,695	(60,590)	-
Total bonds payable	4,118,651	298,315	(363,366)	4,053,600	79,126
Accrued vacation and sick leave pay	11,576	7,788	(7,874)	11,490	5,928
Accrued workers' compensation	5,155	2,316	(2,352)	5,119	1,339
Estimated claims payable	459	575	(189)	845	812
Long-term obligations	$ 4,135,841	$ 308,994	$ (373,781)	$ 4,071,054	$ 87,205

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2005, are as follows (in thousands) - continued:

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
Water Department					
Bonds payable:					
Revenue bonds	$ 501,025	$ -	$ (14,055)	$ 486,970	$ 14,790
Less deferred amounts:					
For issuance premiums	6,932	-	(245)	6,687	-
For issuance discounts	(2,709)	-	(49)	(2,758)	-
On refunding	(7,885)	-	474	(7,411)	-
Total bonds payable	497,363	-	(13,875)	483,488	14,790
Accreted interest payable	2,567	182	-	2,749	-
Commercial paper	25,000	55,000	-	80,000	80,000
Accrued vacation and sick leave pay	9,130	6,176	(5,722)	9,584	4,755
Accrued workers' compensation	11,695	669	(2,013)	10,351	2,159
Estimated claims payable	6,111	1,385	(2,210)	5,286	1,225
Long-term obligations	$ 551,866	$ 63,412	$ (23,820)	$ 591,458	$ 102,929
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ 693	$ -	$ (98)	$ 595	$ 101
Accrued vacation and sick leave pay	1,798	973	(902)	1,869	988
Accrued workers' compensation	2,276	463	(289)	2,450	500
Estimated claims payable	169	3,702	(1,869)	2,002	432
Long-term obligations	$ 4,936	$ 5,138	$ (3,158)	$ 6,916	$ 2,021
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 58,420	$ -	$ (2,070)	$ 56,350	$ 2,365
Lease revenue bonds	11,425	-	(960)	10,465	1,010
Less deferred amounts:					
For issuance premiums	969	-	(29)	940	-
Total bonds payable	70,814	-	(3,059)	67,755	3,375
Notes, loans, and other payables	24,299	335	(4,059)	20,575 *	4,124
Capital leases	561	91	(457)	195	138
Accrued vacation and sick leave pay	24,219	19,077	(19,196)	24,100	13,810
Accrued workers' compensation	119,440	17,443	(21,531)	115,352	25,289
Estimated claims payable	33,844	23,602	(7,680)	49,766	16,836
Long-term obligations	$ 273,177	$ 60,548	$ (55,982)	$ 277,743	$ 63,572

* Includes an unamortized loan premium of $0.9 million for Parking and Traffic.

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
General Hospital Medical Center					
Capital leases	$ 2,205	$ 959	$ (645)	$ 2,519	$ 653
Accrued vacation and sick leave pay	13,564	10,231	(9,559)	14,236	8,167
Accrued workers' compensation	22,993	4,199	(4,293)	22,899	4,550
Long-term obligations	$ 38,762	$ 15,389	$ (14,497)	$ 39,654	$ 13,370

The changes in long-term obligations for all enterprise funds for the year ended June 30, 2005, are as follows (in thousands) - continued:

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
Clean Water Program					
Bonds payable:					
Revenue bonds	$ 396,270	$ -	$ -	$ 396,270	$ -
Less deferred amounts:					
For issuance premiums	21,386	-	(1,005)	20,381	-
On refunding	(25,124)	-	1,727	(23,397)	-
Total bonds payable	392,532	-	722	393,254	-
State of California - Revolving fund loans	150,196	-	(15,413)	134,783	15,914
Accrued vacation and sick leave pay	3,756	2,208	(1,869)	4,095	2,173
Accrued workers' compensation	4,800	721	(847)	4,674	967
Estimated claims payable	4,761	4,779	(448)	9,092	2,241
Long-term obligations	$ 556,045	$ 7,708	$ (17,855)	$ 545,898	$ 21,295
Port of San Francisco					
Bonds payable:					
General obligation bonds	$ 400	$ -	$ (400)	$ -	$ -
Revenue bonds	27,095	19,940	(27,095)	19,940	3,390
Less deferred amounts:					
For issuance premiums	216	159	(72)	303	-
On refunding	(788)	(510)	250	(1,048)	-
Total bonds payable	26,923	19,589	(27,317)	19,195	3,390
Notes, loans, and other payables	3,436	-	(77)	3,359	80
Capital leases	23	-	(23)	-	-
Accrued vacation and sick leave pay	1,839	1,431	(1,578)	1,692	922
Accrued workers' compensation	3,113	417	(804)	2,726	547
Estimated claims payable	2,287	300	(860)	1,727	957
Long-term obligations	$ 37,621	$ 21,737	$ (30,659)	$ 28,699	$ 5,896
Laguna Honda Hospital					
Capital leases	$ 2,102	$ 409	$ (471)	$ 2,040	$ 499
Accrued vacation and sick leave pay	8,008	6,290	(6,046)	8,252	4,881
Accrued workers' compensation	14,024	27,088	(28,060)	13,052	2,654
Long-term obligations	$ 24,134	$ 33,787	$ (34,577)	$ 23,344	$ 8,034

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2005, is as follows (in thousands):

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 400	$ -	$ (400)	$ -	$ -
Revenue bonds	5,155,980	331,536	(413,555)	5,073,961	99,671
Lease revenue bonds	11,425	-	(960)	10,465	1,010
Less deferred amounts:					
For issuance premiums	47,047	159	(1,786)	45,420	-
For issuance discounts	(21,768)	-	1,660	(20,108)	-
On refunding	(86,801)	(13,791)	8,146	(92,446)	-
Total bonds payable	5,106,283	317,904	(406,895)	5,017,292	100,681
Accreted interest payable	2,567	182	-	2,749	-
Commercial paper	25,000	55,000	-	80,000	80,000
State of California - Revolving fund loans	150,196	-	(15,413)	134,783	15,914
Notes, loans, and other payables	28,428	335	(4,234)	24,529	4,305
Capital leases	4,891	1,482	(1,619)	4,754	1,290
Accrued vacation and sick leave pay	73,890	54,174	(52,746)	75,318	41,624
Accrued workers' compensation	183,496	53,330	(60,203)	176,623	38,005
Estimated claims payable	47,631	34,324	(13,237)	68,718	22,503
Business-type activities long term obligations	$ 5,622,382	$ 516,731	$ (554,347)	$ 5,584,766	$ 304,322

The changes in long term obligations for the component unit for the year ended June 30, 2005, are as follows (in thousands):

	July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2005	Amounts Due Within One Year
Component Unit:					
Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 727,713	$ -	$ (52,667)	$ 675,046	$ 28,581
Refunding bonds	11,500	-	(1,500)	10,000	-
Less deferred amounts:					
For issuance premiums	9,641	-	(675)	8,966	-
On refunding	(3,263)	-	221	(3,042)	-
Total bonds payable	745,591	-	(54,621)	690,970	28,581
Accreted interest payable	142,388	9,167	(74,530)	77,025	2,084 (1)
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	2,733	6	(38)	2,701	1,092
Component unit - long term obligations	$ 898,712	$ 9,173	$ (129,189)	$ 778,696	$ 31,757

(1) This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2005, for governmental activities are as follows (in thousands):

Governmental Activities [1] [2] [3]

Fiscal Year Ending June 30	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006.........	$ 67,805	$ 50,878	$ 17,780	$ 6,979	$ 13,818	$ 14,788	$ 99,403	$ 72,645
2007.........	70,795	47,346	15,805	6,424	15,977	14,269	102,577	68,039
2008.........	78,090	43,871	13,955	5,928	15,863	13,723	107,908	63,522
2009.........	81,715	40,079	12,565	5,469	16,427	13,165	110,707	58,713
2010.........	82,495	36,070	7,180	5,019	16,921	12,609	106,596	53,698
2011-2015..	327,125	123,872	35,670	21,438	61,520	54,236	424,315	199,546
2016-2020..	209,045	56,107	36,995	15,661	48,745	41,711	294,785	113,469
2021-2025..	99,385	17,084	42,970	9,631	43,265	30,636	185,620	57,351
2026-2030..	69,900	5,279	47,700	3,686	51,050	18,860	168,650	27,825
2031-2035..	-	-	-	-	46,365	4,894	46,365	4,894
Total.........	$1,086,355	$ 420,586	$ 230,620	$ 80,225	$ 329,951	$ 218,891	$ 1,646,926	$ 719,702

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Includes the following variable rate demand notes, Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. Currently, they bear interest at a weekly rate of 2.21% and 2.2% respectively, at June 30, 2005.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2005, for each enterprise fund is as follows (in thousands):

