NEW ISSUE – BOOK-ENTRY ONLY

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 Schiff Hardin LLP, San Francisco, California, Co-Special Counsel to the City, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes, except, with respect to the 2013C Certificates, during any period while a 2013C Certificate is held by a "substantial user" of the facilities financed by the 2013C Certificates or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. With respect to the 2013B Certificates, 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. With respect to the 2013C Certificates, however, such interest is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is exempt from California personal income taxes. See "TAX MATTERS" herein.

$37,700,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION

$4,830,000	$32,870,000
SERIES 2013B	**SERIES 2013C**
(Port Facilities Project)	**(Port Facilities Project)**
(Non-AMT)	**(AMT)**

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

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

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

The City and County of San Francisco Certificates of Participation Series 2013B (Port Facilities Project) (the "2013B Certificates") and the City and County of San Francisco Certificates of Participation Series 2013C (Port Facilities Project) (the "2013C Certificates," and together with the 2013B Certificates, the "Certificates") will be sold to provide funds: (i) to finance or refinance the acquisition, construction, reconstruction, equipping and improvement and rehabilitation of certain facilities (as described herein, the "Project"), to be operated by the Port Commission of the City and County of San Francisco (the "Commission"), (ii) to fund the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund established under the Trust Agreement (as defined hereafter), and (iii) pay costs of execution and delivery of the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2013 (the "Trust Agreement"), between the City and County of San Francisco (the "City") and U.S. Bank National Association, as trustee (the "Trustee"), and in accordance with the Charter of the City. See "THE CERTIFICATES – Authority for Execution and Delivery." The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to a Project Lease dated as of October 1, 2013 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Project Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Covenant to Budget." The obligation of the City to pay Base Rental is in consideration for the use and occupancy of the land and facilities subject to the Project Lease (as further described herein, the "Leased Property"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement of Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement."

The Certificates will be delivered in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Certificates will be made in book entry form only, in the principal amount of $5,000 and integral multiples thereof. Principal and interest with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit such payments to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Form and Registration." Interest evidenced and represented by the Certificates is payable on March 1 and September 1 of each year, commencing March 1, 2014. Principal will be paid as shown on the inside cover hereof. See "THE CERTIFICATES – Payment of Principal and Interest."

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

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

CERTIFICATE PAYMENT SCHEDULE
(See inside cover)

The Certificates are offered when, as and if executed and received by the initial purchasers, subject to the approval of the validity of the Project Lease by Jones Hall, A Professional Law Corporation, San Francisco, California, and Schiff Hardin LLP, San Francisco, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about October 31, 2013.

Dated: October 17, 2013.

CERTIFICATE PAYMENT SCHEDULE

2013B Certificates

$1,920,000 5.25% Term Series 2013B Certificate due March 1, 2036 Yield 4.75%[c] CUSIP[1]: 79765D B82

$2,910,000 4.75% Term Series 2013B Certificate due March 1, 2038 Yield 4.92% CUSIP[1]: 79765D B90

2013C Certificates

Certificate Payment Date (March 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix[1] (Base: 79765D)
2014	$2,265,000	4.00%	0.50%	C24
2015	1,080,000	4.00	0.75	C32
2016	1,020,000	4.00	1.02	C40
2017	1,060,000	4.00	1.50	C57
2018	1,105,000	5.00	1.91	C65
2019	1,160,000	5.00	2.35	C73
2020	1,215,000	5.00	2.72	C81
2021	1,280,000	5.00	3.06	C99
2022	1,340,000	5.00	3.27	D23
2023	1,410,000	5.00	3.55	D31
2024	740,000	5.00	3.72[c]	D49
2025	780,000	5.00	3.88[c]	D56
2026	815,000	5.00	4.04[c]	D64
2027	855,000	5.25	4.19[c]	D72
2028	900,000	5.25	4.32[c]	D80
2029	950,000	5.25	4.45[c]	D98
2030	1,000,000	5.25	4.57[c]	E22
2031	1,050,000	5.25	4.65[c]	E30
2032	1,105,000	5.25	4.73[c]	E48
2033	1,165,000	5.25	4.79[c]	E55

$10,575,000 5.00% Term Series 2013C Certificate due March 1, 2043 Price: 97.00 CUSIP[1]: 79765D E63

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[c] Yield to the first optional call date of March 1, 2023 at par.

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

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 Certificates, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein other than that provided by the City, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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

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

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

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

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

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

Eric Mar, *District 1*
Mark Farrell, *District 2*
Katy Tang, *District 4*
London Breed, *District 5*
Jane Kim, *District 6*
Norman Yee, *District 7*
Scott Wiener, *District 8*
David Campos, *District 9*
Malia Cohen, *District 10*
John Avalos, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Naomi M. Kelly, *City Administrator*
Benjamin Rosenfield, *Controller*

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San Francisco, California

Schiff Hardin LLP
San Francisco, California

Co-Financial Advisor

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San Francisco, California

Backstrom McCarley Berry & Co. LLC
San Francisco, California

Disclosure Counsel
Hawkins Delafield & Wood LLP
San Francisco, California

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

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OFFICIAL STATEMENT

$37,700,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION

$4,830,000	$32,870,000
SERIES 2013B	SERIES 2013C
(Port Facilities Project)	(Port Facilities Project)
(Non-AMT)	(AMT)

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

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its City and County of San Francisco Certificates of Participation Series 2013B (Port Facilities Project) (the "2013B Certificates") and its City and County of San Francisco Certificates of Participation Series 2013C (Port Facilities Project) (the "2013C Certificates," and together with the 2013B Certificates, the "Certificates"). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – DEFINITIONS." The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions.

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

Overview of the Transaction: The City, exercising its Charter powers to convey and lease property for City purposes, will convey certain real property to U.S. Bank National Association (the "Trustee") under that certain Property Lease, dated as of October 1, 2013 (the "Property Lease"), by and between the City as lessor and the Trustee as lessee, in exchange for the proceeds of the sale of the Certificates and other consideration. The Trustee will lease the Leased Property (as defined herein) back to the City for the City's use under that certain Project Lease, dated as of October 1, 2013 (the "Project Lease"), by and between the Trustee as lessor and the City as lessee. The City will be obligated under the Project Lease to pay Base Rental payments and other payments to the Trustee each year during the term of the Project Lease (subject to certain conditions under which obligation to pay Base Rental may be abated as discussed herein). Each payment of Base Rental consists of principal and interest components, and when received by the Trustee in each rental period, is deposited in trust for payment of the Certificates. The Trustee creates the "certificates of participation" in the Project Lease, representing proportional interests in the principal and interest components of Base Rental it receives from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to each Certificate when due according to the Trust Agreement, which governs the security and terms of payment of the Certificates. The money received from sale of the Certificates will be applied by the Trustee (i) to finance or refinance the acquisition, construction, reconstruction, equipping and improvement and rehabilitation of certain facilities (as described herein, the "Project"), to be operated by the Port Commission of the City and County of San Francisco (the "Commission"), (ii) to fund the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund established under the Trust Agreement, and (iii) to pay costs of execution and delivery of the Certificates. See "THE PROJECT AND THE LEASED PROPERTY" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Guide to this Official Statement: The Leased Property is described herein in the section "THE PROJECT AND THE LEASED PROPERTY." The application of the proceeds of sale of the Certificates is described in the sections "THE PROJECT AND THE LEASED PROPERTY" and "ESTIMATED SOURCES AND USES OF FUNDS." The terms of the Certificates and repayment thereof and security for the Certificates are described in the

sections "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES," and other sections in the front portion of this Official Statement. Current information about the City, its finances and governance, are provided in APPENDIX A. The City's most recent comprehensive annual financial report appears in APPENDIX B. A summary of the Property Lease, the Project Lease, the Trust Agreement, and other basic legal documents are provided in APPENDIX C.

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

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

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's most recently completed and adopted Comprehensive Annual Financial Report (the "CAFR") for fiscal year 2011-12 estimated the City's fiscal year 2011-12 population at 820,466.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2011, approximately 16.35 million people visited the City and spent an estimated $8.46 billion during their stay. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The CAFR estimates that per-capita personal income of the City for fiscal year 2011-12 was $74,040. The San Francisco Unified School District operates 71 elementary and K-8 school sites, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), and 36 state-funded preschool sites, and sponsors 9 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art

Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2011-12, SFO serviced approximately 43.1 million passengers and handled 385,113 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "Port"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's Original Budget for fiscal years 2013-14 and 2014-15 totals $7.91 billion and $7.93 billion respectively. The General Fund portion of each year's budget is $3.95 billion in fiscal year 2013-14 and $4.05 billion in fiscal year 2014-15, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port and the San Francisco Public Utilities Commission. The CAFR estimates that the City employed 28,073 full-time-equivalent employees at the end of fiscal year 2011-12. According to the Controller of the City (the "Controller"), fiscal year 2013-14 total net assessed valuation of taxable property in the City is approximately $172.5 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

THE CERTIFICATES

Authority for Execution and Delivery

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2013 (the "Trust Agreement"), by and between the City and the Trustee. Each Certificate represents a proportionate interest in the right of the Trustee to receive Base Rental payments (comprising principal and interest components) payable by the City pursuant to the Project Lease. The City is obligated under the Project Lease to pay the Base Rental in consideration for its use and occupancy of the land and facilities subject to the Project Lease (the "Leased Property"). The Leased Property will be originally conveyed to the Trustee pursuant to the Property Lease.

The Trust Agreement, the Property Lease, and the Project Lease were approved by the Board of Supervisors of the City by its Resolution No. 152-12 and Resolution No. 300-13, adopted on May 1, 2012 and July 30, 2013, respectively, and signed by the Mayor on May 8, 2012 and August 7, 2013, respectively (collectively, the "Resolution"). The Resolution authorized the execution and delivery of up to $45 million in aggregate principal amount of the Certificates under the Trust Agreement and the payment of a maximum annual Base Rental payment under the Project Lease. Under Section 9.108 of the Charter of the City, the City is authorized to enter into lease-financing agreements with a public agency or nonprofit corporation only with the assent of the majority of the voters voting upon a proposition for the purpose. The lease-financing arrangements with the Trustee for the Certificates do not fall under this provision, since the Trustee is neither a public agency nor a nonprofit corporation.

Payment of Principal and Interest

The principal evidenced and represented by the Certificates will be payable on March 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each March 1. Payment of the principal and premium, if any, of the Certificates upon prepayment or upon the Certificate Payment Date will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee. Principal and premium will be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates will be payable on March 1 and September 1 of each year, commencing on March 1, 2014 (each, an "Interest Payment Date") and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such dates in each year. Interest with respect to the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest evidenced and represented by each Certificate will accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) it is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date; or (ii) it is executed prior to the close of business on the first Regular Record Date, in which event interest represented thereby will be payable from the date of delivery; provided, however, that if at the time of execution of any Certificate interest thereon is in default, such interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the date of delivery.

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

Form and Registration

The Certificates will be executed and delivered in the aggregate principal amount shown on the cover hereof.

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

Prepayment of the Certificates

Optional Prepayment

The 2013B Certificates are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after March 1, 2023 at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

The 2013C Certificates with a Certificate Payment Date on or after March 1, 2024, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after March 1,

2023 at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

Mandatory Sinking Account Installment Prepayment

The 2013B Certificates with a Certificate Payment Date of March 1, 2036, are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each March1, beginning March 1, 2035, in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of the 2013B Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date (March 1)	Sinking Account Installment Amount
2035	$1,285,000
2036*	635,000

* Maturity

The 2013B Certificates with a Certificate Payment Date of March 1, 2038, are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each March 1, beginning March 1, 2037, in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of the 2013B Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date (March 1)	Sinking Account Installment Amount
2037	$1,420,000
2038*	1,490,000

* Maturity

The 2013C Certificates with a Certificate Payment Date of March 1, 2043, are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on the dates set forth below, beginning March 1, 2034, in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of 2013C Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date (March 1)	Sinking Account Installment Amount
2034	$1,225,000
2036	720,000
2039	1,560,000
2040	1,640,000
2041	1,720,000
2042	1,810,000
2043*	1,900,000

* Maturity

Special Mandatory Prepayment

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

Selection of Certificates for Prepayment

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

Notice of Prepayment

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

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

Effect of Prepayment

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

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

Conditional Notice; Cancellation of Optional Prepayment

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

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

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

Purchase of Certificates

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

THE PROJECT AND THE LEASED PROPERTY

The Project

The proceeds from sale of the Certificates will be applied by the Trustee (i) to finance or refinance the acquisition, construction, reconstruction, equipping and improvement and rehabilitation of the Project, to be operated by the Commission, (ii) to fund the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund established under the Trust Agreement, and (iii) to pay costs of execution and delivery of the Certificates.

A portion of the proceeds of the Certificates will be used to finance the costs of various facilities and improvements owned, operated and/or managed by the Commission, including without limitation the design, demolition, construction, reconstruction, expansion, improvement, equipping, renewal, restoration and/or replacement of the following facilities (collectively, the "Project"): (i) Pier 27, located along The Embarcadero, San Francisco 94111, which is planned to be used as a cruise ship terminal and special events facility, together with related and subordinate facilities (in addition to a plaza/park at the front of the terminal), (ii) a shoreside power facility to be installed at Pier 70, located along 20th Street, San Francisco 94117, including the removal of seven PCB containing transformers, (iii) Piers 30 and 32, located along The Embarcadero, San Francisco 94105, which facility is planned to be used as a team base for the 34th America's Cup, a secondary cruise terminal and other vessel birth, public parking, and a facility for special events, together with related and subordinate facilities, (iv) Piers 19, 23, and 29 public access and water quality improvements, and (v) various capital improvements to these and other Piers located along The Embarcadero.

The Leased Property

The Leased Property consists generally of Pier 27 and a portion of the campus of the Laguna Honda Hospital commonly known as the South Residence Building, and the facilities and structures related thereto and the real property on which such facilities are located. Upon final completion of the cruise ship terminal (as further described below) located at Pier 27, the Project Lease provides that the City has the absolute right to make Pier 27 the only Leased Property subject to the Property Lease and the Project Lease, and to release from the Property Lease and the Project Lease the portion of Laguna Honda Hospital known as the South Residence Building initially included as Leased Property. The Leased Property may be amended, released or substituted from time to time, as provided under the Project Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Addition, Release and Substitution of Leased Property" and "CERTAIN RISK FACTORS – Release and Substitution of the Leased Property."

Pier 27. The Commission is developing a primary cruise terminal at Pier 27 to replace the existing facility at Pier 35. The existing primary terminal at Pier 35 has neither the sufficient capacity to allow for the increasing length and passenger capacity of new cruise ships nor the amenities needed for an international cruise terminal. Pier 27 has been used as a back-up berth, but does not have any amenities within the maritime shed. The Commission approved the development of a new cruise terminal on Pier 27 that would serve as the primary cruise ship terminal, while the cruise terminal on Pier 35 would be used as a secondary terminal in the event that two cruise ships require berthing on the same date. The planned cruise terminal is an approximately 88,000 square foot, two-level cruise terminal facility, and would be designed to meet modern ship and operational requirements of the cruise industry and provide an appropriate, welcoming gateway to the City. Additionally, the facility would continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ships Festivals and visits by oceanic research vessels.

The new terminal is being constructed in two phases. Phase I, which began in early 2012 and was completed in early 2013, consisted of hazardous material abatement and demolition of the old Pier 27 shed, partial demolition of the Pier 29 shed and the Pier 27 Annex office building, relocation of the shoreside power equipment, and preparation of the Pier 27 site for the installalation of temporary improvements for the duration of the 34th America's Cup. After the 34th America's Cup, Phase II of construction will begin in November 2013, which would include completing the interior spaces specific to the needs of the cruise terminal, landscaping, and completing the proposed Northeast Wharf Plaza, an approximately 2.5 acre open space at the western end of Pier 27. Phase II is currently expected to be completed in the Spring of 2014, and the cruise terminal is currently expected to be operational by the Fall of 2014. The Commission's engineering staff, together with outside engineering support, have determined that Pier 27 is currently in good seismic condition, and that its use as a cruise terminal is code-consistent.

Pier 27 is considered part of the "Port Area," which consists of all real and personal property owned, controlled or operated by the Commission, or over which the Commission has management, supervision or control, or is deemed by the Commission to be a benefit to the Port Area. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement."

Laguna Honda Hospital (South Residence Building). Laguna Honda Hospital, originally constructed in 1866 as an almshouse for the City's poor and homeless, is operated by the City's Department of Public Health to provide over 1,000 residents with longterm care regardless of their ability to pay, including skilled nursing, AIDS and dementia services, hospice, rehabilitation, and acute care. The City also provides adult day health care and senior nutrition programs through this facility. The 62-acre site is on property owned by the City and located at 375 Laguna Honda Boulevard on the western slopes of Twin Peaks, near the geographic center of the City. **Only a portion of Laguna Honda Hospital commonly known as the South Residence Building will be part of the Leased Property.**

In 2005, the City embarked on a plan to renovate Laguna Honda Hospital. The Laguna Honda Hospital Replacement Program includes the construction and renovation of three campuses: the South Residence Building, the Link Building, and the East Residence Building. Together, the three campuses will accommodate 780 beds. Construction of the South Residence Building, the Link Building and the East Residence Building was completed in

December 2010. The new campus features physical therapy as well as occupational therapy, a therapy pool, fitness room, beauty/barber shop, gift shop, multi-purpose room, Dental, Vision and Dialysis clinics in addition to 60 beds dedicated to rehabilitation (both acute care and skilled nursing). Residents and visitors will also benefit from a farm/greenhouse; orchard; an amphitheater; landscaped grounds; and tree alley which will provide site accessibility from the street level to the hospital grounds.

Laguna Honda Hospital is the first green hospital to implement sustainable features in its design, construction, and operations, and is the State's first green-certified hospital. The U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program awarded the hospital silver certification in June 2010.

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 Laguna Honda Hospital could maintain uninterrupted operations following major earthquakes. By January 1, 2008 (subject to a five-year extension under certain circumstances), SB 1953 requires all general acute care buildings to be life safe. By January 1, 2030, all general acute care inpatient buildings must be able to be operational after an earthquake. Laguna Honda Hospital is currently in compliance with SB 1953's 2030 requirements. See "CERTAIN RISK FACTORS – Seismic Risks."

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds:	2013B	2013C	Total
Certificate Par Amount	$4,830,000	$32,870,000	$37,700,000
Net Original Issue Premium	1,631	1,430,575	1,432,206
Total Sources	$4,831,631	$34,300,575	$39,132,206
Uses of Funds:			
Deposit into the Project Account[1]	$4,253,390	$31,244,977	$35,498,367
2013 Reserve Accounts	483,000	2,390,638	2,873,638
Purchaser's Discount	19,320	131,480	150,800
Costs of Delivery[2]	75,921	533,480	609,401
Total Uses	$4,831,631	$34,300,575	$39,132,206

(1) Approximately $27,199,129 will be applied to the payment of certain commercial paper of the City issued to finance the Project, interest and related costs.

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

CERTIFICATE PAYMENT SCHEDULE

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

	2013B Certificates			2013C Certificates			
Payment Date	Principal	Interest	Total Principal and Interest	Principal	Interest	Total Principal and Interest	Fiscal Year Total[1]
03/01/2014	–	$80,339	$80,339	$2,265,000	$540,068	$2,805,068	$2,885,406
09/01/2014	–	119,513	119,513	–	758,106	758,106	–
03/01/2015	–	119,513	119,513	1,080,000	758,106	1,838,106	2,835,238
09/01/2015	–	119,513	119,513	–	736,506	736,506	–
03/01/2016	–	119,513	119,513	1,020,000	736,506	1,756,506	2,732,038
09/01/2016	–	119,513	119,513	–	716,106	716,106	–
03/01/2017	–	119,513	119,513	1,060,000	716,106	1,776,106	2,731,238
09/01/2017	–	119,513	119,513	–	694,906	694,906	–
03/01/2018	–	119,513	119,513	1,105,000	694,906	1,799,906	2,733,838
09/01/2018	–	119,513	119,513	–	667,281	667,281	–
03/01/2019	–	119,513	119,513	1,160,000	667,281	1,827,281	2,733,588
09/01/2019	–	119,513	119,513	–	638,281	638,281	–
03/01/2020	–	119,513	119,513	1,215,000	638,281	1,853,281	2,730,588
09/01/2020	–	119,513	119,513	–	607,906	607,906	–
03/01/2021	–	119,513	119,513	1,280,000	607,906	1,887,906	2,734,838
09/01/2021	–	119,513	119,513	–	575,906	575,906	–
03/01/2022	–	119,513	119,513	1,340,000	575,906	1,915,906	2,730,838
09/01/2022	–	119,513	119,513	–	542,406	542,406	–
03/01/2023	–	119,513	119,513	1,410,000	542,406	1,952,406	2,733,838
09/01/2023	–	119,513	119,513	–	507,156	507,156	–
03/01/2024	–	119,513	119,513	740,000	507,156	1,247,156	1,993,338
09/01/2024	–	119,513	119,513	–	488,656	488,656	–
03/01/2025	–	119,513	119,513	780,000	488,656	1,268,656	1,996,338
09/01/2025	–	119,513	119,513	–	469,156	469,156	–
03/01/2026	–	119,513	119,513	815,000	469,156	1,284,156	1,992,338
09/01/2026	–	119,513	119,513	–	448,781	448,781	–
03/01/2027	–	119,513	119,513	855,000	448,781	1,303,781	1,991,588
09/01/2027	–	119,513	119,513	–	426,338	426,338	–
03/01/2028	–	119,513	119,513	900,000	426,338	1,326,338	1,991,700

09/01/2028	–	119,513	119,513	–	402,713	402,713	–
03/01/2029	–	119,513	119,513	950,000	402,713	1,352,713	1,994,450
09/01/2029	–	119,513	119,513	–	377,775	377,775	–
03/01/2030	–	119,513	119,513	1,000,000	377,775	1,377,775	1,994,575
09/01/2030	–	119,513	119,513	–	351,525	351,525	–
03/01/2031	–	119,513	119,513	1,050,000	351,525	1,401,525	1,992,075
09/01/2031	–	119,513	119,513	–	323,963	323,963	–
03/01/2032	–	119,513	119,513	1,105,000	323,963	1,428,963	1,991,950
09/01/2032	–	119,513	119,513	–	294,956	294,956	–
03/01/2033	–	119,513	119,513	1,165,000	294,956	1,459,956	1,993,938
09/01/2033	–	119,513	119,513	–	264,375	264,375	–
03/01/2034	–	119,513	119,513	1,225,000	264,375	1,489,375	1,992,775
09/01/2034	–	119,513	119,513	–	233,750	233,750	–
03/01/2035	$1,285,000	119,513	1,404,513	–	233,750	233,750	1,991,525
09/01/2035	–	85,781	85,781	–	233,750	233,750	–
03/01/2036	635,000	85,781	720,781	720,000	233,750	953,750	1,994,063
09/01/2036	–	69,113	69,113	–	215,750	215,750	–
03/01/2037	1,420,000	69,113	1,489,113	–	215,750	215,750	1,989,725
09/01/2037	–	35,388	35,388	–	215,750	215,750	–
03/01/2038	1,490,000	35,388	1,525,388	–	215,750	215,750	1,992,275
09/01/2038	–	–	–	–	215,750	215,750	–
03/01/2039	–	–	–	1,560,000	215,750	1,775,750	1,991,500
09/01/2039	–	–	–	–	176,750	176,750	–
03/01/2040	–	–	–	1,640,000	176,750	1,816,750	1,993,500
09/01/2040	–	–	–	–	135,750	135,750	–
03/01/2041	–	–	–	1,720,000	135,750	1,855,750	1,991,500
09/01/2041	–	–	–	–	92,750	92,750	–
03/01/2042	–	–	–	1,810,000	92,750	1,902,750	1,995,500
09/01/2042	–	–	–	–	47,500	47,500	–
03/01/2043	–	–	–	1,900,000	47,500	1,947,500	1,995,000
Total[1]	$4,830,000	$5,480,426	$10,310,426	$32,870,000	$24,260,668	$57,130,668	$67,441,094

[1] Totals may not add due to independent rounding.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Source of Payment

The Certificates will evidence and represent proportionate interests in the Base Rental payments required to be made by the City to the Trustee under the Project Lease so long as the City has use and occupancy of the Leased Property. The Project Lease terminates on March 1, 2043, or upon early payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See "– Abatement of Base Rental Payments" below.

Pursuant to the Trust Agreement, the City will grant to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (excluding the Rebate Fund), including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award not required to be used for repair or replacement of the Project or the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property; (iv) all amounts on hand from time to time in the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund and the Base Rental Fund established under the Trust Agreement, including amounts transferred to the Base Rental Fund from other funds and accounts, as provided in the Trust Agreement (including proceeds of the Certificates no longer needed to complete the Project or to pay costs of execution and delivery of the Certificates); and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf. The City will pay to the Trustee the Base Rental payments to the extent required under the Project Lease, which Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal and interest represented by the Certificates.

Covenant to Budget

The City will covenant in the Project Lease to take such action as may be necessary to include all Rental Payments as a separate line item in its annual budget and to make the necessary annual appropriations for such Rental Payments. The Project Lease provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law and by the Charter, and it is the duty of each and every public official of the City to take such action and do such things as are required by law and by the Charter in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Project Lease agreed to be carried out and performed by the City.

If the City defaults on its covenant in the Project Lease to include all rental payments in the applicable annual budget and such default continues for 60 days or more, the Trustee may retain the Project Lease and hold the City liable for all Rental Payments on an annual basis.

The obligation of the City to make Rental Payments is an obligation payable from any legally available funds of the City. For a discussion of the budget and finances of the City, see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET" and APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2012." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER – INVESTMENT POLICY."

Limited Obligation

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

Base Rental Payments; Additional Rental

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

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

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

Abatement of Base Rental Payments

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

The City's obligation under the Project Lease to make Rental Payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property or any portion thereof, except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the 2013B Reserve Account or the 2013C Reserve Account of the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for Rental Payments or to the Trustee for payments in respect of the Certificates. The amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference. Abatement of Base Rental payments will commence with such damage, destruction or condemnation and end when use and occupancy or possession is restored. In the event of abatement, the term of the Project Lease may be extended until all amounts due under the Project Lease and the Trust Agreement are fully paid, but in no event later than March 1, 2048. See "CERTAIN RISK FACTORS – Abatement."

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Project Lease requires the City to maintain rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months. Pursuant to the Project Lease, rental interruption insurance is required to insure only against loss of rental income from the related Leased Property caused by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by the City's all risk property insurance on the related Leased Property. Rental interruption insurance will also insure against loss of rental income from the related Leased Property caused by earthquake, only if the City obtains earthquake insurance. The City is not required to maintain flood insurance or rental interruption insurance relating to such coverage under the Project Lease. The City currently does not have earthquake or flood insurance on the Leased Property. See "– Insurance with Respect to the Leased Property" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest represented by the Certificates. The City is also required by the Project Lease to use insurance proceeds to replace or repair Leased Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Project Lease and the Trust Agreement with respect to the Certificates remaining Outstanding. See "– Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Project Lease. See "– Addition, Release and Substitution of Leased Property" below. In addition, the Trust Agreement establishes a 2013B Reserve Account and a 2013C Reserve Account of the Reserve Fund and requires the Trustee to use any moneys on deposit in the Reserve Fund to make payments of principal and interest represented by the Certificates. See "– Reserve Fund" below.

Reserve Fund

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee, and within the Reserve Fund, there is created a 2013B Reserve Account and a 2013C Reserve Account to be held with the Trustee. The 2013B Reserve Account will only be available to support payments with respect to the 2013B Certificates and any additional certificates identified in a supplement to the Trust Agreement pursuant to which Additional Certificates are executed and delivered. The 2013C Reserve Account will only be available to support payments with respect to the 2013C Certificates and any additional certificates identified in a supplement to the Trust Agreement pursuant to which Additional Certificates are executed and delivered. Amounts on deposit in the 2013B Reserve Account may not be used to pay debt service with respect to the 2013C Certificates, and amounts on deposit in the 2013C Reserve Account may not be used to pay debt service with respect to the 2013B Certificates. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund established under the Trust Agreement a portion of the proceeds of the 2013B Certificates and the 2013C Certificates, respectively, which amounts will be at least equal to the Reserve Requirement. The Reserve Requirement with respect to the Certificates, as of any date of calculation, is equal to the least of (1) an amount equal to the maximum annual payments of principal and interest with respect to the 2013B Certificates or the 2013C Certificates, as applicable, (2) 125% of average annual payments of principal and interest with respect to the 2013B Certificates or the 2013C Certificates, as applicable, or (3) 10% of the initial principal amount represented by the 2013B Certificates or the 2013C Certificates, as applicable. Notwithstanding the foregoing, the Reserve Requirement with respect to the 2013C Certificates will, prior to March 1, 2014 not exceed $2,390,638.13, and will, on and after March 1, 2034, not exceed $1,734,027.78. As of the date of delivery of the Certificates, the Reserve Requirement with respect to the 2013B Certificates is $483,000, and the Reserve Requirement with respect to the 2013C Certificates is $2,390,638.13.

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

A Credit Facility in the amount of the Reserve Requirement may be substituted by the City at any time for all or a portion of the funds held by the Trustee in the Reserve Fund, provided that (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates at the time of such substitution (and the City will notify each Rating Agency prior to making any such substitution), and (ii) the

Trustee will receive an opinion of Independent Counsel stating that such substitution will not, by itself, adversely affect the exclusion from gross income for federal income tax purposes of interest components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy, such Credit Facility will be for the term of the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be transferred as directed in writing by a City Representative.

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

Any moneys in the Reserve Fund in excess of the Reserve Requirement on each September 2, commencing September 2, 2014, if directed in a written order signed by a City Representative and delivered to the Trustee, and at such other time or times as directed by the City, will be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date, or transferred to such other fund as the City may designate. The Reserve Fund may secure Additional Certificates on a parity basis or, alternatively, a separate account in the Reserve Fund may be established for one or more series of Additional Certificates.

Replacement, Maintenance and Repairs

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

Notwithstanding anything herein to the contrary, in the event any proceeds of insurance or condemnation relate to Leased Property that is within the Port Area, either (i) such proceeds will be applied to the cost of repair or replacement of such Leased Property or the affected portion thereof, (ii) the City will, subject to the limitations set forth under that certain Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the trustee thereunder (as amended or supplemented from time to time, the "Port Indenture"), acquire and/or construct a new facility that will be substituted as the Leased Property pursuant to the Project Lease, or (iii) the City will otherwise substitute another site and facility as the Leased Property under the Project Lease. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – TRUST AGREEMENT – Application of Insurance Proceeds" and "– Eminent Domain" and "– THE PROJECT LEASE – Insurance" and "– Eminent Domain."

Insurance with Respect to the Leased Property

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease: (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates (to the extent commercially available), with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than $5,000,000 per accident; and (iv) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of 24 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above and by earthquake insurance, if obtained by the City as provided below. All policies of insurance required under the Project Lease may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

The Project Lease further requires the City to maintain earthquake insurance in an amount equal to the Outstanding principal amount of the Certificates (to the extent commercially available, in the judgment of the City's Risk Manager); provided that no such earthquake insurance is required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies. Based upon current market conditions and the recommendations of the Risk Manager of the City, the City has determined not to obtain earthquake insurance as of the date of this Official Statement.

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

The City is not required to maintain flood insurance (or rental interruption insurance relating to such coverage) under the Project Lease and the City does not currently have flood insurance on the Leased Property.

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

Notwithstanding anything herein to the contrary, in the event any proceeds of insurance or condemnation relate to Leased Property that is within the Port Area, either (i) such proceeds will be applied to the cost of repair or replacement of such Leased Property or the affected portion thereof, (ii) the City will, subject to the limitations set forth under the Port Indenture, acquire and/or construct a new facility that will be substituted as the Leased Property pursuant to the Project Lease, or (iii) the City will otherwise substitute another site and facility as the Leased Property under the Project Lease. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – TRUST AGREEMENT – Application of Insurance Proceeds" and "– Eminent Domain" and "– THE PROJECT LEASE – Insurance" and "– Eminent Domain."

Eminent Domain

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

Notwithstanding anything herein to the contrary, in the event any proceeds of insurance or condemnation relate to Leased Property that is within the Port Area, either (i) such proceeds will be applied to the cost of repair or replacement of such Leased Property or the affected portion thereof, (ii) the City will, subject to the limitations set forth under the Port Indenture, acquire and/or construct a new facility that will be substituted as the Leased Property pursuant to the Project Lease, or (iii) the City will otherwise substitute another site and facility as the Leased Property under the Project Lease. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – TRUST AGREEMENT – Application of Insurance Proceeds" and "– Eminent Domain" and "– THE PROJECT LEASE – Insurance" and "– Eminent Domain."

Addition, Release and Substitution of Leased Property

If no Project Lease Event of Default has occurred and is continuing, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, upon satisfaction of the conditions to such amendment and substitution in the Project Lease.

Notwithstanding anything herein to the contrary, the Project Lease provides that upon final completion of the Cruise Ship Terminal located at Pier 27, the City has the absolute right to make Pier 27 the only Leased Property subject to the Property Lease and the Project Lease, and to release from the Property Lease and the Project Lease the portion of Laguna Honda Hospital initially included as Leased Property. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE PROJECT LEASE – Addition, Release and Substitution."

Additional Certificates

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

CERTAIN RISK FACTORS

The following risk factors should be considered by potential investors, along with all other information in this Official Statement, in evaluating the risks inherent in the purchase of the Certificates. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Certificates. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Rental Payments Not a Debt of the City

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

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund and the Base Rental Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. The City will be obligated to make Rental Payments subject to the terms of the Project Lease, and neither the City nor any of its officers will incur any liability or any other obligation with respect to the delivery of the Certificates.

Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. There are no restrictions in the Trust Agreement against the City incurring additional lease and other obligations payable from the City's General Fund. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – Overlapping Debt," "– Tax Supported Debt Service," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

Abatement

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

In the case of abatement relating to the Leased Property, the amount of annual rental abatement would be such that the resulting Rental Payments in any Project Lease Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement would continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect; and the term of the Project Lease will be extended by the period during which the rental is abated under the Project Lease, except that such extension will in no event extend beyond March 1, 2048. Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Certificates in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest represented by the Certificates as such amounts become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance with Respect to the Leased Property." and "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Replacement, Maintenance and Repairs" for additional provisions governing damage to the Leased Property.

In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement. The City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the Reserve Fund to the Reserve Fund Requirement.

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

If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund and any available insurance proceeds, are insufficient to make all payments with respect to the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Project Lease or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest with respect to the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Project Lease is not an event of default under the Trust Agreement or the Project Lease.

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

Reserve Fund

At the time of delivery of the Certificates, proceeds of the 2013B Certificates in the amount of $483,000 will be deposited in the 2013B Reserve Account, and proceeds of the 2013C Certificates in the amount of $2,390,638.13 will be deposited in the 2013C Reserve Account. In the event of abatement or default, the amounts on deposit in the 2013B Reserve Account and the 2013C Reserve Account of the Reserve Fund may be significantly less than the amount of Base Rental due at the time of abatement or default. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Reserve Fund."

Limited Recourse on Default; No Reletting of the Leased Property

The Project Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due under the Project Lease by pursuant any remedy available in law or in equity, other than by terminating the Project Lease or re-entering and reletting the Leased Property, or except as expressly provided in the Project Lease. The City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2013B Reserve Account and the 2013C Reserve Account to the Reserve Fund Requirement. In addition, the Project Lease provides that no remedies may be exercised so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income taxes. The enforcement of any remedies provided for in the Project Lease and in the Trust Agreement could prove to be both expensive and time consuming.

The Project Lease provides that any remedies on default will be exercised by the Trustee. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental payments when due, or if the City breaches any other terms, covenants or conditions contained in the Project Lease, the Property Lease or in the Trust Agreement (and does not remedy such breach with all reasonable dispatch within 60 days after notice thereof or, if such breach cannot be remedied within such 60-day period, the City fails to take corrective action within such 60-day period and diligently pursue the same to completion), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Certificates then outstanding, will proceed), without any further notice, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due by pursuing any remedy available in law or in equity, other than by terminating the Project Lease or re-entering and reletting the

Leased Property, or except as expressly provided in the Project Lease. The Project Lease does not allow the remedy of re-entering and reletting of the Leased Property.

Enforcement of Remedies

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

The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Project Lease, the Property Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See "CERTAIN RISK FACTORS – Bankruptcy" herein.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Project Lease. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Release and Substitution of the Leased Property

The Project Lease permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE PROJECT LEASE – Addition, Release and Substitution." Although the Project Lease requires that the substitute property have an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property or portion thereof being replaced. In addition, such replacement property could be located anywhere within (or outside) the City's boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the Certificates. Notwithstanding anything herein to the contrary, the Project Lease provides that upon final completion of the Cruise Ship Terminal located at Pier 27, the City has the absolute right to make Pier 27 the only Leased Property subject to the Property Lease and the Project Lease, and to release from the Property Lease and the Project Lease the portion of Laguna Honda Hospital initially included as Leased Property.

Burton Act and Transfer Agreement

A portion of the Leased Property is Pier 27 which is located in the Port Area under the jurisdiction of the Commission. The Port Area was transferred to the City by the State pursuant to special legislation, California Statutes 1968, Chapter 1333 (the "Burton Act"). The transfer was conditioned on the passage of certain Charter

amendments, which were approved by the voters of the City at an election held on November 5, 1968. The transfer was effected pursuant to an agreement entered into between the State and the City, in accordance with the Burton Act, dated as of January 24, 1969 (the "Transfer Agreement"). The provisions of the Transfer Agreement generally follow those of the Burton Act itself. The amendments to the Charter were approved by the State Legislature as required by the Transfer Agreement.

The Burton Act provided for the transfer to the City, in trust for purposes of commerce, navigation and fisheries, of all of the real property located in the City and then under the jurisdiction of the San Francisco Port Authority of the State, and of all related personal property. The Burton Act and the Transfer Agreement provide that the Commission shall have complete authority to use, conduct, operate, maintain, manage, regulate, improve and control the harbor of the City (i.e., the Port Area), and to do all things necessary in connection therewith.

The Legislature reserved the right to amend, modify or revoke, in whole or in part, the transfer of lands in trust under the Burton Act, provided that the State assumes all lawful obligations related to such lands as may revert to the State. The State has never exercised this right, other than as part of the State's budget for fiscal year 1992-93 when certain Port revenues were required to be diverted to the State. The transfer may also be revoked, by an action brought by the State Attorney General, for gross and willful violation of the terms of the transfer or the provisions of the Burton Act or other legislative enactment. No such action has ever been brought or threatened by the State Attorney General, nor is the Commission aware of any possible grounds for such an action.

Under the Burton Act, revocation, in whole or in part, of any transfer of lands in trust to the Commission may not impair or affect the rights or obligations of third parties, including bondholders and lessees, arising from existing leases, contracts or other agreements.

The title insurance policy relating to Pier 27 obtained under the Project Lease includes an exception to title as to matters arising under the Burton Act and the Transfer Agreement.

Seismic Risks

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

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

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

market from reputable insurance companies, and the City does not expect to obtain earthquake insurance. The City is not obligated under the Project Lease to maintain flood insurance, and the City does not expect to obtain flood insurance. There can be no assurance that the Leased Property would not be damaged in whole or in part by seismic activity.

Climate Change Issues

The U.S. Environmental Protection Agency (the "EPA") has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles.

Regulation by the EPA can be initiated by private parties or by governmental entities other than the EPA. On July 11, 2008, the EPA issued an Advanced Notice of Proposed Rulemaking (the "ANPR") relating to GHG emissions and climate change. The final rule, the Mandatory Reporting of Greenhouse Gases Rule (74 FR 56260), requires reporting of GHG data and other relevant information from large stationary sources and electricity and fuel suppliers.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the "California Global Warming Solutions Act of 2006," which requires the Statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of Assembly Bill 32: the "California Cap-and-Trade Program" (the "Program") which was implemented in January 2012. The Program covers regulated entities emitting 25,000 MtCO2e per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. It is expected that the Program will result in rising electricity and fuel costs, which may adversely affect the City and the local economy.

The City is unable to predict what additional federal or State laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the City or the local economy. The effects, however, could be material.

Risk of Sea Level Changes and Flooding

In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that the replacement value of this property totals nearly $100 billion (in 2000 dollars). Two-thirds of this at-risk property is concentrated in San Francisco Bay, indicating that this region is particularly vulnerable to impacts associated with sea-level rise due to extensive development on the margins of the Bay. A wide range of critical infrastructure, such as roads, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

The City is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City and the local economy.

Natural Gas Transmission and Distribution Pipelines

In September 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City. The nearest high pressure natural gas pipelines to Pier 27 and Laguna Honda Hospital are located approximately 2.8 and 1.8 miles away, respectively.

The City cannot provide any assurances as to the condition of PG&E pipelines in the City, or predict the extent of damage to surrounding property that would occur if a PG&E pipeline located within the City were to explode. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by a pipeline explosion. There can be no assurance that the Leased Property would not be damaged in whole or in part by a pipeline explosion.