San Francisco International Airport [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006.........	$ 79,126	$ 201,214	$ -	$ -	$ 79,126	$ 201,214
2007.........	86,505	198,119	-	-	86,505	198,119
2008.........	105,720	192,997	-	-	105,720	192,997
2009.........	110,865	188,512	-	-	110,865	188,512
2010.........	118,795	182,488	-	-	118,795	182,488
2011-2015..	759,270	816,444	-	-	759,270	816,444
2016-2020..	940,920	614,584	-	-	940,920	614,584
2021-2025..	1,116,380	368,838	-	-	1,116,380	368,838
2026-2030..	742,520	122,053	-	-	742,520	122,053
2031-2035..	54,330	3,637	-	-	54,330	3,637
Total.........	$ 4,114,431	$ 2,888,886	$ -	$ -	$ 4,114,431	$ 2,888,886

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

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2005, for each enterprise fund is as follows (in thousands) - continued:

Water Department [1] [2]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006..........	$ 14,790	$ 23,315	$ -	$ -	$ 14,790	$ 23,315
2007..........	15,450	22,666	-	-	15,450	22,666
2008..........	16,225	21,921	-	-	16,225	21,921
2009..........	17,035	21,131	-	-	17,035	21,131
2010..........	17,805	20,370	-	-	17,805	20,370
2011-2015...	102,670	88,254	-	-	102,670	88,254
2016-2020...	85,815	64,100	-	-	85,815	64,100
2021-2025...	84,165	43,683	-	-	84,165	43,683
2026-2030...	86,095	22,183	-	-	86,095	22,183
2031-2035...	46,920	3,142	-	-	46,920	3,142
Total..........	$ 486,970	$ 330,765	$ -	$ -	$ 486,970	$ 330,765

Hetch Hetchy Water and Power [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006..........	$ -	$ -	$ 101	$ 17	$ 101	$ 17
2007..........	-	-	104	14	104	14
2008..........	-	-	107	11	107	11
2009..........	-	-	110	8	110	8
2010..........	-	-	115	4	115	4
2011-2015...	-	-	58	1	58	1
Total..........	$ -	$ -	$ 595	$ 55	$ 595	$ 55

Municipal Transportation Agency [1] [3]

Fiscal Year Ending June 30	Revenue and Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006..........	$ 3,375	$ 3,281	$ 4,123	$ 931	$ 7,498	$ 4,212
2007..........	3,500	3,147	4,331	723	7,831	3,870
2008..........	3,650	3,003	4,519	505	8,169	3,508
2009..........	3,810	2,851	6,381	283	10,191	3,134
2010..........	3,125	2,707	279	61	3,404	2,768
2011-2015...	15,715	11,221	-	-	15,715	11,221
2016-2020...	18,405	6,420	-	-	18,405	6,420
2021-2025...	4,315	2,914	-	-	4,315	2,914
2026-2030...	-	1,420	-	-	-	1,420
2031-2035...	10,920	78	-	-	10,920	78
Total..........	$ 66,815	$ 37,042	$ 19,633	$ 2,503	$ 86,448	$ 39,545

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $0.9 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2005, for each enterprise fund is as follows (in thousands) - continued:

Clean Water Program [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
2006	$ -	$ 17,219	$ 15,914	$ 4,218	$ 15,914	$ 21,437
2007	33,445	16,718	16,430	3,701	49,875	20,419
2008	34,500	15,698	13,337	3,168	47,837	18,866
2009	35,665	14,646	13,761	2,744	49,426	17,390
2010	37,130	13,183	14,199	2,307	51,329	15,490
2011-2015	121,610	48,948	46,444	5,795	168,054	54,743
2016-2020	79,255	22,653	12,996	1,145	92,251	23,798
2021-2025	51,155	5,310	1,702	49	52,857	5,359
2026-2030	3,510	83	-	-	3,510	83
Total	$ 396,270	$ 154,458	$ 134,783	$ 23,127	$ 531,053	$ 177,585

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
2006	$ 3,390	$ 554	$ 80	$ 151	$ 3,470	$ 705
2007	3,975	453	84	148	4,059	601
2008	4,070	348	88	144	4,158	492
2009	4,185	222	92	140	4,277	362
2010	4,320	75	96	136	4,416	211
2011-2015	-	-	549	609	549	609
2016-2020	-	-	685	474	685	474
2021-2025	-	-	853	305	853	305
2026-2030	-	-	832	95	832	95
Total	$ 19,940	$ 1,652	$ 3,359	$ 2,202	$ 23,299	$ 3,854

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2005, for business type activities is as follows (in thousands):

Total Business-type Activities [1][2][3]

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
2006	$ 100,681	$ 245,583	$ 20,218	$ 5,317	$ 120,899	$ 250,900
2007	142,875	241,103	20,949	4,586	163,824	245,689
2008	164,165	233,967	18,051	3,828	182,216	237,795
2009	171,560	227,362	20,344	3,175	191,904	230,537
2010	181,175	218,823	14,689	2,508	195,864	221,331
2011-2015	999,265	964,867	47,051	6,405	1,046,316	971,272
2016-2020	1,124,395	707,757	13,681	1,619	1,138,076	709,376
2021-2025	1,256,015	420,745	2,555	354	1,258,570	421,099
2026-2030	832,125	145,739	832	95	832,957	145,834
2031-2035	112,170	6,857	-	-	112,170	6,857
Total	$ 5,084,426	$ 3,412,803	$ 158,370	$ 27,887	$ 5,242,796	$ 3,440,690

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $0.9 million (MTA) are not included in principal payments.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2005, for the component unit are as follows (in thousands):

Component Unit: Redevelopment Agency [1]

Fiscal Year Ending June 30	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Tax Revenue Bonds Principal	Tax Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2006	$ 5,510	$ 12,361	$ 23,071	$ 27,856	$ -	$ 786	$ 28,581	$ 41,003
2007	5,146	12,728	24,639	26,934	1	785	29,786	40,447
2008	5,544	13,027	27,018	24,141	882	779	33,444	37,947
2009	5,350	13,289	26,212	24,627	1,107	757	32,669	38,673
2010	5,152	13,565	27,051	23,529	1,169	668	33,372	37,762
2011-2015	28,933	65,698	160,515	90,251	7,767	2,379	197,215	158,328
2016-2020	68,040	11,171	170,492	41,755	1,190	1,489	239,722	54,415
2021-2025	14,480	1,953	62,742	43,001	1,483	1,196	78,705	46,150
2026-2030	-	-	13,275	1,899	1,849	831	15,124	2,730
2031-2035	-	-	1,876	54	2,304	376	4,180	430
2036-2040	-	-	-	-	248	12	248	12
Total	$ 138,155	$ 143,792	$ 536,891	$ 304,047	$ 18,000	$ 10,058	$ 693,046	$ 457,897

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2005, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2004	$ 872,060
Bonds issued:	
Series 2004A, Neighborhood Recreation and Park Facilities Improvement Bonds	(68,800)
Series 2004B, California Academy of Sciences Improvement Bonds	(8,075)
Series 2005A, Laguna Honda Hospital	(110,000)
Series 2005B, C & D, Laguna Honda Hospital	(120,000)
Net authorized and unissued as of June 30, 2005	$ 565,185

There were no new authorizations on general obligation bonds in the year ended June 30, 2005.

In October 2004, the City issued General Obligation Bonds, Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2004A in the amount of $68.8 million. Interest rates range from 3.0% to 5.0%. The bonds mature from June 2005 through June 2024. The bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of certain improvements to recreation and park facilities in the City, and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

In October 2004, the City issued General Obligation Bonds, California Academy of Sciences Improvement Bonds, Series 2004B in the amount of $8.1 million. Interest rates range from 3.0% to 5.0%. The bonds mature from June 2005 through June 2024. The bonds were issued to provide funds to finance the acquisition, construction, and/or reconstruction of certain improvements to the California Academy of Sciences, and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

In May 2005, the City issued General Obligation Bonds, Laguna Honda Hospital, Series 2005A, in the amount of $110 million and Series 2005B, C and D in the amount of $40 million each, totaling $120 million. Interest rates for Series 2005A ranges from 3.25% to 5.0%. The Bonds mature from June 2005 through June 2021. Series B, C & D Bonds are variable rate demand and interest rate resets weekly. The bonds mature from June 2021 through June 2030. The bonds were issued to provide funds to finance the acquisition, improvement, construction, and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Debt service payments are funded through ad valorem taxes on property.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2005 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2004	$ 125,218
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	1,886
Current year maturities in Finance Corporation's equipment program	8,450
Net authorized and unissued as of June 30, 2005	$ 135,554

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of

June 30, 2005, the total authorized amount is $39.6 million. The total accumulated annual authorization since 1990 is $19.6 million of which $1.9 million is new annual authorization for the fiscal year ended June 30, 2005.

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 $104 million in equipment lease revenue bonds since 1991. As of June 30, 2005, $85.8 million has been repaid leaving $18.2 million in equipment lease revenue bonds outstanding and $21.4 million available for new issuance.

The Lease Revenue Bonds, Series 2005A were originally scheduled for issuance in the fiscal year 2004-2005. In anticipation of the issuance of the Lease Revenue Bonds, Series 2005A, expenditures in the total amount of $2.3 million for equipment were incurred in fiscal year 2004-2005. The Lease Revenue Bonds, Series 2005A were subsequently issued in October 2005 in the aggregate principal amount of $9.4 million (see note 17). The issuance of the Lease Revenue Bonds, Series 2005A was delayed due to the budget constraints to alleviate the City's general fund of lease payment in fiscal year 2005-2006.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2005, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2005, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds. Currently, the bonds bear interest at a weekly rate.

In March 2005, the Corporation revised the mandatory sinking fund schedules set forth in the Indenture of Trust dated November 1, 2000. The First Supplemental Indenture of Trust dated March 1, 2005 revised the mandatory sinking fund by spreading the principal amount of $3 million that would otherwise have been paid on April 1, 2005 over the remaining terms of the financing through March 1, 2030. The revision of the mandatory sinking fund was due to budget constraints, which resulted in $3 million savings for lease payment for Lease Revenue Bonds, Series 2000-1, -2, -3 in fiscal year 2004-2005.

Refunding Certificates of Participation

In July 2004, the City issued $39.4 million Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) to refinance an existing City courthouse building located at 400 McAllister in the City by refunding in whole a series of certificates of participation executed and delivered to finance the construction, furnishing, and equipping of the said building, $40.6 million of which were outstanding.

The Series 2004-R1 were issued with interest rates ranging from 3.0% to 4.5% and mature from April 2007 through April 2021.

The net proceeds of $39.3 million (including original issue premium of $0.5 million, and after payment of $0.6 million in underwriting fees and other issuance costs), together with funds from the existing debt service reserves, were used to refund in whole a series of Certificates of Participation (San Francisco Courthouse Project), Series 1995. Although the refund resulted in the recognition of an accounting loss of $0.3 million for the year ended June 30, 2005, the City in effect reduced its aggregate debt service payment by $7.4 million over the next 16 years, and obtained an economic gain of $2.3 million.

Facades Improvement Revolving Fund Loan

In January 2005, the City through the Mayor's Office of Community Development entered into a loan agreement with Wells Fargo Community Development Corporation. Under the Agreement, Wells Fargo advanced a principal sum of $0.5 million to the City for operating and managing a revolving loan program (Loan) to assist small businesses in improving their storefront facades in targeted neighborhoods representing distressed or underserved areas of the city, including the Mission District, South of Market, Tenderloin, Chinatown, Bayview, Mid-Market, Excelsior (Outer Mission), and Ocean Avenue.

The City agrees to repay the Loan, together with interest at an initial fixed rate of 2% on the principal sum outstanding for the first ten years of the Loan and a fixed rate of 6% thereafter until the Loan is fully paid or the agreement is terminated. The principal is due and payable in the year 2015, subject to one mandatory extension for one year, provided the City continues to satisfactorily perform all its obligations under the agreement and annually thereafter at the discretion of Wells Fargo.

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority authorized the issuance of an initial tranche of up to $50 million and in September 2004, the Authority authorized the second tranche of $100 million of a programmed $200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. The Commercial Paper Notes are issued to provide an interim source of financing for the Authority's New Transportation Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million, with an expiration date of April 14, 2007. The expiration date of the irrevocable letter of credit was extended through Authority Board Resolution 06-01 on July 12, 2005 to December 29, 2015. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2005, $150 million in commercial paper notes was outstanding and maturing within 6 to 130 days after year-end with interest rates ranging from 1.85% to 2.85%.

Business-Type Activities Long-Term Liabilities

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

In January 2005, the San Francisco International Airport (SFO or Airport) issued Second Series Revenue Bonds Issue 31F in the amount of $111.7 million with interest rates ranging from 3.95% to 4.91%. Proceeds from Issue 31F were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 13	$ 100,400	6.75% - 7.13%	$ 102.000

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2009 to May 1, 2026 and a call date of May 1, 2006.

The net proceeds of $109.1 million (after payment of $2.6 million in underwriting fees, insurance, surety, premium and cost of issuance account) were used to purchase U.S. Treasury Securities. The securities were deposited in an irrevocable trust with an escrow agent to provide debt service payment on the refunded bond identified above until called on May 1, 2006. The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $8.2 million for the year ended June 30, 2005, SFO in effect reduced its aggregate debt service payments by approximately $47 million over the next 22 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of $19.8 million.

The Issue 31 bonds were initially issued, and remain in Auction Mode, subject to conversion by the Airport Commission (Commission) to another interest rate mode. The initial interest was established by the Commission for the interest rate period commencing March 25, 2004 for each series of Issue 31 bonds.

Each series of Issue 31 auction rate bonds may bear a different interest rate and is subject to different auction periods. As of June 30, 2005, series Issue 31A was in a 343 days auction period, series 31B, 31C, and 31D were in a 35 days auction period, and series 31E was in a 7 days auction period. For the period July 1, 2004 through June 30, 2005, the average interest rate on the Issue 31 was 1.805%.

In February 2005, SFO issued Second Series Variable Rate Revenue Refunding Bonds Issue 32 in the amount of $199.9 million. The Issue 32 Bonds were initially issued in an auction mode, subject to conversion by the Commission to another interest rate mode. The initial interest rate was established by the Commission for the initial interest rate period commencing February 10, 2005 for each series of Issue 32 Bonds. Thereafter, each series of Issue 32 bonds will bear interest at an auction rate resulting from an auction conducted for each auction period.

Each series of Issue 32 Bonds may bear a different auction rate and are subject to a different auction period. As of June 30, 2005, Series 32A, 32B, 32C, 32D and 32E were in 7 days, 35 days, 35 days, 35 days and 7 days auction periods, respectively. For the period of February 10, 2005 to June 30, 2005, the average interest rate for the Issue 32 Bonds was 2.36%.

During fiscal year 2004-2005, the Airport issued Second Series Revenue Bonds Issue 31F and Issue 32 to refund previously issued debt. The $109.1 million in proceeds from Issue 31F and the $197.7 million in proceeds from Issue 32 were deposited immediately into irrevocable trusts for the defeasance of $291.8 million of Second Series Revenue Bonds.

Proceeds of the Issue 32 were deposited into an irrevocable trust with an escrow agent to advance refund certain of SFO's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 9..	$ 191,380	5.0% - 5.9%	$ 101.000

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2006 to May 1, 2025 and a call date of May 1, 2005. The net proceeds of $197.7 million (after payment of $5.8 million in underwriting fees, insurance, surety premium, and cost of issuance account) plus an additional $3.6 million of available debt service funds were used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until called on May 1, 2005. The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument, even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $5.1 million for the year ended June 30, 2005, SFO in effect reduced its aggregate debt service payment by approximately $11.7 million (based on an assumed interest rate of 3.44%) over the next 22 years and obtained an economic gain (the difference between the present values of the old and new debt service payments), of $30.3 million.

SFO entered into seven forward-starting interest rate swaps in December 2004 in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32, on February 10, 2005, and its Variable Rate Refunding Bonds, Issue 33, on February 15, 2006. Pursuant to these interest rate swaps, SFO will receive a monthly variable rate payment from each counterparty approximate to the variable interest rate SFO will pay on the Issue 32 and 33 Bonds. SFO will then make a monthly fixed rate payment to the counterparties. The objective of the swaps is to achieve a synthetic fixed rate with respect to Issue 32 and 33 Bonds.

The four interest rate swaps relating to the Issue 32 Bonds went into effect on February 10, 2005, the date of the issuance of the Issue 32 Bonds, and the first payment commenced on March 1, 2005. The remaining three interest rate swaps relating to the Issue 33 Bonds are expected to go into effect concurrently with the issuance of the Issue 33 Bonds on February 15, 2006, with the first payment commencing on March 1, 2006. All of the interest rate swaps are terminable at any time at the option of SFO at their fair market value.

The interest rate swaps relating to the Issue 32 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 32 Bonds. The following is additional information regarding each swap and the counterparties as of June 30, 2005:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Commission	Fair value to Commission
J.P. Morgan Chase Bank, N.A.	$ 70,000,000	AA-/Aa2	3.444%	$ (2,485,569)
Bear Sterns Capital Markets, Inc.	30,000,000	A/A1	3.444%	(1,065,244)
J.P. Morgan Chase Bank, N.A.	69,930,000	AA-/Aa2	3.445%	(2,491,182)
Bear Sterns Capital Markets, Inc.	29,970,000	A/A1	3.445%	(1,067,650)
(Aggregate notional amount)	$ 199,900,000			$ (7,109,645)

The interest rate swaps relating to the Issue 33 Bonds terminate by their terms on May 1, 2019, the final maturity date for the Issue 33 Bonds. The following is additional information regarding each swap and counterparties as of June 30, 2005:

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Commission	Fair value to Commission
Lehman Brothers Special Financial Inc.	$ 73,570,000	A/A1	3.393%	$ (1,889,060)
Bear Sterns Capital Markets, Inc.	31,530,000	A/A1	3.393%	(809,597)
Lehman Brothers Special Financial Inc.	100,000,000	A/A1	3.379%	(2,460,207)
(Aggregate notional amount)	$ 205,100,000			$ (5,158,864)

Risks Disclosure
The aggregate fair value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Commission will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any one counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the fair value of a swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. There is limited basis risk with respect to the interest rate swaps, as the Airport has chosen a variable rate index designed to closely approximate the variable rates payable on the Issue 32 and 33 Bonds. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Commission, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for its payments due under each interest rate swaps, as the Airport has secured a forward municipal bond insurance commitment from an insurer currently rated AAA/Aaa with respect to the Issue 33 Bonds.

Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the San Francisco Public Utilities Commission (the Commission) and the Board of Supervisors, respectively, approved a commercial paper program to provide short-term financing for capital improvement projects funded under the $304 million Water Revenue Bond Program. In October 2000, the Commission and the Board of Supervisors approved the expansion of the commercial paper program to up to $250 million.

As of June 30, 2005, the Water Department had $80 million in commercial paper notes outstanding. The interest rates ranged from 2.58% to 2.75%.

Municipal Transportation Agency

In fiscal year 2004-2005, the Japan Center Garage Corporation (the Corporation) entered into an unsecured small business banking agreement for $0.3 million to partially finance the purchase of certain garage equipment. Under the terms of the agreement, the Corporation is required to make 36 monthly payments of $10 thousand including interest at 6.75% per annum.

San Francisco Clean Water Program

During the fiscal year 2002-2003, the San Francisco Clean Water Program (the Program) issued 2003 Refunding Series A Bonds in the amount of $396 million with interest rates ranging from 3.0% to 5.25%. During the fiscal year 2004-2005, the Program substituted cash and equivalents held in the Bond Reserve Fund with a surety bond reserve fund policy of $34 million, which was the largest reserve requirement pursuant to the Indenture. The cash released by the substitution will be used for improvements to capital projects within the Program in accordance with the Indenture.

The Program has entered into several contracts with the State Water Resources Control Board (SWRCB) under which the Program borrowed up to prescribed maximum amounts to finance the construction of certain facilities. Interest rates range from 2.8% to 3.5% and mature from April 2007 through January 2021.

Port of San Francisco

In August 2004, the Port Commission issued Revenue Refunding Bonds, Series 2004 in the amount of $19.9 million with an average interest rate of 3.16%. The bonds were issued to refund $23.2 million of outstanding Series 1994 Revenue Bonds with an average interest rate of 5.84%. Net proceeds from the new bonds plus an additional $3.9 million of Series 1994 debt service monies were used to defease the 1994 bonds. Although the refunding resulted in the recognition of an accounting loss of $0.5 million, the Port in effect reduced its aggregate debt service payment over the next five years by $1.6 million and obtained an economic gain of $1.2 million. The 1994 bonds refunded $50 million of outstanding 1984 Revenue Bonds, Series A, B and C with an average rate of 8.4%.

The refunding resulted in a difference between the reacquisition price (principal of the old debt plus 2% call premium) and the net carrying amount of the old debt of $0.5 million. The previous 1994 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.36 million. The total difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2010 using the straight line method.

Component Unit Debt - Redevelopment Agency

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2005 was approximately $2.155 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City

and County Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2004, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits....	2,050	1,856	15,175	19,081
Active members:				
Vested..............................	1,843	1,344	20,807	23,994
Nonvested..........................	340	319	6,998	7,657
Subtotal.........................	2,183	1,663	27,805	31,651
Total....................................	4,233	3,519	42,980	50,732

As of July 1, 2004, there were 996 terminated members entitled to, but not yet receiving benefits.

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Funding Policy - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2004-2005 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2004 actuarial report, the required employer contribution for fiscal year 2004-05 was 4.48 percent. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary. For fiscal year ended June 30, 2005, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2004. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	$ -	N/A	$ -
6/30/2004	-	N/A	-
6/30/2005	83,664	100%	-

California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency employees are eligible to participate in PERS. Disclosures for the Redevelopment Agency are included in the separately issued financial statements.

Plan Description - The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. 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 2004-2005 contribution rate is 0% of annual covered payroll because the City is funded at 145.7% at June 30, 2002. 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 2004-2005 was equal to the City's required and actual contributions which was determined as part of the June 30, 2002 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2002 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.2% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	$ -	N/A	$ -
6/30/2004	-	N/A	-
6/30/2005	-	N/A	-

Safety Plan

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 20.801% because the City is funded at 103%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2004-2005 was equal to the City's required and actual contributions which was determined as part of the June 30, 2002 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2002 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 4.27% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	$ -	100%	$ -
6/30/2004	5,606	100%	-
6/30/2005	3,689	100%	-

(b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately $382.2 million in fiscal year 2005. 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 $113.7 million to provide post-employment health care benefits for 19,755 retired employees. The City's liability for both current employee and post-employment health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

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

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

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

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

In November 2003, the City voters approved Proposition K amending the City Business and Tax Code to extend the sunset date to 2034 from 2010, continue the existing half-cent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Roads (including street resurfacing, and bicycle and pedestrian improvements); Paratransit services for seniors and disabled people; Transportation System Management/Strategic Initiatives, to fund neighborhood parking management, land use coordination, and beautification efforts; and Major Capital Projects. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the CalTrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive). The Authority may modify the Expenditure Plan with voter approval, and the half-cent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to $485.2 million per year and issue up to $1.9 billion in bonds, to be repaid from the half-cent sales tax.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

Following is a summary of the Authority's financial position and changes in financial position as of and for the year ended June 30, 2005 (in thousands):

ASSETS	
Deposits and investments	$ 257,933
Receivables and other assets	17,747
Total assets	$ 275,680
LIABILITIES AND FUND BALANCE	
Due to other funds	$ 45,881
Other liabilities	155,202
Total liabilities	201,083
Fund balance:	
Reserved for debt service	931
Reserved for encumbrances	1,747
Reserved for appropriation carryforward	71,919
Total fund balance	74,597
Total liabilities and fund balance	$ 275,680

OPERATIONS	
Revenues:	
Sales tax	$ 66,762
Interest and investment income	5,398
Intergovernmental	3,131
Other	408
	75,699
Expenditures and other financing uses:	
Public works, transportation, and commerce	41,734
Transfer to other funds	94,834
	136,568
Deficiency of revenues under expenditures and other financing uses	(60,869)
Fund balance at the beginning of year	135,466
Fund balance at end of year	$ 74,597

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2004 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (12th) and air cargo (14th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to SFO creates a convenient connection between SFO and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The revised Capital Plan was approved in March 2005 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In May 2002, SFO obtained a standby letter of credit with a maximum stated principal amount of $200 million. The subordinate Lien Resolution authorizes a maximum principal amount of notes of $400 million. There were no commercial borrowings during the year ended June 30, 2005.

In addition to the long-term obligations discussed above, there is $115 million and $118 million in Special Facilities Lease Revenue Bonds outstanding at June 30, 2005 and June 30, 2004, respectively, for SFO Fuel. SFO Fuel is required to pay facilities rent to SFO in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to SFO. SFO assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither SFO nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

In July 2001, the Federal Aviation Administration (FAA) approved SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex.

In March 2003, as a result of decrease in enplanement, SFO notified PFC-collecting carriers of the intent to extend the PFC#1 collection period, thereby revising the current PFC#1 charge expiration date from June 1, 2003 to January 1, 2004. With the PFC#1 collection period extension in place, the PFC#2 effective date changed from June 1, 2003 to January 1, 2004. Automatically, the PFC#2 expiration date changed from April 1, 2008 to November 1, 2008. During the extended collection period, the PFC is maintained at $4.50.

In November 2003, the FAA approved SFO's third PFC application (PFC#3) to impose and use a $4.50 PFC per enplaning passenger for approximately $539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018.

In January 2004, the FAA approved SFO's amendment to delete PFC#1. The receipts from PFC#1 were applied to PFC#2 and the FAA revised PFC#2 and PFC#3 collection periods to expire in January 1, 2006 and January 1, 2016, respectively.

In June 2005, the Airport Commission authorized the fourth PFC application (PFC#4) for approximately $70 million.

For the year ended June 30, 2005, SFO reported approximately $61.4 million of PFC revenue, which is included in other non-operating revenues in the accompanying basic financial statements. SFO designated $68.4 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2004-2005.

Due to SFO's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2005 was $19.7 million.

Purchase commitments for construction, material and services as of June 30, 2005 are as follows (in thousands):

Construction	$ 17,224
Operating	13,091
Total	$ 30,315

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2005, approximately $123.6 million has been disbursed under this program.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2005, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines	26.0%
AMPCO Parking Systems	10.2%
American Airlines	5.1%

(b) Port of San Francisco

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

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of $1.2 million for 20 years commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are based on actual ticket collections, net of administrative costs.