Risk Management and Insurance

The Project Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance with Respect to the Leased Property." The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months Base Rental payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement of Base Rental Payments." The Project Lease allows the City to insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as self-insurance. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Project Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest with respect to the Certificates when due.

The City employs a full-time Risk Manager, as well as safety and loss control professionals, for the prevention and mitigation of property, liability and employee claims for injury or damage. For information concerning the self insurance and risk management programs of the City see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

State Law Limitations on Appropriations

Article XIII B of the State Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution."

Changes in Law

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

Appendix A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

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

Bankruptcy

In addition to the limitations on remedies contained in the Trust Agreement and the Project Lease, the rights and remedies in the Trust Agreement and the Project Lease may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Project Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See "CERTAIN RISK FACTORS – Enforcement of Remedies" herein.

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Certificate Owners and the Trustee could be prohibited from or delayed in taking steps to enforce their rights under the Trust Agreement and the Project Lease and from taking steps to collect amounts due from the City under the Project Lease. In a bankruptcy case, a plan of adjustment for the City could be confirmed that would alter the terms of the Certificates. In addition, if the Lease Agreement was determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the City could choose to reject the Lease Agreement and the claim of the Owners could be substantially limited. In any event, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Certificates.

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

State of California Financial Condition

The State has for a number of years experienced, and continues to experience, significant financial and budgetary stress. The City receives a significant portion of its funding from the State. The City's fiscal year 2013-14 Adopted Budget projects that approximately 14.3% of the City's General Fund revenues will come from State sources.

On June 28, 2013, the Governor approved the State Budget Act for Fiscal Year 2013-14 (the "Fiscal Year 2013-14 State Budget Act"), which projects fiscal year 2012-13 revenues and transfers of $98.20 billion, total expenditures of $95.67 billion and a year-end surplus of $872 million (net of the $1.66 billion deficit from fiscal year 2011-12), of which $618 million would be reserved for the liquidation of encumbrances and $254 million would be deposited in a reserve for economic uncertainties. The Fiscal Year 2013-14 State Budget Act projects fiscal year 2013-14 revenues and transfers of $97.10 billion, total expenditures of $96.28 billion and a year-end surplus of $1.69 billion (inclusive of the projected $872 million State General Fund balance as of June 30, 2013 which would be available for fiscal year 2013-14), of which $618 million would be reserved for the liquidation of encumbrances and $1.07 billion would be deposited in a reserve for economic uncertainties. The Fiscal Year 2013-14 State Budget Act states that the State's budget is projected to remain balanced for the foreseeable futures, but cautions that substantial risks, uncertainties and liabilities remain. The Fiscal Year 2013-14 State Budget Act dedicates several billion dollars to the repayment of previous budgetary borrowing and projects that outstanding budgetary borrowing will be reduced to approximately $4.7 billion as of June 30, 2017 from $26.9 billion as of June 30, 2013.

Certain of the features of the Fiscal Year 2013-14 State Budget Act which could affect counties in the State include the following:

1. The Fiscal Year 2013-14 State Budget Act reflects the State's participation in the federal reform of health care pursuant to the Affordable Care Act of 2012 and implementation of the State's health benefit exchange known as Covered California. The Fiscal Year 2013-14 State Budget Act adopts the federally required rules for Medi-Cal eligibility, enrollment and retention. In addition, the State will extend Medi-Cal coverage to include a new coverage group consisting of adults and parent/caretaker relatives with incomes of up to 138% of the federal poverty level. Pursuant to the Fiscal Year 2013-14 State Budget Act, certain health care programs such as substance abuse disorder services will be administered by the counties.

2. The Fiscal Year 2013-14 State Budget Act provides county welfare departments up to $120 million in additional General Fund to accommodate new workload associated with implementing the Affordable Care Act. The Governor projects that in fiscal year 2015-16, the State will implement a new budgeting methodology developed in consultation with counties and based on a zero-base review of all Medi-Cal related county administrative activities.

3. The Governor projects that county costs and responsibilities for indigent health care will decrease in connection with the health care reform as uninsured individuals obtain health care coverage. Pursuant to the Fiscal Year 2013-14 State Budget Act the twelve public hospital counties and the twelve non-public health/non-County medical service program counties will have the option to select one of two mechanisms by December 2013 with respect to county health care costs and revenues for Medi-Cal beneficiaries and the uninsured.

4. Under current law, counties received funds to provide healthcare services to low-income, uninsured residents as part of a realignment of services that was implemented in 1991. Pursuant to the Fiscal Year 2013-14 State Budget Act, the State will shift up to $300 million from counties to the State during fiscal year 2013-14. Counties will have the option to select one of two formulas to determine the amount of healthcare savings to be shared with the State. However, the Fiscal Year 2013-14 State Budget Act projects that the State will receive the majority of the healthcare savings.

5. The Fiscal Year 2013-14 State Budget Act approves proposals to reform the CalWORKs program including, among other things, a prospective 24-month time limit on cash assistance and employment services for adults. The Fiscal Year 2013-14 State Budget Act includes an increase of $142.8 million in the State's General Fund in fiscal year 2013-14 to improve employment services. Pursuant to the Fiscal Year 2013-14 State Budget Act, counties will enhance and expand their array of employment services and job development activities for program participants, and intensify case management efforts for individuals not currently participating in activities that will eventually lead to self-sufficiency.

6. The Fiscal Year 2013-14 State Budget Act estimates that counties will receive the aggregate amount of approximately $1.4 billion in new general purpose revenues during fiscal years 2012-13 and 2013-14 in

connection with the dissolution of redevelopment agencies in the State. Further, the Fiscal Year 2013-14 State Budget Act projects that counties, cities and special districts will receive approximately $675 million annually in unrestricted funds which can be allocated to public services.

The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – City Budget Adopted for Fiscal Years 2012-13 and 2013-14" and "– Impact of the State of California Budget on Local Finances."

U.S. Government Finances

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending. On March 1, 2013 automatic spending cuts to federal defense and other discretionary spending (referred to as "sequestration") went into effect and will continue for nine years unless further action is taken by the United States Congress. As of the current date, Congress has not enacted a regular budget or a continuing resolution for the 2014 fiscal year, which began on October 1, 2013. As a result, certain appropriations lapsed on October 1, 2013 and the United States federal government entered a partial shutdown with furloughs of certain federal workers and suspension of certain services not exempted by law. Among other impacts, the City's receipt of federal subsidies for the interest payments on its obligations issued as "Build America Bonds" (currently outstanding in the aggregate principal amount of $339,000,000) will be delayed until a federal budget or continuing resolution is adopted (the City's payment of interest on such obligations is not dependent upon or expected to be adversely affected by such delay). The City cannot predict the ultimate outcome of federal budget deliberations. For more information on the potential impact of sequestration on the City's finances and operations, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances." See also APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – OTHER CITY TAX REVENUES" and "– INVESTMENT OF CITY FUNDS."

Taxability Risk

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

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

Other

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

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation and Schiff Hardin LLP, Co-Special Counsel to the City, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the 2013B Certificates and the 2013C Certificates is excluded from gross income for federal income tax purposes, except, with respect to the 2013C Certificates, during any period while a 2013C Certificate is held by a "substantial user" of the facilities financed by the 2013C Certificates or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Tax Code"). With respect to the 2013B Certificates, 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. With respect to the 2013C Certificates, however, such interest is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The opinions set forth in the preceding paragraph are subject to the condition that the City will comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the 2013B Certificates and the 2013C Certificates. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the 2013B Certificates and the 2013C Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2013B Certificates and the 2013C Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2013B Certificate or a 2013C Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a 2013B Certificate or a 2013C Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2013B Certificates or the 2013C Certificates, as applicable, on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2013B Certificates or 2013C Certificates, as applicable, to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2013B Certificates or 2013C Certificates, as applicable. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2013B Certificates or 2013C Certificates who purchase the 2013B Certificates or 2013C Certificates after the initial offering of a substantial amount of such maturity. Owners of such 2013B Certificates or 2013C Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2013B Certificates or 2013C Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2013B Certificates or 2013C Certificates under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2013B Certificates and the 2013C Certificates (said term being the shorter of the 2013B Certificates' and the 2013C Certificates' maturity date or its call date). The amount of original issue premium amortized each year reduces the

adjusted basis of the owner of the 2013B Certificates or the 2013C Certificates, as applicable, for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on the 2013B Certificates or the 2013C Certificates is amortized each year over the term to maturity of the 2013B Certificates or the 2013C Certificates, as applicable, on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized premium with respect to a 2013B Certificates and the 2013C Certificates is not deductible for federal income tax purposes. Owners of premium 2013B Certificates and the 2013C Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2013B Certificates or the 2013C Certificates, as applicable.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2013B Certificates and the 2013C Certificates to be subject, directly or indirectly, to federal income taxation or may cause interest on the Certificates to be subject to or no longer exempt from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Special Counsel expresses no opinion.

OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the tax status of the interest represented by the Certificates (see "TAX MATTERS" herein) are subject to the separate legal opinions of Jones Hall, A Professional Law Corporation, San Francisco, California and Schiff Hardin LLP, San Francisco, California Co-Special Counsel. The signed legal opinions of Co-Special Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the initial purchasers of the Certificates at the time of original delivery of the Certificates.

The proposed form of the legal opinions of Co-Special Counsel are set forth in APPENDIX F hereto. The legal opinions to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Co-Special Counsel have reviewed or express any opinion concerning any of the matters referred to in the opinion subsequent to its date. In rendering their opinions, Co-Special Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Certificates, which Co-Special Counsel will not have independently verified.

Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel.

Hawkins Delafield & Wood LLP, San Francisco, California has served as disclosure counsel to the City and in such capacity has advised the City with respect to applicable securities laws and participated with responsible Commission and City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the delivery of the Certificates, Disclosure Counsel will deliver a letter to the City which advises the City, subject to the assumptions,

exclusions, qualifications and limitations set forth therein, that no facts came to attention of the firm which caused them to believe that this Official Statement as of its date and as of the date of delivery of the Certificates contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Certificates, or other person or party other than the City, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the City.

The legal opinions and other letters of counsel to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions or advice regarding the legal issues and other matters expressly addressed therein. By rendering a legal opinion or advice, the giver of such opinion or advice does not become an insurer or guarantor of the result indicated by that opinion, or the transaction on which the opinion or advice is rendered, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

PROFESSIONALS INVOLVED IN THE OFFERING

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

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2012-13, which is due not later than March 27, 2014, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchasers of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

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

ABSENCE OF LITIGATION

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

RATINGS

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

SALE OF THE CERTIFICATES

The Certificates were sold at competitive bid on October 17, 2013. The 2013B Certificates were awarded to Hutchinson, Shockey, Erley & Co. (the "2013B Purchaser"), who submitted the lowest true interest cost bid, at a purchase price of $4,812,311.10. The 2013C Certificates were awarded to Wells Fargo Bank, National Association (the "2013C Purchaser," and together with the 2013B Purchaser, the "Purchasers"), who submitted the lowest true interest cost bid, at a purchase price of $34,169,094.95. Under the terms of their respective bids, each Purchaser will be obligated to purchase all of the Certificates of the related Series if any are purchased; the obligation to make such purchase is subject to the approval of certain legal matters by Co-Special Counsel and certain other conditions to be satisfied by the City.

Each Purchaser has certified the reoffering prices or yields for the related Series of Certificates set forth on the inside cover of this Official Statement, and the City takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the net original issue premium on the reoffering of the 2013B Certificates is $1,631.10, and the 2013B Purchaser's gross compensation (or "spread") is $19,320. Based on the reoffering prices, the net original issue premium on the reoffering of the 2013C Certificates is $1,430,574.95, and the 2013C Purchaser's gross compensation (or "spread") is $131,480. The Purchasers may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Purchasers.

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MISCELLANEOUS

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

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

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Benjamin Rosenfield
Controller

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

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES

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

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of August 15, 2013

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

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

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CITY GOVERNMENT

City Charter

San Francisco is governed as a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government to the City. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, the voters of the City approved the current charter, which went into effect in most respects on July 1, 1996 (the "Charter").

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (the "Board of Supervisors"), and a Mayor elected at large who serves as chief executive officer (the "Mayor"). Members of the Board of Supervisors and the Mayor each serve a four-year term. The Mayor and members of the Board of Supervisors are subject to term limits as established by the Charter. Members of the Board of Supervisors may serve no more than two successive four-year terms and may not serve another term until four years have elapsed since the end of the second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer and Tax Collector, Sheriff, and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. The Charter provides a civil service system for most City employees. School functions are carried out by the San Francisco Unified School District (grades K-12) ("SFUSD") and the San Francisco Community College District (post-secondary) ("SFCCD"). Each is a separate legal entity with a separately elected governing board.

Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mill's Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today's San Francisco International Airport (the "Airport"). In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. The Airport, the Port, the Public Utilities Commission ("Public Utilities Commission") (which now includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency ("MTA") (which operates the San Francisco Municipal Railway or "Muni" and the Department of Parking and Traffic ("DPT"), including the Parking Authority and its five public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the "enterprise fund departments," as they are not integrated into the City's General Fund operating budget. However, certain of the enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital and the MTA receive significant General Fund transfers on an annual basis.

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

Mayor and Board of Supervisors

Edwin M. Lee is the 43rd and current Mayor of the City. The Mayor is the chief executive officer of the City, with responsibility for general administration and oversight of all departments in the executive branch of the City. Mayor Lee was elected to his current four-year term as Mayor on November 8, 2011. Prior to being elected, Mayor Lee was appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom's term when Mayor Newsom was sworn in as the State's Lieutenant Governor. Mayor Lee served as the City Administrator from 2005 up until his appointment to Mayor. He also previously served in each of the following

positions: the City's Director of Public Works, the City's Director of Purchasing, the Director of the Human Rights Commission, the Deputy Director of the Employee Relations Division, and coordinator for the Mayor's Family Policy Task Force.

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

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors

Name	First Elected or Appointed	Current Term Expires
Eric Mar, *District 1*	2008	2017
Mark Farrell, *District 2*	2010	2015
David Chiu, *Board President, District 3*	2008	2017
Katy Tang, *District 4*	2013	2013
London Breed, *District 5*	2012	2017
Jane Kim, *District 6*	2010	2015
Norman Yee, *District 7*	2012	2017
Scott Wiener, *District 8*	2010	2015
David Campos, *District 9*	2008	2017
Malia Cohen, *District 10*	2010	2015
John Avalos, *District 11*	2008	2013

Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to his third four-year term as City Attorney in November 2009. The City Attorney represents the City in legal proceedings in which the City has an interest. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission.

Carmen Chu was appointed Assessor-Recorder of the City by Mayor Lee in February 2013. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to serve as the City's representative on the Board of Supervisors to the Sunset/Parkside District 4 after being appointed by then-Mayor Newsom in September 2007.

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

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

and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

Naomi M. Kelly was appointed to a five-year term as City Administrator by Mayor Lee on February 7, 2012. The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. In January 2012, Mrs. Kelly became Acting City Administrator. From January 2011, she served as Deputy City Administrator where she was responsible for the Office of Contract Administration, Purchasing, Fleet Management and Central Shops. Mrs. Kelly led the effort to successfully roll out the City's new Local Hire program last year by streamlining rules and regulations, eliminating duplication and creating administrative efficiencies. In 2004, Mrs. Kelly served as the City Purchaser and Director of the Office of Contract Administration. Mrs. Kelly has also served as Special Assistant in the Mayor's Office of Neighborhood Services, in the Mayor's Office of Policy and Legislative Affairs and served as the City's Executive Director of the Taxicab Commission.

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2013 the City adopted a full two-year budget. The City's fiscal year 2013-14 adopted budget appropriates annual revenues, fund balance, transfers, and reserves of approximately $7.91 billion, of which the City's General Fund accounts for approximately $3.95 billion. In fiscal year 2014-15 appropriated revenues, fund balance, transfers and reserves total approximately $7.93 billion and $4.05 billion of General Fund budget. For a further discussion of the fiscal years 2013-14 and 2014-15 adopted budgets, see "City Budget Adopted for Fiscal Years 2013-14 and 2014-15" herein.

Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. Revenues consist largely of local property taxes, business taxes, sales taxes, other local taxes, and charges for services. A significant portion of the City's revenues come in the form of intergovernmental transfers from the State and federal governments. Thus the City's fiscal situation is affected by the health of the local real estate market, the local business and tourist economy, and on budgetary decisions made by the State and Federal governments which depend, in turn, on the health of the larger State and national economies. All of these factors are almost wholly outside the control of the Mayor, the Board of Supervisors, and other City officials. In addition, the State Constitution strictly limits the City's ability to raise taxes and property-based fees without a two-thirds popular vote. Also, the fact that the City's annual budget must be adopted before the State and Federal budgets adds uncertainty to the budget process and necessitates flexibility so that spending decisions can be adjusted during the course of the Fiscal Year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

Budget Process

The City's fiscal year commences on July 1. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit the complete budget, including all departments, to the Board of Supervisors.

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide an opinion to the Board of Supervisors regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget (the City Controller's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City Controller's current Revenue Letter can be viewed online at www.sfcontroller.org. The Revenue Letter and other information from the

said website are not incorporated herein by reference. The City's Capital Planning Committee also reviews the proposed budget and provides recommendations based on the budget's conformance with the City's adopted ten-year capital plan. For a further discussion of the Capital Planning Committee and the City's ten-year capital plan, see "CAPITAL FINANCING AND BONDS – Capital Plan" herein.

The City is required by the Charter to adopt a budget which is balanced in each fund. During its budget approval process, the Board of Supervisors has the power to reduce or augment any appropriation in the proposed budget, provided the total budgeted appropriation amount in each fund is not greater than the total budgeted appropriation amount for such fund submitted by the Mayor. The Board of Supervisors must approve the budget by adoption of the Annual Appropriation Ordinance (also referred to herein as the "Original Budget") by no later than August 1 of each year.

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

Following the adoption and approval of the Annual Appropriation Ordinance, the City makes various revisions throughout the fiscal year (the Original Budget plus any changes made to date are collectively referred to herein as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year reflecting the year-end revenue and expenditure appropriations for that fiscal year.

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires three significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved in July, 2012 by the Board of Supervisors for four departments for fiscal year 2012-13 and 2013-14: the Airport, the Port, the Public Utilities Commission, and MTA. All other departments prepared balanced, rolling two-year budgets beginning in fiscal year 2012-13.

- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The first five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was adopted by the Board of Supervisors on June 7, 2011, and was updated on March 7, 2012. A new five-year financial plan, covering fiscal years 2013-14 through 2017-18 was adopted by the Board of Supervisors on April 10, 2013. See "Five Year Financial Plan" below.

- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt, and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the General Reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. On November 8 and 22, 2011, the Board of Supervisors unanimously adopted additional financial policies limiting the future approval of Certificates of Participation and other long-term

obligations to 3.25% of discretionary revenue, and specifying that selected nonrecurring revenues may only be spent on nonrecurring expenditures. These policies are described in further detail below. The Controller's Office may propose additional financial policies by October 1 of any year.

Role of Controller; Budgetary Analysis and Projections

As Chief Fiscal Officer and City Services Auditor, the City Controller monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds. Under the Charter, no obligation to expend City funds can be incurred without a prior certification by the City Controller that sufficient revenues are or will be available to meet such obligation as it becomes due in the then-current fiscal year, which ends June 30. The City Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the City Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance due to supplemental appropriations, continuing appropriations of prior years, and unexpended current-year funds.

Charter Section 3.105 directs the City Controller to issue periodic or special financial reports during the fiscal year. Each year, the City Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The City Controller issued the most recent of these reports, the fiscal year 2012-13 Nine Month Budget Status Report (the "Nine Month Report"), on May 9, 2013. In addition, under Proposition A of November 2009, the Mayor must submit a Five-Year Financial Plan every two years to the Board of Supervisors which forecasts revenues and expenditures for the next five fiscal years and proposes actions to balance them. On April 10, 2013, the Board of Supervisors approved the City's second Five-Year Financial Plan. For details see "Five-Year Financial Plan" below. Finally, as discussed above, the City Charter directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 11, 2013 the Controller released the Discussion of the Mayor's FY 2013-14 and FY 2014-15 Proposed Budget (the "Revenue Letter"). All of these reports are available from the City Controller's website: www.sfcontroller.org. The information from the said website is not incorporated herein by reference.

General Fund Results; Audited Financial Statements

The General Fund portions of the fiscal year 2013-14 and 2014-15 Original Budgets total $3.95 billion, and $4.05 billion respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port, and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2009-10 through 2011-12 and the Original Budgets for fiscal years 2012-13 through 2014-15. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2011-12 was issued on January 8, 2013. The fiscal year 2011-12 CAFR reported that as of June 30, 2012, the General Fund available for appropriation in subsequent years was $220.3 million (see Table A-4), of which $104.3 million was assumed in the fiscal year 2012-13 Original Budget and $103.6 million was assumed in the fiscal year 2013-14 Original Budget, and $11.7 million remains available for future appropriations. This represents a $51.8 million increase in available fund balance over the $168.5 million available as of June 30, 2011 and resulted primarily from savings and greater-than-budgeted additional tax revenue, particularly payroll and property transfer tax revenues, in fiscal year 2011-12. In addition to this available year-end General Fund balance, the City's Rainy Day Reserve Economic Stabilization Account totaled $31.1 million.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2009-10 through 2014-15
(000s)

	FY 2009-10 Final Revised Budget	FY 2010-11 Final Revised Budget	FY 2011-12 Final Revised Budget	FY 2012-13 Original Budget [2]	FY 2013-14 Original Budget [3]	FY 2014-15 Original Budget [3]
Prior-Year Budgetary Fund Balance & Reserves	$390,512	$312,040	$427,886	$120,654	$156,426	$129,329
Budgeted Revenues						
Property Taxes	$1,021,015	$984,843	$1,028,677	$1,078,083	$1,153,417	$1,220,417
Business Taxes	371,848	342,350	389,878	452,806	532,988	564,180
Other Local Taxes	456,140	528,470	602,455	733,295	846,924	869,812
Licenses, Permits and Franchises	25,138	23,242	24,337	25,332	23,061	25,533
Fines, Forfeitures and Penalties	11,662	3,794	7,710	7,174	9,097	9,435
Interest and Investment Earnings	10,984	9,547	6,050	6,776	10,946	11,010
Rents and Concessions	19,884	22,346	22,894	21,424	25,534	20,597
Grants and Subventions	686,058	681,090	679,486	700,184	780,936	782,440
Charges for Services	146,680	145,443	153,678	166,763	177,048	177,805
Other	21,713	30,929	19,232	17,640	14,301	21,175
Total Budgeted Revenues	$2,771,122	$2,772,054	$2,934,397	$3,209,477	$3,574,252	$3,702,404
Bond Proceeds & Repayment of Loans	1,725	785	589	627	1,105	760
Expenditure Appropriations						
Public Protection	$954,816	$951,516	$991,840	$1,058,689	$1,130,932	$1,155,085
Public Works, Transportation & Commerce	44,276	25,763	53,878	67,529	80,797	111,993
Human Welfare & Neighborhood Development	657,274	650,622	677,953	670,375	700,254	717,018
Community Health	481,805	513,625	573,970	609,892	701,978	702,791
Culture and Recreation	93,755	100,043	99,762	111,066	119,579	115,632
General Administration & Finance	174,907	178,709	190,014	197,994	244,591	248,135
General City Responsibilities[1]	96,336	88,755	99,274	103,613	96,975	102,802
Total Expenditure Appropriations	$2,503,169	$2,509,032	$2,686,691	$2,819,159	$3,075,105	$3,153,456
Budgetary reserves and designations, net	$16,653	$6,213	$11,112	$51,756	$69,883	$50,121
Transfers In	$94,678	$119,027	$160,187	$155,950	$217,982	$214,792
Transfers Out	(564,945)	(504,740)	(567,706)	(615,793)	(804,777)	(843,708)
Net Transfers In/Out	($470,267)	($385,713)	($407,519)	($459,843)	($586,795)	($628,916)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$173,270	$183,921	$257,550	$0	$0	$0
Variance of Actual vs. Budget	138,770	243,965	299,547			
Total Actual Budgetary Fund Balance[4]	$312,040	$427,886	$557,097	$0	$0	$0

[1] Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area gropuings above for the time periods shown.
[2] FY 2012-13 Final Revised Budget will be available upon release of the FY 2012-13 CAFR.
[3] FY 2013-14 and FY 2014-15 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.
[4] Total Actual Budgetary Fund Balance for FY 2012-13 will be available upon release of the FY 2012-13 Final Revised Budget in the CAFR.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2012 was $455.7 million (as shown in Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of $3.2 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2008 through June 30, 2012. Balances for the fiscal year ended June 30, 2013 will be available when the fiscal year 2012-13 CAFR is published at the end of calendar year 2013.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Year Ended June 30 [1]
(000s)

	2008	2009	2010	2011	2012	
Restricted for rainy day (Economic Stabilization account)	$117,556	$98,297	$39,582	$33,439	$31,099	2
Restricted for rainy day (One-time Spending account)	236	-	-	-	3,010	2
Committed for budget stabilization (citywide)	-	-	-	27,183	74,330	
Committed for Recreation & Parks expenditure savings reserve	3,266	6,575	4,677	6,248	4,946	2
Assigned, not available for appropriation						
Assigned for encumbrances	63,068	65,902	69,562	57,846	62,699	2
Assigned for appropriation carryforward	99,959	91,075	60,935	73,984	85,283	2
Assigned for baseline appropriation funding mandates	1,491	-	-	-	-	2
Assigned for budget savings incentive program (citywide)	16,181	-	-	8,684	22,410	2
Assigned for salaries and benefits (MOU)	12,777	316	4,198	7,151	7,100	2
Assigned for litigation	2,626	-	-	-	-	2
Total Fund Balance Not Available for Appropriation	$317,160	$262,165	$178,954	$214,535	$290,877	3
Assigned and unassigned, available for appropriation						
Assigned for litigation & contingencies	$38,969	$32,900	$27,758	$44,900	$23,637	4
Assigned for General reserve					$22,306	
Assigned for subsequent year's budget	105,064	95,447	105,328	159,390	104,284	5
Unassigned (available for future appropriation)	-	-	-	9,061	115,993	
Total Fund Balance Available for Appropriation	$144,033	$128,347	$133,086	$213,351	$266,220	6
Total Fund Balance, Budget Basis	$461,193	$390,512	$312,040	$427,886	$557,097	
Budget Basis to GAAP Basis Reconciliation						
Total Fund Balance - Budget Basis	$461,193	$390,512	$312,040	$427,886	$557,097	
Unrealized gain or loss on investments	(2,629)	(1,148)	1,851	1,610	6,838	
Nonspendable fund balance	11,358	11,307	14,874	20,501	19,598	7
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(34,629)	(56,426)	(71,967)	(43,072)	(46,140)	
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(26,071)	(37,940)	(55,938)	(63,898)	(62,241)	
Deferred Amounts on Loan Receivables	(3,587)	(4,630)	(9,082)	(13,561)	(16,551)	
Pre-paid lease revenue	-	-	-	(1,460)	(2,876)	
Total Fund Balance, GAAP Basis	$405,635	$301,675	$191,778	$328,006	$455,725	

[1] Summary of financial information derived from City CAFRs. GASB Statement 54, issued in March 2009, and implemented in the City's FY 2010-11 CAFR, establishes a new fund balance classification based primarily on the extent to which a government is bound to observe constraints imposed on the use of funds. Subsequent footnotes in this table provide the former descriptive titles for 2011 fund balance amounts.

[2] Prior to 2011, each line item was titled "reserved" for the purpose indicated

[3] Prior to 2011, titled "Total Reserved Fund Balance"

[4] Prior to 2011, titled "Designated for litigation and contingencies"

[5] Prior to 2011, titled "Unreserved, undesignated fund balance available for appropriation"

[6] Prior to 2011, titled "Total Unreserved Fund Balance"

[7] Prior to 2011, titled "Reserved for Assets Not Available for Appropriation"

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2012 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2012." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Year Ended June 30 [1]
(000s)

	2008	2009	2010	2011	2012
Revenues:					
Property Taxes	$939,812	$999,528	$1,044,740	$1,090,776	$1,056,143
Business Taxes[2]	394,267	387,313	353,471	391,057	435,316
Other Local Taxes	519,867	479,194	520,733	608,197	751,301
Licenses, Permits and Franchises	23,212	24,750	24,249	25,252	25,022
Fines, Forfeitures and Penalties	8,398	5,618	17,279	6,868	8,444
Interest and Investment Income	15,779	9,193	7,900	5,910	10,262
Rents and Concessions	19,490	19,096	18,733	21,943	24,932
Intergovernmental	649,923	645,365	651,074	657,238	678,808
Charges for Services	135,473	135,926	138,615	146,631	145,797
Other	17,948	11,199	21,856	10,377	17,090
Total Revenues	$2,724,169	$2,717,182	$2,798,650	$2,964,249	$3,153,115
Expenditures:					
Public Protection	$881,009	$889,594	$948,772	$950,548	$991,275
Public Works, Transportation & Commerce	69,944	61,812	40,225	25,508	52,815
Human Welfare and Neighborhood Development	613,135	630,112	632,713	610,063	626,194
Community Health	454,935	487,638	473,280	493,939	545,962
Culture and Recreation	105,036	97,415	94,895	99,156	100,246
General Administration & Finance	196,430	170,109	169,980	175,381	182,898
General City Responsibilities	71,885	73,904	87,267	85,422	96,132
Total Expenditures	$2,392,374	$2,410,584	$2,447,132	$2,440,017	$2,595,522
Excess of Revenues over Expenditures	$331,795	$306,598	$351,518	$524,232	$557,593
Other Financing Sources (Uses):					
Transfers In	$70,969	$136,195	$94,115	$108,072	$120,449
Transfers Out	(543,640)	(550,910)	(559,263)	(502,378)	(553,190)
Other Financing Sources	5,050	4,157	3,733	6,302	3,682
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	($467,621)	($410,558)	($461,415)	($388,004)	($429,059)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency					(815)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	($135,826)	($103,960)	($109,897)	$136,228	$127,719
Total Fund Balance at Beginning of Year	$541,461	405,635	$301,675	$191,778	$328,006
Total Fund Balance at End of Year -- GAAP Basis [1]	$405,635	$301,675	$191,778	$328,006	$455,725
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	$77,117	$28,203	($2,050)	$48,070	$133,794 [3]
-- Budget Basis	$105,064	$95,447	$105,328	$168,451	$220,277 [4]

[1] Summary of financial information derived from City CAFRs. Fund balances include amounts reserved for rainy day (Economic Stabilization and One-time Spending accounts), encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved designated and undesignated available fund balances (which amounts constitute unrestricted General Fund balances).

[2] Does not include business taxes allocated to special revenue fund for the Community Challenge Grant program.

[3] Prior to adoption of GASB Statement 54 in 2011, titled "Unreserved & Undesignated Balance, Year End"

[4] Total FY 2011-12 amount is comprised of $104.3 million in assigned balance subsequently appropriated for use in FY 2012-13 plus $115.9 million unassigned balance available for future appropriations.

Sources: Comprehensive Annual Financial Report; Office of the Controller, City and County of San Francisco.

Five-Year Financial Plan

The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the plan to forecast expenditures and revenues for the next five-fiscal years, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The first Five-Year Financial Plan, covering fiscal years 2011-12 through 2015-16, was prepared by the Mayor's Office and Controller's Office in collaboration with City departments and adopted by the Board of Supervisors on June 7, 2011 and updated on March 7, 2012.

The Five-Year Financial Plan for fiscal year 2013-14 through 2017-18 was approved by the Board of Supervisors on April 2, 2013. For General Fund Supported Operations for fiscal year 2013-14 through fiscal year 2017-18, the Plan projected budgetary shortfalls of $124 million, $256 million, $368 million, $423 million and $487 million over the next five fiscal years. The $487 million projected shortfall is a significant improvement from the first Five-Year Financial Plan which in 2011 projected a five-year shortfall of $829 million. This Plan projected continued recovery in local tax revenues. However, projected increases in employee salary and benefits, citywide operating expenses, and departmental costs are rising faster than projected revenue growth. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls will decrease.

The fiscal year 2013-14 and fiscal year 2014-15 budget approved by the Board of Supervisors on July 23, 2013, closed budget gaps identified in the Five Year Financial Plan. Strategies used to balance the budget are discussed in the budget section below. To the extent that the Mayor's budget is balanced with ongoing savings or revenues, this will reduce the projected deficits for subsequent fiscal years.

The City currently projects revenue growth of $578 million over the five-year period of this Plan, and expenditure growth of $1.065 billion. Employee pension costs, wages and other benefit growth are the single largest driver of cost growth and the imbalance between revenues and expenditures, growing by $459 million, 43% of the total expenditure growth, during the five years of the plan. Other costs projected to increase include: Citywide Operating Costs ($298 million, 28% of expenditure growth), Department of Public Health specific cost increases ($133 million, 13%), Charter Mandated Baseline and Reserve Changes ($118 million, 11%), and Other Department Specific Cost Increases ($57 million, 5%).

The Plan proposes the following strategies to restore fiscal stability: controlling capital spending and debt restructuring; controlling wage and benefit costs; additional tax and fee revenues; adjustments to baselines and revenue allocations; limiting growth in contract and materials costs; reduced reliance on non-recurring revenues and savings; and ongoing departmental revenues and savings initiatives.

Fiscal Year 2012-13 Budget Update

On May 9, 2013, the Controller's Office issued a Nine-Month Budget Status report which projected the General Fund would end fiscal year 2012-13 with a balance of $210.0 million. The surplus is made up of $85.6 million in better than anticipated Citywide revenues (after required baseline contributions) and $32.8 million in net departmental operating surpluses, offset by increased reserve deposits of $24.4 million. Of this fiscal year 2012-13 ending balance, $103.6 million had already been appropriated in the fiscal year 2013-14 budget, and $10.3 million was estimated to be required to bring the General Reserve to mandated levels, leaving a surplus of $96.0 million available for appropriation. The general revenue improvements were driven primarily by continued growth in local economic activity resulting in improved outlooks for real property transfer tax, payroll tax, hotel tax and interest income.

On June 26, 2013 the Controller's Office issued a fiscal year 2012-13 General Fund Revenue Update memorandum projecting additional surpluses in property and payroll tax revenues of $7.4 million and $7.8 million, respectively, above Nine-Month Budget Status report levels. These expected additional surpluses are partially offset by reductions in property transfer tax revenues which are projected to decline by $14.6 million from the Nine-Month Budget Status report projected amount.

City Budget Adopted for Fiscal Years 2013-14 and 2014-15

On July 24, 2013, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for fiscal years ending June 30, 2014 and June 30, 2015. This is the second two-year budget for the entire City. The Controller's Office issued its required Controller's Discussion of the Mayor's fiscal year 2013-14 and fiscal year 2014-15 Proposed Budget on June 11, 2013. The Mayor's budget closed the $124 million and $256 million general fund shortfalls for fiscal year 2013-14 and fiscal year 2014-15 identified in the Five Year Financial Plan through a combination of (a) net citywide revenue increases of $91 million and $83 million, respectively; (b) a net Citywide expenditure increase of $6 million in fiscal year 2013-14 for capital projects, followed by Citywide expenditure savings of $60 million in fiscal year 2014-15, both made possible in part by lower than expected health costs and improved pension system returns; (c) one-time revenues of $28 million and $13 million, respectively; (d) departmental savings totaling $11 million and $47 million respectively, the largest component of which was securing alternative sources for furniture, fixtures and equipment for the new San Francisco General Hospital building ($17 million and $34 million), and (e) cost savings of $53 million in fiscal year 2014-15 made up of $33 million in reduced funding for growth in contracts and $20 million of deferred education enrichment fund allocations to the San Francisco Unified School District and First Five Commission.

On June 27, 2013 the Board of Supervisors Budget and Finance Committee unanimously approved the Mayor's proposed budget with minor revisions totaling $25 million in fiscal year 2013-14 and $15.4 million in fiscal year 2014-15. The revisions in fiscal year 2013-14 were funded by $10.1 million in Committee reductions to the Mayor's budget and $15 million of additional sources identified by the Mayor, including $7.5 million in additional expenditure savings identified from fiscal year 2012-13 and $3.6 million in additional expenditure savings in FY 2013-14, $1.4 million in additional fiscal year 2012-13 property tax revenue above the amount required to be deposited in the Budget Stabilization Reserve and to fund baseline transfers, $1.4 million in leftover funds in the budget's technical adjustment reserve and $1 million from Consumer Protection funds.

The Original Budget for fiscal years 2013-14 and 2014-15 totals $7.91 billion and $7.93 billion respectively, representing increases over prior year of $554 million and $23 million. The General Fund portion of each year's budget is $3.95 billion in fiscal year 2013-14 and $4.05 billion in fiscal year 2014-15 representing consecutive increases of $463 million and $98 million. There are 27,669 funded full time positions in the fiscal year 2013-14 Original Budget and 27,850 in the fiscal year 2014-15 Original Budget representing increases of 813 and 181, respectively.

The budget for fiscal years 2012-13 and 2013-14 was the second to adhere to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Impact of the State of California Budget on Local Finances

The State continues its slow economic recovery. Revenues from the State represent approximately 21.5% of the General Fund revenues appropriated in the fiscal year 2013-14 Original Budget, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget.

City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2013, Governor Brown signed the 2013-14 California State budget into law. In contrast to recent budgets, which closed multibillion dollar shortfalls, spending in fiscal year 2013-14 is set to increase by 3 percent over fiscal year 2012-13, including a $1.1 billion reserve, due to voter-approved tax increases, economic recovery and prior reductions. The City's Original Budget for fiscal years 2013-14 and 2014-15 does not include the allowance for unallocated State funding reductions deemed necessary in budgets for fiscal years 2009-10 through 2012-13. The largest source of uncertainty in the City's budget is related to the implementation of national health care reform (the Affordable Care Act, or ACA). The State's fiscal year 2013-14 budget includes a $300 million reduction in funding for indigent health care to counties to reflect the expected enrollment of over one million additional adults in Medi-Cal beginning in January, 2014, of which San Francisco's share is $17 million. The timing and extent to which reduced subventions will be made up by increased insurer reimbursements is not certain at this time, and budget adjustments may be required should the Mayor and the Board of Supervisors wish to backfill lost revenue and increased costs.

Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances

On January 2, 2013, the federal government reached a temporary budget solution that reduced the level of cuts associated with sequestration in the current fiscal year and postponed the effects of federal sequestration until March 1st. As of March 27, 2013, the total estimated impact to the City and County of San Francisco in fiscal year 2013-14 is approximately $13.4 million, mainly due to environmental and energy programs. The timing and exact value of any reductions is unknown until Congress passes a budget, and will furthermore depend on implementation details, which have not yet been determined.

Budgetary Reserves and Economic Stabilization

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the City's pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. The City has not issued tax and revenue anticipation notes to finance short-term cash flow needs since fiscal year 1996-97. See "INVESTMENTS OF CITY FUNDS – Investment Policy" herein.

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to one percent of budgeted regular General Fund revenues, or $32.2 million, in fiscal year 2012-13, $44.7 million in fiscal year 2013-14 and $55.5 million in fiscal year 2014-15. The required starting balance of the reserve increases to 2% of General Fund revenues by fiscal year 2016-17.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve ($13.1 million in fiscal year 2013-14 and $13.5 million in fiscal year 2014-15), and the Litigation Reserve ($11.0 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

The City also maintains Rainy Day and Budget Stabilization reserves whose balances carry-forward annually and whose use is allowed under select circumstances described below.

Rainy Day Reserve

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the City Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth into the following two accounts within the Rainy Day Reserve and for other lawful governmental purposes.

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

Fiscal year 2011-12 revenue exceeded the deposit threshold, resulting in a $6.0 million deposit to the Rainy Day Reserve Economic Stabilization account and a $3.0 million deposit to the One-Time Capital Expenditures account. The fiscal year 2013-14 and 2014-15 budgets do not anticipate deposits to the reserve.

Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures. Moneys in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Moneys in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Except for the transfer to SFUSD described below, no draw from the Rainy Day Reserve is budgeted in fiscal years 2013-14 and 2014-15.

If the City Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Rainy Day Economic Stabilization account to the SFUSD. This appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. In fiscal year 2012-13, $6.3 million was appropriated to be transferred to the SFUSD to partially offset SFUSD's planned layoffs and declining per-pupil revenues. On January 15, 2013, the Mayor introduced legislation to increase the fiscal year 2012-13 appropriations to $7.8 million, or 25% of the current reserve balance, an increase of $1.5 million over budget. The Board of Supervisors approved this transfer, resulting in a projected fiscal year 2012-13 ending balance of $23.3 million. The fiscal year 2013-14 and 2014-15 budgets include allocations of $5.8 million and $4.4 million, respectively, to the SFUSD. Assuming no other withdrawals or deposits, this would leave a balance remaining in the Rainy Day Reserve at the end of fiscal year 2014-15 of $13.1 million.

On April 13, 2010, the Board of Supervisors unanimously approved the City Controller's proposed financial policies on reserves and the use of certain volatile revenues. The policies were approved by the Mayor on April 30, 2010, and can only be suspended for a given fiscal year by a two-thirds vote of the Board. With these policies the City created two additional types of reserves: General Reserve and the Budget Stabilization Reserve described below.

Budget Stabilization Reserve

The Budget Stabilization Reserve augments the existing Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues to the new reserve, including Real Property Transfer Tax receipts in excess of the five-year annual average (controlling for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

The fiscal year 2011-12 ending balance in the reserve was $74.3 million. The Nine-Month Report projected a $28.2 million deposit of excess real property transfer tax receipts resulting in a projected fiscal year 2012-13 ending balance in the reserve of $102.5 million. In addition, the Original Budget assumes transfer tax revenue will be above the prior five year adjusted average in both fiscal years 2013-14 and 2014-15, resulting in reserve deposits of $16.0 million and $14.4 million, respectively.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately $357 million for fiscal year 2013-14 based on fiscal year 2013-14 Original Budget. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve; however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn. In the second year, the maximum withdrawal is 50%, and in the third year, the entire remaining balance may be drawn.

San Francisco Redevelopment Agency Dissolution

On February 1, 2012, the San Francisco Redevelopment Agency (the "SFRDA") ceased to exist by operation of law as a result of Assembly Bill No. X1 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) ("AB 26"), and a recent California Supreme Court decision described below. AB 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statute of 2011-12) ("AB1484" and together with AB 26, the "Dissolution Act").

The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the Community Redevelopment Law that have not been repealed, restricted or revised pursuant to AB 26 will be vested in the successor agency. The successor agency for each redevelopment agency is generally the county or city that authorized the creation of the redevelopment agency. On January 26, 2012 the City adopted a Board of Supervisors resolution providing for the City to become the successor agency to the SFRDA (the "Successor SFRDA"). The resolution also approved the retention by the City of all the affordable housing assets of the SFRDA (including encumbered funds in the Low and Moderate Income Housing Fund) and authorized the Mayor's Office of Housing to manage the housing assets and exercise the housing functions that the SFRDA formerly performed. The resolution places most of the non-housing assets of the SFRDA under the jurisdiction of the Director of the Department of Administrative Services.

Pursuant to AB 1484, the Successor SFRDA is a separate public agency from the City, and the assets and liabilities of the former SFRDA will not be transferred to the City. The Successor SFRDA will succeed to the organizational status of the former SFRDA, but without any legal authority to participate in redevelopment activities, except in connection with approved enforceable obligations as provided in the Dissolution Act. In general, the debt of the former SFRDA will become the debt of the Successor SFRDA as the SFRDA's successor agency. Such debt will be payable only from the property tax revenues (former tax increment) or other revenue sources that originally secured such debt. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds.

There are significant uncertainties regarding the meaning of certain provisions of the Dissolution Act and the impact of the Dissolution Act on the City, including, among other matters, the obligation imposed on the City in performing its duties as Successor SFRDA, performing the enforceable obligations as Successor SFRDA, paying the debt of the former SFRDA as Successor SFRDA and completing certain projects of the former SFRDA. Future legislation and court decisions may clarify some of these uncertainties. There is also uncertainty about how the City may pursue certain community development goals that the former SFRDA undertook and that are not covered by enforceable obligations, and the City's use of alternative funding sources for projects and programs to pursue such goals.

The total General Fund impact of the dissolution will depend on State decisions regarding the use of tax increment in redevelopment project areas. The State may or may not allow the redevelopment successor agency to retain cash balances to meet contractual obligations for affordable housing and infrastructure improvements. Property tax revenue estimates in the proposed Five Year Financial Plan assume tax increment is used for debt service, to meet obligations made to developers, and approximately $3.4 million annually for non-debt service uses, resulting in residual tax increment available to be distributed to the taxing entities of approximately $25.6 million in fiscal year 2013-14, rising to approximately $42.3 million in fiscal year 2017-18, of which just under 57% would be allocated to the General Fund. This amount could increase depending on uses allowed by the State.

Although uncertainty remains, the State Department of Finance (DOF) has completed reviews of two funds held by the Successor Agency to the San Francisco Redevelopment Agency (the Office of Community Infrastructure and Investment, or OCII). DOF's December 14, 2012 review of the Low and Moderate Income Housing Fund (LMIHF) required $106.9 million to be surrendered and distributed to taxing entities, and its April 1, 2013 review of the Other

Assets Fund (OAF) required $204.2 million to be surrendered. These amounts were substantially reduced upon appeal by the OCII, and on May 31, 2013, San Francisco remitted $10.6 million of LMIHF and $1.0 million of OAF balances, resulting in a total increase of property tax revenue to the City of $7.5 million, of which $6.5 million accrued to the General Fund.

AB 26 and Supreme Court Decision

On December 29, 2011 the California Supreme Court issued its decision in *California Redevelopment Association v. Matosantos* (No. S194861) ("Matosantos") regarding the constitutionality of two budget bills involving redevelopment, AB 26 and ABX1 27 (Chapter 6, Statutes of 2011-12, First Extraordinary Session) ("AB 27"). AB 26 dissolved all redevelopment agencies, and designated "successor agencies" with certain powers and duties. AB 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB 26, if the city or county that created the redevelopment agency made certain payments for the benefit of the local schools and other taxing entities. In *Matosantos* the Court upheld AB 26 requiring the dissolution of redevelopment agencies and the transfer of assets and obligations to successor agencies, but invalidated AB 27. The *Matosantos* decision also modified various deadlines for the implementation of AB 26.

As a consequence of the *Matosantos* decision, all California redevelopment agencies, including the former SFRDA, dissolved by operation of law on February 1, 2012. All property tax revenues that would have been allocated to redevelopment agencies, including the former SFRDA, will be allocated to the applicable Redevelopment Property Tax Trust Fund created by the County Auditor-Controller for the "successor agency." Such funds are to be used for payments on indebtedness and other "enforceable obligations" (as defined in the Dissolution Act), and to pay certain administrative costs and any amounts in excess of that amount are to be considered property taxes that will be distributed to taxing agencies.

The Dissolution Act requires successor agencies, such as the Successor SFRDA, to continue to make payments and perform other obligations required under enforceable obligations for former redevelopment agencies. AB 26 defines "enforceable obligations" to include bonds, loans, legally required payments, judgments or settlements, legally binding and enforceable agreements and certain other obligations. The Dissolution Act generally excludes from the definition of enforceable obligations any loans or agreements solely between a redevelopment agency and the city or county that created the agency. It also excludes any agreements that are void as violating the debt limit or public policy. Payment and performance of enforceable obligations is subject to review by oversight boards and by the State Controller and State Department of Finance.

The Dissolution Act expressly limits the liabilities of a successor agency in performing duties under the Dissolution Act to the amount of property tax revenues received by such successor agency under the Dissolution Act (generally equal to the amount of former tax increment received by the former redevelopment agency) and the assets of the former redevelopment agency. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds (but as discussed below, the City's costs of performing its obligations under AB 26 and of pursuing the economic development goals of the former SFRDA are uncertain and could be significant).

The Oversight Board and the Department of Finance has approved the ROPS for January 1, 2013 to June 30, 2013.

Impact of Dissolution Act and Information concerning SFRDA

Although provisions have been made under the Dissolution Act to provide funds (i.e. property tax revenues) to continue certain enforceable obligations of the Successor SFRDA, the costs of performing its duties under the Dissolution Act, including performing all enforceable obligations of the former SFRDA, and pursing community development goals that the former SFRDA undertook and that are not covered by enforceable obligations are uncertain, and could impose significant costs on the City's general fund not offset by property tax revenues.

The provisions of the Dissolution Act are unclear as to numerous aspects of the operations and finances of the Successor SFRDA, including but not limited to the administration of enforceable obligations (including bonds), the flow and uses of tax increment moneys and the disposition of SFRDA assets. Therefore, there are significant uncertainties regarding the finances and operations of the Successor SFRDA entity and administration of its bonds once the City became the successor agency to the SFRDA. Interpretations and clarification of AB 26 are likely to

come from future State legislation or administrative guidance and court decisions. At present, the City cannot predict many aspects or the overall outcome of AB 26 on the City's finances and the SFRDA bonds; however it is likely that at least certain aspects of the implementation of AB 26 may materially impact the finances of the City and may materially impact the SFRDA bonds. Further, future redevelopment and housing activities in the City that would have been undertaken by the SFRDA had it continued in existence will no longer occur if they are not required under preexisting enforceable obligations.

In its audited financial statement for the year ended June 30, 2012, the City included financial information pertaining to the Successor SFRDA in the City's audited financial statements. The Successor SFRDA also prepares its own financial statements.

PROPERTY TAXATION

Property Taxation System – General

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

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30th, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepare and mail tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See "Taxation of State-Assessed Utility Property" below.

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-5 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. The total tax rate shown in Table A-5 includes taxes assessed on behalf of the City as well as SFUSD, SFCCD, the Bay Area Air Quality Management District ("BAAQMD"), and the San Francisco Bay Area Rapid Transit District ("BART"), all of which are legal entities separate from the City. See also, Table A-25: "Direct and Overlapping Debt and Long-Term Obligations" below. In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor SFRDA. Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by the Successor SFRDA to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor SFRDA received $114 million of property tax increment in fiscal year 2012-13, diverting about $65 million that would have otherwise been apportioned to the City's discretionary general fund.

The percent collected of property tax (current year levies excluding supplementals) has increased slightly from 97.96% for fiscal year 2010-11 to 98.18% for fiscal year 2011-12. Fiscal year 2012-13 delinquency rates will be available after revenue accruals are complete on August 31, 2013. This table has been modified from the

corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State of California. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 804 for fiscal year 2011-12m compared to 927 in fiscal year 2010-11, 900 in fiscal year 2009-10, and 633 in fiscal year 2008-09. This represents 0.32%, 0.45%, 0.46%, and 0.40% of total parcels in such fiscal years.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2008-09 through 2013-14
(000s)

Fiscal Year	Net Assessed Valuation (NAV) [1]	% Change from Prior Year	Total Tax Rate per $100 [2]	Total Tax Levy [3]	Total Tax Collected [3]	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.60%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.54%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	97.96%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.18%
2012-13	165,043,120	4.0%	1.169	1,929,519	n/a	n/a
2013-14	172,489,208	4.5%	n/a	n/a	n/a	n/a

[1] Based on Certificate of Assessed Valuation dated as of August 15, 2013. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

[3] The Total Tax Levy and Total Tax Collected through FY 2011-12 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported on Treaserer/Tax Collector Report 100 and reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for FY 2012-13 is based on NAV times the 1.1691% tax rate.

Note: This table has been modified from the corresponding table in previous bond disclosures to make levy and collection figures consistent with statistical reports provided to the State of California.

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

For fiscal year 2013-14, the total net assessed valuation of taxable property within the City is $172.5 billion. Of this total, $162.6 billion (94.3%) represents secured valuations and $9.87 billion (5.7%) represents unsecured valuations. (See "–Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

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

Under Article XIIIA of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Every year, some taxpayers appeal the Assessor's determination of their properties' assessed value, and some of the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments. With respect to the fiscal year 2012-13 levy, property owners representing approximately 18.2% of the total assessed valuation in the City filed appeals for a reduction of their assessed value.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary general fund appeal reserve fund for fiscal years 2007-08 through 2012-13 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
(000s)

Year Ended	Amount Refunded
June 30, 2008	$20,914
June 30, 2009	7,288
June 30, 2010	14,015
June 30, 2011	41,730
June 30, 2012	53,288
June 30, 2013	36,779

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

As of July 1, 2013, the Assessor granted 18,409 temporary reductions in property assessed values worth a total of $2.02 billion (equating to a reduction of about $11.4 million in discretionary general fund taxes), compared to 21,228 temporary reductions with a value of $2.82 billion (equating to a reduction of about $16.0 million in discretionary general fund taxes) granted in Spring 2012. The fiscal year 2013-14 $2.02 billion temporary reduction total represented 1.17% of the fiscal year 2013-14 Net Assessed Valuation of $172.49 billion shown in Table A-5. The average temporary reduction in assessed value granted, excluding timeshare properties, decreased from $175,980 in 2012 to $151,559 in 2013. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board (AAB) within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of June 30, 2013, the total number of open appeals before the Assessment Appeals Board (AAB) was 7,421, compared to 7,729 open AAB appeals as of June 30, 2012, including 5,500 filed since July 1, 2012 with the balance pending from prior fiscal years. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is $42.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of $488.6 million with an impact on the discretionary general fund of about $239.4 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air

Quality Management District, and BART. The total tax levy for all taxing entities in fiscal year 2012-13 is estimated to produce $1.93 billion, not including supplemental, escape, and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive $1.078 billion into the General Fund and $119.2 million into special revenue funds designated for children's programs, libraries and open space. The Nine Month Report projected property tax revenues into the General Fund to be $15.9 million above budget. SFUSD and SFCCD are estimated to receive $116.8 million and $21.9 million, respectively, and the local ERAF is estimated to receive $384.4 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor SFRDA received $113.9 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD, and BART may only be applied for that purpose.

The City's General Fund is allocated about 57% of total property tax revenue before adjusting for the State's Triple Flip (whereby Proposition 57 dedicated 0.25% of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts.

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

Property subject to *ad valorem* taxes is entered as secured or unsecured on the assessment roll maintained by the Assessor-Recorder. The secured roll is that part of the assessment roll containing State-assessed property and property (real or personal) on which liens are sufficient, in the opinion of the Assessor-Recorder, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

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

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer and Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-7.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
(000s)

Year Ended	Amount Funded
June 30, 2008	$ 14,330
June 30, 2009	16,220
June 30, 2010	17,507
June 30, 2011	17,302
June 30, 2012	17,980

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year ending June 30, 2013 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
Fiscal Year 2013-14
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed Value[1]	% of Basis of Levy[2]
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	$941,010	0.57%
Paramount Group Real Estate Fund	1 Market St	3713 007	Commercial Office	770,892	0.47%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	430,661	0.26%
SPF China Basin Holdings LLC	185 Berry St.	3803005	Commercial Office	423,273	0.26%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	398,608	0.24%
S.F. Hilton Inc.	1 Hilton Square	325031	Commercial Hotel	389,595	0.24%
Post-Montgomery Associates	165 Sutter St	0292 015	Commercial Retail	387,267	0.23%
SHR St. Francis LLC	301-345 Powell St	0307 001	Commercial Hotel	368,994	0.22%
PPF Off One Maritime Plaza LP	300 Clay St	0204 021	Commercial Office	367,384	0.22%
Wells REIT II - 333 Market St. LLC	333 Market St	3710020	Commercial Office	349,062	0.21%
				$4,826,746	**2.91%**

Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which exculdes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures.
The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g. those that apply to nonprofit organizations).

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

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2013-14 valuation of property assessed by the State Board of Equalization is $2.62 billion, as recorded on the fiscal year 2013-14 Certificate of Assessed Valuation.

OTHER CITY TAX REVENUES

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

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

Business Taxes

Businesses in the City may be subject to two types of taxes. The first is a payroll expense tax, assessed at a rate of 1.5% on gross payroll expense attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. Recent changes to the tax exempted small businesses with annual payroll of less than $250,000 and subjected partnership profit distributions to the tax. The net effect of these provisions was estimated to be approximately $10.5 million in new revenues beginning in fiscal year 2009-10. The City also levies a registration tax on businesses, which varies from $25 to $500 per year per subject business based on the prior year computed payroll tax liability.

Business taxes are projected in the June 26, 2013 revenue update to be $487.7 million in fiscal year 2012-13 representing an increase of $33.8 million (7.5%) over fiscal year 2012-13 Original Budget and $50.0 million (11.4%) over fiscal year 2011-12 actual revenue. Business tax revenue is budgeted at $534.0 million in fiscal year 2013-14 representing an increase of $46.3 million (9.5%) over projected FY 2012-13 receipts and $565.2 million in fiscal year 2014-15 representing an increase of $31.2 million (5.8%) over FY 2013-14 budget.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2008-09 through 2014-15
All Funds
(000s)

Fiscal Year	Revenue	Change	
2008-09	$388,654	($7,371)	-1.9%
2009-10	354,020	(34,634)	-8.9%
2010-11	391,779	37,759	10.7%
2011-12	437,677	45,898	11.7%
2012-13 projected	487,654	22,835	5.2%
2013-14 budgeted	533,988	46,334	9.5%
2014-15 budgeted	565,180	31,192	5.8%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and, beginning in FY 2014-15, Gross Receipts Tax revenues. Figures for FY 2008-09 through FY 2011-12 are audited actuals. Figures for FY 2012-13 reflect Nine-Month Report and June 26 Revenue Update Memo amounts, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

In April 2011, the Board of Supervisors adopted Ordinance 68-11 that established a payroll expense tax exclusion for certain business located in the Central Market and Tenderloin Area. The Ordinance expires according to its terms in 2019. The Controller projects the loss to the City in payroll expense tax revenue due to Ordinance 68-11 to be approximately $4.2 million annually. Additionally, fiscal year 2011-12 and fiscal year 2012-13 payroll tax amounts include $4.4 million General Fund loss in each year from a requirement pursuant to Business and Tax Regulations Code Section 906E, that $500 credits be provided to Payroll Tax payers if prior year Payroll Tax revenues grew more than 7.5% from the year before. Fiscal year 2011-12 payroll tax revenues ended the year 11.4% higher than fiscal year 2010-11 and fiscal year 2012-13 payroll tax revenues are projected to end the year 7.5% higher than fiscal year 2011-12.

The Gross Receipts Tax and Business Registration Fees Ordinance (Proposition E) was approved by San Francisco voters on November 6, 2012. The ordinance replaces the existing tax which is 1.5% of a business' payroll with a tax on a business' gross receipts at rates that vary by the size and type of business. The new tax structure will be phased-in over a five year period and at the end of the period the gross receipts tax rates will remain fixed. The new tax structure will generate annual tax revenues equal to what would have been generated under the existing tax structure plus the amount of the additional administrative cost of the new system. In addition, the existing business registration fee structure will be replaced by a new higher graduated registration fee structure projected generate a net revenue increase to the City of approximately $28.0 million beginning in fiscal year 2013-14. The gross receipts tax will apply to businesses with $1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. The ordinance increases the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 currently to 15,000. Current payroll tax exclusions will be converted into a gross receipts tax exclusion of the same size, terms and expiration dates.

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, reached a historic high of $177 through May of fiscal year 2012-13 (year-to-date). Increases in RevPAR are expected to continue albeit at a slower pace through fiscal year 2014-15. Total hotel tax revenue for fiscal year 2012-13 is projected to be $250.5 million in the Nine-Month Report, and budgeted to be $277.0 million in fiscal year 2013-14 and $294.2 million in fiscal year 2014-15.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that there was no obligation on the part of online travel companies to remit hotel tax to the City. San Francisco received a similar judgment as to its hotel tax on February 6, 2013 overturning administrative hearings it conducted to require payment from online travel companies. San Francisco has received approximately $63 million in disputed hotel taxes paid by the companies. Under state law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. While the City plans to appeal the judgment, the City can give no assurance regarding the outcome of this litigation.

In fiscal years prior to 2013-14 the allocation of hotel tax revenues was set by the Administrative provisions of the Annual Appropriation Ordinance, and all of the gain or loss in revenue from budgeted levels fell to the General Fund, contributing to the large variances from prior periods. Table A-10 sets forth a history of transient occupancy tax receipts for fiscal years 2008-09 through 2013-14. Beginning in fiscal year 2013-14 hotel tax budgeted in the General Fund in fiscal year 2013-14 will increase by $56.4 million because revenue previously budgeted in special revenue funds is now deposited to the General Fund.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2008-09 through 2014-15
All Funds
(000s)

Fiscal Year	Tax Rate	Revenue	Change	
2008-09	14.00%	$219,777	($5,037)	-2.2%
2009-10	14.00%	192,082	(27,695)	-12.6%
2010-11	14.00%	215,512	23,430	12.2%
2011-12	14.00%	242,843	27,331	12.7%
2012-13 projected	14.00%	250,500	7,657	3.2%
2013-14 budgeted	14.00%	277,019	26,519	10.6%
2014-15 budgeted	14.00%	294,175	17,157	6.2%

Includes portion allocated to special revenue funds. Figures for FY 2008-09 through FY 2011-12 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for FY 2012-13 are from the Nine-Month Report, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Current rates are $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less; $6.80 per $1,000 for properties valued more than $250,000 and less than $999,999; $7.50 per $1,000 for properties valued at $1.0 million to $5.0 million; $20.00 per $1,000 for properties valued more than $5.0 million and less than $10.0 million; and $25 per $1,000 for properties valued at more than $10.0 million.

Real property transfer tax revenue in fiscal year 2012-13 is projected to be $231.3 million in the June 26, 2013 revenue update, approximately $2.3 million (1.0%) less than the revenue received in fiscal year 2011-12 due to an expected flattening of real property sales from the fiscal year 2011-12 peak. Fiscal year 2013-14 and 2014-15 budgets for real property transfer tax revenues are $225.2 million in each year, reflecting continued slowing market activity.

Table A-11 sets forth a history of real property transfer tax receipts for fiscal years 2008-09 through 2011-12, projected receipts for fiscal year 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2008-09 through 2014-15
(000s)

Fiscal Year	Revenue	Change	
2008-09	$48,957	($37,262)	-43.2%
2009-10	83,694	34,737	71.0%
2010-11	135,184	51,489	61.5%
2011-12	233,591	98,407	72.8%
2012-13 projected	231,300	(2,291)	-1.0%
2013-14 budgeted	225,150	(6,150)	-2.7%
2014-15 budgeted	225,150	-	0.0%

Figures for FY 2007-08 through FY 2011-12 are audited actuals. Figures for FY 2012-13 are from a June 26 Revenue Update Memo. Figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

Sales and Use Tax

The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, the State takes one-quarter of this, and replaces the lost revenue with a shift of local property taxes to the City from local school district funding. The local sales tax revenue is deposited in the City's General Fund.

Local sales tax collections in fiscal year 2012-13 are projected to be at $121.9 million in the Nine-Month report, a minimal increase of $0.2 million from Original Budget and a $4.8 (4.1%) million increase from fiscal year 2011-12 revenue. Revenue growth is expected to continue during FY 2013-14 with $125.7 million budgeted, an increase of $4.0 million (3.3%) from the fiscal year 2012-13 budget and $3.8 million (3.1%) from the Nine-Month Report projection. Continued growth is expected during fiscal year 2014-15 as revenues are expected to reach $130.1 million, $4.4 million (3.5%) more than fiscal year 2013-14.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2008-09 through 2011-12, projected receipts for fiscal year 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2008-09 through 2014-15
(000s)

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2008-09	9.50%	0.75%	$101,662	($9,749)	-8.8%
2008-09 adj.*	9.50%	1.00%	137,415	(11,314)	-7.6%
2009-10	9.50%	0.75%	96,605	(5,057)	-5.0%
2009-10 adj.*	9.50%	1.00%	128,286	(9,129)	-6.6%
2010-11 **	9.50%	0.75%	106,302	9,698	10.0%
2010-11 adj.*	9.50%	1.00%	140,924	12,639	9.9%
2011-12	8.50%	0.75%	117,071	10,769	10.1%
2011-12 adj.*	8.50%	1.00%	155,466	14,542	10.3%
2012-13 *projected*	8.50%	0.75%	121,914	4,843	4.1%
2012-13 adj.* *projected*	8.50%	1.00%	161,538	6,072	3.9%
2013-14 *budgeted*	8.75%	0.75%	125,697	3,783	3.1%
2013-14 adj.* *budgeted*	8.75%	1.00%	167,751	6,213	3.8%
2014-15 *budgeted*	8.75%	0.75%	130,096	4,399	3.5%
2014-15 adj.* *budgeted*	8.75%	1.00%	173,622	5,871	3.5%

Figures for FY 2007-08 through FY 2011-12 are audited actuals. Figures for FY 2012-13 are from the Nine-Month Report, and figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

*Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in FY 2004-05 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004. This 0.25% reduction is backfilled by the State.

**In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

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

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services. The Telephone Users Tax ("TUT") applies to charges for all telephone communications services in the City to the extent permitted by Federal and State law, including intrastate, interstate, and international telephone services, cellular telephone services, and voice over internet protocol (VOIP). Telephone communications services do not include Internet access, which is exempt from taxation under the Internet Tax Freedom Act.

Fiscal year 2012-13 Utility User Tax revenues are projected to be $91.7 million in the Nine Month report, representing a $0.2 (0.2%) million decrease from Original Budget and flat with fiscal year 2011-12 revenues. Utility User Tax revenue is budgeted to grow at a rate of 2% in fiscal years 2013-14 and 2014-15 to $93.5 million and $95.4 million respectively.

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenues are projected in the Nine Month report to be $42.2 million, $0.8 million (1.8%) less than Original Budget and $1.1 (2.7%) million more than fiscal year 2011-12 revenue. ALT revenues are budgeted to grow at a rate of 1.0% in fiscal years 2013-14 and 2014-15 to $42.6 million and $43.0 million respectively.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities.

Fiscal year 2012-13 Parking Tax is projected at $81.2 million in the Nine Month report, $4.7 million (6.1%) more than original budget and $4.6 million (6.0%) above fiscal year 2011-12. The recovery in business activity and employment as reflected in increases to payroll and sales tax revenues is driving increases in parking tax revenues.

Original Budget for fiscal year 2013-14 parking tax revenue is $83.3 million, a $6.7 million increase (8.8%) from fiscal year 2012-13 Original Budget and $2.0 million (2.5%) more than the fiscal year 2012-13 projection. In fiscal year 2014-15, parking tax revenue is budgeted at $85.7 million, $2.5 million (3.0%) over the fiscal year 2013-14 budgeted amount. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives three groups of allocations of State sales tax and VLF revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor's May Revise budget estimates statewide realignment funding savings of $300 million in fiscal year 2013-14 and $900 million in fiscal year 2014-15 as a result of Affordable Care Act (ACA) implementation. These savings are expected to be achieved by realigning additional responsibilities to counties without increasing funding for them. Fiscal year 2013-14 and 2014-15 realignment revenues are budgeted as follows:

> **1991 Health & Welfare Realignment**. In fiscal years 2013-14 and 2014-15, General Fund revenue is anticipated to increase by $10.4 million (6.9%) and $5.2 million (3.2%), due to statewide sales tax growth projections contained in the Governor's budget. Growth in state sales tax revenue in one year is distributed to counties in the subsequent year, thus the proposed budget's fiscal year 2013-14 and 2014-15 allocations reflect projected state sales tax revenue increases in fiscal years 2012-13 and 2013-14, respectively. Changes in the allocation methodology reduced the amount of VLF distributed and increased the amount of sales tax distributed in this type of realignment.
>
> **2011 Health and Human Services Realignment**. Beginning in fiscal year 2011-12 counties received revenue allocations to pay for behavioral health and protective services programs formerly provided by the State. In fiscal year 2013-14 this revenue is budgeted at $89.1 million, an $8.6 million (10.6%) increase from the fiscal year 2012-13 revised budget. This increase includes sales tax growth assumed in the Governor's budget, and includes revenue formerly reported in the State – Other revenue category discussed below. Fiscal year 2014-15 revenue of $92.4 million is an increase of $3.4 million (3.8%) from fiscal year 2013-14.
>
> **Public Safety Realignment.** Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. Based on revised allocation formulas, this revenue is budgeted at $32.8 million in fiscal year 2013-14, a $15.5 million (89.7%) increase over the fiscal year 2012-13 budget. The increase reflects state sales tax growth and the change in accounting of Trial Court Security revenue from a cost reimbursement to subvention format. The budget for fiscal year 2014-15 is $30.8 million, a $2.0 million (6.2%) decrease due to reductions to state funding for Local Community Corrections projected in fiscal year 2014-15 as described in the Governor's budget.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of

statewide sales activity. Revenue from this source for fiscal year 2012-13 was projected to be $82.7 million in the Nine Month report an increase of $6.2 million (8.0%) from fiscal year 2011-12 and $3.7 (4.7%) million more than fiscal year 2012-13 Original Budget. In fiscal year 2013-14, revenue is budgeted at $86.8 million an increase $7.9 million (10.0%) from the fiscal year 2012-13 budget and $4.1 million (5.0%) from the fiscal year 2012-13 Nine Month Report projection. In fiscal year 2014-15, revenue is budgeted at $89.9 million, an increase of $1.7 million (1.9%) from the fiscal year 2013-14 budget. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the County Ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. Fiscal year 2013-14 revenue growth assumes a continuation of the 4.5% increase in base sales tax revenue as projected for fiscal year 2012-13, and an increase of approximately 0.5% in San Francisco's County Ratio. Fiscal year 2014-15 revenue reflects state sales tax growth only and no increase in the Ratio.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, $407.1 million is budgeted in fiscal year 2013-14 from grants and subventions from State and federal governments to fund public health, social services, and other programs in the General Fund. This represents a $36.4 million (9.8%) increase from the fiscal year 2012-13 Nine Month projection. A large portion of the budgeted increase in fiscal year 2013-14 is the removal of a $15.0 million allowance for unspecified funding reductions in fiscal year 2012-13 and a one-time $10.0 million reimbursement for capital expenditures. The fiscal year 2014-15 budget is $398.9 million, a decrease of $8.2 million (2.0%) from fiscal year 2013-14.

Charges for Services

Charges for services in the General Fund in fiscal year 2012-13 are projected to be $145.9 million in the Nine Month report and budgeted at $166.8 million in fiscal year 2013-14 and $167.5 million in fiscal year 2014-15, representing growth of $20.9 million (14.3%) and $0.8 million (0.5%) respectively from prior year.

Fiscal year 2013-14 growth reflects Fire Department ambulance billing recoveries increases over fiscal year 2012-13 due to AB 678 - Medi-Cal: Ground Emergency Medical Transport, passed by the State legislature in 2011.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is $751.6 million in fiscal year 2013-14 and $762.9 million in fiscal year 2014-15.

General Fund Expenditures by Major Service Area

San Francisco is a consolidated city and county, and budgets General Fund expenditures for both city and county functions in seven major service areas described in table A-13:

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2008-09 through 2014-15
(000s)

Major Service Areas	FY 2008-09 Original Budget	FY 2009-10 Original Budget	FY 2010-11 Original Budget	FY 2011-12 Original Budget	FY 2012-13 Original Budget	FY 2013-14 Original Budget	FY 2014-15 Original Budget
Public Protection	$899,378	$955,519	$947,327	$998,237	$1,058,689	$1,130,932	$1,155,085
Human Welfare & Neighborhood Development	654,162	642,810	655,026	672,834	670,375	700,254	717,018
Community Health	513,858	488,330	519,319	575,446	609,892	701,978	702,791
General Administration & Finance	182,139	177,892	169,526	199,011	197,994	244,591	248,135
Culture & Recreation	104,232	95,114	97,510	100,740	111,066	119,579	115,632
General City Responsibilities	78,524	104,476	103,128	110,725	145,560	137,025	142,071
Public Works, Transportation & Commerce	53,143	33,414	26,989	51,588	67,529	80,797	111,993
Total	$2,485,436	$2,497,555	$2,518,824	$2,708,581	$2,861,106	$3,115,155	$3,192,725

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

Public Protection primarily includes the Police Department, the Fire Department, and the Sheriff's Office. These departments are budgeted to receive $406.4 million, $215.1 million and $139.4 million of General Fund support respectively in fiscal year 2013-14 and $406.8 million, $225.1 million, and $146.2 million respectively in fiscal year 2014-15. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive $224.4 million of General Fund support in the fiscal year 2013-14 and $234.8 million in fiscal year 2014-15.

The Public Health Department is budgeted to receive $553.4 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2013-14 and $596.9 million in fiscal year 2014-15. As of the Fiscal Year 2012-13 Six Month Report, the Department of Public Health projected ending the fiscal year with a net General Fund deficit of $45.9 million, which was subsequently revised to $8.8 million in the Nine Month Report. The final shortfall will be determined as revenues from prior-year settlements and other reimbursements and expenditures are accrued during the fiscal year end close process.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it is budgeted pursuant to a formula under the Charter to receive a $232.0 million General Fund transfer in the fiscal year 2013-14 Original Budget.

Baselines

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

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Years 2013-14 & 2014-15
(Millions)

Baselines & Set-Asides	FY 2013-14 Required Baseline	FY 2013-14 Original Budget	FY 2014-15 Required Baseline	FY 2014-15 Original Budget
Municipal Transportation Agency	$168.7	$168.7	$176.3	$176.3
Parking and Traffic Commission	$63.3	$63.3	$66.1	$66.1
Children's Services	$125.5	$131.2	$131.1	$132.5
Library Preservation	$57.7	$57.7	$60.3	$60.3
Public Education Enrichment Funding				
Unified School District	$47.4	$47.4	$37.2	$37.2
First Five Commission	$25.7	$25.7	$20.2	$20.2
City Services Auditor	$12.9	$12.9	$13.4	$13.4
Human Services Homeless Care Fund	$14.9	$14.9	$14.9	$14.9
Property Tax Related Set-Asides				
Municipal Symphony	$2.1	$2.1	$2.3	$2.3
Children's Fund Set-Aside	$48.0	$48.0	$50.9	$50.9
Library Preservation Set-Aside	$40.0	$40.0	$42.4	$42.4
Open Space Set-Aside	$40.0	$40.0	$42.4	$42.4
Staffing and Service-Driven				
Police Minimum Staffing	Requirement potentially not met during course of budget year		Requirement potentially met during course of budget year	
Fire Neighborhood Firehouse Funding	Requirement met		Requirement met	
Treatment on Demand	Requirement not met		Requirement not met	
Total Baseline Spending	**$652.81**	**$658.57**	**$664.18**	**$665.58**

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling $3.5 billion in the fiscal year 2011-12 Original Budget (all-funds), and $3.8 billion and $4.0 billion in the fiscal year 2012-13 and fiscal year 2013-14 budgets. Looking only at the General Fund, the combined salary and benefits budget was $1.7 billion in the fiscal year 2011-12 Original Budget and $1.8 billion per year in the fiscal year 2012-13 and fiscal year 2013-14 budgets. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2013-2014 and 2014-2015 includes 27,722 and 27,855.23 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union ("SEIU"), Local 1021; the International Federation of Professional and Technical Engineers (the "IFPTE"), Local 21; and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (California Government Code Sections 3500-3511, the "Meyers-Milias-Brown Act") and the Charter. Except for nurses and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. In addition, in November 2010, the voters in the City approved Proposition G, which requires that disputes regarding the wages, hours and working conditions of transit operators be resolved through a final and binding interest arbitration proceeding. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

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

In May 2012, the City negotiated two-year agreements (for fiscal years 2012-13 and 2013-14) with most of its labor unions. In general, the parties agreed to: 1) reforms and/or elimination of certain pay premiums; and 2) some structural reforms of the City's healthcare benefit and cost-sharing structures by having employees contribute more toward the cost of enrolling in "employee only" health benefits during the term of the 2 year contract. SEIU "miscellaneous" employees and staff nurses agreed to healthcare benefit reforms that will take place beyond the term of the July 1, 2012 through June 30, 2014 contract.

City employees, who are in non-Police, Fire and Nurse classifications will receive a base wage increase for the first time since 2008, as follows: 1% on July 1, 2013; 1% on January 4, 2014 and 1% on March 29, 2014. The two SEIU-represented units' wage increases differ, as follows: SEIU "miscellaneous" employees will receive 2% on January 4, 2014 and 1% on March 29, 2014 and the SEIU Staff Nurses will receive 3% on March 29, 2014.

In June 2013, the City negotiated a contract extension with the Police Officers' Association ("POA"), through June 30, 2018, that includes wage increases of 1% on July 1, 2015; 2% on July 1, 2016; and 2% on July 1, 2017. In addition, the union agreed to lower entry rates of pay for new hires in 3 entry Police Officer classifications. This agreement has already been ratified by the POA but is pending approval by the City's Board of Supervisors.

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. The MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year successor agreement that expires on June 30, 2014. The concessions are valued at $41.1 million dollars over the life of the agreement. Table A-15 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2013

Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	416	June 30, 2014
Bricklayers, Local 3/Hod Carriers, Local 36	18	June 30, 2014
Building Inspectors Association	90	June 30, 2014
Carpenters, Local 22	110	June 30, 2014
Carpet, Linoleum & Soft Tile	2	June 30, 2014
CIR (Interns & Residents)	2	June 30, 2014
Cement Masons, Local 580	33	June 30, 2014
Deputy Sheriffs Association	867	June 30, 2014
District Attorney Investigators Association	42	June 30, 2014
Electrical Workers, Local 6	858	June 30, 2014
Glaziers, Local 718	10	June 30, 2014
International Alliance of Theatrical Stage Employees, Local 16	19	June 30, 2014
Ironworkers, Local 377	15	June 30, 2014
Laborers International Union, Local 261	1,019	June 30, 2014
Municipal Attorneys' Association	431	June 30, 2014
Municipal Executives Association	1,102	June 30, 2014
MEA - Police Management	6	June 30, 2015
MEA - Fire Management	9	June 30, 2015
Operating Engineers, Local 3	57	June 30, 2014
Painters	123	June 30, 2014
Pile Drivers, Local 34	23	June 30, 2014
Plumbers, Local 38	341	June 30, 2014
Probation Officers Association	161	June 30, 2014
Professional & Technical Engineers, Local 21	4,929	June 30, 2014
Roofers, Local 40	11	June 30, 2014
S.F. Institutional Police Officers Association	2	June 30, 2014
S.F. Firefighters, Local 798	1,732	June 30, 2015
S.F. Police Officers Association	2,501	June 30, 2018
SEIU, Local 1021	11,260	June 30, 2014
SEIU, Local 1021 Staff & Per Diem Nurses	1,575	June 30, 2014
SEIU, Local 1021 H-1 Rescue Paramedics	12	June 30, 2015
Sheet Metal Workers, Local 104	46	June 30, 2014
Stationary Engineers, Local 39	663	June 30, 2014
Supervising Probation Officers, Operating Engineers, Local 3	23	June 30, 2014
Teamsters, Local 853	157	June 30, 2014
Teamsters, Local 856 (Multi-Unit)	105	June 30, 2014
Teamsters, Local 856 (Supervising Nurses)	120	June 30, 2015
TWU, Local 200 (SEAM multi-unit & claims)	318	June 30, 2014
TWU, Local 250-A Auto Service Workers	198	June 30, 2014
TWU-250-A Miscellaneous	93	June 30, 2014
TWU-250-A Transit Operators	2,151	June 30, 2014
Union of American Physicians & Dentists	192	June 30, 2015
Unrepresented Employees	151	June 30, 2014
	31,992 [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.

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

History and Administration

SFERS is charged with administering a defined-benefit pension plan (the "Retirement System") that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval by City voters on November 2, 1920 and the California State Legislature on January 12, 1921 and is currently codified in the City Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election.

The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, at least two of whom must be actively employed, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors.

To aid in the administration of the Retirement System, the Retirement Board appoints an Executive Director and an Actuary. The Executive Director serves as chief executive officer, with responsibility extending to all divisions of the Retirement System. The Actuary's responsibilities include the production of data and a summary of plan provisions for the independent consulting actuarial firm retained by the Retirement Board to prepare an annual valuation report and other analyses as described below. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

In 2010, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In March 2012, IRS issued a favorable Determination Letter for SFERS. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the new provisions of Proposition C approved by the City voters in November 2011.

Membership

Retirement System members include eligible employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2012 (the date of most recent valuation report) was 33,655, compared to 33,475 members a year earlier. Active membership includes 4,543 vested members and 1,015 reciprocal members. Vested members are individuals who (i) have separated from City service, (ii) have worked for the City for five or more years, and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. The total new enrollees in the Retirement System were 2,228 in fiscal year 2011-12 and 2,055 in fiscal year 2010-11. Retirement allowances are paid to approximately 25,000 retired members and beneficiaries monthly. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program (DROP) program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of June 30, 2012, approximately 184 police officers are enrolled in the program and all will retire over the next two fiscal years.

Table A-16 shows total Retirement System participation for fiscal years 2007-08 through 2011-12.

TABLE A-16

CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System
Fiscal Years 2007 - 08 through 2011 - 12

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2008	30,650	3,877	869	35,396	21,514	1.425
2009	29,919	4,096	890	34,905	22,294	1.342
2010	28,222	4,515	978	33,715	23,500	1.201
2011	27,955	4,499	1,021	33,475	24,292	1.151
2012	28,097	4,543	1,015	33,655	25,190	1.115

Sources: SFERS' Actuarial Valuation reports as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009, and July 1, 2008.

Funding Practices

The annual actuarial valuation of the Retirement System is a joint effort of the Retirement System and its independent consulting actuarial firm. The City Charter proscribes certain actuarial methods and amortization periods to be used by the Retirement System in preparing the actuarial valuation. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions: a long-term investment earnings assumption, a long-term wage/inflation assumption and a long-term consumer price index assumption.

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as determined by the consulting actuarial firm and approved by the Retirement Board. This process is mandated by the City Charter.

Pursuant to the City Charter, the consulting actuarial firm and the Retirement Board set the actuarially required employer contribution rate using three related calculations:

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

Second, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial value of Retirement System liabilities exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded accrued actuarial liability" or "UAAL."