In connection with a mixed-use cruise terminal development project at Piers 30-32, and as approved by state legislation in 2001 (Assembly Bill No. 1389), a portion of Seawall Lot No. 330 was sold to a developer in 2004. The land was sold for $9.3 million, slightly above its appraised fair value. Certain proceeds from the land sale ($9 million) are restricted for the construction of a public plaza area called Brannan Street Wharf. The remainder of the proceeds from the land sale, together with certain residual receipts from the future sale of residential condominium units built on the land sold, is restricted for the construction of the cruise terminal.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Purchase commitments at June 30, 2005 were $14.5 million for capital projects and $1.1 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June

30, 2005, $16.5 million has been appropriated and $1.6 million has been expended for projects under the agreement.

Special items identify significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. In 2001, the Port entered into an agreement giving the San Francisco Municipal Transportation Agency (MUNI) the permanent right to use certain land for its Metro East Maintenance and Operations Facility. MUNI paid a total use fee of $29.7 million for these property rights. A portion of the fee ($4 million) was restricted for the construction of a new rail bridge. Construction on the bridge commenced during 2005 and approximately $3.7 million of deferred revenue was recognized as of June 30, 2005.

(c) Water Department

The Water Department was established in 1930. The Water Department, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Department delivers water, approximately 88,686 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The Commission, established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy, and the Clean Water Program. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately $19.0 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2004-2005, water sales to suburban resale customers were $104 million. As of June 30, 2005, the Water Department owed suburban resale customers approximately $8 million under the Suburban Water Rate Agreement.

As of June 30, 2005, the Water Department had outstanding commitments with third parties of $72.6 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2000-2001. At June 30, 2005, the outstanding estimated liability is $7.7 million.

(d) Hetch Hetchy Water and Power

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, San Francisco International Airport, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2005 include $57.3 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

As of June 30, 2005, Hetch Hetchy had outstanding commitments with third parties of $16 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2005, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2004-2005, Hetch Hetchy purchased $16.4 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2004-2005, power sales to the Districts totaled 965,348 MWhrs or $25.7 million.

On May 9, 2001, Hetch Hetchy entered into a fixed price, forward contract (the Contract) to purchase 2.19 million MWhrs of electric energy from a third party energy provider with scheduled future delivery over a five-year period beginning July 1, 2001. Effective March 9, 2003, Hetch Hetchy executed an amended and restated transaction confirmation with the third party energy provider to amend and retroactively restate the terms of the original agreement entered into on May 9, 2001 in its entirety, to settle any pending disputes brought forth by Hetch Hetchy. Under this amended take or pay contract, Hetch Hetchy is obligated to pay for a minimum amount of electricity even if the electricity is not required for operations. Commitments related to this contract total $86.1 million from July 1, 2003 through June 30, 2006. Expenses under this contract totaled $30.4 million in fiscal year 2004-2005.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $7.6 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $3.8 million. As of June 30, 2005, the City has requested and received a total of $2.0 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized $2.0 million of revenue from the Fund as of June 30, 2005.

(e) Municipal Transportation Agency

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of $0.7 million interagency accounts payables and receivables.

	MUNI	DPT	Parking Garages	Total
Assets				
Current assets	$ 151,742	$ 21,761	$ 2,928	$ 176,431
Noncurrent assets	1,820,024	43,003	95,059	1,958,086
Total Assets	1,971,766	64,764	97,987	2,134,517
Liabilities				
Current liabilities	97,207	18,443	20,852	136,502
Liabilities payable from restricted assets	861	-	-	861
Noncurrent liabilities	153,188	60,246	34,997	248,431
Total liabilities	251,256	78,689	55,849	385,794
Net assets				
Invested in capital assets, net of related debt	1,778,547	(12,001)	35,384	1,801,930
Restricted net assets	40,616	6,608	22,971	70,195
Unrestricted net assets (deficit)	(98,653)	(8,532)	(16,217)	(123,402)
Total net assets (deficit)	$ 1,720,510	$ (13,925)	$ 42,138	$ 1,748,723

	MUNI	DPT	Parking Garages	Total
Operating revenues	$ 127,431	$ 24,009	$ 36,473	$ 187,913
Operating expenses	579,065	70,686	57,298	707,049
Net operating income (loss)	(451,634)	(46,677)	(20,825)	(519,136)
Nonoperating Income (loss)	229,652	20,734	(1,684)	248,702
Capital contributions	45,330	-	-	45,330
Transfers in	196,610	36,066	-	232,676
Transfers out	-	(12,298)	-	(12,298)
Change in net assets	19,958	(2,175)	(22,509)	(4,726)
Net assets (deficit) at beginning of year	1,700,552	(11,750)	64,647	1,753,449
Net assets (deficit) at end of year	$ 1,720,510	$ (13,925)	$ 42,138	$ 1,748,723

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $138 million ($102 million for MUNI and $36 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2005, MUNI had approved capital grants with unused balances amounting to $278 million. Capital grants receivable as of June 30, 2005 totaled $47 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2005, MUNI had various operating grants receivable of $26.4 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2005, the SFCTA approved $81 million in new capital grants and $17 million in new operating grants for MUNI. During the same period, MUNI received total payments of $87 million for capital grants and $19 million in operating grants from the Authority. As of June 30, 2005, MUNI had $24 million due from the SFCTA for capital grants and $3 million due from the SFCTA for operating grants reported in due from other funds.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately $50 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $7 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $4.3 million.

Given that the proposed Metro East light Rail Vehicle Maintenance and Operating Facility (Metro East) is an integral part of the Third Street Light Rail Project and is vital for relieving overcrowded conditions at MUNI's existing light rail facility, MUNI identified a 17-acre site of the Western Pacific Railroad under the jurisdiction of the Port of San Francisco (Port) as the best location for the Metro East Facility.

In March 2001, MUNI and the Port entered in to a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. The MOU also required MUNI to pay the Port an additional $4 million to construct the Illinois Street Bridge over Islais Creek. Construction of this bridge will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. In the event the Port fails to expend the money toward construction of the bridge within three years after the effective date of the MOU, the Port shall return the $4 million to MUNI. MUNI has agreed to reasonably extend this deadline up to March 2006 provided the Port has demonstrated good faith efforts toward construction of the bridge. The Port started construction of the Illinois Street Bridge in May 2005 with substantial completion scheduled by the end of July 2006. As of June 30, 2005, the $4 million is reflected as nonoperating revenues and expenses.

Leveraged Lease-Leaseback with BREDA Vehicles

Tranche 1

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback

transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2005.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2001-2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million for fiscal year 2004-2005.

As of June 30, 2005, the outstanding payments to be made on the sublease through 2027 are $295.7 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency's Board of Directors and the City's Board of Supervisors, MUNI entered into a second leveraged lease-leaseback transaction over 21 BREDA light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately $67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of $4.4 million for the difference between the amount received of $72.6 million and the amount paid to the escrows of $67.5 million (minus $0.7 million for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004-2005 amounted to $168 thousand.

As of June 30, 2005, the outstanding payments to be made on the sublease through 2029 are $59.7 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2005 follows (in thousands), including $0.7 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 11,319	$ 14,903	$ 2,437	$ 4,658	$ 3,156	$ 36,473
Depreciation	737	11,979	4,363	8,412	129	25,620
Operating income	593	(9,861)	(4,110)	(7,521)	74	(20,825)
Interest and other non-operating revenues (expenses)	(442)	(1,059)	(5)	(194)	16	(1,684)
Change in net assets	151	(10,920)	(4,115)	(7,715)	90	(22,509)
Capital assets, additions	-	-	-	-	246	246
Capital assets, deletions	(433)	(11,979)	(3,694)	(7,994)	-	(24,100)
Net working capital (deficit)	(7,280)	(8,626)	21	(1,486)	791	(16,580)
Total assets	29,155	49,675	3,805	11,991	3,361	97,987
Total liabilities	19,136	28,989	576	6,536	612	55,849
Net assets	10,019	20,686	3,229	5,455	2,749	42,138
Total debt outstanding	$ 11,665	$ 19,095	$ 309	$ 5,323	$ -	$ 36,392

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(f) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2005, the subsidy for LHH was approximately $39 million.

	(in thousands)
Changes in net assets of LHH on a GAAP basis	$ 18,502
Transfer to General Fund	79
Net income on specific/donor restricted funds	(17,598)
Operating subsidy from City General Fund	(39,239)
Net loss on LHH on a GAAP basis before operating subsidy	(38,256)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	1,339
Change in encumbrances and appropriation carryforward	(2,503)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	181
Net loss of LHH requiring General Fund subsidy on a budget basis	$ (39,239)

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. During the fiscal year ended June 30, 2005, Medicare and Medi-Cal charges for services amounted to approximately $4 million and $107 million, respectively. As of June 30, 2005, LHH had net patient receivables from Medicare of $1.3 million and net patient receivables from Medi-Cal of $21.7 million.

During fiscal year ended June 30, 2005, LHH received approximately $15 million in payments as a result of matching federal funds to local funds, which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to 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, 2005, bonds have been sold to fund the Replacement Project. LHH is actively involved in the planning and design phase and construction of the Replacement Project.