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or loss is identified. On the liability side, assumptions must be made regarding future costs of pension benefits in addition to demographic assumptions regarding the Retirement System members including rates of disability, retirement, and death. When the actual experience of the Retirement System differs from the expected experience, the impacts on UAAL are called actuarial gains or losses. Under the Retirement Board's Actuarial Methods Policy any such gain or loss is amortized over a 15-year period. Similarly, if the estimated liabilities change due to an update in any of the assumptions, the impact on UAAL is also amortized over a 15-year period.

Third, Supplemental costs associated with the various SFERS benefit plans are amortized. Supplemental costs are additional costs resulting from the past service component of SFERS benefit increases. In other words, when the Charter is amended to increase benefits to some or all beneficiaries of the Retirement System, the Retirement System's liability is correspondingly increased in proportion to the amount of the new benefit associated with service time already accrued by the then-current beneficiaries. These supplemental costs are amortized over no more than 20 years.

The consulting actuarial firm combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. Employee contribution rates are mandated by the Charter. [e.g. City Charter Section A8.587-8(a)] Sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each union or bargaining unit. The employer contribution rate is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System. The most recent voter-approved retirement changes are described below.

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

Recent Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment.

In August 2012, Governor Brown signed the Public Employee Pension Reform Act of 2012 ("PEPRA"). Current plan provisions of SFERS are not subject to PEPRA although future amendments may be subject to these reforms.

Recent changes to SFERS plan benefits have been intended to reduce pension costs associated with future City employees. For example, in November 2011, the voters of San Francisco approved Proposition C, which

a) created new SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;

b) provided that employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;

c) effective July 1, 2012, provides for an increase or decrease of employee contributions to SFERS for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. (For

example, Miscellaneous employees who earn less than $50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between $50,000 and $100,000 per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn $100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and

d) provides that, effective July 1, 2012, no Supplemental COLA will paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire. A retiree organization has brought a legal action against the requirement to be fully funded in order to pay the Supplemental COLA; however, the City has prevailed at the Superior Court level to this challenge.

The impact of Proposition C is incorporated in the actuarial valuations beginning with the July 1, 2012 Actuarial Valuation report.

Since 2008, the voters of San Francisco have approved three other retirement plan amendments:

- Proposition D enacted in June 2010, which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010, which changed average final compensation used in the benefit formula from highest one-year average compensation to highest two-year average compensation, increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.

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

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

SFERS Recent Funding Performance and City Employer Contribution History

From fiscal year 1996-97 through fiscal year 2003-04, the City's contribution to the Retirement System was zero as determined by the consulting actuarial firm of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period was due primarily to higher-than-projected investment earnings and lower-than-projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuarial firm in the manner described above in "Funding Practices." In fiscal year 2011-12, total City employer contributions to the Retirement System were $391 million, which was 18.09% of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount includes $162 million from the City General Fund. For the fiscal year 2012-13 total City employer contributions to the Retirement System are budgeted at $412 million, which is 20.71% of Pensionable Salary. This amount includes $186 million from the General Fund. The latest actuarial report as of July 1, 2012 provides that future employer contribution rates are projected to increase to 28% for fiscal year 2014-2015 as the Retirement System recognizes the 2011 economic assumption changes and the losses incurred by the Retirement System in fiscal years 2007-2008 and 2008-2009.

Table A-17 shows Retirement System contributions for fiscal years 2007-08 through 2011-12. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Market Percent Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligation. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2007-08 through 2011-12.

TABLE A-17

CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System (in $000s)
Fiscal Years 2007-08 through 2011-12

As of 1-Jul	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Market Percent Funded	Acturial Percent Funded	Employee & Employer Contribution	Employer Contribution Rates[1]
2009	11,886,729	16,004,730	16,498,649	72.3	97.0	312,715	4.99%
2010	13,136,786	16,069,100	17,643,400	74.5	91.1	413,562	9.49%
2011	15,598,839	16,313,100	18,598,700	83.9	87.7	490,578	13.56%
2012	15,293,700	16,027,700	19,393,900	78.9	82.6	608,957	18.09%

[1] Employer contribution rates for fiscal years 2012-2013 and 2013-2014 are 20.71% and 24.82% respectively.

SFERS' Actuarial Valuation report as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009, and July 1, 2008.
Note: Table A-17 reflects entire Employees' Retirement System, not just the City and County of San Francisco.

Table A-17 reflects that the Actuarial Percent Funded ratio decreased to 82.6%, corresponding to an unfunded actuarial liability (UAAL) of approximately $3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2012, for every dollar of pension benefits the City is obligated to pay, it had approximately $0.83 in assets available for payment.

Asset Management and Actuarial Valuation

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. See page 68 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2012. The Fund does not hold hedge funds. The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are measured annually by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

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

As of June 30, 2013, the Retirement System estimated that the market value of its assets was approximately $16.9 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are not subject to audit (other than at year end).

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled $18.1 million in fiscal year 2009-10 and $17.6 million in fiscal year 2010-11. For fiscal year 2011-12, the City prepaid its annual CalPERS obligation at a level of $23.4 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2012, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45*."

Medical Benefits

Administration through Health Service System; Audited System Financial Statements

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System" or "HSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of SFUSD, SFCCD, and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical benefits for City Beneficiaries. The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; and until May 15, 2013, four members of the Health Service System, active or retired, elected from among their members. After May 15, 2013 one of the members elected from among the members will be replaced by a member nominated by the Controller and approved by the Health Service Board (See Proposition C below).The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial

statements for the Health Service Trust Fund. This report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted in the Health Service System website: www.myhss.org/finance. The information available on such website is not incorporated in this Official Statement by reference.

As presently structured under the City Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB trust fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45"), which applies to OPEB trust funds.

Determination of Employer and Employee Contributions for Medical Benefits

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

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

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

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

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

- Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.

- In addition to the average contribution described in the second paragraph of this subsection, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.

- After application of the calculations described above, the City contributes 50% of monthly contributions required for the retired city participant and the first dependent.

The Health Service System has changed to a calendar plan year effective January 1, 2013. This change permitted HSS to adopt a new pharmacy fully insured benefit plan for retirees in the City Plan (Employer Group Waiver Plan) which saved over $5.8M and reduced the GASB pharmacy liability. In addition, HSS moved active Blue Shield members from a "fully insured product" to a "flex funded product" in which the City assumes risk up to a set point saving over $26M . Overall the actions taken during rate setting reduced HSS costs by over $30M and resulted in a premium rate increase of less than 1.4%.

Health Care Reform

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

The Health Care Reform Law is designed to be implemented in phases from 2010 to 2018. The provisions of the Health Care Reform Law to be implemented in future years include, the expansion of Medicaid, subsidies for health insurance for certain individuals, mandates that require most Americans obtain health insurance, and incentives for employers with over 50 employees to provide health insurance for their employees or pay a fine. Many aspects of the law have yet to be clarified and will require substantial regulation or subsequent legislative action. On June 28, 2012 the U.S. Supreme Court ruled to uphold the employer mandate, the individual mandate and the state Medicaid expansion requirements.

Provisions of Health Care Reform already implemented by HSS include, discontinued eligibility for non-prescription drugs reimbursement through FSAs in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012 and W-2 reporting on total healthcare premium costs for 2012 plan year and implementation of a medical loss ratio rebate on self-insured plans. In addition, a separate summary of benefits was required to be sent to every member and provided to every new member beginning in 2012. In 2013, healthcare flexible spending accounts (FSAs) will be limited to $2500 annually and for the 2013 plan year a comparative effectiveness fee will be charged directly to HSS of $1 per beneficiary for members of the Self-Insured plan (approximately 9,350); in 2014 and 2015 this amount will increase to $2/year .

On August 31, 2012 the US DHHS issued regulatory guidance on the "Federal Transitional Pre-Existing Condition Fee" assessing a $63/year fee on each HSS beneficiary for plan years 2014-2016. This "fee" will be over $6.6 million dollars per year. In 2014, the City will need to modify health benefit eligibility to cover temporary employees who work more than 30 hours per week or 130 hours per month to only a 90 day waiting period for coverage.

Local Elections: Proposition C (2011)

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that will change the way the City and current and future employees share in funding SFERS pension and health benefits. With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce. Proposition C changes the Health Service System and Health Service Board (HSB) including the following: 1) replace one elected member of the HSB with a member nominated by the City Controller and approved by HSB; 2) change HSB's voting requirement for approving member health plans from two-third to a simple majority; 3) remove the requirement for a plan permitting the member to choose any licensed medical provider; 4) allow for the option to change to a calendar year plan year; and 5) allow HSB to spend money on ways to limit health care costs. Factors that could cause additional medical costs or savings include: 1) Projected City savings might be reduced if future labor negotiations or arbitration awards result in any salary increases to offset higher employee retirement contributions. 2) To the extent that changes to pension formulas in this measure cause

employees to delay or speed up retirement dates, this could provide additional City savings or costs related to retiree pension and health insurance subsidies. 3) To the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower. 4) To the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower. Changing to a calendar plan year allows HSS to convert our City Plan retiree pharmacy benefit to a higher discounted federal program called Employer Group Waiver Plan (EGWP) as of 2013. This will save an estimated $2.3 million annually, will lower the City's retiree pharmacy expenditures by $8.5 million annually, and will lower the City's GASB 45liability.

Employer Contributions for Health Service System Benefits

For fiscal year 2011-12, the Health Service System received approximately $612.7 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately $511.3 million; approximately $151.1 million of this $511.3 million amount was for health care benefits for approximately 26,086 retired City employees and their eligible dependents and approximately $360.2 million was for benefits for approximately 60,644 active City employees and their eligible dependents. For fiscal year 2012-13, the Health Service System has budgeted to receive approximately $642.9 million from participating employers for Health Service System benefit costs. The 2013 aggregate plan costs for the city will increase by only 1.4%. This flattening of the healthcare cost curve is due to a number of factors including lower use of healthcare during recessions, aggressive contracting by HSS, encouraging competition among our vendors, and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The HSB also subsidized dependent coverage in the Blue Shield plan to stabilize the risk pools and minimize migration between Blue Shield and Kaiser which contributed to the lower 2013 increase. In 2014 this flattened trend is anticipated to continue, the Health Service Board has allocated the Early Retiree Reimbursement Program funds collected of $3.6M to subsidize dependent coverage based on percent paid by employee/retiree which will continue to stabilize risk pools. The Health Service Board has recently set rates for 2014. The 2014 aggregate plan costs for the city will increase by 0.7%.

Post-Employment Health Care Benefits and GASB 45

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

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

City's Estimated Liability. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. In its October 8, 2012 report, Cheiron, Inc. estimated that the City's unfunded liability was approximately $4.42 billion as of July 1, 2010. This estimate assumed a 4.25% return on investments and had an ARC for fiscal year 2011-12 of approximately $397.9 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2010 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was $2.3 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 191.9%.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2011-12 annual OPEB cost was $405.9 million, of which the City funded $156.1 million which caused, among other factors, the City's long-term liability to increase by $249.7 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(c) and (d) to the City's CAFR, as of June 30, 2012, included as Appendix B to this Official Statement. Four-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Four-year Trend
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
6/30/2009	$430,924	27.8%	$605,397
6/30/2010	374,214	33.9%	852,782
6/30/2011	392,151	37.2%	1,099,177
6/30/2012	405,850	38.5%	1,348,883

The October 2012 Cheiron Report estimates that the total long-term actuarial liability will reach $5.7 billion by 2030. The calculations in the Cheiron Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – *Recent Voter Approved Changes to the Retirement Plan*" above. As of June 30, 2012, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was $17.9 million. Future projections of the City's GASB 45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan (EGWP) prescription benefit program for City Plan retirees. See "– Local Elections: Proposition C (2011)."

Total City Employee Benefits Costs

The City continued to budget only for current-year benefits expenditures, without any set-aside for accrued or future liabilities, in the fiscal year 2011-12 Original Budget. To begin to address the issue of accrued liabilities for future retiree health costs, the City created a new Post Employment Benefits Fund in fiscal year 2007-08. The actual fund balance as of January 9, 2013 is approximately $23.9 million. The costs were funded in part by employees and in part by the City. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-18 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2008-09 to fiscal year 2013-14.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2008-09 through 2013-14
(000s)

	FY 2008-09 actual	FY 2009-10 actual	FY 2010-11 actual	FY 2011-12 actual	FY 2012-13 Budget	FY 2013-14 Budget
SFERS and PERS Retirement Contributions	$197,614	$294,088	$368,185	$428,265	$435,675	$527,564
Social Security & Medicare	147,576	145,969	140,828	147,682	153,071	162,729
Health - Medical + Dental, active employees [1]	274,753	284,426	296,032	330,919	356,797	370,454
Health - Retiree Medical [1]	144,110	154,347	175,799	181,822	173,306	162,234
Other Benefits [2]	18,998	17,009	22,758	21,362	19,707	16,634
Total Benefit Costs	**$783,051**	**$895,839**	**$1,003,602**	**$1,110,050**	**$1,138,555**	**$1,239,615**

FY 2008-09 through FY 2011-12 figures are audited actuals. FY 2012-13 and FY 2013-14 are original budget.

[1] Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

[2] "Other Benefits" includes unemployment insurance premiums, life insurance, and other miscellaneous employee benefits.

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

INVESTMENTS OF CITY FUNDS

Investment Pool

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

Investment Policy

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX G – CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER – INVESTMENT POLICY" for a complete copy of the Treasurer's Investment Policy, dated October 2012. The Investment Policy is also posted at the Treasurer's website: www.sftreasurer.org. The information available on such website is not incorporated herein by reference.

Investment Portfolio

As of June 30, 2013, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

City and County of San Francisco
Investment Portfolio
Pooled Funds
As of June 30, 2013

Type of Investment	Par Value	Book Value	Market Value
U.S. Treasuries	$ 860,000,000	$ 858,903,346	$ 857,756,500
Federal Agencies	3,997,493,000	4,009,733,895	4,009,344,253
State and Local Obligations	137,485,000	142,350,668	140,254,628
Public Time Deposits	720,000	720,000	720,000
Negotiable Certificates of Deposit	375,000,000	375,033,502	375,058,813
Banker's Acceptances	-	-	-
Commercial Paper	-	-	-
Medium Term Notes	403,405,000	407,806,524	404,751,921
Money Market Funds	360,047,099	360,047,099	360,047,099
Total	$6,134,150,099	$6,154,595,034	$6,147,933,214

June 2013 Earned Income Yield: 0.82%

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

TABLE A-21

City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of June 30, 2013

Maturity in Months			Par Value	Percentage
0	to	1	$ 558,962,099	9.11%
1	to	2	255,000	0.00%
2	to	3	155,365,000	2.53%
3	to	4	-	0.00%
4	to	5	50,000,000	0.82%
5	to	6	97,000,000	1.58%
6	to	12	570,360,000	9.30%
12	to	24	1,286,245,000	20.97%
24	to	36	990,193,000	16.14%
36	to	48	1,143,820,000	18.65%
48	to	60	1,281,950,000	20.90%
			$ 6,134,150,099	100.00%

Weighted Average Maturity: 880 Days

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

Further Information

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer's web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2012 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2012," Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a ten-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a ten-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure needs over ten years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2014-2023 Capital Plan was approved by the CPC on February 25, 2013 and was expected to be adopted by the Board of Supervisors in April 2013. The Capital Plan contains $25.1 billion in capital investments over the coming decade for all City departments, including $4.7 billion in projects for General Fund-supported departments. The Capital Plan proposes $88.0 million for General Fund pay-as-you-go capital projects in fiscal year 2013-14. The amount for General Fund pay-as-you-go capital projects is assumed to grow to $231 million in fiscal year 2022-23. The Capital Plan is not incorporated by reference herein but may be found at http://onesanfrancisco.org/. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately $2.0 billion of the capital projects of General Fund supported departments are financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends $14.5 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately $8.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund, and other sources.

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of July 1, 2013, the City had approximately $1.89 billion aggregate principal amount of general obligation bonds outstanding.

Table A-22 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of July 1, 2013 [1] [2]

Fiscal Year	Principal	Interest	Annual Debt Service
2014	$150,279,486	88,438,032	238,717,518
2015	151,979,884	81,666,532	233,646,416
2016	105,753,046	74,343,844	180,096,890
2017	97,779,110	69,400,105	167,179,215
2018	98,593,225	64,697,632	163,290,857
2019	97,160,545	60,163,962	157,324,507
2020	94,686,232	55,560,375	150,246,607
2021	90,035,457	51,044,062	141,079,519
2022	96,123,401	46,958,724	143,082,125
2023	98,320,251	42,516,801	140,837,052
2024	99,376,206	37,784,550	137,160,756
2025	98,571,476	32,920,682	131,492,158
2026	92,416,279	28,099,652	120,515,931
2027	96,425,840	23,564,823	119,990,663
2028	99,979,035	18,964,084	118,943,119
2029	98,551,751	14,235,655	112,787,406
2030	93,040,095	9,662,829	102,702,924
2031	50,976,950	5,339,777	56,316,727
2032	52,690,000	3,319,875	56,009,875
2033	16,540,000	1,230,200	17,770,200
2034	5,075,000	520,250	5,595,250
2035	5,330,000	266,500	5,596,500
TOTAL [3]	$1,889,683,269	$810,698,946	$2,700,382,215

[1] This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

[2] Totals reflect rounding to nearest dollar.

[3] Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

General Obligation Bonds

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to $350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007 the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed $35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007 the City initiated an initial borrowing of $2.0 million, and in October 2007, the City borrowed approximately $3.8 million from the Credit Bank. In January 2008, the City borrowed approximately $3.9 million and in November 2008, the City borrowed $1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the $35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

In February 2008, voters approved Proposition A, which authorized the issuance of up to $185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately $42.5 million in August 2008. The City issued the second series in the amount of approximately $60.4 million in March 2010 and the third series in the amount of approximately $73.4 million in March 2012.

In November 2008, voters approved Proposition A, which authorized the issuance of up to $887.4 million in general obligation bonds to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center. The City issued the first series of bonds under Proposition A in the amount of approximately $131.7 million in March 2009. The City issued the second series in the amount of approximately $294.6 million in March 2010. The City issued its third series in the amount of approximately $251 million in August 2012.

In June 2010, voters approved Proposition B, which authorized the issuance of up to $412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement, and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of $79.5 million in December 2010 and the second series of bonds in the amount of $183.3 million in March 2012. The City issued the third series in the amount of approximately $38.3 million in August 2012 and the fourth series of bonds in the amount of $31.0 million in June 2013.

In November 2011, voters approved Proposition B, which authorized the issuance of up to $248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately $74.3 million in March 2012 and the second series of bonds in the amount of $129.6 in June 2013.

In November 2012, voters approved Proposition B, which authorized the issuance of up to $195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the

jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately $71.9 million in June 2013.

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed $800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed $1,355,991,219 aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City.

Table A-23 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of July 1, 2013, the City had authorized and unissued refunding general obligation bond authority of approximately $751 million.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of July 1, 2013)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding [1]	Authorized & Unissued
Seismic Safety Loan Program (11/3/92)	2007A	$30,315,450	$26,323,269	$284,684,550
Branch Library Facilities Improvement (11/7/00)	2008A	31,065,000	25,460,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	35,165,000	
	2010B	24,785,000	14,025,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	60,270,000	8,695,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	103,565,000	
	2010A	120,890,000	68,410,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	211,180,000	209,955,000
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	74,230,000	
	2012A	183,330,000	150,505,000	
	2012E	38,265,000	37,010,000	
	2013B	31,020,000	31,020,000	80,165,000
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	61,695,000	
	2013C	129,560,000	129,560,000	44,145,000
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	71,970,000	123,030,000
SUB TOTALS		**$1,523,090,450**	**$1,309,838,269**	**$750,674,550**
General Obligation Refunding Bonds:				
Series 2006-R1 issued 10/31/06		90,690,000	54,155,000	
Series 2006-R2 issued 12/18/06		66,565,000	30,300,000	
Series 2008-R1 issued 5/29/08		232,075,000	53,465,000	
Series 2008-R2 issued 5/29/08		39,320,000	24,610,000	
Series 2008-R3 issued 7/30/08		118,130,000	118,130,000	
Series 2011-R1 issued 11/9/2011		339,475,000	299,185,000	
SUB TOTALS		**886,255,000**	**579,845,000**	
TOTALS		**$2,409,345,450**	**$1,889,683,269**	**$750,674,550**

[1] Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

[2] Of the $35,000,000 authorized by the Board of Supervisors in February 2007, $30,315,450 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds Authorized but Unissued."

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

Lease Payments and Other Long-Term Obligations

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

Table A-24 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of July 1, 2013. Note that the annual payment obligations reflected in Table A-23 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

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TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO

Lease Revenue Bonds and Certificates of Participation

As of July 1, 2013

Fiscal Year	Principal	Interest	Annual Payment Obligation
2014	60,261,550	60,199,127	120,460,677
2015	66,520,751	54,333,605	120,854,356
2016	65,490,000	46,444,344	111,934,344
2017	59,250,000	43,675,282	102,925,282
2018	57,680,000	40,981,563	98,661,563
2019	49,610,000	38,603,024	88,213,024
2020	40,800,000	36,582,594	77,382,594
2021	41,770,000	34,762,507	76,532,507
2022	42,820,000	32,938,863	75,758,863
2023	44,675,000	31,052,455	75,727,455
2024	46,870,000	29,057,981	75,927,981
2025	46,450,000	26,927,002	73,377,002
2026	46,145,000	24,862,981	71,007,981
2027	48,310,000	22,692,263	71,002,263
2028	48,770,000	20,429,469	69,199,469
2029	51,000,000	18,112,797	69,112,797
2030	50,510,000	15,716,280	66,226,280
2031	41,785,000	13,372,303	55,157,303
2032	31,000,000	11,238,623	42,238,623
2033	30,010,000	9,703,868	39,713,868
2034	31,445,000	8,111,955	39,556,955
2035	18,870,000	6,676,999	25,546,999
2036	17,065,000	5,674,407	22,739,407
2037	15,030,000	4,752,794	19,782,794
2038	15,690,000	3,902,287	19,592,287
2039	16,375,000	3,014,711	19,389,711
2040	17,095,000	2,088,419	19,183,419
2041	17,845,000	1,121,651	18,966,651
2042	9,680,000	313,971	9,993,971
TOTAL [1]	$1,128,822,301	$647,344,125 [2] [3]	$1,776,166,426

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. 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, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.0 million, such amount increasing by five percent each fiscal year. As of July 1, 2013 the total authorized amount for such financings was $61.4 million. The total principal amount outstanding as of July 1, 2013 was $35.2 million.

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

In June 1997, voters approved Proposition D, which authorized the issuance of up to $100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the home of the San Francisco 49ers football team. If issued, the $100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. The City has no current timetable for issuance of the Proposition D bonds.

On March 7, 2000, voters approved Proposition C, which extended a two and one half cent per $100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately $27.0 million and $42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

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

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed $150.0 million Lease Revenue Commercial Paper Certificates of Participation Program (the "CP Program"). Under the proposed CP Program, Commercial Paper Notes (the "CP Notes") will be issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term financing to be issued when market conditions are favorable. Projects will be eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. In June 2010, the City obtained letters of credit securing the CP Notes issued by J.P. Morgan Chase Bank, N.A. with a maximum principal amount of $50 million and by U.S. Bank, N.A. with a maximum principal amount of $50 million. The letters of credit expires June 2016.

As of March 7, 2013, the outstanding principal amount of CP Notes is $67.2 million. The weighted average interest rate for the CP Notes is approximately 0.17%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010, the issuance of not to exceed $38,000,000 in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Summer of 2014.

The Board of Supervisors authorized on July 26, 2011 and the Mayor approved on August 1, 2011, the issuance of not to exceed $170,000,000 in City and County of San Francisco certificates of participation to finance the construction and installation of certain improvements in connection with the renovation of the San Francisco War Memorial Veterans Building. The City anticipates issuing the certificates in the Summer of 2014.

The Board of Supervisors authorized on May 1, 2012 and the Mayor approved on May 8, 2012 the issuance of not to exceed $45,000,000 in City and County of San Francisco certificates of participation to finance certain capital improvements to properties of the Port Commission. The City anticipates issuing the certificates in the Fall of 2013.

The Board of Supervisors authorized on February 12, 2013 and the Mayor approved on February 15, 2013, the issuance of not to exceed $507.9 million of City and County of San Francisco Certificates of Participation (Moscone Expansion Project) payable from Moscone Expansion District assessments to finance the costs of additions and improvements to the George R. Moscone Convention Center. The City anticipates issuing the certificates in 2017.

Overlapping Debt

Table A-25 shows bonded debt and long-term obligations as of July 1, 2013 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO

Statement of Direct and Overlapping Debt and Long-Term Obligations

2012-2013 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$165,043,120,290	
DIRECT GENERAL OBLIGATION BOND DEBT	**Outstanding 7/1/2013**	
General City Purposes Carried on the Tax Roll	$1,889,683,269	
GROSS DIRECT DEBT	$1,889,683,269	
DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)	28,895,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	34,850,000	
San Francisco Finance Corporation, Equipment LRBs Series 2008A, 2010A, 2011A, 2012A, and 2013A	35,235,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	17,050,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	120,820,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	55,490,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	30,870,000	
San Francisco Redevelopment Agency Moscone Convention Center 1992	4,347,301	[1]
San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project)	18,670,000	
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)	142,575,000	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	148,545,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	35,200,000	
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	35,360,000	
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000	
San Francisco Refunding Certificates of Participation, Series 2010A	127,735,000	
San Francisco COPs, Refunding Series 2011AB (Moscone)	86,195,000	
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	41,860,000	
San Francisco COPs, Series 2013A Moscone Center Improvement	35,575,000	
LONG-TERM OBLIGATIONS	$1,128,822,301	
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	$3,018,505,570	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	$680,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	90,643,333	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	106,311,000	
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	343,720,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011	41,750,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	846,357,806	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	212,403,097	
Association of Bay Area Governments Obligations (Special Tax Bonds)	41,658,913	
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011	647,360,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$2,330,884,149	
GROSS COMBINED TOTAL OBLIGATIONS	$5,349,389,719	[2]

Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)	1.14%	< 3.00% [3]
Gross Direct Debt & Long-Term Obligations	1.83%	n/a
Gross Combined Total Obligations	3.24%	n/a

[1] The accreted value as of July 1, 2013 is $19,298,279

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

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

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

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the SFUSD to issue up to $295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued $58.0 million of such authorization in October 2004, $130.0 million in October 2005 and $92.0 million in October 2006, leaving $15.0 million authorized but unissued. In March 2012, the SFUSD issued $116.1 million in refunding general obligation bonds that refunded $137.4 million in general obligation bonds authorized under Proposition A of 2003.

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

On November 8, 2005, voters approved the issuance of up to $246.3 million in general obligation bonds to improve, construct and equip existing and new facilities of the SFCCD. SFCCD issued an aggregate principal amount of $90.0 million of the November 2005 authorization in June 2006. In December 2007, SFCCD issued an additional $110.0 million of such authorization. SFCCD issued the remaining authorization of $46.3 million in spring 2010.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed $450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of $100 million under the Proposition A authorization in February 2007. The SFUSD issued the second series in the aggregate principal amount of $150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of $185.0 million under the Proposition A authorization in May 2010.

On November 8, 2011, voters approved Proposition A. Proposition A of 2011 authorized the SFUSD to issue an aggregate principal amount not to exceed $531.0 million of general obligation bonds to repair and rehabilitate school facilities to current accessibility, health, safety, and instructional standards, and where applicable, replace worn-out plumbing, electrical and other major building systems, replace aging heating, ventilation and air handling systems, renovate outdated classrooms and training facilities, construct facilities to replace aging modular classrooms. The SFUSD issued the first series in the aggregate principal amount of $115.0 million under the Proposition A of 2011 authorization in March 2012.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

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

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

The Hunters Point Shipyard, a former naval base is a master planned community of approximately 500 acres located on the southeastern waterfront of San Francisco. The first phase of development, which was conveyed from the Navy in 2005, is currently underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of parks and open space. Nearly all of the horizontal construction for Phase 1 is complete and the developer has broken ground on the vertical development on the first two blocks of homes in June 2013. Two additional blocks are anticipated to break ground in fall 2013. In August 2010, the development of the balance of the Shipyard and Candlestick Point received its final approvals from the Board of Supervisors. This includes (i) approximately 10,500 residential housing units across the project site, approximately 32% of which will be offered at below-market rates in a mix of both rental and for-sale housing; (ii) the complete rebuilding of the Alice Griffith Public Housing Development, also known as Double Rock; (iii) approximately 2.5 million square feet of "green" office, research and development uses on the Shipyard; (iv) approximately 150,000 square feet of green office, research and development or other commercial space on Candlestick Point; (v) more than 300 acres of new and restored parks and open space, which includes neighborhood parks, new waterfront parks around the entire perimeter of the Shipyard, connecting to the region's Bay Trail, and a major renovation of the Candlestick Point State Recreation Area into a "Crissy Field" of the southeast, with restored habitat areas and public access to the water; (vi) approximately 635,000 square feet of regional and neighborhood retail on Candlestick Point; and (vii) space for a 10,000-seat performance venue on Candlestick Point.. The Project is estimated to create thousands of ongoing construction opportunities during the 20- to 30-year construction period, and 10,000 permanent jobs at full build-out. In August 2011, the U.S. Department of Housing and Urban Development (HUD) selected the Alice Griffith Public Housing Development and the surrounding Bayview neighborhood as a recipient of the $30.5 million Choice Neighborhoods Implementation Grant. The Alice Griffith Plan was one of six finalists submitted by communities nationwide competing for HUD Choice Neighborhoods funding.

Treasure Island

Former Naval Station Treasure Island, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island, located in the San Francisco Bay, and connected to the City by the San Francisco-Oakland Bay Bridge. The development plans for Treasure Island include up to 8,000 new homes, up to 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400 slip marina; restaurants; retail and entertainment venues; and a brand-new, world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is clustered around a new ferry terminal and is designed to prioritize walking, biking and public transit. The development plans include cutting-edge green office building standards and best practices in low-impact development.

In August 2010, then-Mayor Gavin Newsom, U.S. House of Representatives Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, signifying a major milestone towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. In April 2011, the Treasure Island Development Authority (TIDA) Board of Directors and the Planning Commission certified the project's Environmental Impact Report (EIR). In June 2011, the Board of Supervisors unanimously upheld the certification of the EIR and approved numerous project documents, including a Disposition and Development Agreement, Development Agreement, Interagency Cooperation Agreement and Treasure Island Homeless Development Initiative (TIHDI) Agreement. Together, these agreements establish a comprehensive vision for the future of the former military base and represented another significant step in moving the project towards implementation. In January 2014, TIDA, acting with and through the San Francisco County Transportation Authority, will begin construction of new west bound on and off ramps connecting the new eastern span of the San Francisco – Oakland Bay Bridge to Yerba Buena Island. The first phase of construction by the developer, Treasure Island Community Development (TICD), could begin in the summer of 2014 and will initially consist of horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) to enable subsequent phases of vertical development. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Piers 30-32 and Seawall Lot (SWL) 330 – Warrior's Multipurpose Recreation and Entertainment Venue

The Golden State Warriors, a National Basketball Association (NBA) team, is proposing to develop a waterfront multipurpose recreation and entertainment venue and associated development on Piers 30-32 and SWL 330. Piers 30-32 are located directly south of the Bay Bridge. On the Piers 30-32 site, the Warriors propose constructing a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts, and family shows. Over half of the Piers 30-32 site will be public, open space. There will also be a robust maritime program, which includes preserving the east apron of the pier as a deep water berth for occasional cruise ship and other large vessel berthing. The project also proposes to relocate the San Francisco Fire Department's Fire Boat station from Pier 22½ to the north apron of Piers 30-32 along with ferry and water taxi service. Piers 30-32 will also have retail and a limited amount of parking.

On SWL 330, which sits across the Embarcadero from Piers 30-32, the Warriors propose a mixed-use development, which will include residential units and a hotel use. The SWL site will also have ground floor retail and parking.

Economic & Planning Systems (EPS) was commissioned to author a Fiscal Feasibility Report, which provides both the Economic and Financial benefits of the project for the City. The Fiscal Feasibility Report projects that the project could create $80 million annually in economic activity and generate approximately 5,000 construction jobs and 2,800 permanent jobs within San Francisco. In addition, the Fiscal Feasibility projects that the project could generate approximately $19 million annually in annual revenue to the City.

Transbay

The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open in August 2017. Demolition of existing structures on the site was completed in August 2011. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub, extend the Caltrain commuter rail line underground 1.3 miles into the Financial District, and redevelop the area surrounding the Transbay Transit Center with 4,500 new homes 1,200 to be "affordable" below-market homes, a 1.6 million square-foot tower, parks, and a retail main street. The Pelli Clarke Pelli Architects-designed Center will serve more than 100,000 people per day through nine transportation systems, including the proposed California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The $4.2 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others. The first phase of the program, which includes constructing the new transit center, is $300 million over budget. To cover the cost increase, the TJPA will use some of the money that was dedicated to the second phase of the project – the Downtown Extension of Caltrain.

Planning, OCII, Mayor's Office and consultants are preparing the origination documents for a Mello-Roos (CFD) to finance a portion of the San Francisco County share of the Downtown Extension, City Park and other public benefits.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 2.65 million square feet of building space on 43 acres donated by Catellus and the City; UCSF's 550-bed hospital; 4.4 million square feet of biotech, 'cleantech' and health care office space; 6,350 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 400,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)

Mission Rock is a proposed mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 25 acres. The Port, OEWD in its capacity as lead negotiator, and Mission Rock's competitively-selected master developer, Seawall Lot 337 Associates, LLC, have agreed on a development concept and corresponding financial terms for Mission Rock, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

The proposed development plan for Mission Rock includes: approximately 8 acres of public parks and open spaces, including a 5-acre regional waterfront park; 650 to 1,500 new housing units, 15 percent of which will be affordable to low-income households; 1.3 to 1.7 million square feet of commercial space; 150,000 to 250,000 square feet of retail space, approximately 3,000 parking spaces within mixed-use buildings and a dedicated parking structure, which will serve San Francisco Giants baseball team patrons as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48 as a new brewery/distillery for Anchor Steam Brewing Company.

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 25-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include up to 2,250,000 square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and 950 housing units, 15 to 20 percent of them made available to low-income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development. The parties are in the process of exploring the possibility of increasing the maximum number of residential units, to 2,000.

Outside of the Waterfront Site, other plans for Pier 70 call for the creation of Crane Cove Park, development of new buildings along Illinois Street, the sustained operation of the shipyard, and the preservation of additional historic buildings. Pier 70 qualifies for the National Register of Historic Places and is in the process of seeking Historic District status.

Cruise Terminal

On February 26, 2013 the Port of San Francisco cut the ribbon opening the $67 million core and shell of the new James R. Herman cruise ship terminal at Pier 27 for use during the America's Cup races in the summer of 2013. The $44 million second phase will commence after the America's Cup competition is completed and will install maritime equipment, complete an operations area within a portion of Pier 29, and complete improvements to the ground transportation area and Northeast Wharf Plaza. When complete in late 2014, the $111 million, approximately 88,000 square foot, two-level cruise terminal will replace the current outmoded and insufficient facility at Pier 35 and will include a 2.5 acre park along the Embarcadero ground transportation area capability and a strengthened connection between the Bay and the base of Telegraph Hill.

The proposed size of the terminal was defined as optimal to serve current and anticipated ship berthing requirements and associated passenger flows. The Pier 27 cruise terminal was designed to optimally handle vessels carrying 2,600 passengers and will have the capacity to serve vessels carrying up to 4,000 passengers, totaling 40-80 cruise calls a year. The facility will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events.

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

America's Cup

On December 31, 2010, the City was selected to host two America's Cup World Series regattas in the summer of 2012 and the 34th America's Cup Challenger Selection Series and Match Finals in the summer of 2013. To accommodate the events, the Port invested in a series of Waterfront improvements along the central and northeast waterfront, primarily on Piers 27-29 for the America's Cup Village and at Piers 30-32 for team bases. Prior to the events, the City completed the Brannan Street Wharf project, the core and shell of the Pier 27 James R. Herman Cruise Terminal building, A portion of Jefferson Street, the Marina Green Bicycle Trail and the Pier 43 Bay Link Trail and made significant investments in deferred maintenance needs at Piers 30-32, Pier 23 and several of the aprons and marginal wharves used for the Events. After the conclusion of the events, the City will complete the James R. Herman Cruise Ship Terminal and Northeast Wharf Plaza. A March 12, 2013 update from the Bay Area Council Economic Institute projects that the America's Cup Events will generate $900 million in direct San Francisco spending, creating 6,481 San Francisco jobs and producing $13 million in tax receipts for the City and County of San Francisco.

Moscone Convention Center

The Moscone Center Expansion Project would add up to 400,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects seek to create an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance, or 'paseo' from Third St and a new, enclosed pedestrian bridge~~s~~ connecting the upper levels of the new Moscone North and Moscone South as well as an upgrade to the existing pedestrian bridge across Howard Street. This would help to frame the main public arrival space between the two new buildings, provide enhanced circulation for Moscone convention attendees, and reduce on-street congestion all while maintaining full-time elevated public access across Howard Street from Yerba Buena Gardens to the cultural facilities.

The project allows the City to recover approximately $734 million of this future revenue through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of $507 million in Certificates of Participation on February 5, 2013. Project sponsors initiated environmental review in March 2013 with the goal of starting construction in late 2014, continuing intermittently around existing convention reservations through 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limits the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially

have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the consumer price index or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

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

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

Article XIII B of the California Constitution

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

Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and

taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

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

In *Santa Clara County Local Transportation Authority v. Guardino,* 11 Cal. 4th 220 (1995) (the *"Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley,* 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

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

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

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

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

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

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

Proposition 22

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

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However,

borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

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

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

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

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

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statue governing the issue), and that local ordinances were without effect. The effect of the McWilliams case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the

future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2012, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations, nor materially impair the City's ability to fund current operations.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's property risk management approach varies depending on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the City's risk exposure. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (the Airport, MTA, the SF Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

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

The City actuarially estimates future workers' compensation costs to the City according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in City budgetary savings in recent years. The City continues to develop and implement programs to lower or mitigate workers' compensation costs. These programs focus on accident prevention, transitional return to work for injured workers, improved efficiencies in claims handling and maximum utilization of medical cost containment strategies.

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

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2012*

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

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO
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EN GUERRA

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year Ended June 30, 2012

Prepared by:
Office of the Controller

Ben Rosenfield
Controller

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CITY AND COUNTY OF SAN FRANCISCO

Comprehensive Annual Financial Report
Year ended June 30, 2012

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INTRODUCTORY SECTION

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

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January 8, 2013

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
Residents 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, 2012, with the independent auditor's report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for accounting and financial reporting set forth by the Governmental Accounting Standards Board (GASB).

The City is responsible for the accuracy of the data and for the completeness and fairness of its presentation. The existing comprehensive structure of internal accounting controls in the City provides reasonable assurance that the financial statements are free of any material misstatements. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. I believe that the reported data is accurate in all material respects and that its presentation fairly depicts the City's financial position and changes in its financial position as measured by the financial activity of its various funds. I am confident that the included disclosures provide the reader with an understanding of the City's financial affairs.

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

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

KEY FINANCIAL REPORT SECTIONS:

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

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

The financial statements of several enterprise activities and of all component units of government are included in this CAFR. Some component units' financials are blended with the City's, such as the San Francisco County Transportation Authority and the San Francisco Finance Corporation. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the San Francisco Redevelopment Agency (prior to February 1, 2012), and the Treasure Island Development Authority, financial reporting is shown separately. Supplemental combining statements and schedules for nonmajor governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

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

SAN FRANCISCO'S ECONOMY:

Overview of Recent Trends

Over the past fiscal year, San Francisco's economic recovery has accelerated. Unemployment rates in fiscal year 2011-12 fell steadily, following a trend that began the previous fiscal year. Average unemployment for fiscal year 2011-12 was 8.0%, down 1.2% from the previous fiscal year's level of 9.2%. Unemployment began the period at 8.9% in July 2011, and closed at 7.7% in June 2012.

In comparison to the U.S. economy, San Francisco entered the recent recession late and emerged from it relatively early. The San Francisco Metropolitan Division, of which the City and County of San Francisco is the largest jurisdiction, began seeing job growth over the previous year in December 2010. Over the course of fiscal year 2011-12, the San Francisco Metropolitan Division experienced a total employment increase of 4.4%.

In the period between March 2011 and March 2012, the latest data available, every major sector of the City's economy saw growth in employment, according to the Bureau of Labor Statistics. As of March 2012, Financial, Professional and Business, and Information Services sectors grew by approximately 14,600 jobs versus the prior year, a 7.5% increase. This is a significant increase when compared to California, which only saw a 3% increase in these sectors during the same period. Overall, during the recent recession, San Francisco saw its total employment fall by nearly 6%. By December 2011, San Francisco's private non-farm employment had recovered to 97% of its pre-recession peak level in 2008.

Other local economic indicators were also positive during this past fiscal year. Housing prices, residential and commercial rent, hotel revenues, and retail sales all showed significant signs of recovery.

San Francisco's taxable sales have been growing rapidly, with fiscal year 2011-12 sales tax revenue up 9.2% over fiscal year 2010-11. For the last two fiscal years, San Francisco has seen record high taxable sales growth, exceeding pre-recession revenue levels in fiscal year 2011-12.

The hotel sector, which is a key barometer of San Francisco's travel and tourism industry, saw significant growth in fiscal year 2011-12 over the previous year. Hotel room average occupancy rose to 81.9% for the fiscal year, a significant increase from the prior year and approaching a historical high. Average daily room rates grew significantly in fiscal year 2011-12, jumping 13.9% from $173 per room-night in fiscal year 2010-11 to $197 per room-night.

Key indicators of the City's real estate market were positive during fiscal year 2011-12. Commercial and residential rents and median home prices increased. The average residential rent for one-bedroom apartments in San Francisco rose 18.2% during fiscal year 2011-12, from $2,245 to $2,653. Commercial rents saw an 18.0% increase in fiscal year 2011-12 compared to fiscal year 2010-11. The average median home price in fiscal year 2011-2012 was at $646,646, up 0.7% from the previous fiscal year.

The strength of San Francisco's current recovery is a testament to the strength of its economic fundamentals – the education and creativity of its workforce, its environment, technological base, and cultural amenities. These fundamentals are among the strongest of any city in North America, and are likely to secure the City's continued prosperity into the future.

SAN FRANCISCO GOVERNMENT:

Profile of San Francisco Government

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

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

San Francisco's Budgetary Process

The budget is adopted at the character level of expenditure within each department, and the department level and fund is the legal level of budgetary control. Note 2(c) to the Basic Financial Statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

The City has historically adopted annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The voters adopted amendments to the Charter in November 2009 designed to further strengthen the City's long-range financial planning. As a result of these changes, the City for the first time adopted a two-year budget for all funds for fiscal years 2012-13 and 2013-14 in July 2012. The Charter requires that the City adopt a "rolling" two-year budget each year unless the Board of Supervisors authorizes a "fixed" two-year budget appropriation for a given fund, in which case authorization occurs every two years.

As further required by these amendments, the Board of Supervisors and Mayor approved a five-year financial plan in fiscal year 2010-11, and the City is required to update this document every two years going forward. Lastly, these Charter changes provided a mechanism for the Controller to propose, and the Board to adopt, various binding financial policies which can only be suspended by a supermajority of the Board. The Board approved a set of policies governing the City's budget reserve practices in 2010 and the use of non-recurring revenues and General Fund-backed debt in 2011.

Internal and Budgetary Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City maintains budgetary controls to ensure that legal provisions of the annual budget are in compliance and expenditures do not exceed budgeted amounts. Controls are exercised by integrating the budgetary accounts in fund ledgers for all budgeted funds. An encumbrance system is also used to account for purchase orders and other contractual commitments. Encumbered balances of appropriations at year-end are reported as assigned fund balance and are not reappropriated in the following year's budget.

Cash Management

The City's pooled deposits and investments are invested pursuant to policy established by the Treasurer working with the City's Treasury Oversight Committee. The City's investment policy seeks the preservation of capital, liquidity and a market rate of return, in that order. The policy addresses the safekeeping and custody practices with financial institutions in which the City deposits funds, types of investments permitted, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The earned income yield of fiscal year 2011-12 was 1.15%. The former Redevelopment Agency's cash and investments that were not invested with fiscal agents were transferred to an account with the Treasurer and separately managed from the Pool. As of June 30, 2012, these assets remain in the separately managed account.

Risk Management

With certain exceptions, it is the policy of the City not to purchase commercial insurance against property or liability risk. 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 and supplemental appropriations. The City maintains limited coverage for certain facilities, primarily property of San Francisco International Airport, Port of San Francisco, Municipal Transportation Agency, Hetch Hetchy, Water Department, and art at City-owned museums. Additionally, various types of liability insurance are maintained by the City for the Port and the Airport. Claims payment history (experience) and payroll costs (exposure) are considered when calculating the claims liabilities and workers' compensation outstanding liabilities for each department. The City's insurance/self-insurance program is reviewed annually in the budget process. The claims liabilities and workers' compensation liabilities are reported on the financial statements. They have been actuarially determined and include an estimate of incurred but not reported losses.

Pension Trust Fund Operations

The City has a defined benefit retirement plan in which a substantial majority of full-time employees participate. The plan's most recent actuarial calculations, as of July 1st, 2011, estimate the plan is 87.7% funded, down from 91.1% as of that date in 2010. This decrease is primarily due to increased benefit liability as a result of benefits formula improvements for some Miscellaneous Plan Members and cost-of-living adjustments for certain retirement members under Proposition B, which was approved by City voters in 2008. The results of the July 1, 2011 actuarial valuation also reflect the impact of recent wide fluctuations in financial markets on the value of plan assets. Member contributions to the plan increased 9.0% from the prior year, and plan deductions increased 8.6%.

The City's retiree health benefit liability has been calculated at $4.42 billion as of July 1, 2010, just slightly higher than the $4.36 billion previously reported as of July 1, 2008. In 2009, the City and employees began to pre-fund prospective obligations through contributions of 3% of salary for employees hired on or after January 10, 2009. These contributions are held in an irrevocable trust, the Retiree Health Care Trust Fund. Beginning July 1, 2016, employees hired before January 10, 2009 will also start contributing to the Trust Fund with an employer match, starting at a combined 0.5% of salary, and rising to 2% of salary on July 1, 2019. As of June 30, 2012, the Trust Fund held $18 million, more than double the prior year-end level of $8.5 million. No withdrawals are permitted from the Trust Fund before January 1, 2020. Given increasing pay-as-you-go and prefunding contributions and reductions in the benefit level for recently-hired employees, the City expects to fund the Annual Required Contribution (ARC) by fiscal year 2019-20.

General Fund Financial Position Highlights

Strong revenue growth and the implementation of new reserves policies have caused General Fund rainy day and budget stabilization reserves to rebound to $108 million from their low of $40 million as of June 30, 2010. This reserve level is close to the pre-recession peak of $118 million as of 2007 and 2008.

Total GAAP-basis fund balance, which includes funds reserved for continuing appropriations and reserves, ended fiscal year 2011-12 at $456 million, up $128 million from the prior year, though still below the prior peak of $541 million as of June 30, 2007.

The General Fund's cash position also reflects a strong improvement in fiscal year 2011-12, rising to a new year-end peak of $530 million, up $144 million from June 30, 2011 and well above the prior peak of $490 million as of June 30, 2007.

Key Government Initiatives

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

Improving the City's Public Transportation Systems

San Francisco is ideally situated to serve the Bay Area's need to rapidly bring a large numbers of workers into a transit-accessible employment center and efficiently navigate the dense City on foot, mass transit, taxi or bicycle.

Plans for a multi-modal transit hub located in the City's core – the Transbay Transit Center – are targeted to meet this regional need. The center is designed to provide expanded bus, commuter train, and ultimately high-speed rail connections into the City from within the region and state, and to provide pedestrian connections to nearby intracity subway, surface rail, and bus services within the City. The former terminal at the site has been demolished, with completion of the new center targeted for fiscal year 2016-17. The $1.6 billion transit center is funded through a host of revenue sources, including federal stimulus funding, tax increment and other revenues generated from planned dense, mixed-use development adjacent to the site.

The City has begun preliminary construction work on the Central Subway project, the second phase of a program designed to create a light-rail line running from Chinatown, under the heart of downtown, and connecting to the most-recent extension of the light-rail system to the Southeast portion of the City. The subway will connect to Bay Area Rapid Transit (BART) and Caltrain, the region's two largest regional commuter rail services. The Central Subway project, with an estimated budget of $1.6 billion and a targeted completion date of 2018, is estimated to provide approximately 35,000 daily boardings at four stations along the new 1.7 mile line. Once completed, the project will reduce travel times and congestion along some of the most congested vehicular and public transit routes in California.

The City is also implementing a street repair and improvement program, funded with a $248 million general obligation bond, state and local revenue sources. Under this program, 2,540 blocks will be repaved or sealed, 1,900 curb ramps for disabled access will be constructed and over 125,000 square feet of public sidewalk will be repaired. In commercial corridors, and along busy arterials, the program will allow the City to build complete streets that enhance pedestrian and bicycle safety and enhance the vibrancy of urban neighborhoods. The bond also provides funds to rehabilitate existing traffic signal infrastructure and allow transit signal priority along key transit routes, improving transit efficiency and relieving traffic congestion. Planning efforts are underway to identify longer-term revenue sources to extend the program.

The City completed a $383 million renovation of Terminal 2 at San Francisco International Airport (SFO) in fiscal year 2010-11, and has an approved capital plan of over $700 million over the next five years, which includes the planned work on runway safety improvements, a new air traffic control tower, and renovations to Terminal 3. Additional long-term capital projects that are in the early review and planning stages include planned improvements to Terminal 1 and various boarding areas with a total cost likely in excess of $1 billion and anticipated phased completion dates through 2023. These projects are necessitated by the continued growth in passenger volumes at SFO, which accounts for 97% of international air travel and 71% of all air travel into the Bay Area.

Continuing Critical Infrastructure Upgrades for Water, Power, and Sewer Services

The City is more than half-way complete with a $4.6 billion program to upgrade the City's local and regional water system, known as the Water System Improvement Program (WSIP). The WSIP delivers capital improvements that enhance the system's ability to provide reliable, affordable, high-quality drinking water to the system's wholesale and regional retail customers in Alameda, Santa Clara and San Mateo counties, collectively serving some 1.8 million people outside of San Francisco, as well as another 800,000 retail customers in San Francisco. The program is structured to cost effectively meet water quality requirements, improve seismic and delivery reliability, and meet long-term water supply objectives. Construction is completed on 74 of 81 projects, with some new facilities already in operation. The WSIP is projected to be fully completed by the middle of 2016.

The Public Utilities Commission endorsed a phased Sewer System Improvement Program (SSIP), a $6.9 billion dollar program, after an extensive planning process, which included 18 months of public workshops. The SSIP will upgrade to the City's wastewater system, a system predominantly built out over the past century. Although significant investment occurred in the mid 1970s through the mid 1990s to comply with the Clean Water Act, today many of the existing facilities are in need of upgrade and major improvement to prepare San Francisco for the future. The sewer system includes nearly 1,000 miles of collection and transmission mains, four treatment plants, a solids handling system, and major force mains and interceptors.

Hetch Hetchy Power completed the installation of two additional municipal solar arrays at a Municipal Railway maintenance yard and Chinatown Public Health Center, for an additional 164 MWh of clean, solar energy. Hetch Hetchy Water is in the fifth year of a 20-year rehabilitation program for its aging reservoirs, powerhouses, switchyards and pipelines and tunnels. Funding for the program is $14.2 million and $14.8 million in fiscal years 2011-12 and 2012-13, respectively.

Expanding Access to Healthcare

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

In 2007, the City passed the Health Care Security Ordinance, which increases access to healthcare for uninsured adult San Francisco residents through the Healthy San Francisco Program, and creates a mandate for many businesses in San Francisco to make health care expenditures on behalf of their employees. By the end of fiscal year 2011-12, nearly 47,000 uninsured adult residents were enrolled in Healthy San Francisco, or approximately 73% of the City's estimated adult uninsured population. At the end of calendar year 2011, 3,652 businesses and nonprofit organizations employing over 220,000 persons had made $1.19 billion in health care expenditures.

During this past fiscal year, the City began preparation for implementation of the Affordable Care Act. It launched SF PATH, a federally-supported Low Income Health Program, designed to transition uninsured adults into either Medi-Cal or the California Health Benefits Exchange in January 2014. By the end of fiscal year 2011-12, over 10,000 San Franciscans were enrolled in the program.

Amidst these changes, the City is on schedule to replace and modernize the City's two public hospitals. The voters approved a general obligation bond measure to fund the replacement of San Francisco General Hospital in November 2008. This $887 million project is required given changes to state law governing seismic requirements for hospitals. It will replace the current facility with a new nine-story building on the existing hospital campus. The hospital is the only trauma center in San Francisco, and also acts as the safety net hospital for our residents. Construction of the project is underway, with completion expected in fiscal year 2014-15. This project follows substantial completion of the reconstruction of the City's skilled nursing facility, Laguna Honda Hospital, in fiscal year 2011-12.

Modernizing the City's Parks and Libraries

San Francisco voters have approved a number of bond measures to fund capital improvements to the City's parks and libraries during the past decade, including the most recent approval in November 2012 of a $195 million general obligation bond for improvements to neighborhood parks. This most-recent parks improvement measure includes funds to improve 15 neighborhood parks and renovations to the parks' support infrastructure.

A comprehensive capital improvement program intended to renovate the City's branch library system is nearly complete, with planned improvements in 22 of the 24 branch libraries included within the capital program now finished. The $187 million program, funded with a mix of general obligation and lease-revenue bonds, focuses on seismic safety, accessibility, and modernization of facilities for current uses. Final completion of the improvement program is scheduled by fiscal year 2013-14. The 2012 San Francisco Clean and Safe Neighborhood Parks bond builds upon over $300 million worth of Park capital projects completed over the past decade.

Planning for the City's Growth

San Francisco's economic recovery has stimulated the demand for new residential and commercial space. After years of planning, development accelerated during fiscal year 2011-12 in several areas of the city where new growth has been planned. At the end of the fiscal year, over 43,000 housing units and 14 million square feet of commercial office space was in the planning or construction stages. 4,220 housing units were under construction, along with 830,000 square feet of commercial space. In recent years the City has completed major area planning efforts in the Eastern Neighborhoods, Market-Octavia, and Park Merced areas, as well as large-scale redevelopment projects in Hunters Point, Treasure Island, and the Transbay Transit Center area. While private construction slowed in San Francisco during the recession, the activity seen in the last fiscal year equals or surpasses what was seen during the previous upswing in the business cycle.

OTHER INFORMATION:

Independent Audit

The City's Charter requires an annual audit of the Controller's records. These records, represented in the basic financial statements included in the CAFR have been audited by the nationally recognized certified public accounting firm, Macias Gini & O'Connell LLP. The various enterprise funds, the Health Service System, the Employees' Retirement System, the San Francisco County Transportation Authority, the San Francisco Finance Corporation, the former Redevelopment Agency through January 31, 2012 and the Successor Agency to the San Francisco Redevelopment Agency from February 1, 2012, have been separately audited. The Independent Auditor's Report on our current year's financial statements is presented in the Financial Section.

Award for Financial Reporting

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, 2011. This was the 30th consecutive year, beginning with the fiscal year ended June 30, 1982, that the City has achieved this prestigious award. A Certificate of Achievement is valid for a period of one year only. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

Acknowledgements

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

Respectfully submitted,

Ben Rosenfield
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and County of San Francisco, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

President

Executive Director

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CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials

As of June 30, 2012

ELECTED OFFICIALS

Mayor	Edwin M. Lee
Board of Supervisors:	
President	David Chiu
Supervisor	Eric L. Mar
Supervisor	Mark Farrell
Supervisor	Carmen Chu
Supervisor	Christina Olague
Supervisor	Jane Kim
Supervisor	Sean Elsbernd
Supervisor	Scott Wiener
Supervisor	David Campos
Supervisor	Malia Cohen
Supervisor	John Avalos
Supervisor	Phil Ting
Assessor/Recorder	Dennis J. Herrera
City Attorney	George Gascón
District Attorney	Jeff Adachi
Public Defender	Ross Mirkarimi
Sheriff	Vicki Hennessy (Acting)
Superior Courts	
Presiding Judge	Judge Katherine Feinstein
Treasurer/Tax Collector	José Cisneros

APPOINTED OFFICIALS

City Administrator	Naomi Kelly
Controller	Benjamin Rosenfield

DEPARTMENT DIRECTORS/ADMINISTRATORS

Airport	John L. Martin
Appeals Board	Cynthia Goldstein
Arts Commission	Tom DeCaigny
Asian Art Museum	Jay Xu
Board of Supervisors	Angela Calvillo
Assessment Appeals Board	Dawn Duran
County Transportation Authority	José Luis Moscovich
Building Inspection	Vivian Day
California Academy of Sciences	Gregory C. Farrington, Ph.D.
Child Support Services	Karen M. Roye
Children, Youth and Their Families	Maria Su
Civil Service	Anita Sanchez
Economic and Workforce Development	Jennifer Matz
Elections	John Arntz
Emergency Management	Anne Kronenberg
Entertainment	Jocelyn Kane
Environment	Melanie Nutter
Ethics	John St. Croix
Fine Arts Museums	Michelle Gutierrez (Acting)
Fire	Joanne Hayes-White

City and County of San Francisco Organization Chart

(As of June 30, 2012)

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

CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials
As of June 30, 2012

DEPARTMENT DIRECTORS/ADMINISTRATORS (Continued)

General Services Agency	
Animal Care and Control	Rebecca Katz
Convention Facilities Management	John Noguchi
County Clerk	Karen Hong Yee
Medical Examiner	Amy P. Hart, M.D.
Public Works	Mohammed Nuru
Purchaser/Contract Administration	Jaci Fong
Real Estate	John Updike (Acting)
Department of Technology	Jon Walton (Acting)
Health Service System	Catherine Dodd
Human Resources	Micki Callahan
Human Rights	Theresa Sparks
Human Services	Trent Rhorer
Aging and Adult Services	Anne Hinton
Juvenile Probation	William P. Siffermann
Law Library Board of Trustees	Marcia Bell
Library	Luis Herrera
Municipal Transportation Agency	Ed Reiskin
Planning	John Rahaim
Police	Greg Suhr
Office of Citizen Complaints	Joyce M. Hicks
Port	Monique Moyer
Public Health	Barbara A. Garcia
Public Utilities	Edward Harrington
Recreation and Park	Phil Ginsburg
Residential Rent Board	Delene Wolf
Retirement System	Jay Huish
Small Business	Regina Dick-Endrizzi
Status of Women	Emily Murase
Successor Agency to the Redevelopment Agency	Tiffany Bohee
Superior Court	T. Michael Yuen
Adult Probation	Wendy S. Still
War Memorial	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNIT

Treasure Island Development Authority	Mirian Saez

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FINANCIAL SECTION

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

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MGO Certified Public Accountants.

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Walnut Creek, CA 94596
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Sacramento
Oakland
LA/Century City
Newport Beach
San Diego
Seattle

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, which collectively represent the following percentages of assets and deferred outflows, net assets/fund balances and revenues/additions of the following opinion units as of and for the year ended June 30, 2012.

Opinion Unit	Assets and Deferred Outflows	Net Assets/ Fund Balances	Revenues/ Additions
Business-type activities	91.5%	86.8%	70.4%
Aggregate remaining fund information	0.8%	0.4%	14.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2011 basic financial statements and, in our report dated November 28, 2011, 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 previously 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, 2012, 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 1 to the basic financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the Successor Agency to the Redevelopment Agency of the City and County of San Francisco became responsible for overseeing the dissolution process and the wind down of redevelopment activities.

As discussed in Note 17(c) to the basic financial statements, the City and the Successor Agency to the Redevelopment Agency of the City and County of San Francisco is in the process of resolving its disagreements with the conclusions rendered by the State Department of Finance on the amounts due to taxing entities from the City's Low and Moderate Income Housing Assets fund in the amount of $106.9 million. Due to the uncertainties surrounding the results of the State's evaluation, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.

The financial statements include partial or summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2011, from which such partial or summarized information was derived.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 8, 2013

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited)
Year ended June 30, 2012

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2010-11 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2011-12 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately $6.95 billion (net assets). Of this balance, $6.46 billion represents the City's investment in capital assets net of related debt and $902.1 million represents restricted net assets. This is offset by a deficit in unrestricted net assets of $410.2 million. The City's total net assets increased by $648.5 million or 10.3 percent over the previous fiscal year. Of this amount, total invested in capital assets net of related debt and restricted net assets increased by $465.5 million or 7.8 percent and $232.7 million or 34.8 percent, respectively, and were offset by $49.7 million or 13.8% decrease in unrestricted net assets.

The City's governmental funds reported total revenues of $4.26 billion; a $152.1 million or 3.7 percent increase over the prior year. Within this, revenues from other local taxes, business taxes, hotel room tax, fines, forfeitures and penalties, sale and use tax and interest and investment income grew by approximately $102.6 million, $45.9 million, $29.6 million, $18.3 million, $16.8 million and $14.3 million, respectively. At the same time, there was a decline in revenues from federal intergovernmental grants, property taxes, and other revenue for a total of $104.8 million. Governmental funds expenditures totaled $4.06 billion for this period, a $281.0 million or 7.4 percent increase, reflecting increases in demand for governmental services of $201.3 million, debt service payments of $24.4 million and capital outlay of $55.3 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to $1.54 billion, an increase of $409.5 million or 36.3 percent from prior year, primarily due to a strong growth in most revenues over a moderate increase of expenditure and other financing uses this year over last year and an extraordinary gain of $197.3 million recognized as a result of the dissolution of the former Redevelopment Agency as discussed further below.

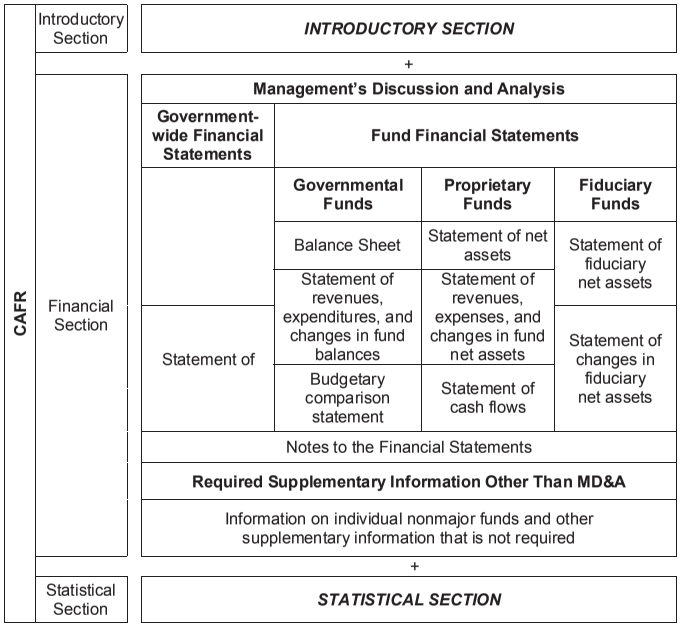
The City's total long-term liabilities, including all bonds, loans, commercial paper and capital leases increased by $1.40 billion during this fiscal year. The City issued a total of $3.27 billion in debt this year. Of this amount, a total of $331.0 million in general obligation bonds were issued for improvements for earthquake safety and emergency response projects, clean and safe neighborhood park projects, road repaving and street safety projects and an additional drawdown of $4.3 million of general obligation bonds for the seismic safety loan program for privately-owned buildings within the City. The City also issued $9.8 million in equipment lease revenues bonds, $86.5 million refunding certificates of participation, $42.8 million in certificates of participation for multiple capital projects and $339.5 million general obligation refunding bonds to take advantage of the lower interest rates. The San Francisco International Airport issued a total of $1.02 billion revenue bonds and refunding revenue bonds to retire outstanding commercial paper notes and certain outstanding fixed rate bonds. The San Francisco Water Enterprise issued a total of $1.42 billion in revenue bonds to provide new money for capital projects of the massive Water System Improvement Program, to refund a portion of the outstanding water revenue bonds and litigation costs. Hetch Hetchy Water and Power Enterprise issued $14.9 million in clean renewable energy bonds and qualified energy conservation bonds. The balance of commercial paper issued to fund new capital projects or to refinance matured commercial paper also increased by $63.8 million this fiscal year. Of this increase, $29.3 million was for governmental activities and $34.5 million was for business-type activities.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. The City's Board of Supervisors elected to become the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency), effective February 1, 2012. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported as a Private Purpose Trust. In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. The City's Board of Supervisors also elected to retain the housing assets and functions, rights, powers, duties and obligations previously performed by the former Agency, which were placed in a new Special Revenue Fund, the Low and Moderate Income Housing Asset Fund pursuant to the Redevelopment Dissolution Law. On the statement of activities, the City and former Agency recorded extraordinary gains of $323.1 million and $364.0 million, respectively, and the Successor Agency recorded an extraordinary loss of $687.1 million on the statement of changes in fiduciary net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public works,

transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general City responsibilities. The business-type activities of the City include an airport, port, public transportation systems (including parking), water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and a produce market.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, the San Francisco Redevelopment Agency, and a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. Pursuant to Redevelopment Dissolution Law, the Redevelopment Agency was dissolved by operation of law effective February 1, 2012 and financial activities are reported for the seven-month period ended January 31, 2012. The Successor Agency is a component unit, which is reported in fiduciary funds beginning on February 1, 2012. 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 and the constraints for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

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

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

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

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), Port of San Francisco (Port), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency (MTA), Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the San Francisco Wastewater Enterprise (Wastewater), all of which are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary funds 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, retiree's health care, the Successor Agency to the San Francisco Redevelopment Agency, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2012 (in thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Assets and deferred outflows:						
Current and other assets	$2,850,238	$2,288,417	$4,681,192	$3,968,358	$7,531,430	$6,256,775
Capital assets	3,688,246	3,314,450	11,880,773	10,936,266	15,569,019	14,250,716
Deferred outflows	-	-	98,979	63,382	98,979	63,382
Total assets and deferred outflows	6,538,484	5,602,867	16,660,944	14,968,006	23,199,428	20,570,873
Liabilities:						
Current liabilities	1,195,565	1,071,868	1,608,865	1,150,610	2,804,430	2,222,478
Noncurrent liabilities	3,422,909	3,220,720	10,020,813	8,824,922	13,443,722	12,045,642
Total liabilities	4,618,474	4,292,588	11,629,678	9,975,532	16,248,152	14,268,120
Net assets:						
Invested in capital assets, net of related debt *	2,199,316	1,910,341	4,519,090	4,481,404	6,459,434	5,993,892
Restricted *	675,163	446,799	249,434	242,742	902,057	669,340
Unrestricted (deficit) *	(954,469)	(1,046,861)	262,742	268,328	(410,215)	(360,479)
Total net assets	$1,920,010	$1,310,279	$5,031,266	$4,992,474	$6,951,276	$6,302,753

* See note 2(k) to the basic financial statements.

Analysis of Net Assets

Current and other assets increased by $1.27 billion of which $561.8 million in governmental activities and $712.8 million in business-type activities. Governmental activities increases reflect the overall operating results of the year ended 2011-12 and the business-type activities increases reflect increased receipts from capital grants and contributions and proceeds from bond issuances as discussed in the analysis of changes in net assets.

Net assets may serve as a useful indicator of the government's financial position. As noted earlier, at the end of fiscal year 2011-12, the City's total net assets exceeded liabilities by $6.95 billion.

The largest portion of the net assets reflects the City's $6.46 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 92.9 percent of the City's total net assets, a 7.8 percent increase over the prior year that is largely due to growth in net capital assets in the governmental activities from the addition of former Redevelopment Agency capital assets in the amount of $124.5 million and increases in the following business-type activities: MTA, Wastewater, Port, Hetch Hetchy, General Hospital and the San Francisco Market Corporation. This was partially offset by the decreases in Airport, Water, and Laguna Honda. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the outstanding debt must come from other sources since the capital assets themselves cannot be liquated to pay that liability.

Another portion of the City's net assets, $902.1 million or 13.0 percent represents restricted resources that are subject to external limitations regarding their use. The governmental activities have a $954.5 million deficit in the unrestricted net assets, due largely to transfers to business-type activities and the recognition of other postemployment benefit expense. This deficit also includes $218.5 million of long-

term bonds issued to fund the Laguna Honda Hospital rebuilt project, certain park facilities projects at the Port, improvement projects for reliable emergency water supply for the Water Enterprise and road paving and street safety in MTA (see Note 2(k) to the basic financial statements).

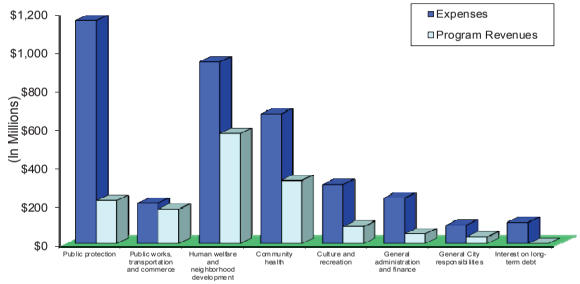
Changes in Net Assets
Year Ended June 30, 2012 (in thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 435,207	$ 428,443	$ 2,552,553	$ 2,399,552	$ 2,987,760	$ 2,827,995
Operating grants and contributions	998,701	1,040,116	200,318	204,153	1,199,019	1,244,269
Capital grants and contributions	41,174	57,719	173,975	213,364	215,149	271,083
General revenues:						
Property taxes	1,355,855	1,340,590	-	-	1,355,855	1,340,590
Business taxes	437,678	391,779	-	-	437,678	391,779
Sales and use tax	198,236	181,474	-	-	198,236	181,474
Hotel room tax	239,567	209,962	-	-	239,567	209,962
Utility users tax	91,676	91,683	-	-	91,676	91,683
Other local taxes	353,746	251,285	-	-	353,746	251,285
Interest and investment income	31,453	17,645	82,533	42,299	113,986	59,944
Other	91,236	58,524	288,584	214,993	379,820	273,517
Total revenues	4,274,529	4,069,220	3,297,963	3,074,361	7,572,492	7,143,581
Expenses						
Public protection	1,158,618	1,099,791	-	-	1,158,618	1,099,791
Public works, transportation and commerce	210,415	239,230		-	210,415	239,230
Human welfare and neighborhood development	942,523	885,194	-	-	942,523	885,194
Community health	673,905	613,883	-	-	673,905	613,883
Culture and recreation	307,269	318,083	-	-	307,269	318,083
General administration and finance	237,818	224,027	-	-	237,818	224,027
General City responsibilities	96,147	84,444		-	96,147	84,444
Unallocated Interest on long-term debt	110,145	110,142	-	-	110,145	110,142
Airport	-	-	746,610	690,875	746,610	690,875
Transportation	-	-	959,088	905,218	959,088	905,218
Port	-	-	72,307	68,661	72,307	68,661
Water	-	-	431,248	362,802	431,248	362,802
Power	-	-	130,709	119,282	130,709	119,282
Hospitals	-	-	954,566	885,294	954,566	885,294
Sewer	-	-	214,593	201,629	214,593	201,629
Market	-	-	1,138	1,152	1,138	1,152
Total expenses	3,736,840	3,574,794	3,510,259	3,234,913	7,247,099	6,809,707
Increase/(decrease) in net assets before transfers	537,689	494,426	(212,296)	(160,552)	325,393	333,874
Transfers	(251,088)	(337,132)	251,088	337,132	-	-
Extraordinary gain from dissolution of the Redevelopment agency	323,130	-	-	-	323,130	-
Change in net assets	609,731	157,294	38,792	176,580	648,523	333,874
Net assets at beginning of year	1,310,279	1,152,985	4,992,474	4,815,894	6,302,753	5,968,879
Net assets at end of year	$ 1,920,010	$ 1,310,279	$ 5,031,266	$ 4,992,474	$ 6,951,276	$ 6,302,753

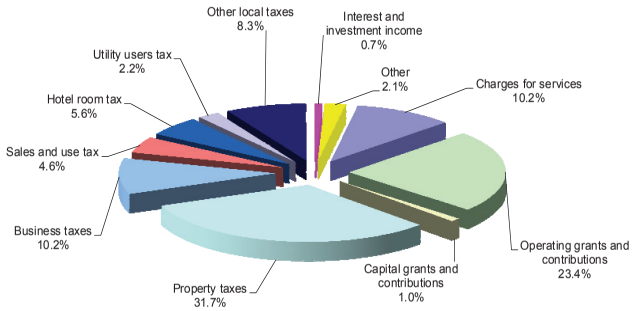
Analysis of Changes in Net Assets

The City's total net assets increased by $648.5 million during fiscal year 2011-12, the second consecutive increase following three years of decline. The governmental activities net assets increased $609.7 million and the business-type activities increased $38.8 million. The City's governmental activities experienced a $205.3 million or 5.1 percent growth in total revenues reflecting increases in nearly all of the general City revenues. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities increased the City's total net assets by approximately $609.7 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were $4.27 billion, a $205.3 million or 5.1 percent increase over the prior year. For the same period, expenses totaled $3.74 billion before transfers of $251.1 million and an extraordinary gain of $323.1 million, resulting in a total net assets increase of $609.7 million by June 30, 2012.

Property tax revenues increased by $15.3 million or 1.1 percent. Other local tax revenues grew by $102.5 million. Of this, $98.4 million were from Property Transfer Tax. This growth was due in large part to recent tax rate increases. Proposition N, passed in November 2008, increased the transfer tax rate from 0.75 percent to 1.5 percent for all transactions valued over $5 million. A second Proposition N, passed in

November 2010, increased the rate from 1.5 percent to 2.0 percent for transactions valued between $5 million and $10 million, and from 1.5 percent to 2.5 percent for transactions valued over $10 million. This rate increase coupled with a rise in the number of commercial transactions over $5 million significantly contributed to revenue growth. An increase in parking tax revenue by approximately $3.9 million made up the remaining growth in the other local taxes.

Revenues from business, hotel, and sales and use taxes totaled $875.5 million, a growth of $92.3 million over the prior year. Business taxes grew by $45.9 million due to an increase in average weekly wages in San Francisco, stronger growth in non-exempt business and improved taxpayer compliance with the implementation of online filing and payments. Hotel room tax increased by $29.6 million due to increased occupancy, and a rise in average daily room rates from $173 per room-night to $197 per room-night. Sales and Use Tax also increased by $16.8 million. The increases reflected strong sales growth across virtually every economic segment, resulting in all-time peak sales in many retail categories. Increased visitor spending contributed to strong growth in the restaurant, apparel and general retail sales categories during the fiscal year.

Operating and capital grants and contributions decreased $58.0 million. This was primarily due to a significant decrease in Federal and State funding for the fiscal year 2011-2012 concentrated in public works, which declined by $44.9 million, and human welfare, which declined by $18.5 million. There were also declines in community health and general city responsibilities, all declines were offset by an increase in public protection.

Total charges for services and other revenues increased $39.5 million, or 8.1 percent. This was primarily due to an increase of $15.4 million in tobacco settlement revenue, which is used to offset the cost of debt service on the Laguna Honda Hospital replacement project as directed by Proposition A of 1999. There were also increases in building permit revenue of $10.0 million, and community impact fee revenue of $3.3 million. In addition, there was a $6.1 million reimbursement of America's Cup costs incurred by the City from the America's Cup Organizing Committee, a $1.5 million increase in services to other government agencies and $0.5 million in developer exactions, offset by a one-time sale of Fire Department property on Tennessee Street for $1.3 million in fiscal year 2010-11.

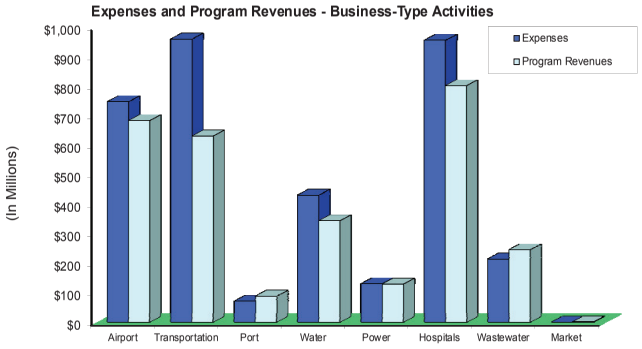
Interest and investment income revenue increased by $13.8 million, or 78.3 percent, primarily due to a much higher cash and investment balance due to increased governmental revenues and a slightly higher interest rate on the City's pooled investments from an estimated gross 1.24 percent in the prior year to 1.32 percent in the current year.

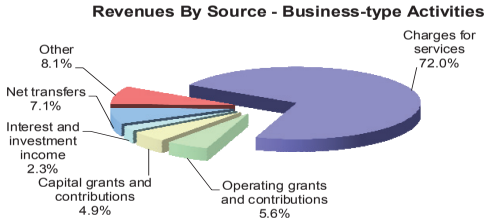
Net transfers from the governmental activities to business-type activities were $251.1 million, a 25.5 percent or $86.0 million decrease from the prior fiscal year, of which $407.6 represented net cash transfers out to business-type activities as discussed in note 14 to the basic financial statements offset with a $156.5 million transfer of the outstanding balance of the certificates of participation to Laguna Honda Hospital along with the revenue stream dedicated to repay this obligation. This obligation was issued for the purpose of rebuilding and improving the Laguna Honda Hospital.

The moderate increase of total governmental expenses of $162.1 million or 4.5 percent was primarily due to increases in demand for the government's services in almost all functional services by $201.7 million, which was partly offset by the decrease of expenses in public works, transportation and commerce, and culture and recreation service functions by $39.6 million.

The City recorded an extraordinary gain due to the dissolution of the Redevelopment Agency of $323.1 million, of which $196.8 million was current assets, $124.5 million was capital assets, and the remainder of $1.8 million was other assets less other liabilities.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As shown, public protection is the largest function (31.0 percent), followed by human welfare and neighborhood development (25.2 percent) and community health (18.0 percent). General revenues are not shown by program or function because they are used to support activities citywide. The distribution of these revenues shows property tax (31.7 percent) as the single largest funding source, followed by operating grants and contributions (23.4 percent), charges for services (10.2 percent), and business taxes (10.2 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences.





Business-type activities increased the City's net assets by $38.8 million. Key factors contributing to this increase are:

- The San Francisco International Airport's net assets decreased slightly overall by $0.4 million or 0.1 percent during the current year to a total of $290.6 million. Aviation revenues, concession revenues, parking revenues and net sales and services revenues increased by $61.3 million from the prior year due to improved passenger traffic. Total operating revenues of $668.7 million were offset by operating expenses of $543.1 million for $125.6 million in net operating income for the year. Lower capital contributions and higher transfers out were responsible for the overall small decline in net assets for the airport.

- The City's Water Enterprise is the third largest municipal water agency in California. For the fiscal year 2011-12, it reported net assets of $358.5 million, a decrease of $37.8 million or 9.5 percent from the prior year. While the Water Enterprise had $37.5 million of operating income for the year, the primary reasons for the decrease were an increase in non-operating expense of $7.5 million, and a reduction in capital contributions of $18.3 million, which was a one-time contribution received in fiscal year 2010-11 from the San Francisco Fire Department. The contribution consisted of assets and bond proceeds intended for improvements to the Auxiliary Water Supply System.
- Hetch Hetchy Water and Power's net assets at fiscal year-end were $512.7 million, an increase of $16.7 million, or 3.4 percent over the prior year. The enterprise is composed of two segments: Hetch Hetchy Water upcountry operations and water system and Hetch Hetchy Power, also referred to as the Power Enterprise. A number of the facilities are joint assets and are used for both water and power operations. Hetch Hetchy Power's net assets increased by $6.3 million during the year, while Hetch Hetchy Water's net assets increased by $10.4 million. Hetch Hetchy Water's increase to net assets of $10.4 million was aided by a transfer of $14.1 million from the City's Water Enterprise to finance improvements of certain upcountry water storage and transmission facilities. The transfer was offset by a loss of $4.5 million from operations, net of $0.8 million of net nonoperating revenue.
- The Municipal Transportation Agency (MTA) had net assets of $2.10 billion at year-end, which represents an increase of $134.6 million, or 6.9 percent. The increase is attributable to improvements in all revenue categories. The largest portion of the MTA's net assets reflects its investment in capital assets, which totaled $2.12 billion. The remainder of the MTA's net assets is comprised of restricted net assets, including deposits and investments with the City, and receivables. The MTA's unrestricted net asset balance is $6.5 million, which is a $47.8 million improvement over the prior year's unrestricted net deficit of $41.3 million.
- General Hospital, the City's acute care hospital, ended the fiscal year with a net deficit of $90.7 million compared to a deficit of $70.9 million the prior year, which was an increase in net deficit of $19.8 million or 27.9 percent. Although the Hospital had an overall increase in operating revenues of approximately $25.0 million, primarily attributable to increased gross patient service revenue, those revenues were exceeded by rising operating expenses of $52.8 million caused by increases in costs for personnel and contractual services. Non-operating activity showed decreases in grant revenues of $4.5 million, and increases in net transfers in of $40.8 million. Transfers in and out will vary from year to year based upon the City's budget.
- The City's Wastewater Enterprise had total net assets of $1.10 billion at June 30, 2012, an increase from the prior year of $39.1 million, or 3.7 percent. This increase in net assets was due primarily to $48.3 million of net income from operations. Although operating revenues increased, Wastewater also experienced increases in operating expenses such as salaries, fringes and depreciation. Other activities included net nonoperating losses of $9.2 million, which were lower than nonoperating losses in fiscal year 2010-11 by $4.9 million.
- The Port's net assets increased by $26.0 million, or 8.4 percent, yielding total net assets of $335.5 million at the end of fiscal year 2011-12. The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. The Port's increase to net assets during the current year was comprised of $6.7 million of income from operations, $3.0 million of net nonoperating revenues, $6.6 million of capital contributions and net transfers in of $9.7 million. Increases to net operating revenues were due primarily to increases in parking and maritime revenues.
- Net assets for Laguna Honda Hospital, the City's skilled nursing care hospital, decreased $120.2 million, or 22.3 percent this year. The decrease is related to the hospital's assumption of debt for capital activities, which are supported by certificates of participation. The $159.9 million transfer out is partially offset by a transfer in of $40.5 million from the capital and debt service funds, also related to the construction of the new hospital. Laguna Honda Hospital's losses from operations were $85.3 million compared to $58.4 million in fiscal year 2010-11.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of $1.54 billion, an increase of $409.5 million or 36.3 percent over the prior year. Of the total fund balances, $333.4 million is assigned and a negative $119.5 million is unassigned. This totals $213.9 or 13.9 percent of the total fund balances and constitutes the fund balances that are accessible to meet the City's needs. Within these fund balance classifications, the General Fund had an assigned fund balance of $305.4 million. The remainder of the governmental funds fund balances include $20.7 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, $1.22 billion restricted for programs at various levels and $79.3 million committed for other reserves.