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By

January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

LHH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from approximately $0.8 million to $2.5 million. The hospital and the San Francisco Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

As of June 30, 2005, LHH has entered into various purchase contracts totaling approximately $11.6 million that are related to future construction for the Replacement Project.

(g) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2005, the subsidy for SFGH was $78 million.

	(in thousands)
Income before transfers of SFGH on a GAAP basis	$ 14,516
Reimbursement to City General Fund for SB 855 matching program	(80,683)
Transfers from City General Fund to support SFGH on:	
Other Program Support	1,374
Interest expense on the over draft funds with the City Treasury	(684)
Transfers from SFGH to City facility projects	(350)
Transfers from SFGH to Jail Health	(620)
Transfers from SFGH to Laguna Honda	(2,032)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(4,170)
Change in encumbrances and appropriation carryforwards	(8,075)
Other expenses - Non-Operating Funds	(2,119)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,655
Other Net GAAP expenses	(2,062)
Net loss of SFGH requiring General Fund subsidy on a budget basis	$ (78,250)

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health

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program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

During the year ended June 30, 2005, Medicare and Medi-Cal revenue accounted for $73 million and $77 million of net patient service revenue, respectively. As of June 30, 2005, SFGH had net patient receivables from Medicare of $8.1 million and net patient receivables from Medi-Cal of $14.2 million.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled $113.1 million for the year ended June 30, 2005. This revenue was offset by a reduction in the General Fund operating subsidy of $80.7 million for net SB-855 revenues of $32.4 million for the year ended June 30, 2005.

In addition, SFGH receives funding from the State of California under Senate Bill 1255 (SB-1255) which establishes a funding pool through public and private sector contributions with matching federal participation. For the year ended June 30, 2005, SFGH recognized gross patient revenue in the amount of $65.0 million offset by a reduction in the contribution provided by the City of $30.5 million for net SB-1255 revenues of $34.5 million.

Under the Medi-Cal Medical Education program, SFGH is reimbursed for medical education costs incurred for services rendered to Medi-Cal beneficiaries. For the year ended June 30, 2005, SFGH recognized net patient service revenue in the amount of $2.3 million pertaining to this program.

As of June 30, 2005, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately $13.3 million.

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $61.1 million as other operating revenue for the year ended June 30, 2005, from realignment funding.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2005, reimbursement under the Short-Doyle program amounted to approximately $5.8 million and is included in State and other nonoperating revenues.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2005, amounted to $1.2 million and are included in other operating revenue.

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $213 million and estimated costs and expenses to provide charity care were $109 million in fiscal year 2004-2005.

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, 2005, was approximately $77.6 million.

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 to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In May 2005, the Mayor created the Blue Ribbon Committee (the Committee) on SFGH's future location. The Committee's charge was to make a recommendation on where SFGH should be built: (1) on the existing Potrero Hill campus or (2) at Mission Bay, collocating with the University of California at San Francisco (UCSF).

In October 2005, the Health Commission accepted the Committee's recommendation to rebuild at its current Potrero Avenue campus.

In addition to the Potrero location recommendation, the Committee recommended that the City begin the process of ascertaining whether a General Obligation bond for a SFGH rebuild can be approved by voters as well as what dollar amount voters are likely to approve. The City should identify additional mechanisms for financing the hospital replacement.

(h) Clean Water Program

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

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

As of June 30, 2005, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling $40.1 million.

(i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

(12) San Francisco Redevelopment Agency

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking feasibility studies for two potential redevelopment areas, designated by the Board of Supervisors of the City, and proposed expansion to two existing project areas.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development. The Agency applied for and was awarded a "Special Projects of National Significance" grant under the HOPWA program to provide partial rent subsidies and back to work job training.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project

areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, urban entertainment retail space, City-serving retail space, neighborhood-serving retail space and public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a UCSF research campus, a hotel, City-serving and neighborhood-serving retail space, commercial industrial space, a new fire and police station, and a 500-student public school on land to be donated by UCSF.

As of June 30, 2005, 1,079 residential units, including 148 affordable units, 24,000 square feet of office space, and 72,650 square feet of neighborhood retail space have been completed in Mission Bay North. Another 552 residential units are under construction, of which 159 units are affordable. A commercial office building totaling 285,000 square feet and two UCSF research building of 550,000 square feet have been completed in Mission Bay South. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years, and will require investment of over $145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed $4 billion.

The construction of the Jessie Square Garage (the Garage), which contains 450 parking spaces, was completed and started operations in February 2005. During the year ended June 30, 2003, the Garage construction was financed by tax allocation bonds issued. The City has advanced tax increment revenue for debt service payments, which will be repaid from net operating revenues from the Garage.

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 $53.3 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. The Partnership is currently constructing a 106-unit affordable housing project in the South of Market project area. The project, which is scheduled for completion in December 2005, was originally undertaken by PIDC. Additionally, PIDC transferred all related assets (including the rights to a ground lease) and liabilities to the Partnership.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes, community district facility bonds, and mortgage revenue bonds with an aggregate outstanding balance of approximately $662 million as of June 30, 2005, have been issued. 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 therefore not included in the basic financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established a Low and Moderate Income Housing Fund to account for this commitment and has budgeted $362 million for such expenditures since its inception. The Agency has expended $249 million for low- and moderate-income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $23.3 million as of June 30, 2005.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2004-2005, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2002-2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2005, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 18,117
	Internal Service Funds	1,374
	San Francisco International Airport	1,052
	Municipal Transportation Agency	762
	Laguna Honda Hospital	8,438
		29,743
Nonmajor Governmental Funds	Nonmajor Governmental Funds	12,303
		12,303
Internal Service	General Fund	796
	Nonmajor Governmental Funds	861
	General Hospital Medical Center	545
	Laguna Honda Hospital	99
		2,301
Water Department	Municipal Transportation Agency	2,593
		2,593
Hetch Hetchy Water and Power	General Fund	1,061
	Nonmajor Governmental Funds	12,496
	Municpal Transportation Agency	102
	General Hospital Medical Center	595
	Water Department	81
		14,335
Municipal Transportation Agency	Nonmajor Governmental Funds	33,837
	Water Department Fund	2,574
		36,411
Total		$ 97,686

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component unit - Redevelopment Agency	$ 3,375

Transfers:

Transfers (in thousands):

Funds	General Fund	Nonmajor Governmental	Internal Service Funds	San Francisco International Airport	Hetch Hetchy	Municipal Transportation Agency	San Francisco General Hospital	Clean Water	Laguna Honda Hospital	Total Transfers Out
General fund	$ -	$ 71,432	$ 270	$ 4,611	$ -	$ 137,770	$ 78,940	$ -	$ 37,207	$ 330,230
Nonmajor governmental funds	51,228	35,137	-	-	-	94,906	-	1,922	-	183,193
San Francisco International Airport	19,677	-	-	-	-	-	-	-	-	19,677
Municipal Transportation Agency	-	12,298	-	-	-	-	-	-	-	12,298
San Francisco General Hospital	81,304	350	-	-	-	-	-	-	2,032	83,686
Clean Water	-	48	-	-	1,628	-	-	-	-	1,676
Laguna Honda Hospital	79	-	-	-	-	-	-	-	-	79
Total transfers in	$ 152,288	$ 119,265	$ 270	$ 4,611	$ 1,628	$ 232,676	$ 78,940	$ 1,922	$ 39,239	$ 630,839

The $330.2 million General Fund transfer out includes a total of $253.9 million in operating subsidies to Municipal Transportation Agency, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $71.4 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the public library and the Children and Families Fund, 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 General Fund received transfers in of $81.3 million from General Hospital Medical Center, of which $80.7 million was reimbursement for the SB 855 matching program (note 11(g)), and $19.7 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). The $95 million transfer from nonmajor governmental funds is for capital and operating transfers from the San Francisco County Transportation Authority to the Municipal Transportation Agency.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2006	$ 27,319
2007	24,008
2008	20,940
2009	11,535
2010	9,951
2011-2015	18,206
2016-2020	3,600
Total	$ 115,559

Operating lease expense incurred for fiscal year 2004-2005 was approximately $28.9 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency	General Hospital Medical Center	Total Business-type Activities
2006	$ 5,320	$ 2,739	$ 4,682	$ 5,457	$ 18,198
2007	5,727	2,936	4,101	2,766	15,530
2008	5,741	2,936	3,874	1,910	14,461
2009	4,631	2,936	3,874	1,457	12,898
2010	-	2,936	3,314	1,277	7,527
2011-2015	-	14,684	167	-	14,851
2016-2020	-	13,888	179	-	14,067
2021-2025	-	13,888	135	-	14,023
2026-2030	-	13,888	121	-	14,009
2031-2035	-	13,888	-	-	13,888
2036-2040	-	13,888	-	-	13,888
2041-2045	-	13,888	-	-	13,888
2046-2050	-	11,341	-	-	11,341
Total	$ 21,419	$ 123,836	$ 20,447	$ 12,867	$ 178,569

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2004-2005 was $5.9 million, $2.6 million, $6.2 million, and $4.8 million, respectively.

Component Unit - Redevelopment Agency

The Redevelopment Agency (Agency) has noncancellable operating leases for its office sites, which require the following minimum annual payments (in thousands):

Fiscal Years	
2006	$ 1,930
2007	867
2008	846
2009	853
2010	862
2011-2015	4,351
2016-2020	4,351
2021-2025	4,351
2026-2030	4,351
2031-2035	4,351
2036-2040	4,350
2041-2045	4,350
2046-2050	4,350
Total	$ 40,163

Rent payments totaling $2.1 million are included in the Agency's financial statements for the year ended June 30, 2005.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2006	$ 1,191
2007	861
2008	626
2009	567
2010	598
2011-2015	2,466
2016-2020	1,815
2021-2025	340
2026-2030	70
2031-2035	17
Total	$ 8,551

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2006	$ 56,954	$ 25,379	$ 1,950	$ 3,143	$ 912	$ 88,338
2007	47,487	22,951	1,991	2,958	782	76,169
2008	45,818	21,311	2,033	2,634	476	72,272
2009	38,694	19,593	2,077	2,168	380	62,912
2010	29,946	17,161	2,123	1,303	405	50,938
2011-2015	20,406	76,230	2,168	2,965	1,305	103,074
2016-2020	-	63,890	-	-	-	63,890
2021-2025	-	54,080	-	-	-	54,080
2026-2030	-	45,230	-	-	-	45,230
2031-2035	-	42,800	-	-	-	42,800
2036-2040	-	33,473	-	-	-	33,473
2041-2045	-	21,142	-	-	-	21,142
2046-2050	-	16,678	-	-	-	16,678
2051-2055	-	7,197	-	-	-	7,197
2056-2060	-	7,000	-	-	-	7,000
2061-2065	-	7,000	-	-	-	7,000
2066-2070	-	2,485	-	-	-	2,485
Total	$ 239,305	$ 483,600	$ 12,342	$ 15,171	$ 4,260	$ 754,678

Component Unit - Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition, and Hunters Point areas. The minimum annual payments are as follows (in thousands):

Fiscal Years	
2006	$ 3,019
2007	2,899
2008	2,839
2009	2,843
2010	2,948
2011-2015	14,880
2016-2020	15,401
2021-2025	14,323
2026-2030	15,190
2031-2035	16,250
2036-2040	17,405
2041-2045	18,692
2046-2050	5,430
2051-2055	440
2056-2060	350
2061-2065	325
2066-2070	287
2071-2075	250
2076-2080	158
2081-2085	150
2086-2090	150
2091-2095	150
2096-2099	68
Total	$ 134,447

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $18 million per year through July 1, 2025. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows (in thousands):

Fiscal Years	Moscone Convention Center	Other	Total
2006	$ 17,871	$ 424	$ 18,295
2007	17,874	65	17,939
2008	18,571	-	18,571
2009	18,640	-	18,640
2010	18,717	-	18,717
2011-2015	94,631	-	94,631
2016-2020	79,211	-	79,211
2021-2025	16,433	-	16,433
Total minimum lease payments	281,948	489	282,437
Less amounts representing interest	(83,721)	(13)	(83,734)
Present value of maximum lease payments	$ 198,227	$ 476	$ 198,703

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $718 million at June 30, 2005.

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), which was formed in 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2005, the City contributed $6.4 million to the PCJPB for its operating needs. This is paid by MTA from the subsidy transfer it receives from the City.

(16) RISK MANAGEMENT

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for

any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of $15 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

Estimated Claims Payable

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2005 has been actuarially determined and includes an estimate of incurred but not reported losses.

Changes in the reported estimated claims payable since June 30, 2003, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2003-2004	$ 93,304	$ 71,967	$ (37,835)	$ 127,436
2004-2005	127,436	63,684	(38,865)	152,255

Breakdown of the estimated claims payable at June 30, 2005 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables	$ 37,487
Long-term portion of estimated claims payable	46,050
Business-type activities:	
Current portion of estimated claims payables	22,503
Long-term portion of estimated claims payable	46,215
Total	$ 152,255

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending both of these class action lawsuits in the trial court. An appeal remains a possibility for either or both of these lawsuits. Should there be a successful appeal, the potential loss to the Retirement System is estimated to be less than $100 million as of June 30, 2005.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2005 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, 2005 was $391.4 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, 2003, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2003-2004	$ 364,256	$ 108,177	$ (75,307)	$ 397,126
2004-2005	397,126	87,372	(93,070)	391,428

Breakdown of the accrued workers' compensation liability at June 30, 2005 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 44,624
Long-term portion of accrued worker's compensation liability	170,181
Business-type activities:	
Current portion of accrued workers' compensation liability	38,005
Long-term portion of accrued worker's compensation liability	138,618
Total	$ 391,428

(17) SUBSEQUENT EVENTS (UNAUDITED)

Long-term Debt

In July 2005, the City issued a total of $150.1 million in General Obligation Bonds. They consist of the following four bonds: $79.4 million California Academy of Sciences Improvement Bonds, Series 2005E, $29.2 million Steinhart Aquarium Improvement Bonds Series 2005F, $34 million Branch Library Facilities Improvement Bonds Series 2005G and $7.5 million Zoo Facilities Bonds Series 2005H. The 2005E and 2005F Bonds will finance the acquisition, construction, and reconstruction of certain improvements to the Academy of Sciences and Steinhart Aquarium respectively. The 2005G Bonds were issued to provide funds to finance the acquisition, renovation and construction of branch libraries and other library facilities, other than the Main Library. The 2005H Bonds will finance the acquisition, construction and/or reconstruction of San Francisco Zoo facilities. The 2005E, 2005F, 2005G and 2005H Bonds have interest rates ranging from 3.0% to 5.0% and mature from June 2006 through June 2025.

In July 2005, the San Francisco Redevelopment Agency issued Tax Allocation Refunding Revenue Bonds Series 2005A in the amount of $20.4 million and Taxable Tax Allocation Refunding Revenue Bonds Series 2005B in the amount of $8.1 million. Series 2005A Bonds were issued for the purpose of refunding the entire Series 1998A Tax Allocation Revenue Bonds and partially refunding the Series 1998C Tax Allocation Refunding Revenue Bonds. Series 2005B Bonds were issued to refund the entire Series 1998B Tax Allocation Revenue Bonds and the Series 2000B Tax Allocation Revenue Bonds. Together, the 2005 Series A and B Bonds produced net present value savings exceeding $2 million or 7.2% of the par amount of bonds refunded. In July 2005, the Agency issued Taxable Tax Allocation Revenue Bonds, Series 2005C in the amount of $43.9 million and Tax Allocation Revenue Bonds, Series 2005D in the amount of $16.2 million. The proceeds from the Series 2005C Bonds will be used primarily to fund the construction of low-income housing, provide for economic development in the Western Addition project area, and fund a capital reserve for the Yerba Buena Gardens. Series 2005D Bonds were issued for the purpose of funding the construction of infrastructure in the Mission Bay North project area.

In September 2005, the City issued General Obligation Bonds, Laguna Honda Hospital, Series 2005I in the amount of $69 million. The bonds mature from June 2008 through June 2030. The bonds were issued to provide funds for 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 the Laguna Honda Hospital. The 2005I Bonds have interest rates ranging from 4.0% to 5.0%.

In September 2005, the San Francisco Water Department issued an additional $10 million commercial paper notes to fund capital projects associated with Proposition A authorization. As of that date, there was $90 million in commercial paper outstanding.

In October 2005, the San Francisco Finance Corporation issued Lease Revenue Bonds Series 2005A in the amount of $9.4 million. The bonds mature from April 2006 through October 2010 and have interest rates ranging from 3.25% to 5.0%. The bonds were issued to provide funds to finance the acquisition and installation of certain equipment to be leased to the City under an Equipment Lease between the City and San Francisco Finance Corporation.

Elections

On November 8, 2005, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition A – Community College District General Obligation Bonds This is an ordinance that allows the Community College District to borrow $246.3 million by issuing general obligation bonds. The District will use the money to construct and equip new facilities or buildings for performing arts, bio/stem cell technology, for student services and programs offered jointly with San Francisco State University, as well as to complete various construction projects at City College campuses and improve existing facilities by expanding intercampus communication systems, improving energy conservation, and supporting various training and educational programs. The principal and interest on general obligation bonds are paid with property tax revenues. Proposition A will require an increase in property taxes to pay for the bonds. In fiscal year 2006-2007, following issuance of the first series of bonds, the estimated annual costs of debt service would be $6.5 million and result in a property tax rate of 0.057¢ per $100 of assessed valuation (or $5.66 per $100,000 of assessed valuation).