The General Fund is the chief operating fund of the City. As a measure of liquidity, both the sum of assigned and unassigned fund balances and total fund balance can be compared to total fund expenditures. As of end of the fiscal year, assigned and unassigned fund balances totaled $322.7 million while total fund balance reached $455.7 million. Combined assigned and unassigned fund balances represent 12.4 percent of total expenditures, while total fund balance represents 17.6 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by $557.6 million before transfers and other items of $429.1 million and an extraordinary loss of $0.8 million due to the dissolution of the Redevelopment Agency resulting total fund balance increased by $127.7 million. Overall, the significant growth in revenues, particularly in real estate property transfer taxes, business taxes and hotel room tax were offset by an increase rate of expenditure growth due to growing demand for services and personnel costs across City functions and new America's Cup project resulted in the substantial fund balance improvement this fiscal year.

In addition to the extraordinary loss recorded in the General Fund due to the dissolution of the Redevelopment Agency, a $198.1 million gain was recorded to Special Revenue Funds for a net extraordinary gain of $197.3 million to the governmental funds.

Proprietary Funds

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

At the end of the current fiscal year, the unrestricted net assets for the proprietary funds were as follows: Airport: $189.6 million, Water Enterprise: $16.4 million, Hetch Hetchy Water and Power: $188.7 million, Wastewater Enterprise: $9.4 million, MTA: $6.5 million, the Port: $41.5 million and Market Corporation: $4.9 million. In addition, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of $145.8 million and $48.4 million, respectively.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands). As seen here, the total net assets for these funds increased by approximately $38.8 million due to current year financial activities. Reasons for this change are discussed in the previous section on the City's business-type activities.

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions and Others	Interfund Transfers, Net	Change In Net Assets
Airport	$ 668,672	$ 543,063	$ 125,609	$ (106,512)	$ 14,538	$ (33,993)	$ (358)
Water	342,101	304,562	37,539	(61,717)	-	(13,585)	(37,763)
Hetch Hetchy	127,309	130,610	(3,301)	5,974	-	14,071	16,744
Municipal Transportation Agency	350,464	956,695	(606,231)	241,264	152,887	346,640	134,560
General Hospital	607,396	735,108	(127,712)	60,366	-	47,548	(19,798)
Wastewater Enterprise	244,155	195,857	48,298	(9,225)	-	(1)	39,072
Port	77,260	70,540	6,720	2,967	6,550	9,732	25,969
Laguna Honda Hospital	133,524	218,818	(85,294)	84,447	-	(119,324)	(120,171)
Market Corporation	1,672	1,138	534	3	-	-	537
Total	$ 2,552,553	$ 3,156,391	$ (603,838)	$ 217,567	$ 173,975	$ 251,088	$ 38,792

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System, Health Service System and Retiree Health Care Trust, and manages the investment of monies held in trust to benefit public service employees. At the end of the current fiscal year, the net assets of the Retirement System, Health Services System and Retiree Health Care Trust combined totaled $15.36 billion, representing a $270 million decrease over the prior year, a 1.7 percent change. This decrease is primarily a result of the net difference between contributions received by the funds and benefit payments made from the funds. The Private Purpose Trust accounts for the Successor Agency, and had a net deficit of $664.2 million at June 30, 2012 caused by the extraordinary loss at its inception from the Redevelopment Agency dissolution. The Investment Trust Fund's net assets were $323.4 million at year's end, compared to $448.4 million at the end of the previous fiscal year. This 27.9 percent decrease represents the excess of distributions to external participants over additions to the funds in the current year.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year.

During the year, actual revenues and other resources were $175.2 million higher than the final budget. The City realized $115.0 million, $45.4 million, $30.5 million and $22.8 million more revenue than budgeted in real property transfer tax, business tax, property taxes and hotel room tax, respectively. These increases were offset by $67.2 million shortfall of actual versus budgeted revenue in other categories, namely, federal grants and subventions, utility user tax, charges for services, other financing sources and other resources.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $124.3 million in expenditure savings. Major factors include:

- $50.3 million savings in the Human Services Agency, due largely to lower than budgeted client assistance, aid payments, non-profit organization services, non-personnel services as well as personnel costs from unfilled Jobs Now program.
- $28.0 million in savings in the Department of Public Health, mainly from lower than budgeted intergovernmental transfer costs to State related to Hospital Fee program and Safety Net Care Pool program, professional services expenditures and material and supplies expenditures.
- $11.1 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2011-12.

- $7.3 million in saving mainly in Treasurer/Tax Collector, Assessor/Recorder, Controller's office, Administrative Services and other departments in the general administration and finance non-personnel services, contingency expenditures and services from other departments .
- The remaining lower than budgeted expenditures are savings from public protection, other City responsibilities and transfers to other funds.

The net effect of substantial revenue increases, savings in expenditures and reduction in reserve balances was a budgetary fund balance available for subsequent year appropriation of $220.3 million at the end of fiscal year 2011-12. The City's fiscal year 2012-13 Adopted Original Budget assumed an available balance of $104.3 million, and $116.0 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2012, increased by $1.32 billion, 9.3 percent, to $15.57 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and intangible assets. Governmental activities contributed $373.8 million or 28.4 percent to this total while business-type activities contributed $944.5 million or 71.6 percent. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 281,858	$ 157,308	$ 201,334	$ 181,013	$ 483,192	$ 338,321
Construction in progress	573,461	365,241	2,179,509	1,805,866	2,752,970	2,171,107
Facilities and Improvement	2,343,122	2,341,201	7,809,111	7,272,410	10,152,233	9,613,611
Machinery and equipment	49,061	53,187	845,936	801,021	894,997	854,208
Infrastructure	402,510	369,919	759,052	783,857	1,161,562	1,153,776
Property held under lease	-	-	5	15	5	15
Intangible assets	38,234	27,594	85,826	92,084	124,060	119,678
Total	$ 3,688,246	$ 3,314,450	$ 11,880,773	$ 10,936,266	$ 15,569,019	$ 14,250,716

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

- Under governmental activities, net capital assets increased by $373.8 million. As a result of the dissolution of the Redevelopment Agency, housing capital assets of $124.5 million were transferred to the City. Other increases were mainly due to construction in progress and completed assets at various branch libraries, park and recreational sites, various street and building improvement projects. Among the various city-wide parks, libraries, public works and traffic signal, bicycle lanes and building improvement projects, the General Hospital Rebuild Project, which is recorded in governmental activities grew by $104.4 million during the fiscal year. $103.9 million in construction in progress was substantially completed and capitalized as facilities and improvement, infrastructure and intangible assets during the fiscal year. Of the completed projects, $3.6 million is for public library improvements, $5.3 million is for various building improvements, $32.0 million is for Moscone Center improvements and $37.6 million is for public works, traffic signal projects and bicycle lane projects, and $23.4 million for various parks and recreation centers such as McCoppin Square, Mission Dolores Playground, South Murphy Windmill and other park and recreation improvement projects. Growth in construction-in-progress projects included park facilities, earthquake safety improvements, Marina West Harbor renovations, library renovations and other public works projects.

- The Water Enterprise's net capital assets increased by $754.3 million or 30.4 percent. Close to $157.3 million, or 20.8 percent, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year capital plan, including the Water System Improvement Program. Major additions to construction work included Bay Division Pipeline Reliability Upgrade, New Irvington Tunnel, 525 Golden Gate Headquarters, and other Water System Improvement Program (WSIP). The total estimated cost for the WSIP is $4.6 billion, including $4.1 billion for capital projects and $0.5 billion for net financing costs. The program is on target to meet an overall completion date of December 2015. During the fiscal year, there was an increase of $590.5 million or 48.3 percent in structures, buildings, and equipment, an increase of $0.6 million in intangible assets of the Customer Care & Billing computer software enhancement. Completed as of June 30, 2012 the Enterprise has incurred $119.1 in construction costs for the 525 Golden Gate Avenue Headquarters project. As of June 30, 2012, the SFPUC's Water Enterprise is midway through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems, known as the Water System Improvement Program (WSIP). The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.

- MTA's net capital assets increased by $86.6 million or 4.3 percent, compared to the previous year, which was attributed to an increase in construction work for new and existing projects offset by an increase in depreciation expense for existing assets. Construction in progress is made up of various transit pedestrian and bike projects. The four projects that have the highest balances on June 30, 2012, are the Central Subway, rail replacement, Islais Creek-Woods Annex and wayside fare collection. The Central Subway Project proceeded with the detail design and construction. This project will link the existing 5.2 mile Phase I T-line, beginning at the CalTrain and 4th Street and king Streets, to BART, Union Square and Chinatown to the north. The project completed utility relocation on Stockton Street and utility vault installations/water tiepins on Geary near Stockton. The MTA received an additional $35.0 million from Federal Transit Administration (FTA) awarded in August 2011 for the second phase of Islais Creek Maintenance Facility Project. Additional funds were received to advance Track, Overhead and Cable Car Rehabilitation Programs as well as Central Control and Communication and Radio Replacement Projects.

- Laguna Honda Hospital's net capital assets increased by $13.0 million or 2.4 percent due primarily to construction in progress on the capital project to rebuild the hospital. The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be able to be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013. As of June 30, 2012, general obligation bonds in the amount of $298 million have been sold to fund the Replacement Project and are reported as a governmental activity and LHH has entered into various purchase contracts totaling approximately $21.9 million that are related to the old building remodel phase of the Replacement Project

- General Hospital's net capital assets increased by $13.6 million or 23.1 percent, primarily due to the increase in construction in progress related to the hospital rebuild project. As of June 30, 2012, general obligation bonds, in the amount of $426.3 million have been sold to fund the hospital rebuild. On August 25, 2012, additional bonds were sold in the amount of $251.1 million. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Project Funds. Upon completion of the new facility, it will be contributed to the SFGH enterprise fund.

- The Wastewater Enterprise net capital assets reported an increase of $93.7 million or 6.5 percent mainly in construction activities. These include the Sunnydale Sewer Improvements, 525 Golden Gate Headquarters Building, Mission/Cesar Chavez Improvements, and other capital projects throughout the system. As of June 30, 2012, the Enterprise has incurred $28.6 million in construction costs for the 525 Golden Gate Avenue Headquarters project. The Commission recently completed a review of the endorsed goals and service levels associated with the Sewer System Improvement Program (SSIP) in August 2012. The estimated costs over the next 20 years are projected to total $6.9 billion, of which Phase 1 totals $2.7 billion and is planned over the next 10 years.

- Hetch Hetchy net capital assets increased by $32.0 million or 10.5 percent during the year, resulting from an increase of $46.3 million in construction in progress offset by transfers of $38.3 million with increases of $25.6 million in facilities, improvements, machinery and equipment, net of depreciation and $1.6 million in capital write-offs.

- The Airport's net capital assets decreased $79.8 million or 2.1 percent largely due to higher depreciation expense with the opening of Terminal 2.

- The Port's net capital assets increased by $30.9 million or 11.7 percent mainly in construction activities that include the Hyde Street Harbor Joint Operations Building, Mission Bay Shoreline for Bayfront Park Project, Port Security Fence Phase 3, and the Energy Efficiency Project.

At the end of the year, the City's business-type activities had approximately $1.40 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $969.3 million, MTA had $188.9 million, Wastewater had $81.9 million, Airport had $33.2 million, Hetch Hetchy had $31.8 million, Port had $72.4 million, Laguna Honda Hospital had $21.9 million and the General Hospital had $1.0 million. In addition, there was approximately $320.8 million reserved for encumbrances in capital project funds for the general government projects.

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

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

Debt Administration

At the end of the current fiscal year, the City had total long-term and commercial paper debt outstanding of $12.37 billion. Of this amount, $1.51 billion is general obligation bonds secured by ad valorem property taxes without limitation as to rate or amount upon all property subject to taxation by the City and $10.86 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial paper notes and capital leases increased by $1.40 billion or 12.8 percent during the fiscal year. The net increase in debt obligations in the governmental activities was $77.9 million primarily due to issuance of new debt. For the business-type activities, the net increase in debt obligations was $1.32 billion due primarily to the issuance of revenue bonds by the San Francisco Water Enterprise for various capital projects.

The business-type activities issued a combined total of $2.44 billion revenue bonds, of which $1.02 billion was issued for refunding and restructuring a portion of the Airport's long term debt and for cash flow savings. The San Francisco Water Enterprise issued a total of $1.42 billion of revenue bonds to refund $155.9 million of outstanding revenue bonds, to reimburse the San Francisco Public Utilities Commission for costs to settle litigation arising out of certain capital projects in benefit to SFPUC's Water Enterprise and to provide new money for the Water System Improvement Program (WSIP) capital projects. Hetch Hetchy Water and Power Enterprise issued $14.9 million in clean renewable energy bonds to finance installation of solar energy equipment on City-owned facilities and fund certain qualified green components of SFPUC's 525 Golden Gate headquarters. The Airport and the San Francisco Water Enterprise issued a total of $34.5 million additional commercial paper notes.

The City issued a total of $674.8 million in general obligation bonds, of which $339.5 million was for refunding bonds issued for economic savings and $331.0 million was issued to fund the City's earthquake safety and emergency response projects, clean and safe neighborhood parks projects, and road repaving and street safety projects. The City also issued $4.3 million in general obligation bonds to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City. The City and County of San Francisco Finance Corporation issued $9.8 million in lease revenue bonds to finance equipment purchases. The City issued $129.3 million in certificates of participation, of which, $86.5 million was issued to refund lease revenue bonds financing the construction of and various improvements to Moscone Convention Center for economic savings and $42.8 million was issued for the construction, installation, repair and renovation of certain access ramps, street improvements and related facilities. An additional loan for $4.4 million was drawn for the renovation of the City's west harbor marina.

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 – $165.42 billion in value as of the close of the fiscal year. As of June 30, 2012, the City had $1.51 billion in authorized, outstanding general obligation bonds, which is equal to approximately 0.87 percent of gross (0.91 percent of net) taxable assessed value of property. As of June 30, 2012, there were an additional $1.08 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.50 percent of gross (1.56 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2012 were:

Moody's Investors Service, Inc.	Aa2
Standard & Poor's	AA
Fitch Ratings	AA-

During the fiscal year, Moody's Investors Service (Moody's) and Fitch Ratings maintained the City's ratings at "Aa2" and "AA-", respectively, with a stable outlook. Standard & Poor's affirmed its rating at "AA" and its negative outlook on all the City's outstanding bonds.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. Moody's, Standard & Poor's and Fitch Ratings affirmed their underlying credit ratings of the Airport of "A+", "A1" and "A+" with Stable Rating Outlooks, respectively. The San Francisco Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard & Poor's, respectively. The San Francisco Wastewater Enterprise carried underlying ratings of "Aa3" from Moody's and "AA-" from Standard & Poor's.

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

Despite the length and severity of the recession that struck the state and the nation in late 2007, San Francisco continued to fare better than the rest of California and continued to show improvement in the economy. The following economic factors were considered in the City's fiscal year 2012-13 budget.

- Average unemployment for fiscal year 2011-12 was 8.0 percent down 1.2 percent from the fiscal year 2010-11. Over the course of fiscal year 2011-12, the San Francisco Metropolitan Division experienced a total employment increase of 4.4 percent.
- Housing prices, industry employment, residential and commercial rent, hotel revenues, and retail sales all showed significant signs of recovery.
- As of March 2012, Financial, Professional and Business, and Information Services sectors grew by approximately 14,600 jobs versus the prior year, a 7.5% increase. This is a significant increase when compared to California, which only saw a 3% increase in these sectors during the same period.
- The hotel sector saw significant growth in fiscal year 2011-12. Hotel room average occupancy rose remarkably to 81.9 percent. Average daily room rates grew substantially by 13.9 percent to $197 per room-night.
- The City's taxable sales have been growing rapidly, with fiscal year 2011-12 sales tax revenue up 9.2 percent over fiscal year 2010-11. Both residential and commercial rents asking price rose in fiscal year 2011-12. However, the average median home price in fiscal year 2011-12 was at $646,646, up 0.7 percent from the previous fiscal year.
- In March 2012, the Controller's Office, Mayor's Budget Office, and Board of Supervisors projected a $170 million General Fund shortfall. This projection assumed current service and staffing levels, and was primarily driven by the significant cuts in the State funding in the FY 2012-13 budget, dissolution of San Francisco Redevelopment Agency and expected increases in employee benefit and other costs.
- The Mayor and Board of Supervisors approved a final FY 2012-13 budget in July 2012, which bridges this General Fund shortfall with a host of departmental expenditure reductions, deferral of projected increased funding for capital and other needs, improved revenue forecasts, the use of a higher than previously projected balance available from the prior year, and other actions.

CITY AND COUNTY OF SAN FRANCISCO

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

San Francisco Water Enterprise
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Chief Financial Officer
525 Golden Gate Avenue
San Francisco, CA 94102

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

Municipal Transportation Agency
SFMTA Finance and Information Technology Services
1 South Van Ness Avenue, 8th Floor
San Francisco, CA 94103

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

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

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

Blended Component Units Financial Statements

San Francisco County Transportation Authority
Deputy Director for Administration and Finance
1455 Market Street, 22nd Floor
San Francisco, CA 94103

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

Other Component Unit Financial Statements

Successor Agency to the
San Francisco Redevelopment Agency
Executive Director
One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelop-ment Agency	Treasure Island Development Authority
ASSETS AND DEFERRED OUTFLOWS					
Assets:					
Current assets:					
Deposits and investments with City Treasury	$ 1,887,358	$ 1,284,156	$ 3,171,514	$ -	$ 4,363
Deposits and investments outside City Treasury	81,258	10,067	91,325	-	-
Receivables (net of allowance for uncollectible amounts of $173,054 for the primary government):					
Property taxes and penalties	55,828	-	55,828	-	-
Other local taxes	228,034	-	228,034	-	-
Federal and state grants and subventions	326,514	94,275	420,789	-	-
Charges for services	59,880	237,630	297,510	-	900
Interest and other	7,739	85,897	93,636	-	3
Due from component units	19,216	-	19,216	-	-
Inventories	-	75,700	75,700	-	-
Deferred charges and other assets	16,926	7,699	24,625	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	137,632	137,632	-	-
Deposits and investments outside City Treasury	61,713	164,044	225,757	-	-
Grants and other receivables	-	12,916	12,916	-	-
Total current assets	2,744,466	2,110,016	4,854,482	-	5,266
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $559,893)	67,130	-	67,130	-	-
Advance to component units	9,725	3,827	13,552	-	-
Deferred charges and other assets	24,101	81,217	105,318	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,746,544	1,746,544	-	-
Deposits and investments outside City Treasury	4,816	713,935	718,751	-	-
Grants and other receivables	-	25,653	25,653	-	-
Capital assets:					
Land and other assets not being depreciated	891,208	2,386,005	3,277,213	-	-
Facilities, infrastructure, and equipment, net of depreciation	2,797,038	9,494,768	12,291,806	-	-
Total capital assets	3,688,246	11,880,773	15,569,019	-	-
Total noncurrent assets	3,794,018	14,451,949	18,245,967	-	-
Total assets	6,538,484	16,561,965	23,100,449	-	5,266
Deferred outflows on derivative instruments	-	98,979	98,979	-	-
Total assets and deferred outflows	$ 6,538,484	$ 16,660,944	$23,199,428	$ -	$ 5,266

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, 2012
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelop-ment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable	$ 261,626	$ 211,620	$ 473,246	$ -	$ 328
Accrued payroll	124,681	100,364	225,045	-	-
Accrued vacation and sick leave pay	76,189	53,308	129,497	-	-
Accrued workers' compensation	41,192	25,230	66,422	-	-
Estimated claims payable	36,793	20,849	57,642	-	-
Bonds, loans, capital leases, and other payables	329,589	582,010	911,599	-	-
Capital lease payable to other governmental agency	1,740	-	1,740	-	.
Accrued interest payable	11,670	45,467	57,137	-	-
Unearned grant and subvention revenues	12,516	-	12,516	-	-
Due to primary government	-	-	-	-	39
Internal balances	1,267	(1,267)	-	-	-
Deferred credits and other liabilities	298,302	325,979	624,281	-	751
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	35,842	35,842	-	-
Accrued interest payable	-	28,837	28,837	-	-
Other	-	180,626	180,626	-	-
Total current liabilities	1,195,565	1,608,865	2,804,430	-	1,118
Noncurrent liabilities:					
Accrued vacation and sick leave pay	73,883	44,880	118,763	-	-
Accrued workers' compensation	185,236	119,226	304,462	-	-
Other postemployment benefits obligation	754,501	552,217	1,306,718	-	-
Estimated claims payable	75,601	36,144	111,745	-	-
Bonds, loans, capital leases, and other payables	2,309,830	9,087,262	11,397,092	-	-
Advance from primary government	-	-	-	-	13,552
Capital lease payable to other governmental agency	20,319	-	20,319	-	-
Deferred credits and other liabilities	3,539	64,225	67,764	-	-
Derivative instruments liabilities	-	116,859	116,859	-	-
Total noncurrent liabilities	3,422,909	10,020,813	13,443,722	-	13,552
Total liabilities	4,618,474	11,629,678	16,248,152	-	14,670
NET ASSETS					
Invested in capital assets, net of related debt, Note 2(k)	2,199,316	4,519,090	6,459,434	-	-
Restricted for:					
Reserve for rainy day	34,109	-	34,109	-	-
Debt service	48,202	53,951	102,153	-	-
Capital projects, Note 2(k)	91,997	176,570	246,027	-	-
Community development	240,771	-	240,771	-	-
Transportation Authority activities	6,705	-	6,705	-	-
Building inspection programs	49,364	-	49,364	-	-
Children and families	53,632	-	53,632	-	-
Culture and recreation	67,051	-	67,051		
Grants	54,630	-	54,630	-	-
Other purposes	28,702	18,913	47,615	-	-
Total restricted	675,163	249,434	902,057	-	-
Unrestricted (deficit), Note 2(k)	(954,469)	262,742	(410,215)	-	(9,404)
Total net assets (deficit)	$ 1,920,010	$ 5,031,266	$ 6,951,276	$ -	$ (9,404)

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, 2012
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units: San Francisco Redevelopment Agency	Component Units: Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$1,158,618	$ 61,412	$ 163,084	$ -	$ (934,122)	$ -	$ (934,122)	$ -	$ -
Public works, transportation and commerce	210,415	93,809	52,947	31,584	(32,075)	-	(32,075)	-	-
Human welfare and neighborhood development	942,523	68,794	502,567	-	(371,162)	-	(371,162)	-	-
Community health	673,905	58,864	266,048	3,056	(345,937)	-	(345,937)	-	-
Culture and recreation	307,269	78,828	3,402	6,534	(218,505)	-	(218,505)	-	-
General administration and finance	237,818	44,358	5,933	-	(187,527)	-	(187,527)	-	-
General City responsibilities	96,147	29,142	4,720	-	(62,285)	-	(62,285)	-	-
Unallocated interest on long-term debt	110,145	-	-	-	(110,145)	-	(110,145)	-	-
Total governmental activities	3,736,840	435,207	998,701	41,174	(2,261,758)	-	(2,261,758)	-	-
Business-type activities:									
Airport	746,610	668,672	-	14,538	-	(63,400)	(63,400)	-	-
Transportation	959,088	350,464	128,003	152,887	-	(327,734)	(327,734)	-	-
Port	72,307	77,260	5,348	6,550	-	16,851	16,851	-	-
Water	431,248	342,101	2,199	-	-	(86,948)	(86,948)	-	-
Power	130,709	127,309	2,581	-	-	(819)	(819)	-	-
Hospitals	954,566	740,920	60,208	-	-	(153,438)	(153,438)	-	-
Sewer	214,593	244,155	1,979	-	-	31,541	31,541	-	-
Market	1,138	1,672	-	-	-	534	534	-	-
Total business-type activities	3,510,259	2,552,553	200,318	173,975	-	(583,413)	(583,413)	-	-
Total primary government	$7,247,099	$2,987,760	$ 1,199,019	$ 215,149	(2,261,758)	(583,413)	(2,845,171)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 128,319	$ 14,969	$ 8,423	$ -				(104,927)	-
Treasure Island Development Authority	8,162	8,115	-	-				-	(47)
Total component units	$ 136,481	$ 23,084	$ 8,423	$ -				(104,927)	(47)
General Revenues:									
Taxes:									
Property taxes					1,355,855	-	1,355,855	53,914	-
Business taxes					437,678	-	437,678	-	-
Sales and use tax					198,236	-	198,236	-	-
Hotel room tax					239,567	-	239,567	1,418	-
Utility users tax					91,676	-	91,676	-	-
Other local taxes					353,746	-	353,746	-	-
Interest and investment income					31,453	82,533	113,986	465	87
Other					91,236	288,584	379,820	10,773	-
Transfers - internal activities of primary government					(251,088)	251,088	-	-	-
Total general revenues and transfers					2,548,359	622,205	3,170,564	66,570	87
Extraordinary gain from dissolution of the Redevelopment Agency					323,130	-	323,130	364,019	-
Change in net assets					609,731	38,792	648,523	325,662	40
Net assets (deficit) - beginning					1,310,279	4,992,474	6,302,753	(325,662)	(9,444)
Net assets (deficit) - ending					$ 1,920,010	$5,031,266	$6,951,276	$ -	$ (9,404)

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, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	General Fund 2012	General Fund 2011	Other Governmental Funds 2012	Other Governmental Funds 2011	Total Governmental Funds 2012	Total Governmental Funds 2011
ASSETS						
Deposits and investments with City Treasury	$ 530,443	$ 386,246	$ 1,323,276	$ 938,304	$ 1,853,719	$ 1,324,550
Deposits and investments outside City Treasury	635	860	80,613	116,317	81,248	117,177
Receivables (net of allowance for uncollectible amounts of $128,739 in 2012; $95,441 in 2011):						
Property taxes and penalties	47,374	45,278	8,454	7,943	55,828	53,221
Other local taxes	211,788	186,137	16,246	14,869	228,034	201,006
Federal and state grants and subventions	186,838	162,130	139,676	132,200	326,514	294,330
Charges for services	43,435	39,884	16,326	12,814	59,761	52,698
Interest and other	808	805	6,288	4,358	7,096	5,163
Due from other funds	47,281	27,833	5,149	8,753	52,430	36,586
Due from / advance to component unit	18,337	16,253	10,604	11,413	28,941	27,666
Loans receivable (net of allowance for uncollectible amounts of $559,893 in 2012; $530,590 in 2011)	157	-	66,973	71,346	67,130	71,346
Deferred charges and other assets	3,829	6,520	12,008	4,348	15,837	10,868
Total assets	$ 1,090,925	$ 871,946	$ 1,685,613	$ 1,322,665	$ 2,776,538	$ 2,194,611
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 108,407	$ 89,882	$ 145,675	$ 115,476	$ 254,082	$ 205,358
Accrued payroll	99,721	81,547	22,637	19,400	122,358	100,947
Deferred tax, grant and subvention revenues	113,684	116,330	81,359	66,184	195,043	182,514
Due to other funds	1,212	750	49,664	41,550	50,876	42,300
Deferred credits and other liabilities	312,176	255,431	108,088	112,976	420,264	368,407
Bonds, loans, capital leases, and other payables	-	-	196,834	167,519	196,834	167,519
Total liabilities	635,200	543,940	604,257	523,105	1,239,457	1,067,045
Fund balances:						
Nonspendable	19,598	20,501	1,104	192	20,702	20,693
Restricted	34,109	33,439	1,189,102	831,269	1,223,211	864,708
Committed	79,276	33,431	-	-	79,276	33,431
Assigned	305,413	240,635	28,006	27,622	333,419	268,257
Unassigned	17,329	-	(136,856)	(59,523)	(119,527)	(59,523)
Total fund balances	455,725	328,006	1,081,356	799,560	1,537,081	1,127,566
Total liabilities and fund balances	$ 1,090,925	$ 871,946	$ 1,685,613	$ 1,322,665	$ 2,776,538	$ 2,194,611

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, 2012
(In Thousands)

Fund balances – total governmental funds	$ 1,537,081
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,682,775
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	17,380
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,415,075)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(9,912)
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.	302,874
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.	(195,113)
Net assets of governmental activities	$ 1,920,010

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, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2012	2011	2012	2011	2012	2011
Revenues:						
Property taxes	$ 1,056,143	$ 1,090,776	$ 296,714	$ 289,580	$ 1,352,857	$ 1,380,356
Business taxes	435,316	391,057	2,362	722	437,678	391,779
Sales and use tax	117,071	106,302	81,165	75,172	198,236	181,474
Hotel room tax	188,665	158,927	50,902	51,035	239,567	209,962
Utility users tax	91,676	91,683	-	-	91,676	91,683
Other local taxes	353,889	251,285	-	-	353,889	251,285
Licenses, permits and franchises	25,022	25,252	14,748	10,725	39,770	35,977
Fines, forfeitures and penalties	8,444	6,868	21,646	4,902	30,090	11,770
Interest and investment income	10,262	5,910	21,109	11,131	31,371	17,041
Rents and concessions	24,932	21,943	64,251	57,052	89,183	78,995
Intergovernmental:						
Federal	198,642	218,394	222,332	266,310	420,974	484,704
State	480,166	438,815	108,366	142,304	588,532	581,119
Other	-	29	33,181	31,988	33,181	32,017
Charges for services	145,797	146,631	119,059	111,384	264,856	258,015
Other	17,090	10,377	66,544	86,817	83,634	97,194
Total revenues	3,153,115	2,964,249	1,102,379	1,139,122	4,255,494	4,103,371
Expenditures:						
Current:						
Public protection	991,275	950,548	87,928	80,633	1,079,203	1,031,181
Public works, transportation and commerce	52,815	25,508	198,064	201,412	250,879	226,920
Human welfare and neighborhood development	626,194	610,063	292,220	260,028	918,414	870,091
Community health	545,962	493,939	107,301	101,283	653,263	595,222
Culture and recreation	100,246	99,156	210,910	211,236	311,156	310,392
General administration and finance	182,898	175,381	20,259	16,260	203,157	191,641
General City responsibilities	96,132	85,329	18	134	96,150	85,463
Debt service:						
Principal retirement	-	-	167,465	148,231	167,465	148,231
Interest and fiscal charges	-	93	103,706	101,623	103,706	101,716
Bond issuance costs	-	-	5,386	2,161	5,386	2,161
Capital outlay	-	-	270,094	214,817	270,094	214,817
Total expenditures	2,595,522	2,440,017	1,463,351	1,337,818	4,058,873	3,777,835
Excess (deficiency) of revenues over (under) expenditures	557,593	524,232	(360,972)	(198,696)	196,621	325,536
Other financing sources (uses):						
Transfers in	120,449	108,072	215,151	196,610	335,600	304,682
Transfers out	(553,190)	(502,378)	(189,529)	(128,247)	(742,719)	(630,625)
Issuance of bonds and loans:						
Face value of bonds issued	-	-	804,090	232,965	804,090	232,965
Face value of loans issued	-	-	4,359	1,813	4,359	1,813
Premium on issuance of bonds	-	-	89,336	16,799	89,336	16,799
Payment to refunded bond escrow agent	-	-	(487,390)	(142,458)	(487,390)	(142,458)
Other financing sources-capital leases	3,682	6,302	8,622	13,467	12,304	19,769
Total other financing sources (uses)	(429,059)	(388,004)	444,639	190,949	15,580	(197,055)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	(815)	-	198,129	-	197,314	-
Net change in fund balances	127,719	136,228	281,796	(7,747)	409,515	128,481
Fund balances at beginning of year	328,006	191,778	799,560	807,307	1,127,566	999,085
Fund balances at end of year	$ 455,725	$ 328,006	$ 1,081,356	$ 799,560	$ 1,537,081	$ 1,127,566

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, 2012
(In Thousands)

Net change in fund balances – total governmental funds	$ 409,515
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on disposal of capital assets in the current period plus extraordinary gains on capital assets from the dissolution of the Redevelopment Agency.	374,457
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.	(136,045)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,998
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.	16,623
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.	(4,216)
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serves to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	26,650
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	4,276
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.	(153,594)
In addition, governmental funds do not report the balances of long-term debt nor its re-assignment to enterprise fund. This is the amount of transfer of the liability to the Laguna Honda Hospital fund for the re-assignment of the Certificates of Participation previously issued by the City for the construction and furnishings of Laguna Honda and reported in the governmental activities.	156,545
Bond premiums are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the amount of bond premiums capitalized during the current period.	(89,336)
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.	(434)
The net revenues of the activities of internal service funds are reported with governmental activities.	2,292
Change in net assets of governmental activities	$ 609,731

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, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 172,142	$ 427,886	$ 427,886	$ -
Resources (Inflows):				
Property taxes	1,028,677	1,028,677	1,059,211	30,534
Business taxes	389,878	389,878	435,316	45,438
Other local taxes:				
Sales tax	106,566	106,766	117,071	10,305
Hotel room tax	165,864	165,864	188,665	22,801
Utility users tax	95,590	95,590	91,676	(3,914)
Parking tax	71,973	71,973	76,645	4,672
Real property transfer tax	162,262	162,262	277,244	114,982
Licenses, permits, and franchises:				
Licenses and permits	8,614	8,614	9,239	625
Franchise tax	15,723	15,723	15,783	60
Fines, forfeitures, and penalties	7,710	7,710	8,444	734
Interest and investment income	6,050	6,050	10,485	4,435
Rents and concessions:				
Garages - Recreation and Park	10,094	10,094	10,744	650
Rents and concessions - Recreation and Park	10,665	10,665	12,641	1,976
Other rents and concessions	2,135	2,135	3,267	1,132
Intergovernmental:				
Federal grants and subventions	208,783	204,949	196,358	(8,591)
State subventions:				
Social service subventions	114,151	100,428	67,043	(33,385)
Health / mental health subventions	142,792	112,623	104,651	(7,972)
Health and welfare realignment	143,703	176,838	210,191	33,353
Public safety sales tax	69,089	69,089	76,565	7,476
Motor vehicle in-lieu - county	1,711	1,711	776	(935)
Other grants and subventions	4,489	13,848	19,401	5,553
Allowance for state revenue reduction	(6,341)	-	-	-
Charges for services:				
General government service charges	46,729	46,828	48,458	1,630
Public safety service charges	22,628	22,638	23,735	1,097
Recreation charges - Recreation and Park	12,085	12,102	13,385	1,283
MediCal, MediCare and health service charges	72,105	72,110	60,298	(11,812)
Other financing sources:				
Transfers from other funds	157,199	160,187	117,602	(42,585)
Repayment of loan from Component Unit	589	589	-	(589)
Other resources (inflows)	18,254	19,232	15,496	(3,736)
Subtotal - Resources (Inflows)	3,089,767	3,095,173	3,270,390	175,217
Total amounts available for appropriation	3,261,909	3,523,059	3,698,276	175,217

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, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 13,259	$ 16,023	$ 14,307	$ 1,716
District Attorney	34,218	34,968	34,682	286
Emergency Communications	38,151	41,001	40,994	7
Fire Department	274,278	276,352	276,352	-
Juvenile Probation	32,129	29,235	29,197	38
Police Department	393,194	399,745	399,745	-
Public Defender	25,730	26,126	26,126	-
Sheriff	150,827	135,508	134,210	1,298
Superior Court	32,847	32,882	32,882	-
Subtotal - Public Protection	994,633	991,840	988,495	3,345
Public Works, Transportation and Commerce				
Board of Appeals	925	922	739	183
Business and Economic Development	17,832	16,933	16,169	764
Clean Water	-	-	-	-
General Services Agency - Public Works	32,831	35,955	35,610	345
Hetch Hetchy	-	1	1	-
Municipal Transportation Agency	-	65	64	1
Water Department	-	2	2	-
Subtotal - Public Works, Transportation and Commerce	51,588	53,878	52,585	1,293
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	28,444	29,555	28,169	1,386
Commission on the Status of Women	3,311	3,294	3,273	21
County Education Office	116	116	116	-
Environment	46	428	409	19
Human Rights Commission	934	1,075	1,075	-
Human Services	639,984	640,361	590,027	50,334
Mayor - Housing/Neighborhoods	1,915	3,124	3,124	-
Subtotal - Human Welfare and Neighborhood Development	674,750	677,953	626,193	51,760
Community Health				
Public Health	575,446	573,970	545,962	28,008
Culture and Recreation				
Academy of Sciences	4,023	4,023	3,995	28
Art Commission	7,981	7,076	7,070	6
Asian Art Museum	7,215	7,172	7,172	-
Fine Arts Museum	11,537	11,789	11,789	-
Law Library	751	754	607	147
Recreation and Park Commission	69,232	68,948	68,948	-
Subtotal - Culture and Recreation	100,739	99,762	99,581	181

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, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 19,141	$ 18,039	$ 16,448	$ 1,591
Board of Supervisors	10,626	11,002	10,420	582
City Attorney	7,829	8,587	8,587	-
City Planning	21,182	22,171	22,171	-
Civil Service	514	545	545	-
Controller	11,281	12,583	11,037	1,546
Elections	14,908	14,925	14,393	532
Ethics Commission	8,349	4,234	4,052	182
General Services Agency - Administrative Services	64,590	56,225	55,512	713
General Services Agency - Telecomm and Info Services	1,439	1,792	1,786	6
Health Service System	167	153	88	65
Human Resources	9,603	12,156	12,123	33
Mayor	4,020	4,288	4,084	204
Retirement Services	764	810	810	-
Treasurer/Tax Collector	22,682	22,504	20,664	1,840
Subtotal - General Administration and Finance	197,095	190,014	182,720	7,294
General City Responsibilities				
General City Responsibilities	86,226	99,274	93,225	6,049
Other financing uses:				
Debt Service	3,604	-	-	-
Transfers to other funds	528,328	567,706	552,418	15,288
Budgetary reserves and designations	49,500	11,112	-	11,112
Total charges to appropriations	3,261,909	3,265,509	3,141,179	124,330
Total Sources less Current Year Uses	$ -	$ 257,550	$ 557,097	$ 299,547
Budgetary fund balance, June 30 before reserves and designations			$ 557,097	
Reserves and designations made from budgetary fund balance, June 30			336,820	
Net Available Budgetary Fund Balance, June 30			$ 220,277	

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 3,698,276
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	(427,886)
Property tax revenue - Teeter Plan net change from prior year	(3,068)
Change in unrealized gain/(loss) on investments	5,228
Interest earnings / charges from other funds assigned to General Fund as interest adjustment	(5,453)
Interest earnings from other funds assigned to General Fund as other revenues	3,379
Grants, subventions and other receivables received after 120-day recognition period	1,657
Pre-paid lease revenue, Civic Center Garage	(1,416)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(117,602)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - General Fund	$ 3,153,115
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 3,141,179
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation and other vendors	3,682
Recognition of expenditures for advances and imprest cash	3,079
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(552,418)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund	$ 2,595,522