In fiscal year 2009-2010, following issuance of the last series of bonds, and the year with the highest tax rate, the estimated costs of debt service would be $19.5 million and result in a property tax rate of .15¢ per $100 of assessed valuation (or $15.44 per $100,000 of assessed valuation). The best estimate of the average tax rate from fiscal year 2006-2007 through 2032-2033 is .11¢ per $100 of assessed valuation (or $10.71 per $100,000 of assessed valuation). Based on these estimates, the highest estimated increase in annual property taxes for the owner of a home with an assessed value of $400,000 would be approximately $60.68.

Proposition F – Neighborhood Firehouses This is an ordinance that requires the City to maintain and operate all 42 firehouses and specific emergency and rescue vehicles and equipment at the same levels that were used on January 1, 2004. The City will be required to operate the following 24 hours a day: Operate each firehouse, provide adequate staff, operate an arson and investigation unit, maintain no fewer than four ambulances based in the firehouses, and maintain no fewer than four medical supervisors based in the firehouses. The fiscal impact of Proposition F is a new added cost of approximately $4.4 to $6.6 million annually, and a requirement to operate facilities and vehicles that currently cost the City approximately $158 million annually. The costs could increase or decrease depending on how the City implements the ordinance. Under the City Charter, the ultimate cost of this proposal depends on decisions made in the City's annual budget process.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the issuance of its $66,565,000 aggregate principal amount of General Obligation Refunding Bonds, Series 2006-R2 (the "Bonds"). The Bonds are issued pursuant to Resolution No. 272-04, adopted by the Board of Supervisors of the City (the "Board") on May 11, 2004, and approved by the Mayor of the City (the "Mayor") on May 13, 2004 (the "Resolution"), and pursuant to a Declaration of Trust, dated as of November 1, 2006 (as in effect and as supplemented from time to time, the "Trust Agreement"), executed by the Treasurer of the City. The Bonds are issued pursuant to the Charter of the City and the Administrative Code of the City. The City covenants and agrees as follows:

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

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

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

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

"CPO" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

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

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

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

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

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

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

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

"State" shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2005-06 Fiscal Year (which is due not later than March 27, 2007), provide to each Repository (or, in lieu of providing to each Repository, provide to the CPO) 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 shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the City or the Dissemination Agent, if not the City, may file such notice with the CPO.

(c) With respect to the Annual Report, the Dissemination Agent shall:

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

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

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

(a) the audited general purpose financial statements of the City 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 schedule of aggregate annual debt service on tax-supported indebtedness of the City; and

(f) summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

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

SECTION 5. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Modifications to rights of Bondholders.

4. Optional, contingent or unscheduled bond calls.

5. Defeasances.

6. Rating changes.

7. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. Unscheduled draws on debt service reserves reflecting financial difficulties.

9. Unscheduled draws on credit enhancements reflecting financial difficulties.

10. Substitution of credit or liquidity providers or their failure to perform.

11. Release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with (i) each National Repository or with the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(a)(4) and 5(a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Bonds pursuant to the Resolution.

In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the City or the Dissemination Agent, if not the City, may file such notice of a Listed Event with the CPO.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as that for giving notice of the occurrence of a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall 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 Bonds 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 issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

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

Date: December __, 2006.

CITY AND COUNTY OF SAN FRANCISCO

By________________________________

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

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By:____________________________________

Deputy City Attorney

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: $66,565,000 City and County of San Francisco General Obligation Refunding Bonds, Series 2006-R2

Date of Issuance: December __, 2006.

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated December __, 2006. The City anticipates that the Annual Report will be filed by _____________.

Dated: _______________

CITY AND COUNTY OF SAN FRANCISCO

By: ________________________________
Title ________________________________

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The following description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representation is made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, 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 depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will

not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit the notices to Beneficial Owners.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer 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 issuer, 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 issuer 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond 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, Bond certificates will be printed and delivered to DTC.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, exchange and replacement of the Bonds.

The Treasurer shall keep or cause to be kept, at the office of the Treasurer, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection, and upon presentation for such purpose, the Treasurer shall, under such reasonable regulations as he or she may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein provided. Any Bond may, in accordance with its terms, be transferred upon the books of the Treasurer, by the person in whose name it is registered, in person or by the duly authorized attorney of such person in writing, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Treasurer.

Any Bonds may be exchanged at the office of the Treasurer for a like aggregate principal amount of other authorized denominations of the same interest rate and maturity.

Whenever any Bond shall be surrendered for transfer or exchange, the designated City officials shall execute and the Treasurer shall authenticate and deliver a new Bond or Bonds of the same interest rate and maturity in a like aggregate principal amount. The Treasurer shall require the payment by any bond owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of Bonds shall be required to be made by the Treasurer during the period from the Record Date (as defined herein) next preceding each interest payment date to such interest payment date or after a notice of redemption shall have been mailed with respect to such Bond.

The Bonds shall be substantially in the form set forth in the authorizing resolutions of the City. The Bonds shall be in fully registered form without coupons.

The principal of the Bonds shall be payable in lawful money of the United States of America to the owner thereof, upon the surrender thereof at maturity or earlier redemption at the office of the Treasurer. The interest on the Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the "Record Date"), whether or not such day is a day other than a Saturday, Sunday, legal holiday or other day on which commercial banking institutions are authorized or required by law to be closed in California or New York (a “Business Day”).

Payment of the interest on any Bond shall be paid by check mailed to such owner at such owner's address as it appears on the registration books as of the Record Date; provided, however, if any interest payment date occurs on a day that is not a Business Day, then such payment shall be made on the next succeeding Business Day; and provided, further, that the registered owner of an aggregate principal amount of at least $1,000,000 of the Bonds may submit a written request to the Treasurer on or before a Record Date preceding an interest payment date for payment of interest by wire transfer to a commercial bank located within the United States.

The date on which Bonds which are called for redemption are to be presented for redemption is herein sometimes called the "redemption date." The Treasurer shall mail, or cause to be mailed, notice of any redemption of Bonds postage prepaid, to the respective registered owners thereof at the addresses appearing on the bond registration books not less than thirty (30) nor more than sixty (60) days prior to the redemption date. The notice of redemption shall (a) state the redemption date; (b) state the redemption price; (c) state the dates of maturity of the Bonds and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of Bonds redeemed in part only, the respective portions of the principal amount thereof to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the Treasurer or his or her agent; and (f) give notice that interest on such Bonds will cease to accrue after the designated redemption date.

The actual receipt by the owner of any Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in such notice shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of accrual of interest on such Bonds on the redemption date.

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APPENDIX F

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

Jones Hall

A Professional Law Corporation
650 California Street
Eighteenth Floor
San Francisco, California 94108

Law Offices of
Elizabeth C. Green

600 Townsend Street Suite 120e
San Francisco, California 94103

December __, 2006

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

OPINION: $66,565,000 City and County of San Francisco General Obligation Refunding Bonds, Series 2006-R2

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance and delivery by the City and County of San Francisco (the "City") of $66,565,000 aggregate principal amount of bonds of the City designated the "City and County of San Francisco General Obligation Refunding Bonds, Series 2006-R2" (the "Bonds"), issued pursuant to the provisions of the Charter of the City and the Administrative Code of the City (collectively, the "Law"), Resolution No. 272-04 (the "Resolution") duly adopted by the Board of Supervisors of the City on May 11, 2004, and duly approved by the Mayor of the City (the “Mayor”) on May 13, 2004, and a Declaration of Trust dated as of November 1, 2006 (the "Trust Agreement") executed by the Treasurer of the City. The Bonds, which are dated the date hereof, and which mature, bear interest and are subject to redemption as provided in the Trust Agreement, are being issued to (i) provide funds to refund certain previously issued general obligation bonds of the City (the "Prior Bonds"), and (ii) to pay costs incurred in connection with the issuance, sale and delivery of the Bonds and the refunding of the Prior Bonds. We have examined the Law, the Resolution, the Trust Agreement and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution 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 upon the foregoing, we are of the opinion, under existing law, that:

1. The City is a charter city and county duly organized and existing under the Constitution and laws of the State of California (the "State"), with power to adopt the Resolution and to execute and deliver the Trust Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Resolution has been duly adopted by the Board of Supervisors of the City and constitutes the legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

The Trust Agreement has been duly executed and delivered by the Treasurer of the City and constitutes the legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

3. The Bonds have been duly executed and delivered by the City and constitute valid and binding general obligations of the City.

4. The City has the power and is obligated to levy ad valorem taxes upon all property within the City subject to such taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon.

5. Interest on the Bonds 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 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 sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds 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 such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases and to the limitations contained in the laws of the State regarding legal remedies against public agencies of the State. We express no opinion as to the accuracy, completeness, fairness or sufficiency of the Official Statement relating to the Bonds or any exhibits or appendices thereto or any other offering material relating to the Bonds.

Respectfully submitted,

Jones Hall
A Professional Law Corporation

Law Offices of
Elizabeth C. Green

APPENDIX G

SPECIMEN AMBAC FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J Genader

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

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