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, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
ASSETS AND DEFERRED OUTFLOWS													
Assets:													
Current Assets:													
Deposits and investments with City Treasury	$ 343,341	$ 78,960	$ 199,660	$ 425,196	$ 61,885	$ 55,586	$ 92,408	$ 27,120	$ -	$ 1,284,156	$ 1,114,318	$ 33,639	$ 28,899
Deposits and investments outside City Treasury	10	162	10	4,033	10	204	5	2	5,631	10,067	9,387	10	-
Receivables (net of allowance for uncollectible amounts of $44,315 and $31,498 in 2012 and 2011, respectively):													
Federal and state grants and subventions	-	342	62	76,944	8,015	1,693	7,219	-	-	94,275	78,080	-	-
Charges for services	40,754	51,181	9,678	5,025	44,938	35,642	3,255	47,147	10	237,630	233,294	119	134
Interest and other	1,337	12,317	128	3,723	60,168	555	7,669	-	-	85,897	70,663	643	701
Lease receivable	-	-	-	-	-	-	-	-	-	-	-	20,813	18,984
Due from other funds	-	194	16,667	14,740	271	28	274	-	-	32,174	49,683	-	-
Due from component unit	-	-	-	-	-	-	-	-	-	-	58	-	-
Inventories	113	7,882	296	54,781	7,174	3,265	1,032	1,157	-	75,700	75,570	-	-
Deferred charges and other assets	2,226	-	4,940	355	-	-	150	-	28	7,699	10,451	-	-
Restricted assets:													
Deposits and investments with City Treasury	47,198	-	-	-	-	-	41,534	48,900	-	137,632	147,470	-	-
Deposits and investments outside City Treasury	54,613	81,129	-	-	-	-	3,262	25,027	13	164,044	129,156	61,713	67,709
Grants and other receivables	12,916	-	-	-	-	-	-	-	-	12,916	12,303	-	-
Total current assets	502,508	232,167	231,441	584,797	182,461	96,973	156,808	149,353	5,682	2,142,190	1,930,433	116,937	116,427
Noncurrent assets:													
Deferred charges and other assets	28,753	42,485	325	1,608	-	4,815	1,745	1,486	-	81,217	69,396	4,655	4,789
Lease receivable	-	-	-	-	-	-	-	-	-	-	-	252,927	261,683
Advance to component unit	-	-	3,827	-	-	-	-	-	-	3,827	4,027	-	-
Restricted assets:													
Deposits and investments with City Treasury	70,367	1,596,856	21,479	3,740	-	54,102	-	-	-	1,746,544	1,328,362	-	-
Deposits and investments outside City Treasury	309,009	358,309	3,252	10,630	7,805	23,348	-	1,287	295	713,935	666,179	4,816	9,796
Grants and other receivables	10,995	5,656	260	3,488	-	5,201	-	53	-	25,653	19,644	-	-
Capital assets:													
Land and other assets not being depreciated	88,926	1,411,250	72,296	463,856	38,314	158,959	149,621	11	2,772	2,386,005	1,992,041	-	-
Facilities, infrastructure, and equipment, net of depreciation	3,645,500	1,822,916	263,099	1,651,850	33,993	1,375,178	145,097	553,777	3,358	9,494,768	8,944,225	5,471	6,132
Total capital assets	3,734,426	3,234,166	335,395	2,115,706	72,307	1,534,137	294,718	553,788	6,130	11,880,773	10,936,266	5,471	6,132
Total noncurrent assets	4,153,550	5,237,472	364,538	2,135,172	80,112	1,621,603	296,463	556,614	6,425	14,451,949	13,023,874	267,869	282,400
Total assets	4,656,058	5,469,639	595,979	2,719,969	262,573	1,718,576	453,271	705,967	12,107	16,594,139	14,954,307	384,806	398,827
Deferred outflows on derivative instruments	98,979	-	-	-	-	-	-	-	-	98,979	63,382	-	-
Total assets and deferred outflows	4,755,037	5,469,639	595,979	2,719,969	262,573	1,718,576	453,271	705,967	12,107	16,693,118	15,017,689	384,806	398,827

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, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
LIABILITIES													
Current liabilities:													
Accounts payable	$ 29,162	$ 8,490	$ 19,628	$ 77,348	$ 30,252	$ 21,490	$ 13,516	$ 11,164	$ 570	$ 211,620	$ 167,102	$ 7,544	$ 5,699
Accrued payroll	13,535	9,355	2,793	33,022	24,261	5,323	2,341	9,734	-	100,364	81,024	2,323	1,965
Accrued vacation and sick leave pay	7,943	6,182	1,634	16,328	11,634	2,986	1,200	5,401	-	53,308	49,624	1,475	1,485
Accrued workers' compensation	998	1,403	433	14,806	3,845	734	425	2,586	-	25,230	24,547	183	156
Estimated claims payable	503	2,899	529	13,411	-	2,231	1,276	-	-	20,849	36,972	-	-
Due to other funds	-	3,695	214	3,731	1,440	3,057	316	18,454	-	30,907	37,166	2,821	6,803
Deferred credits and other liabilities	57,622	7,396	66	138,630	87,130	5,468	15,358	14,245	64	325,979	225,845	65,684	73,632
Accrued interest payable	-	35,164	429	98	122	6,946	829	1,879	-	45,467	37,205	1,758	1,764
Bonds, loans, capital leases, and other payables	315,153	221,936	1,277	3,575	2,113	31,938	805	5,213	-	582,010	342,627	19,390	17,545
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	35,842	-	-	-	-	-	-	-	-	35,842	24,348	-	-
Accrued interest payable	28,837	-	-	-	-	-	-	-	-	28,837	30,191	-	-
Other	26,460	143,907	832	1,241	-	7,484	-	702	-	180,626	143,642	-	-
Total current liabilities	516,055	440,427	27,835	302,190	160,797	87,657	36,066	69,378	634	1,641,039	1,200,293	101,178	109,049
Noncurrent liabilities:													
Accrued vacation and sick leave pay	7,686	6,361	1,450	11,951	9,261	2,712	1,114	4,345	-	44,880	40,939	1,604	1,559
Accrued workers' compensation	4,077	6,561	1,888	73,033	18,150	3,193	2,372	9,952	-	119,226	123,639	812	718
Other postemployment benefits obligation	75,824	73,009	14,302	153,369	142,198	26,513	13,390	53,612	-	552,217	448,966	15,380	12,906
Estimated claims payable	829	6,196	2,142	20,320	-	6,307	350	-	-	36,144	61,465	-	-
Deferred credits and other liabilities	-	11,291	1,032	23,850	-	571	27,346	-	135	64,225	66,732	-	-
Bonds, loans, capital leases, and other payables	3,743,095	4,567,299	34,678	39,776	22,816	491,270	37,157	151,171	-	9,087,262	8,014,877	255,896	264,988
Derivative instruments liabilities	116,859	-	-	-	-	-	-	-	-	116,859	68,304	-	-
Total noncurrent liabilities	3,948,370	4,670,717	55,492	322,299	192,425	530,566	81,729	219,080	135	10,020,813	8,824,922	273,692	280,171
Total liabilities	4,464,425	5,111,144	83,327	624,489	353,222	618,223	117,795	288,458	769	11,661,852	10,025,215	374,870	389,220
NET ASSETS													
Invested in capital assets, net of related debt	4,190	301,267	309,640	2,072,355	55,160	1,070,097	277,819	422,432	6,130	4,519,090	4,481,404	4,652	4,873
Restricted:													
Debt service	25,711	27,213	-	-	-	1,027	-	-	-	53,951	62,421	-	-
Capital projects	71,109	13,665	14,282	-	-	19,787	16,193	41,534	-	176,570	161,580	-	-
Other purposes	-	-	-	16,617	-	-	-	1,989	307	18,913	18,741	-	-
Unrestricted (deficit)	189,602	16,350	188,730	6,508	(145,809)	9,442	41,464	(48,446)	4,901	262,742	268,328	5,284	4,734
Total net assets (deficit)	$ 290,612	$ 358,495	$ 512,652	$ 2,095,480	$ (90,649)	$ 1,100,353	$ 335,476	$ 417,509	$ 11,338	$ 5,031,266	$ 4,992,474	$ 9,936	$ 9,607

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

CITY AND COUNTY OF SAN FRANCISCO

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

Year ended June 30, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
Operating revenues:													
Aviation	$ 374,767	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 374,767	$ 340,812	$ -	$ -
Water and power service	-	324,169	127,066	-	-	-	-	-	-	451,235	411,167	-	-
Passenger fees	-	-	-	200,972	-	-	-	-	-	200,972	190,181	-	-
Net patient service revenue	-	-	-	-	600,871	-	-	132,976	-	733,847	714,867	-	-
Sewer service	-	-	-	-	-	233,628	-	-	-	233,628	220,586	-	-
Rents and concessions	122,366	9,398	243	6,617	2,887	-	57,802	-	-	199,313	183,041	-	-
Parking and transportation	104,254	-	-	109,306	-	-	17,159	-	-	230,719	210,213	-	-
Other charges for services	-	-	-	2,233	-	-	-	-	1,672	3,905	4,343	97,266	101,398
Other revenues	67,285	8,534	-	31,336	3,638	10,527	2,299	548	-	124,167	124,342	-	-
Total operating revenues	668,672	342,101	127,309	350,464	607,396	244,155	77,260	133,524	1,672	2,552,553	2,399,552	97,266	101,398
Operating expenses:													
Personal services	238,382	114,337	44,575	599,944	433,060	82,709	32,318	172,850	226	1,718,401	1,596,041	43,465	42,182
Contractual services	56,155	14,838	5,816	66,180	189,417	13,257	5,347	7,282	611	358,903	333,043	29,727	31,123
Light, heat and power	20,096	-	21,539	-	-	-	2,111	-	-	43,746	40,560	-	-
Materials and supplies	14,130	12,140	2,902	86,443	70,265	8,921	1,051	14,516	5	210,373	200,052	15,041	13,920
Depreciation and amortization	167,309	64,595	13,855	118,518	5,230	44,799	15,070	15,297	288	444,961	419,071	1,691	1,970
General and administrative	1,657	49,257	36,099	30,369	777	12,879	3,518	-	8	134,564	101,773	385	398
Services provided by other departments	12,555	49,395	5,824	54,294	36,359	33,292	16,395	8,873	-	216,987	204,786	5,331	5,777
Other	32,779	-	-	947	-	-	(5,270)	-	-	28,456	14,494	704	4,916
Total operating expenses	543,063	304,562	130,610	956,695	735,108	195,857	70,540	218,818	1,138	3,156,391	2,909,820	96,344	100,286
Operating income (loss)	125,609	37,539	(3,301)	(606,231)	(127,712)	48,298	6,720	(85,294)	534	(603,838)	(510,268)	922	1,112
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	2,199	2,581	21,432	-	1,979	4,675	291	-	33,157	28,034	-	-
State / other	-	-	-	106,571	59,917	-	673	-	-	167,161	176,119	-	-
Interest and investment income	32,353	33,450	3,463	5,983	570	2,975	2,559	1,177	3	82,533	42,299	6,475	6,482
Interest expense	(203,547)	(126,686)	(99)	(2,393)	(121)	(18,736)	(1,767)	(519)	-	(353,868)	(325,093)	(6,005)	(6,059)
Other, net	64,682	29,320	29	109,671	-	4,557	(3,173)	83,498	-	288,584	214,993	124	-
Total nonoperating revenues (expenses)	(106,512)	(61,717)	5,974	241,264	60,366	(9,225)	2,967	84,447	3	217,567	136,352	594	423
Income (loss) before capital contributions and transfers	19,097	(24,178)	2,673	(364,967)	(67,346)	39,073	9,687	(847)	537	(386,271)	(373,916)	1,516	1,535
Capital contributions	14,538	-	-	152,887	-	-	6,550	-	-	173,975	225,112	-	-
Transfers in	-	1,500	14,073	357,357	128,578	-	10,405	40,528	-	552,441	462,732	29	1,018
Transfers out	(33,993)	(15,085)	(2)	(10,717)	(81,030)	(1)	(673)	(159,852)	-	(301,353)	(137,348)	(1,216)	(459)
Change in net assets	(358)	(37,763)	16,744	134,560	(19,798)	39,072	25,969	(120,171)	537	38,792	176,580	329	2,094
Net assets (deficit) at beginning of year	290,970	396,258	495,908	1,960,920	(70,851)	1,061,281	309,507	537,680	10,801	4,992,474	4,815,894	9,607	7,513
Net assets (deficit) at end of year	$ 290,612	$ 358,495	$ 512,652	$ 2,095,480	$ (90,649)	$ 1,100,353	$ 335,476	$ 417,509	$ 11,338	$ 5,031,266	$ 4,992,474	$ 9,936	$ 9,607

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 675,812	$ 349,960	$ 123,116	$ 497,199	$ 616,375	$ 247,166	$ 12,725	$ 125,425	$ 1,671	$ 2,649,449	$ 2,487,878	$ 118,566	$ 122,115
Cash received from tenants for rent	-	8,599	243	-	2,887	806	62,406	-	-	74,941	73,460	-	-
Cash paid to employees for services	(219,203)	(96,647)	(39,418)	(571,505)	(398,230)	(74,338)	(29,016)	(159,617)	(226)	(1,588,200)	(1,484,098)	(40,480)	(40,082)
Cash paid to suppliers for goods and services	(156,296)	(128,073)	(64,885)	(264,512)	(295,628)	(54,322)	(31,045)	(30,508)	(408)	(1,025,677)	(906,388)	(69,035)	(84,083)
Cash paid for judgments and claims	-	(4,366)	(2,203)	(16,730)	-	(3,195)	-	-	-	(26,494)	(33,912)	-	-
Net cash provided by (used in) operating activities	300,313	129,473	16,853	(355,548)	(74,596)	116,117	15,070	(64,700)	1,037	84,019	136,940	9,051	(2,050)
Cash flows from noncapital financing activities:													
Operating grants	-	1,385	3,155	119,696	52,211	531	1,327	240	-	178,545	210,185	-	-
Transfers in	-	-	27,709	293,680	128,578	-	-	4,657	-	454,624	375,428	29	1,018
Transfers out	(33,993)	(28,723)	-	(12,485)	(81,030)	(1)	(673)	(28,335)	-	(185,240)	(126,479)	(1,216)	(459)
Other noncapital financing increases	2,478	-	-	2,655	-	-	-	5,689	-	10,822	5,586	-	-
Other noncapital financing decreases	-	-	-	(4,052)	(231)	-	-	-	-	(4,283)	(14,429)	-	-
Net cash provided by (used in) noncapital financing activities	(31,515)	(27,338)	30,864	399,494	99,528	530	654	(17,749)	-	454,468	450,291	(1,187)	559
Cash flows from capital and related financing activities:													
Capital grants and other taxes restricted for capital purposes	10,308	-	-	288,263	-	-	831	83,497	-	382,899	184,824	-	-
Transfers in	-	1,500	-	-	-	-	10,395	35,871	-	47,766	73,666	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	(10,869)	-	-
Bond sale proceeds and loans received	6,273	1,509,434	14,891	-	-	-	-	344	-	1,530,942	1,002,929	10,150	38,351
Proceeds from sale/transfer of capital assets	-	6	21	2,584	-	-	25	-	-	2,636	1,731	-	-
Proceeds from commercial paper borrowings	10,450	24,000	-	-	-	-	-	-	-	34,450	156,650	-	-
Proceeds from passenger facility charges	78,156	-	-	-	-	-	-	-	-	78,156	76,543	-	-
Acquisition of capital assets	(99,753)	(714,925)	(47,501)	(199,151)	(18,677)	(136,674)	(32,425)	(27,109)	(561)	(1,276,776)	(1,226,347)	(929)	(918)
Retirement of capital leases, bonds and loans	(135,760)	(199,900)	(422)	(3,405)	(1,028)	(31,604)	(776)	(136)	-	(373,031)	(240,399)	(17,545)	(42,429)
Bond issue costs paid	-	(11,886)	(147)	-	-	-	-	-	-	(12,033)	(6,312)	(532)	(616)
Interest paid on debt	(208,049)	(188,881)	(985)	(2,338)	(121)	(27,250)	(2,316)	(519)	-	(430,459)	(394,180)	(6,002)	(6,171)
Other capital financing increases	-	26,010	285	18	2,779	4,292	550	30,069	-	64,003	29,222	-	426
Other capital financing decreases	-	-	-	-	-	-	(5,609)	-	-	(5,609)	(2,085)	-	(6)
Net cash provided by (used in) capital and related financing activities	(338,375)	445,358	(33,858)	85,971	(17,047)	(191,236)	(29,325)	122,017	(561)	42,944	(354,627)	(14,858)	(11,363)
Cash flows from investing activities:													
Purchases of investments with trustees	(2,146,754)	(503,600)	(37,424)	-	-	(115,502)	-	-	(415)	(2,803,695)	(3,522,852)	-	(43,199)
Proceeds from sale of investments with trustees	2,146,893	508,076	41,652	-	-	127,427	-	-	414	2,824,462	3,365,954	14,489	47,289
Interest and investment income	15,769	32,666	3,344	5,830	570	2,676	2,476	1,113	3	64,447	45,999	593	110
Other investing activities	-	-	-	-	-	-	-	-	-	-	-	(8)	(60)
Net cash provided by (used in) investing activities	15,908	37,142	7,572	5,830	570	14,601	2,476	1,113	2	85,214	(110,899)	15,074	4,140
Net increase (decrease) in cash and cash equivalents	(53,669)	584,635	21,431	135,747	8,455	(59,988)	(11,125)	40,681	478	666,645	121,705	8,080	(8,714)
Cash and cash equivalents-beginning of year	510,909	1,266,903	201,779	307,852	61,245	174,153	147,923	60,368	5,153	2,736,285	2,614,580	82,206	90,920
Cash and cash equivalents-end of year	$ 457,240	$ 1,851,538	$ 223,210	$ 443,599	$ 69,700	$ 114,165	$ 136,798	$ 101,049	$ 5,631	$ 3,402,930	$ 2,736,285	$ 90,286	$ 82,206

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds (continued)

Year ended June 30, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 125,609	$ 37,539	$ (3,301)	$ (606,231)	$ (127,712)	$ 48,298	$ 6,720	$ (85,294)	$ 534	$ (603,838)	$ (510,268)	$ 922	$ 1,112
Adjustments for non-cash and other activities:													
Depreciation and amortization	167,309	64,595	13,855	118,518	5,230	44,799	15,070	15,297	288	444,961	419,071	1,691	1,970
Provision for uncollectibles	600	(1,060)	-	(5)	-	(579)	(1,406)	-	-	(2,450)	1,595	-	-
Write-off of capital assets	-	8,729	1,617	-	-	2,051	-	-	-	12,397	5,173	-	-
Other	6,378	(961)	(546)	107,260	-	173	-	-	-	112,304	119,099	124	-
Changes in assets/liabilities:													
Receivables, net	(5,485)	16,516	2,355	(161)	(3,332)	(1,395)	(561)	(21,511)	-	(13,574)	(28,198)	17,044	15,422
Due from other funds	-	(194)	(8,044)	-	(152)	33	(274)	131	-	(8,500)	14,091	-	-
Inventories	4	67	30	398	(655)	4	51	(29)	-	(130)	(3,535)	-	-
Deferred charges and other assets	(5,090)	-	(1,678)	2,355	-	(107)	200	-	-	(4,320)	(3,691)	-	-
Accounts payable	(4,580)	(4,151)	8,947	3,064	1,846	11,676	1,991	60	215	19,068	10,939	1,749	(5,159)
Accrued payroll	2,792	1,677	541	5,512	5,275	689	618	2,053	-	19,157	6,188	358	58
Accrued vacation and sick leave pay	991	968	494	1,198	2,804	502	168	501	-	7,626	(87)	35	(162)
Accrued workers' compensation	109	289	258	(5,182)	(215)	318	1	692	-	(3,730)	(94)	121	(90)
Other postemployment benefits obligation	15,287	12,695	3,081	26,910	26,966	5,640	2,684	9,988	-	103,251	100,679	2,474	2,292
Estimated claims payable	-	(17,895)	541	(14,271)	-	106	300	-	-	(31,219)	(3,841)	-	-
Due to other funds	-	-	-	3,731	-	(126)	-	-	-	3,605	(779)	(72)	(104)
Deferred credits and other liabilities	(3,611)	10,659	(1,297)	1,356	15,349	4,035	(10,492)	13,412	-	29,411	10,598	(15,395)	(17,389)
Total adjustments	174,704	91,934	20,154	250,683	53,116	67,819	8,350	20,594	503	687,857	647,208	8,129	(3,162)
Net cash provided by (used in) operating activities	$ 300,313	$ 129,473	$ 16,853	$ (355,548)	$ (74,596)	$ 116,117	$ 15,070	$ (64,700)	$ 1,037	$ 84,019	$ 136,940	$ 9,051	$ (2,050)
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 343,341	$ 78,960	$ 199,660	$ 425,196	$ 61,885	$ 55,586	$ 92,408	$ 27,120	$ -	$ 1,284,156	$ 1,114,318	$ 33,639	$ 28,899
Restricted	117,565	1,596,856	21,479	3,740	-	54,102	41,534	48,900	-	1,884,176	1,475,832	-	-
Deposits and investments outside of City Treasury:													
Unrestricted	10	162	10	4,033	10	204	5	2	5,631	10,067	9,387	10	-
Restricted	363,622	439,438	3,252	10,630	7,805	23,348	3,262	26,314	308	877,979	795,335	66,529	77,505
Total deposits and investments	824,538	2,115,416	224,401	443,599	69,700	133,240	137,209	102,336	5,939	4,056,378	3,394,872	100,178	106,404
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	(367,298)	(263,878)	(1,191)	-	-	(19,075)	(411)	(1,287)	(308)	(653,448)	(658,587)	(9,892)	(24,198)
Cash and cash equivalents at end of year on statement of cash flows	$ 457,240	$ 1,851,538	$ 223,210	$ 443,599	$ 69,700	$ 114,165	$ 136,798	$ 101,049	$ 5,631	$ 3,402,930	$ 2,736,285	$ 90,286	$ 82,206
Non-cash capital and related financing activities:													
Acquisition of capital assets on accounts payable and capital lease	$ 27,520	$ 143,907	$ 832	$ 5,000	$ -	$ 7,484	$ 9,180	$ 9,901	$ 126	$ 203,950	$ 152,228	$ 3,455	$ 8,244
In-kind contribution for pier demolition	-	-	-	-	-	-	4,100	-	-	4,100	-	-	-
Net capitalized interest	-	-	-	-	-	-	559	-	-	559	76,080	-	-
Accrued fire insurance settlement	-	-	-	-	-	-	4,500	-	-	4,500	-	-	-
Bond refunding	1,204,069	-	-	-	-	-	-	-	-	1,204,069	470,740	-	-
Interfund loan	-	3,695	214	-	-	2,492	-	-	-	6,401	6,122	-	-
Donated inventory	-	-	-	-	2,996	-	-	-	-	2,996	1,863	-	-
Capital contributions and other noncash capital items	-	-	-	-	-	-	2,993	156,545	-	159,538	18,455	-	-

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2012
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust Funds	Investment Trust Fund	Private Purpose Trust Fund	Agency Funds
ASSETS				
Deposits and investments with City Treasury	$ 129,057	$ 329,960	$ 46,573	$ 141,704
Deposits and investments outside City Treasury:				
Cash and deposits	28,516	105	-	208
Short-term investments	706,721	-	167,350	-
Alternative investments	2,021,472	-	-	-
Debt securities	4,047,549	-	-	-
Equity securities	7,220,971	-	-	-
Real estate	1,403,412	-	-	-
Foreign currency contracts, net	(15,790)	-	-	-
Invested in securities lending collateral	914,105	-	-	-
Receivables:				
Employer and employee contributions	70,695	-	-	58,441
Brokers, general partners and others	317,884	-	-	-
Federal and state grants and subventions	-	-	2,362	-
Interest and other	37,030	318	25,329	172,095
Deferred charges and other assets	-	-	14,470	34,538
Captial assets (net of accumulated depreciation)	-	-	175,331	-
Total assets	16,881,622	330,383	431,415	$ 406,986
LIABILITIES				
Accounts payable	42,008	7,017	6,354	$ 34,589
Estimated claims payable	9,358	-	-	-
Due to the primary government	-	-	2,626	-
Agency obligations	-	-	-	372,397
Bond interest payable	-	-	22,135	-
Payable to brokers	463,386	-	-	-
Deferred Retirement Option Program liabilities	27,257	-	-	-
Payable to borrowers of securities	917,370	-	-	-
Advance from other funds	-	-	16,551	-
Deferred credits and other liabilities	57,310	-	992	-
Long-term obligations	-	-	1,046,930	-
Total liabilities	1,516,689	7,017	1,095,588	$ 406,986
NET ASSETS				
Held in trust for:				
Pension and other employee benefits	15,364,933	-	-	
External pool participants	-	323,366	-	
Redevelopment dissolution	-	-	(664,173)	
Total net assets (deficit)	$ 15,364,933	$ 323,366	$ (664,173)	

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, 2012
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust Funds	Investment Trust Fund	Private Purpose Trust Fund
Additions:			
Redevelopment property tax revenue	$ -	$ -	$ 48,675
Charges for services	-	-	8,418
Contributions:			
Employees' contributions	315,203	-	-
Employer contributions	1,026,610	-	-
Contributions to pooled investments	-	2,375,568	-
Total contributions	1,341,813	2,375,568	-
Investment income/loss:			
Interest	196,494	6,427	4
Dividends	170,759	-	-
Net depreciation in fair value of investments	(246,298)	-	-
Securities lending income	4,718	-	-
Total investment income	125,673	6,427	4
Less investment expenses:			
Securities lending borrower rebates and expenses	913	-	-
Other investment expenses	(44,540)	-	-
Total investment expenses	(43,627)	-	-
Other additions	-	-	5,506
Total additions, net	1,423,859	2,381,995	62,603
Deductions:			
Neighborhood development	-	-	11,758
Depreciation	-	-	2,294
Interest on debt	-	-	25,575
Benefit payments	1,667,823	-	-
Refunds of contributions	11,030	-	-
Distribution from pooled investments	-	2,507,027	-
Administrative expenses	14,960	-	-
Total deductions	1,693,813	2,507,027	39,627
Extraordinary loss from dissolution of the Redevelopment Agency	-	-	(687,149)
Change in net assets	(269,954)	(125,032)	(664,173)
Net assets at beginning of year	15,634,887	448,398	-
Net assets (deficit) at end of year	$ 15,364,933	$ 323,366	$ (664,173)

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 (SFCTA) – The voters of the City created SFCTA in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the SFCTA. The SFCTA is reported in a special revenue fund in the City's basic financial statements. Financial statements for the SFCTA can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

San Francisco City and County Finance Corporation (The Finance Corporation) – The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase $20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

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

Discretely Presented Component Units

San Francisco Redevelopment Agency (The Agency) – The Agency was a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who were appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, governed it prior to January 31, 2012.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. At the City's meeting on January 24, 2012, the City's Board of Supervisors elected to become the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (The Successor Agency), effective February 1, 2012, and as such is a component unit of the City. Also, upon dissolution, the Board of Supervisors elected to retain the housing assets and functions, rights, powers, duties and obligations previously performed by the former Agency.

The financial statements present the former Agency and its component units (the San Francisco Redevelopment Financing Authority and Public Initiatives Development Corporation), entities for which the former Agency was considered to be financially accountable. The former Agency's governing body was not substantively the same as that of the City, and the Agency did not provide services entirely or almost entirely to the City. The former Agency was reported in a separate column to emphasize that it is legally separate from the City. The City was financially accountable for the former 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 former Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

Successor Agency to the Redevelopment Agency of the City and County of San Francisco (The Successor Agency) – The Successor Agency was created to serve as a custodian for the assets and to wind down the affairs of the former Agency. The Oversight Board is comprised of seven-member representatives from local government bodies: four City representatives appointed by the Mayor of the City subject to confirmation by the Board of Supervisors of the City; the Vice Chancellor of the San Francisco Community College District; the Board member of the Bay Area Rapid Transit District; and the Executive Director of Policy and Operations of the San Francisco Unified School District.

In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported in a fiduciary fund (private-purpose trust fund). Complete financial statements can be obtained from the Successor Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

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

The TIDA's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from their administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

Non-Disclosed Organizations

There are other governmental agencies that provide services within the City. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District and the Bay Area Air Quality Management District, both of which are also excluded from the City's reporting entity.

(2) Summary of Significant Accounting Policies

(a) Government-wide and fund financial statements

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. It is the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within the first or second quarter of the following

fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental fund:

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

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

- The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.
- The ***San Francisco Water Enterprise Fund*** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.
- The ***Hetch Hetchy Water and Power Enterprise Fund*** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.
- The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Sustainable Streets (previously named as Department of Parking and Traffic), 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. Sustainable Streets is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. Sustainable Streets is a separate department of the MTA. The parking garages fund accounts for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.
- The ***San Francisco General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.
- The ***San Francisco Wastewater Enterprise Fund*** was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.
- The ***Port of San Francisco Fund*** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.
- The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital (LHH), 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, Other Employee and Other Post-Employment Benefit Trust Funds*** reflect the activities of the Employees' Retirement System, the Health Service System and the Retiree Health Care Trust Fund. 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 Retiree Health Care Trust Fund currently accounts for employee contributions from active employees hired after January 9, 2009, related City contributions, and the earnings and profits from investments. No disbursements, other than to defray reasonable expenses of administering the trust, will be made before January 2015.
- The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are accounted for within the Investment Trust Fund.
- The ***Private-Purpose Trust Fund*** accounts for the custodial responsibilities that are assigned to the Successor Agency with the passage of the Redevelopment Dissolution Act.
- The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of: the State of California, human welfare, community health, and transportation programs.

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

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

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

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

(c) Budgetary Data

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

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

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

Original Budget

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

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

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

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

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

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

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

Final Budget

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

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

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

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

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

(d) Deposits and Investments

Investment in the Treasurer's Pool

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

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) separately managed accounts. During the year ended June 30, 2012, the former Agency's cash and investments that were not invested with trustees were transferred to an account with the Treasurer and managed separately from the pooled deposits and investments. 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 are held by trustees (Note 5).

The San Francisco Unified School District (School District), San Francisco Community College District (Community College District), and the City are involuntary participants in the City's investment pool. As of June 30, 2012, involuntary participants accounted for approximately 98.2% of the pool. Voluntary participants accounted for 1.8% of the pool. Further, the School District, Community College District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2012, $330.0 million in deposits and investments was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 6.0%. Internal participants accounted for 94.0% of the pool.

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

Investment Valuation

Investments are carried at fair value, except for certain non-negotiable investments that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as collateralized certificates of deposits and public time deposits. The fair value of investments is determined monthly and is based on current market prices. The fair value of participants' position in the pool approximates the value of the pool shares. The method used to

determine the value of participants' equity is based on the book value of the participants' percentage participation. In the event that a certain fund overdraws its share of pooled cash, the overdraft is covered by the General Fund and a payable to the General Fund is established in the City's basic financial statements.

Employees' Retirement System (The Retirement System) – Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third-party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 40% and 65%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $1,771.9 million including $103.4 million in recourse debt at June 30, 2012. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third-parties in a purchase and sale transaction.

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

The Charter and Retirement Board policies permit the Retirement System to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the domestic securities for collateral of 102% and international securities for collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults, and therefore, is not reported in the financial statements.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2012 was 75 days. All cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2012, the weighted average maturity of the reinvested cash collateral account was 17 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the related collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statement of fiduciary net assets represents the cash

collateral received from borrowers. Additionally, the income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and expenses in the statement of changes in fiduciary net assets.

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

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, and Agency Funds.

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

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

(e) Loans Receivable

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issue loans to qualified applicants. In addition, the Department of Building Inspection manages other receivables from organizations. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2012, it was determined that $559.9 million of the $627.0 million loan portfolio is not expected to be ultimately collected.

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account. For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. The governmental

fund types use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

(g) Property Held for Resale

Property held for resale includes both residential and commercial and is recorded as other assets at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use. Property held for sale may, during the period it is held by the City, generate rental income, which is recognized as it becomes due and is considered collectible.

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, infrastructure assets, and intangible assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the private-purpose trust fund. Capital assets, except for intangible assets, are defined as assets with an initial individual cost of more than $5 thousand and an estimated useful life in excess of one year. Intangible assets have a capitalization threshold of $100 thousand. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, easements, and intangible assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Facilities and improvements	15 to 175
Infrastructure	15 to 70
Machinery and equipment	2 to 75
Intangible assets	Varies with type

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

(i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination. Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death.

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

(j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion

In the government-wide financial statements, the proprietary fund type and fiduciary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund or fiduciary fund statement of net assets. San Francisco International Airport's bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The remaining bond premiums, discounts, and issuance costs are calculated using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

(k) Fund Equity

Governmental Fund Balance

As prescribed by Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance in one of five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The five fund balance classifications are as follows:

- *Nonspendable* – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The not in spendable form criterion includes items that are not expected to be converted to cash, such as prepaid amounts, as well as certain long-term receivables that would otherwise be classified as unassigned.
- *Restricted* – includes amounts that can only be used for specific purposes due to constraints imposed by external resource providers, by the City's Charter, or by enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed* – includes amounts that can only be used for specific purposes pursuant to a formal action of the City's highest level of decision-making authority, legislation passed by the Board of Supervisors and signed by the Mayor. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned* – includes amounts that are not classified as nonspendable, restricted, or committed, but are intended to be used by the City for specific purposes. Intent is expressed by legislation or by action of the Board of Supervisors or the City Controller to which legislation has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Fund balances for all the major and nonmajor governmental funds as of June 30, 2012, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Advances and Long Term Receivables	$ 19,598	$ 912	$ 20,510
Gift Fund Principal	-	192	192
Total Nonspendable	19,598	1,104	20,702
Restricted			
Rainy Day	34,109	-	34,109
Public Works, Transportation & Commerce	-	80,486	80,486
Human Welfare & Neighborhood Development	-	313,844	313,844
Community Health	-	27,864	27,864
Culture & Recreation	-	101,062	101,062
General Administration & Finance	-	21,470	21,470
General City Responsibilities	-	775	775
Capital Projects	-	562,893	562,893
Debt Service	-	80,708	80,708
Total Restricted	34,109	1,189,102	1,223,211
Committed			
Budget Stabilization	74,330	-	74,330
Recreation and Parks Expenditure Savings	4,946	-	4,946
Total Committed	79,276	-	79,276
Assigned			
Public Protection	16,486	-	16,486
Public Works, Transportation & Commerce	11,482	14,271	25,753
Human Welfare & Neighborhood Development	22,981	4,544	27,525
Community Health	30,705	-	30,705
Culture & Recreation	4,044	2,809	6,853
General Administration & Finance	25,079	6,382	31,461
General City Responsibilities	5,689	-	5,689
Capital Projects	31,516	-	31,516
Litigation and Contingencies	23,637	-	23,637
Subsequent Year's Budget	133,794	-	133,794
Total Assigned	305,413	28,006	333,419
Unassigned	17,329	(136,856)	(119,527)
Total	$ 455,725	$ 1,081,356	$ 1,537,081

General Fund Stabilization and Other Reserves

Rainy Day Reserve – The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5. In any year when the City projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues," in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not exceed 10 percent of the City's actual total General Fund revenues. The City may spend money from the Rainy Day Reserve for any lawful governmental purpose, but only in years when the City projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The City may also spend up to 25 percent of the balance of the Rainy Day Reserve to help the San Francisco Unified School District in years when certain conditions are met. The City does not expect to routinely spend money from the Rainy Day Reserve after evaluating its recent General Fund revenues trends and its Five-Year Financial Plan covering fiscal years 2012-13 through 2016-17.

Budget Stabilization Reserve – The City sets aside as an additional reserve seventy-five percent of (1) real estate transfer taxes in excess of the average collected over the previous five years, (2) proceeds from the sale of land and capital assets, and (3) ending unassigned General Fund balances. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent, after using the amount legally available from the Rainy Day Reserve. The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, may temporarily suspend these provisions following a natural disaster that has caused the Mayor or the Governor to declare an emergency, or for any other purpose. The City does not expect to routinely spend money from the Budget Stabilization Reserve after evaluating its recent General Fund revenues trends and its Five-Year Financial Plan covering fiscal years 2012-13 through 2016-17.

Recreation and Parks Expenditure Savings Reserve – The City maintains a Recreation and Park Expenditure Savings Reserve under Charter Section 16.107, which set aside and maintain such an amount, together with any interest earned thereon, in the reserve account, and any amount unspent or uncommitted at the end of the fiscal year shall be carried forward to the next fiscal year and, subject to the budgetary and fiscal limitations of this Charter, shall be appropriated then or thereafter for capital and/or facility maintenance improvements to park and recreation facilities and other one-time expenditures of the Park and Recreation Department.

Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end are recorded as part of restricted or assigned fund balance. At June 30, 2012, encumbrances recorded in the General Fund and non-major governmental funds were $62.7 million and $476.2 million, respectively.

Restricted Net Assets

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

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

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

June 30, 2012, the government-wide statement of net assets reported restricted assets of $675.2 million in governmental activities and $249.4 million in business-type activities. For governmental activities, $6.4 million is restricted by enabling legislation.

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

The City issued general obligation bonds and certificates of participation for the purpose of rebuilding and improving Laguna Honda Hospital. General obligation bonds were also issued for the purpose of reconstructing and improving waterfront parks and facilities on Port property and for the retrofit and improvement work to ensure a reliable water supply (managed by the Water Enterprise) in an emergency or disaster and for certain street improvements managed by the MTA. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such these general obligation bonds and certificates of participation are reported with unrestricted net assets in the City's governmental activities. In accordance with GASB guidance, the City reclassified $281.5 million of unrestricted net assets of governmental activities, of which $259.0 million reduced net assets invested in capital assets, net of related debt and $22.5 million reduced net assets restricted for capital projects to reflect the total column of the primary government as a whole perspective.

Deficit Net Assets/Fund Balances

The Public Protection Fund had deficits of $4.1 million as of June 30, 2012. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs, which are expected to be collected beyond 120 days of the end of fiscal year 2012. In addition, the Court's Fund and the Culture and Recreation Fund had deficits of $2.5 million and $2.9 million, respectively, as of June 30, 2012, which are expected to be covered with future charges for services.

The San Francisco County Transportation Authority Fund had a $76.6 million deficit as of June 30, 2012. This condition exists because the SFCTA uses short-term debt financing to accelerate the delivery of sales tax funded projects that are owned and operated by other agencies. The negative fund balance will be covered as future sales tax revenues are realized or when the SFCTA refinances the outstanding short-term debt to long-term debt. .

The Moscone Convention Center Fund had a $43.2 million deficit as of June 30, 2012. The deficit will be covered as hotel tax revenues are realized and when long-term debt is issued to refinance the short-term commercial paper obligation.

The Central Shops Internal Service Fund had a deficit in total net assets of $3.5 million as of June 30, 2012 mainly due to the other postemployment benefits liability accrued as per GASB Statement 45. The deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the former Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the Successor Agency on February 1, 2012. At June 30, 2012, the Successor Agency has a deficit of $664.2 million, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the City's Controller.

(l) Interfund Transfers

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

- Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.
- Reimbursements for expenditures, initially made by one fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities and the private-purpose trust fund (former Agency), they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

(n) Pollution Remediation Obligations

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

(o) Cash Flows

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

(p) Extraordinary Item

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the transfer of the assets and liabilities of the former Agency to the Successor Agency; the transfer out of the former Agency's housing assets and related liabilities, and the invalidation of loans and related accrued interest in excess of the State of California Local Agency Investment Fund (LAIF) rate advanced from the City as of February 1, 2012 were recorded as an extraordinary item in the City's financial statements.

The components of the extraordinary gain (loss) recognized are as follows:

Governmental Funds/Governmental Activities:	
Transfers in of the former Agency's housing noncapital assets:	
Current assets	$ 196,776
Property held for sale	6,251
Notes and mortgage receivable, net of allowance for uncollectable amounts	3,196
Transfers in of the former Agency's housing related liabilities	(8,094)
Invalidation of certain loans made between the City and the former Agency on February 1, 2012 pursuant to AB X1 26	(815)
Governmental Fund's extraordinary gain from dissolution of the Redevelopment Agency	197,314
Transfers in of the former Agency's housing capital assets	124,467
Unavailable revenue deferred on governmental fund financial statements but recognized on government-wide statements	3,368
Invalidation of certain loans made between the City and the former Agency on February 1, 2012 pursuant to AB X1 26	(958)
Invalidation of accrued interest on the Advance to the primary government in excess of the LAIF rate pursuant to AB X1 26, as amended	(1,061)
Governmental Activities' extraordinary gain from dissolution of the Redevelopment Agency	$ 323,130
Private-Purpose Trust Fund:	
Transfers in of the former Agency's non-housing noncapital assets	$ 231,499
Transfers in of the former Agency's non-housing capital assets	177,625
Transfers in of the former Agency's short-term liabilities	(49,595)
Transfers in of the former Agency's long-term obligations	(1,046,678)
Extraordinary loss from Redevelopment Agency Dissolution	$ (687,149)

(q) 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.

(r) Reclassifications

Certain amounts, presented as 2010-11 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2011-12 basic financial statements.

(s) Effects of New Pronouncements

During fiscal year 2012, the City implemented the following accounting standards:

GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* in December 2009. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). As discussed in Note 9(d), the SFCTA complied with GASB Statement No. 57 reporting requirements and performed its OPEB actuarial valuation based on a common date.

In June 2011, GASB issued Statement No. 64, *Derivatives Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53,* which clarifies the circumstances in which hedge accounting should continue to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The City implemented the provisions of this statement as of July 1, 2011. The implementation of this statement did not have a significant impact on the City for the fiscal year ended June 30, 2012.

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

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

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

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for the City's fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In June 2012, the GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 67 is effective for financial statements for the City's fiscal year ending June 30, 2014. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

(t) Restricted Assets

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

(3) Reconciliation of Government-wide and Fund Financial Statements

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

Total fund balances of the City's governmental funds, $1,537,081, differs from net assets of governmental activities, $1,920,010, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental funds balance sheets.

	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassifications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 1,853,719	$ -	$ 33,639	$ -	$ 1,887,358
Deposits and investments outside City Treasury	81,248	-	66,539	-	147,787
Receivables, net:					
Property taxes and penalties	55,828	-	-	-	55,828
Other local taxes	228,034	-	-	-	228,034
Federal and state grants and subventions	326,514	-	-	-	326,514
Charges for services	59,761	-	119	-	59,880
Interest and other	7,096	-	643	-	7,739
Due from other funds	52,430	-	-	(52,430)	-
Due from/advances to component unit	28,941	-	-	-	28,941
Loans receivable, net	67,130	-	-	-	67,130
Capital assets, net	-	3,682,775	5,471	-	3,688,246
Deferred charges and other assets	15,837	17,380	7,810	-	41,027
Total assets	2,776,538	3,700,155	114,221	(52,430)	6,538,484
Liabilities					
Accounts payable	254,082	-	7,544	-	261,626
Accrued payroll	122,358	-	2,323	-	124,681
Accrued vacation and sick leave pay	-	146,993	3,079	-	150,072
Accrued workers' compensation	-	225,433	995	-	226,428
Other postemployment benefits obligation	-	739,121	15,380	-	754,501
Estimated claims payable	-	112,394	-	-	112,394
Accrued interest payable	-	9,912	1,758	-	11,670
Deferred tax, grant and subvention revenues	195,043	(182,527)	-	-	12,516
Due to other funds/internal balances	50,876	-	2,821	(52,430)	1,267
Deferred credits and other liabilities	420,264	(118,571)	148	-	301,841
Bonds, loans, capital leases, and other payables	196,834	2,189,358	275,286	-	2,661,478
Total liabilities	1,239,457	3,122,113	309,334	(52,430)	4,618,474
Fund balances/net assets					
Total fund balances/net assets	1,537,081	578,042	(195,113)	-	1,920,010
Total liabilities and fund balances/net assets	$ 2,776,538	$ 3,700,155	$ 114,221	$ (52,430)	$ 6,538,484

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

Cost of capital assets	$ 4,819,990
Accumulated depreciation	(1,137,215)
	$ 3,682,775

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. $ 17,380

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	$ (146,993)
Accrued workers' compensation	(225,433)
Other postemployment benefits obligation	(739,121)
Estimated claims payable	(112,394)
Bonds, loans, capital leases, and other payables	(2,189,358)
Deferred credits and other liabilities	(1,776)
	$(3,415,075)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (9,912)

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

Deferred tax, grant and subvention revenues	$ 182,527
Deferred credits and other liabilities	120,347
	$ 302,874

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

Net assets before adjustments	$ 9,936
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(273,740)
Deferred charges and other assets	3,155
Deferred credits and other liabilities	65,536
	$ (195,113)

In addition, intrafund receivables and payables among various internal service funds of $8 thousand are eliminated.

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

The net change in fund balances for governmental funds, $409,515, differs from the change in net assets for governmental activities, $609,731, 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

	Total Governmental Funds	Long-term Revenues/ Expenses (3)	Capital-related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,352,857	$ 2,998	$ -	$ -	$ -	$ 1,355,855
Business taxes	437,678	-	-	-	-	437,678
Sales and use tax	198,236	-	-	-	-	198,236
Hotel room tax	239,567	-	-	-	-	239,567
Utility users tax	91,676	-	-	-	-	91,676
Other local taxes	353,889	(143)	-	-	-	353,746
Licenses, permits and franchises	39,770	-	-	-	-	39,770
Fines, forfeitures and penalties	30,090	(118)	-	-	-	29,972
Interest and investment income	31,371	(557)	-	639	-	31,453
Rents and concessions	89,183	4,355	-	-	-	93,538
Intergovernmental:						
Federal	420,974	10,075	-	-	-	431,049
State	588,532	(1,952)	-	-	-	586,580
Other	33,181	(82)	-	-	-	33,099
Charges for services	264,856	2,118	-	-	-	266,974
Other revenues	83,634	1,578	-	124	-	85,336
Total revenues	4,255,494	18,272	-	763	-	4,274,529
Expenditures/Expenses						
Expenditures:						
Public protection	1,079,203	72,700	12,966	(6,251)	-	1,158,618
Public works, transportation and commerce	250,879	(8,937)	(29,594)	(1,933)	-	210,415
Human welfare and neighborhood development	918,414	23,708	401	-	-	942,523
Community health	653,263	19,570	1,072	-	-	673,905
Culture and recreation	311,156	13,124	24,815	(15,176)	(26,650)	307,269
General administration and finance	203,157	20,085	11,117	3,459	-	237,818
General City responsibilities	96,150	11	-	(1,124)	1,110	96,147
Debt service:						
Principal retirement	167,465	-	-	-	(167,465)	-
Interest and fiscal charges	103,706	-	-	6,005	434	110,145
Bond issuance costs	5,386	-	-	-	(5,386)	-
Capital outlay	270,094	-	(270,094)	-	-	-
Total expenditures/expenses	4,058,873	140,261	(249,317)	(15,020)	(197,957)	3,736,840
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(407,119)	-	673	(1,187)	156,545	(251,088)
Issuance of bonds and loans:						
Face value of bonds issued	804,090	-	-	-	(804,090)	-
Face value of loans issued	4,359	-	-	-	(4,359)	-
Premium on issuance of bonds	89,336	-	-	-	(89,336)	-
Payment to escrow for refunded debt	(487,390)				487,390	-
Other financing sources-capital leases	12,304	-	-	(12,304)	-	-
Total other financing sources (uses)/changes in net assets	15,580	-	673	(13,491)	(253,850)	(251,088)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	197,314	1,349	124,467	-	-	323,130
Net change for the year	$ 409,515	$ (120,640)	$ 374,457	$ 2,292	$ (55,893)	$ 609,731

(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. $ 2,998

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. 15,274

$ 18,272

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources. $ (136,045)

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenditures are not reported in the statement of activities. (4,216)

$ (140,261)

Other differences between the extraordinary gain from the dissolution of the Redevelopment Agency recorded in the governmental funds and the gain recorded in the statement of activities. $ 1,349

(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	$ 343,998
Depreciation expense	(92,967)
Loss on disposal of capital assets	(128)
Transfer of asset from enterprise fund	673
Write off construction of progress	(1,586)
Extraordinary gain from dissolution of the Redevelopment Agency……	124,467
Difference	$ 374,457

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. $ 2,292

(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 $ 26,650

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	$ 5,386
Amortization of bond issuance costs	(1,110)
Difference	$ 4,276

Bond premiums are a source of funds in the governmental funds when the bonds are issued, but are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period. $ (89,336)

Repayment of bond principal and payment to escrow for refunding 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	$ 167,465
Payment to escrow for refunded debt	487,390
	654,855

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

General obligation bonds	(674,775)
Certificates of participation	(129,315)
Loans	(4,359)
	(808,449)
	$ (153,594)

The outstanding debt related to Certificates of Participation issued by the City for the Laguna Honda Hospital to fund the construction and furnishings was reassigned to the Laguna Honda Hospital Fund. This amount represents the transfer of liability to the Laguna Honda Hospital Fund. $ 156,545

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

Increase in accrued interest	$ (1,601)
Interest payment on capital lease obligations on the Moscone Convention Center	(5,783)
Amortization of bond premiums, discounts and refunding losses	6,922
Decrease in arbitrage rebate liability	28
	$ (434)

(4) Budgetary Results Reconciled to Results in Accordance with Generally Accepted Accounting Principles

Budgetary Results Reconciliation

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

The major differences between the Budget basis "actual" and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (Note 6), revenues not meeting the 120-day availability period and other assets not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2012 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis	$ 557,097
Unrealized Gains/ (Losses) on Investments	6,838
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(46,140)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis	(62,241)
Deferred amounts on loan receivables	(16,551)
Pre-paid lease revenue	(2,876)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation)	19,598
Fund Balance - GAAP basis	$ 455,725

General Fund budget basis fund balance as of June 30, 2012 is composed of the following:

Not available for appropriations:		
Restricted Fund Balance:		
Rainy Day - Economic Stabilization Reserve	$ 31,099	
Rainy Day - One-Time Spending Account	3,010	
Committed Fund Balance:		
Budget Stabilization Reserve	74,330	
Recreation and Parks Expenditure Saving Reserve	4,946	
Assigned for Encumbrances	62,699	
Assigned for Appropriation Carryforward	85,283	
Assigned for Subsequent Years' Budgets:		
Budget Savings Incentive Program City-wide	22,410	
Salaries and benefits costs (MOU)	7,100	
Subtotal		$ 290,877
Available for appropriations:		
Assigned for Litigation and Contingences	23,637	
Assigned for General Reserve	22,306	
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2012-13	104,284	
Unassigned - Available for future appropriations	115,993	
Subtotal		266,220
Fund Balance, June 30, 2012 - Budget basis		$ 557,097

(5) Deposits and Investments

(a) Cash, Deposits and Investments Presentation

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,887,358	$ 1,284,156	$ 647,294	$ 3,818,808	$ 4,363
Deposits and investments outside City Treasury	81,258	10,067	15,580,514	15,671,839	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,884,176	-	1,884,176	-
Deposits and investments outside City Treasury	66,529	877,979	-	944,508	-
Invested securities lending collateral	-	-	914,105	914,105	-
Total deposits & investments	$ 2,035,145	$ 4,056,378	$ 17,141,913	$ 23,233,436	$ 4,363
Cash and deposits				$ 579,836	$ -
Investments				22,653,600	4,363
Total deposits and investments				$ 23,233,436	$ 4,363

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 not covered by Federal Deposit Insurance Corporation insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i) of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. As of June 30, 2012, $0.4 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

(b) Investment Policies

Treasurer's Pool

The City's investment policy addresses the Treasurer's safekeeping and custody practices with financial institutions in which the City deposits funds, types of permitted investment instruments, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and earning a market rate of return on investments. The City has established a Treasury Oversight Committee (Oversight Committee) as defined in the City Administrative Code section 10.80-3, comprised of various City officials, representatives of agencies with large cash balances, and members of the public, 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 an investment report to the Mayor, the Board of Supervisors, members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

Although the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments, the City's investment policy requires that investments in federal agencies should not exceed 70 percent of the total portfolio at the time of purchase. The investment policy also places maturity limits based on the type of security. Investments held by the Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

The table below identifies the investment types that are authorized by the City's investment policy dated October 2011. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portolio	Maximum Investment in One Issuer
U.S. Treasuries	5 years	100%	100%
Federal Agencies	5 years	70% *	30%
Temporary Liquidity Guarantee Program (TLGP)	5 years	30%	None
State and Local Government Agency Obligations	5 years	20%	5% *
Public Time Deposits	13 months *	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Bankers Acceptances	180 days	40%	100%
Commercial Paper	270 days	25%	10% *
Medium Term Notes	13 months *	15%	10%
Repurchase Agreements	30 days *	None	None
Reverse Repurchase Agreements / Securities Lending	45 days *	None	$75 million
Money Market Funds	N/A	None	N/A
State of California Local Agency Investment Fund (LAIF)	N/A	Statutory	None

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

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

Other Funds

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

Employees' Retirement System

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment managers are required to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities and collateralized mortgage obligations. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

The investment policy permits investments in domestic and international debt and equity securities, real estate, securities lending, foreign currency contracts, derivative instruments, and alternative investments, which include investments in a variety of commingled partnership vehicles.

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separate account is authorized to use repurchase arrangements. As of June 30, 2012, $195 million (or 21.3% of cash collateral) consisted of such agreements.

(c) Investment Risks

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity to the fair values of the City's investments to market interest rate fluctuations is provided by the following tables, which shows the distribution of the City's investments by maturity. The Employees' Retirement System's interest rate risk information is discussed in section (e) of this note.

			Investment Maturities	
	S & P Rating	Fair Value	Less than 1 year	1 to 5 years
Primary Government:				
Investments in City Treasury:				
Pooled investments:				
U.S. Treasury Notes	AA+	$ 715,968	$ 75,105	$ 640,863
U.S. Agencies - Coupon	NR - AA+	3,766,586	370,113	3,396,473
Temporary Liquidity Guarantee Program	AA+	125,621	125,621	-
State and local agencies bonds	A- - AA+	61,145	12,809	48,336
Negotiable certificates of deposits	NR - AA+	324,405	324,405	-
Commercial paper	A-1+	29,876	29,876	-
Public time deposits	NR - A	970	970	-
Corporate notes	A - AA+	148,548	148,548	-
Less: Treasure Island Development Authority Investments with City Treasury	n/a	(4,363)	(4,363)	-
Subtotal pooled investments		5,168,756	1,083,084	4,085,672
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	NR	5,690	-	5,690
Subtotal investments in City Treasury		5,174,446	$ 1,083,084	$ 4,091,362
Investments Outside City Treasury:				
(Governmental and Business-Activites and Private-Purpose Trust)				
U.S. Treasury Bills	NR	43,397	$ 43,397	$ -
U.S. Treasury Notes	AA+	113,789	53,324	60,465
U.S. Agencies - Coupon	AA+	186,449	33,889	152,560
U.S. Agencies - Discount	A-1	306,853	306,853	-
Money Market Mutual funds	AAAm	499,973	499,973	-
Guaranteed Investment Contract	A+	15,958	15,958	-
Commercial Paper	A-1	990	990	-
Investment in Derivative Instrument	n/a	13,305	733	12,572
Subtotal investments outside City Treasury		1,180,714	$ 955,117	$ 225,597
Employees' Retirement System investments		16,298,440		
Total Primary Government		22,653,600		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	4,363	$ 4,363	$ -
Total Investments		$ 22,657,963		

On August 5, 2011, Standard & Poor's ratings service downgraded the United States' long-term rating from AAA to AA+. As a consequence, Standard & Poor's subsequently downgraded all Standard & Poor's-rated securities backed by the full faith and credit of the United States government, its agencies and instrumentalities from AAA to AA+. As of June 30, 2012, the investments in the City Treasury had a weighted average maturity of 973 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Standard & Poor's rating for each of the investment types are shown in the table above.

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name except for the Airport's investments with trustees in the amount of $350.3 million related to the issuance of bonds that are uninsured, unregistered and held by the counterparty's trust departments but not in the City's name. These amounts are included in the investments outside City Treasury shown in the table above.

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code and/or its investment policy. U.S. Treasury and Agency securities explicitly guaranteed by the U.S. government are not subject to single issuer limitation.

As of June 30, 2012, the City Treasurer investment pool has investments in U.S. Agencies that represent 5% or more of the total Pool in the following:

Federal National Mortgage Association	20.3%
Federal Home Loan Bank	19.7%
Federal Home Loan Mortgage Corporation	16.1%
Federal Farm Credit Bank	11.1%
Federal Agriculture Mortgage Corporation	5.6%

In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments (excluding U.S. Treasury investments and money market mutual funds) outside City Treasury as of June 30, 2012:

Airport:	
Federal Home Loan Bank	45.4%
Federal Home Loan Mortgage Corporation	29.2%
Federal National Mortgage Association	13.5%
Water Enterprise:	
Federal Home Loan Mortgage Corporation	24.5%
Federal National Mortgage Association	6.5%
Hetch Hetchy Water and Power:	
Federal Home Loan Bank	31.3%
Wastewater Enterprise:	
Federal Home Loan Mortgage Corporation	24.5%
Federal Farm Credit Bank	6.5%

Airport's Forward Purchase and Sale Agreements

Objective and Terms – The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds in investments delivered in accordance with three Forward Purchase and Sale Agreements (FPSAs) that are intended to produce guaranteed earnings rates of 3.450% - 4.349%, depending on the agreement. The three FPSAs are each ten year agreements that expire between May 2013 and November 2014.

Provider	Purpose	Amount	Fixed Rate	Start Date	End Date
Merrill Lynch Capital Services	Reserve Funds	$100,000	4.329%	12/10/2004	11/1/2014
Citigroup Financial Products	Reserve Funds	42,700	3.450%	5/15/2003	5/1/2013
Morgan Stanley Capital Services	Debt Service Fund[1]	47,073	4.349%	1/29/2004	11/1/2013

[1] *The amount invested varies depending on principal and interest deposits on the outstanding bonds.*

Under each FPSA, the Senior Trustee purchases a predetermined amount and type of investment security from the provider (every month for the debt service fund and every six months for the reserve fund), at prices that will result in the guaranteed fixed rate of return. All investments under the FPSAs are made with the intention that securities will be held to maturity, and all are invested only in specified eligible securities pursuant to the California Government Code and as defined by the Airport's 1991 Master Resolution. These investments are scheduled to mature on or before each debt service payment date on the associated bonds.

If necessary, the Airport may direct the Senior Trustee to sell the securities at any time prior to their maturity in the open market and use the proceeds of such sale for the permitted purposes of the applicable fund. The securities are recorded at their fair value as of June 30, 2012, and not at the guaranteed rate of return of the FPSA under which the investments were delivered. As of June 30, 2012, the accrued interest was recorded in the interest receivable account.

Fair Value - The fair value of each FPSA takes into consideration the prevailing interest rate environment and the specific terms and conditions of the FPSA. All fair values were estimated using the zero-coupon discounting method. This method calculates the future earnings under each FPSA, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve and compared to the future earnings at the guaranteed rate, also discounted using the spot rates implied by the current yield curve.

As of June 30, 2012, the fair values of the FPSAs t are as follows:

Provider	June 30, 2012
Merrill Lynch Capital Services	$ 8,439
Citigroup Financial Products, Inc.	733
Morgan Stanley Capital Services	4,133
Total	$ 13,305

Credit Risk – The provider under each FPSA sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. The Airport has received bankruptcy opinions of counsel of the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of the bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its funds in alternative investments available at that time, which would likely produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport as shown above.

The providers and guarantors of the FPSAs and their credit ratings are as follows:

Provider	Guarantor	Guarantor credit ratings June 30, 2012 (Moody's/S&P)
Merrill Lynch Capital Services	Merrill Lynch & Company	Baa2/A-
Citigroup Financial Products, Inc.	Citigroup Inc.	Baa2/A-
Morgan Stanley Capital Services	Morgan Stanley	Baa1/A-

Termination Risk – Under the terms of the FPSAs, if an investment provider is downgraded below "A-" by Standard & Poor's or "A3" by Moody's, a "Downgrade Event" occurs, and the provider must take corrective action by either assigning the FPSA to a more highly rated investment provider, obtaining a guaranty from a more highly rated guarantor, or collateralizing its obligations under the FPSA. If the provider fails to cure the Downgrade Event within 10 business days, the Airport has a 45-day option to terminate the FPSA and make or receive a cash payment, depending on the then market value of the FPSA.

Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2") resulting in a Downgrade Event. Consequently, Merrill Lynch Capital Services (MLCS) entered into a collateral agreement in January 2012 with the Senior Trustee for the benefit of the Airport to post collateral equal to 105% of the fair value (or "termination amount") calculated on a weekly basis to secure MLCS' obligations under the FPSA. The collateral delivered by MLCS is held by U.S. Bank National Association, as custodian (the Custodian). If an event of default by MLCS occurs under the FPSA and the FPSA is terminated, the Senior Trustee is entitled to instruct the Custodian to transfer the collateral to the Senior Trustee or to liquidate the collateral and transfer the proceeds to the Senior Trustee.

Citigroup Inc. and Morgan Stanley were each downgraded by Moody's to "Baa2" and "Baa1", respectively, on June 21, 2012, resulting in Downgrade Events under their respective FPSAs. The Airport is discussing appropriate cures to the Downgrade Events with each of these providers. The downgrade of any FPSA increases the risk to the Airport that the provider will not perform under the FPSA. Under each FPSA, the provider sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. The Airport has received bankruptcy opinions of counsel to the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its fund in alternative investments available at the time, which would like produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport.

(d) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2012:

Statement of Net Assets	
Net assets held in trust for all pool participants	$ 5,707,347
Equity of internal pool participants	$ 5,156,346
Equity of separately managed account participant	227,635
Equity of external pool participants	323,366
Total equity	$ 5,707,347
Statement of Changes in Net Assets	
Net assets at July 1, 2011	$ 4,584,949
Net change in investments by pool participants	1,122,398
Net assets at June 30, 2012	$ 5,707,347

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2012:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled investments:				
U.S. government securities	0.42% - 2.00%	07/15/12 - 03/31/17	$ 700,000	$ 715,968
Federal agencies	0.15% - 2.31%	10/09/12 - 06/19/17	3,713,615	3,766,586
Temporary Liquidity Guarantee Program	1.41% - 1.79%	09/28/12 - 12/21/12	125,000	125,621
State and local agencies	0.24% - 1.04%	03/01/13 - 11/01/14	58,845	61,145
Negotiable certificates of deposits	0.31% - 0.72%	07/02/12 - 06/07/13	325,000	324,405
Commercial paper	0.60%	01/18/13	30,000	29,876
Public time deposits	0.40% - 0.53%	08/03/12 - 04/09/13	970	970
Corporate notes	0.42% - 0.71%	08/10/12 - 05/01/13	147,200	148,548
			$ 5,100,630	5,173,119
Segregated account:				
Local agencies	3.50%	12/01/16	$ 5,690	5,690
Carrying amount of deposits with Treasurer				528,538
Total cash and investments with Treasurer				$ 5,707,347

(e) Retirement System Investments

The Retirement System's investments as of June 30, 2012 are summarized as follows:

Fixed Income Investments:	
Short-term bills and notes	$ 706,721
Debt securities:	
U.S. Government and agencies	1,036,859
Other debt securities	3,010,690
Subtotal debt securities	4,047,549
Total fixed income investments	4,754,270
Equity securities:	
Domestic	4,025,320
International	3,195,651
Total equity securities	7,220,971
Real estate holdings	2,021,472
Alternative investments	1,403,412
Foreign currency contracts, net	(15,790)
Investment in lending agent's short-term investment pool	914,105
Total Retirement System Investments	$ 16,298,440

Interest Rate Risk

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

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2012:

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 143,976	$ -	$ 52,966	$ 3,933	$ 87,077
Bank Loans	16,260	4,798	11,148	314	-
Collateralized Bonds	12,497	-	-	609	11,888
Commercial Mortgage-Backed	552,518	-	35,594	52,758	464,166
Commingled and other fixed income funds	233,922	233,712	19	-	191
Corporate Bonds	1,400,196	386,810	404,647	404,438	204,301
Corporate Convertible Bonds	211,337	22,680	116,187	16,675	55,795
Government Agencies	172,929	154,279	8,291	10,359	-
Government Bonds	544,099	2,069	403,077	62,083	76,870
Government Mortgage-Backed Securities	547,152	193,215	2,276	19,190	332,471
Index Linked Government Bonds	10,745	-	10,745	-	-
Invested Cash	393,657	393,657	-	-	-
Mortgages	72	-	72	-	-
Municipal/Provincial Bonds	42,367	-	12,814	2,093	27,460
Non-Government Backed Collateralized Mortgage Obligations	157,940	-	2,865	2,329	152,746
Options	991	947	44	-	-
Short Term Bills and Notes	576	576	-	-	-
Short Term Investment Funds	312,489	312,489	-	-	-
Swaps	547	-	2,047	(1,158)	(342)
Total	$ 4,754,270	$ 1,705,232	$ 1,062,792	$ 573,623	$ 1,412,623

Credit Risk

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

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

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2012. Investments issued or explicitly guaranteed by the U.S. government of $854.5 million as of June 30, 2012 are not considered to have credit risk and are excluded from the table below.

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 233,579	6.0%
AA	109,844	2.8%
A	302,566	7.8%
BBB	641,007	16.4%
BB	190,713	4.9%
B	300,298	7.7%
CCC	111,816	2.9%
CC	10,775	0.3%
D	16,276	0.4%
Not Rated	1,982,856	50.8%
Total	$ 3,899,730	100.0%

The securities listed as "Not Rated" include short-term investment funds, U.S. government agency securities, and investments that invest primarily in rated securities, such as comingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 11.5% for 2012.

Concentration of Credit Risk

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

As of June 30, 2012, the Retirement System had no investments of a single issuer that equal or exceeded 5% of total Retirement System net assets.

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2012, $73.5 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name. Cash received as securities lending collateral is invested in a separately managed account using investment guidelines approved by the Retirement System and held with the System's custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

Foreign Currency Risk

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equities, fixed income, alternative investments, real estate, and foreign currency contracts. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposure to foreign currency risk as of June 30, 2012 is as follows:

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$ 651	$ 98,421	$ 22,639	$ 6,812	$ -	$ (145,518)	$ (16,995)
Brazilian real	-	25,994	26,532	-	-	37,223	89,749
British pound sterling	114	397,375	-	-	-	(30,081)	367,408
Canadian dollar	84	55,879	40,315	-	-	(6,854)	89,424
Chilean peso	-	-	-	-	-	11,606	11,606
Chinese yuan renminbi	-	-	-	-	-	42,782	42,782
Colombian peso	-	-	-	-	-	35,097	35,097
Czech koruna	-	884	-	-	-	(23,991)	(23,107)
Danish krone	213	20,697	-	-	-	(2,330)	18,580
Euro	22,369	536,231	1,397	239,888	-	(386,953)	412,932
Hong Kong dollar	1,035	165,492	-	-	-	1,487	168,014
Hungarian forint	-	818	-	-	-	24,903	25,721
Indian rupee	-	-	-	-	-	32,429	32,429
Indonesian rupiah	137	13,697	-	-	-	12,501	26,335
Japanese yen	3,038	382,914	-	-	63,121	(170,036)	279,037
Malaysian ringgit	-	3,297	-	-	-	(11,180)	(7,883)
Mexican peso	1,135	7,744	24,641	-	-	31,709	65,229
New Israeli shekel	13	4,759	-	-	-	(35,643)	(30,871)
New Romanian leu	-	-	-	-	-	6,553	6,553
New Russian ruble	-	-	-	-	-	27,767	27,767
New Taiwan dollar	100	24,569	-	-	-	(42,376)	(17,707)
New Zealand dollar	218	-	-	-	-	(2,706)	(2,488)
Nigerian naira	576	-	-	-	-	-	576
Norwegian krone	36	15,261	-	-	-	196,559	211,856
Peruvian nuevo sol	-	-	-	-	-	10,638	10,638
Philippine peso	-	698	-	-	-	19,545	20,243
Polish zloty	-	1,351	-	-	-	32,081	33,432
Singapore dollar	147	45,707	-	-	-	(34,614)	11,240
South African rand	52	13,607	-	-	-	23,596	37,255
South Korean won	755	87,949	-	-	-	9,137	97,841
Swedish krona	51	47,538	-	-	-	141,599	189,188
Swiss franc	111	151,403	-	-	-	(159,824)	(8,310)
Thai baht	-	19,241	-	-	-	7,950	27,191
Turkish lira	-	10,124	2,069	-	-	59,439	71,632
Total	$ 30,835	$ 2,131,650	$ 117,593	$ 246,700	$ 63,121	$ (287,505)	$ 2,302,394

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Derivative Instruments

As of June 30, 2012, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The fair value of the exchange traded derivative instruments, such as futures, options, rights and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments

The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2012:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ (15,791)	$ (15,791)
Other Contracts	(a)	109	109
Futures			
Equity Contracts	1	-	-
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	(29,717)	991	(22)
Swaps			
Credit Contracts	111,153	1,035	(613)
Interest Rate Contracts	3,100	(488)	(488)
Rights/Warrants			
Equity Contracts	338 shares	28	(252)
Total		$ (14,116)	$ (17,057)

(a) The Retirement System's investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the US dollar. As a result, a US dollar-based notional value is not included.

All investment derivatives are reported as investments at fair value in the statement of fiduciary net assets. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statement of changes in fiduciary net assets.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2012, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $11.9 million and $26.7 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 96.9% of the positions while 3.1% were rated below A as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch).

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2012, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

Interest Rate Risk

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2012.

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Swaps					
Credit Contracts	$ 1,035	$ -	$ 2,047	$ (670)	$ (342)
Interest Rate Contracts	(488)	-	-	(488)	-
Forwards					
Other Contracts	109	109	-	-	-
Total	$ 656	$ 109	$ 2,047	$ (1,158)	$ (342)

The following table details the reference rate, notional amount, and fair value of interest rate swaps at June 30, 2012 that are highly sensitive to changes in interest rates:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (488)

Foreign Currency Risk

At June 30, 2012, the Retirement System is exposed to foreign currency risk on its investments in forwards and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2012:

Currency	Forwards	Options	Rights / Warrants	Total
Australian dollar	$ (14,197)	$ 13	$ 17	$ (14,167)
Brazilian real	2,355	-	-	2,355
British pound sterling	(1,562)	52	-	(1,510)
Canadian dollar	(1,282)	5	-	(1,277)
Chilean peso	394	-	-	394
Chinese yuan renminbi	56	-	-	56
Colombian peso	(265)	-	-	(265)
Czech koruna	518	-	-	518
Danish krone	(20)	-	-	(20)
Euro	(149)	226	11	88
Hungarian forint	(310)	-	-	(310)
Indian rupee	989	-	-	989
Indonesian rupiah	(234)	-	-	(234)
Japanese yen	(1,110)	-	-	(1,110)
Malaysian ringgit	971	-	-	971
Mexican peso	(3,214)	-	-	(3,214)
New Israeli shekel	1,351	-	-	1,351
New Romanian Leu	133	-	-	133
New Russian ruble	643	-	-	643
New Taiwan dollar	831	-	-	831
New Zealand dollar	(7,351)	218	-	(7,133)
Norwegian krone	(636)	-	-	(636)
Peruvian nuevo sol	2	-	-	2
Philippine peso	(766)	-	-	(766)
Polish zloty	183	-	-	183
Singapore dollar	(51)	-	-	(51)
South African rand	(39)	-	-	(39)
South Korean won	(603)	-	-	(603)
Swedish krona	(1,838)	-	-	(1,838)
Swiss franc	1,130	90	-	1,220
Thai baht	39	-	-	39
Turkish lira	(851)	-	-	(851)
Total	$ (24,883)	$ 604	$ 28	$ (24,251)

Contingent Features

At June 30, 2012, the Retirement System held no positions in derivatives containing contingent features.

Currency Management Program

The Retirement System's currency management program is managed by three investment managers. The objective of the currency management program is to produce a risk-adjusted return of approximately 100 basis points.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency management program.

Each currency manager manages currency risk through foreign exchange spot and forward contracts, and currency options. Only international equities are subject to the currency management program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2012, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $3.4 billion, which represented 22.3% of fiduciary net assets. For the year ended June 30, 2012, the currency overlay program lost $21.0 million or 0.62% of the international equity portfolio (including cash and other assets) and 0.14% of the Retirement System's average total portfolio value.

Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash and non-cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and international securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at any time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the corresponding collateral.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net assets. As of June 30, 2012, 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.

As of June 30, 2012, the Retirement System lent $1.2 billion in securities and received collateral of $0.9 billion and $0.3 billion in cash and securities, respectively, from borrowers. The cash collateral is invested in a separately managed account by the lending agent using investment guidelines approved by the Retirement System. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $0.9 billion. The net unrealized loss of $3.3 million is presented as part of the net depreciation in fair value of investments in the statement of changes in the fiduciary net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the separately managed securities lending account due to the fluctuation in the fair value of assets held by the account.

The Retirement System's securities lending transactions as of June 30, 2012, are summarized in the following table:

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral:			
International Corporate Fixed Income	$ 2,921	$ 3,011	$ -
International Equities	87,075	89,637	-
U.S. Corporate Fixed Income	175,000	177,029	-
U.S. Equities	431,068	433,707	-
U.S. Government Fixed Income	210,324	213,986	-
Securities Loaned with Non-Cash Collateral:			
International Corporate Fixed Income	475	-	487
International Equities	262,284	-	272,205
International Government Fixed Income	30,389	-	32,418
U.S. Corporate Fixed Income	234	-	236
U.S. Equities	2,798	-	2,816
Total	$ 1,202,568	$ 917,370	$ 308,162

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2012.

Investment Type	Fair Value	Less than 1 year	1 - 5 years
Asset Backed Securities	$ 16,143	$ 11,412	$ 4,731
Commercial Paper	24,995	24,995	-
Government Agencies	52,899	17,862	35,037
Negotiable Certificates of Deposits	80,012	80,012	-
Repurchase Agreements	195,000	195,000	-
Short Term Investment Funds	545,056	545,056	-
Total	$ 914,105	$ 874,337	$ 39,768

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2012 is as follows:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 26,266	2.9%
AA	90,390	9.9%
A	249,101	27.2%
BB	179	0.0%
B	1,551	0.2%
CCC	1,562	0.2%
Not Rated	545,056	59.6%
Total	$ 914,105	100.0%

Investments in Real Estate Holdings

Real estate investments represent the Retirement System's interests in real estate limited partnerships. The changes in these investments during the year ended June 30, 2012 are summarized as follows:

Investments:	
Beginning of the year	$ 1,266,863
Capital investments	79,482
Equity in net earnings	69,757
Net appreciation in fair value	106,617
Capital distributions	(119,307)
End of the year	$ 1,403,412

(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 secured property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are levied on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the date the bill is mailed.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the adjusted 1975-1976 value of the property and new construction value added after the 1975-1976 valuation or on a flat 1% rate of the sales price of the property for changes in ownership. Taxable values on properties (exclusive of increases related to sales and construction) can rise or be adjusted at the lesser of 2% per year or the inflation rate as determined by the Board of Equalization's California Consumer Price Index.

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 the City's debt service amounted to approximately $179.9 million for the year ended June 30, 2012.

Taxable valuation for the year ended June 30, 2012 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the former Redevelopment Agency) was approximately $151 billion, an increase of 2.5%. The secured tax rate was $1.1718 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: about $0.65 for general government, about $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 $0.1718 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.82% and 1.91%, respectively, of the current year tax levy, for an average delinquency rate of 1.82% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required; transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2012 was $18.0 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2012 was as follows:

Governmental Activities:

	Balance July 1, 2011	Increases *	Decreases *	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 157,308	$ 124,550	$ -	$ 281,858
Intangible assets	25,475	11,101	(687)	35,889
Construction in progress	365,241	312,979	(104,759)	573,461
Total capital assets, not being depreciated	548,024	448,630	(105,446)	891,208
Capital assets, being depreciated:				
Facilities and improvements	3,076,718	62,844	(1,767)	3,137,795
Machinery and equipment	348,288	14,758	(3,704)	359,342
Infrastructure	428,250	46,995	-	475,245
Intangible assets	2,321	708	-	3,029
Total capital assets, being depreciated	3,855,577	125,305	(5,471)	3,975,411
Less accumulated depreciation for:				
Facilities and improvements	735,517	60,809	(1,653)	794,673
Machinery and equipment	295,101	18,862	(3,682)	310,281
Infrastructure	58,331	14,404	-	72,735
Intangible assets	202	482	-	684
Total accumulated depreciation	1,089,151	94,557	(5,335)	1,178,373
Total capital assets, being depreciated, net	2,766,426	30,748	(136)	2,797,038
Governmental activities capital assets, net	$ 3,314,450	$ 479,378	$ (105,582)	$ 3,688,246

* The increases and decrease include transfers of categories of capital assets from construction in progress to depreciable categories. Upon dissolution of the former Agency pursuant to AB X1 26 (See Note 2(p)), capital assets designated for housing activities in the amount of $124.5 million previously recorded in the former Agency's records were transferred to the City as its Housing Successor on February 1, 2012.

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2012, was as follows:

San Francisco International Airport

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 2,787	$ 287	$ -	$ 3,074
Construction in progress	83,830	101,421	(99,399)	85,852
Total capital assets, not being depreciated	86,617	101,708	(99,399)	88,926
Capital assets, being depreciated:				
Facilities and improvements	5,640,378	57,503	(64,608)	5,633,273
Machinery and equipment	97,573	92,020	(2,587)	187,006
Intangible assets	141,086	262	-	141,348
Total capital assets, being depreciated	5,879,037	149,785	(67,195)	5,961,627
Less accumulated depreciation for:				
Facilities and improvements	1,997,652	142,831	-	2,140,483
Machinery and equipment	58,576	17,301	(2,572)	73,305
Intangible assets	95,162	7,177	-	102,339
Total accumulated depreciation	2,151,390	167,309	(2,572)	2,316,127
Total capital assets, being depreciated, net	3,727,647	(17,524)	(64,623)	3,645,500
Capital assets, net	$ 3,814,264	$ 84,184	$ (164,022)	$ 3,734,426

San Francisco Water Enterprise

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 18,812	$ 5,992	$ (93)	$ 24,711
Intangible assets	679	-	-	679
Construction in progress	1,228,574	823,105	(665,819)	1,385,860
Total capital assets, not being depreciated	1,248,065	829,097	(665,912)	1,411,250
Capital assets, being depreciated:				
Facilities and improvements	1,745,099	629,486	(6)	2,374,579
Machinery and equipment	219,920	23,837	(196)	243,561
Intangible assets	9,485	2,349	-	11,834
Total capital assets, being depreciated	1,974,504	655,672	(202)	2,629,974
Less accumulated depreciation for:				
Facilities and improvements	631,412	50,315	(23)	681,704
Machinery and equipment	110,296	12,572	(195)	122,673
Intangible assets	973	1,708	-	2,681
Total accumulated depreciation	742,681	64,595	(218)	807,058
Total capital assets, being depreciated, net	1,231,823	591,077	16	1,822,916
Capital assets, net	$ 2,479,888	$ 1,420,174	$ (665,896)	$ 3,234,166

Hetch Hetchy Water and Power

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 4,665	$ 55	$ -	$ 4,720
Intangible assets	1,437	-	-	1,437
Construction in progress	59,760	46,277	(39,898)	66,139
Total capital assets, not being depreciated	65,862	46,332	(39,898)	72,296
Capital assets, being depreciated:				
Facilities and improvements	458,136	35,526	(200)	493,462
Machinery and equipment	74,325	3,954	(198)	78,081
Intangible assets	45,715	-	-	45,715
Total capital assets, being depreciated	578,176	39,480	(398)	617,258
Less accumulated depreciation for:				
Facilities and improvements	285,218	9,312	(127)	294,403
Machinery and equipment	37,902	4,060	(189)	41,773
Intangible assets	17,500	483	-	17,983
Total accumulated depreciation	340,620	13,855	(316)	354,159
Total capital assets, being depreciated, net	237,556	25,625	(82)	263,099
Capital assets, net	$ 303,418	$ 71,957	$ (39,980)	$ 335,395

Municipal Transportation Agency

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 26,501	$ 15,250	$ (256)	$ 41,495
Construction in progress	286,532	188,819	(52,990)	422,361
Total capital assets, not being depreciated	313,033	204,069	(53,246)	463,856
Capital assets, being depreciated:				
Facilities and improvements	615,763	18,072	(458)	633,377
Machinery and equipment	1,205,228	26,444	(19,414)	1,212,258
Infrastructure	1,165,135	10,068	-	1,175,203
Total capital assets, being depreciated	2,986,126	54,584	(19,872)	3,020,838
Less accumulated depreciation for:				
Facilities and improvements	214,419	13,772	(458)	227,733
Machinery and equipment	651,008	71,195	(19,135)	703,068
Infrastructure	404,654	33,533	-	438,187
Total accumulated depreciation	1,270,081	118,500	(19,593)	1,368,988
Total capital assets, being depreciated, net	1,716,045	(63,916)	(279)	1,651,850
Capital assets, net	$ 2,029,078	$ 140,153	$ (53,525)	$ 2,115,706

San Francisco General Hospital Medical Center

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	25,057	12,872	(157)	37,772
Total capital assets, not being depreciated	25,599	12,872	(157)	38,314
Capital assets, being depreciated:				
Facilities and improvements	138,338	1,064	-	139,402
Machinery and equipment	60,117	5,021	-	65,138
Total capital assets, being depreciated	198,455	6,085	-	204,540
Less accumulated depreciation for:				
Facilities and improvements	111,320	3,154	-	114,474
Machinery and equipment	53,997	2,076	-	56,073
Total accumulated depreciation	165,317	5,230	-	170,547
Total capital assets, being depreciated, net	33,138	855	-	33,993
Capital assets, net	$ 58,737	$ 13,727	$ (157)	$ 72,307

San Francisco Wastewater Enterprise

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 21,210	$ -	$ -	$ 21,210
Intangible assets	3,046	-	-	3,046
Construction in progress	107,176	138,439	(110,912)	134,703
Total capital assets, not being depreciated	131,432	138,439	(110,912)	158,959
Capital assets, being depreciated:				
Facilities and improvements	2,192,198	102,138	-	2,294,336
Machinery and equipment	63,244	8,307	(286)	71,265
Intangible assets	3,434	497	-	3,931
Total capital assets, being depreciated	2,258,876	110,942	(286)	2,369,532
Less accumulated depreciation for:				
Facilities and improvements	917,690	40,182	-	957,872
Machinery and equipment	31,464	3,922	(286)	35,100
Intangible assets	687	695	-	1,382
Total accumulated depreciation	949,841	44,799	(286)	994,354
Total capital assets, being depreciated, net	1,309,035	66,143	-	1,375,178
Capital assets, net	$ 1,440,467	$ 204,582	$ (110,912)	$ 1,534,137

Port of San Francisco

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	12,744	41,159	(9,864)	44,039
Total capital assets, not being depreciated	118,326	41,159	(9,864)	149,621
Capital assets, being depreciated:				
Facilities and improvements	347,889	12,943	(4,102)	356,730
Machinery and equipment	16,361	827	(266)	16,922
Infrastructure	27,912	25	-	27,937
Intangible assets	3,747	1,107	-	4,854
Total capital assets, being depreciated	395,909	14,902	(4,368)	406,443
Less accumulated depreciation for:				
Facilities and improvements	232,352	12,504	(4,102)	240,754
Machinery and equipment	11,060	827	(23)	11,864
Infrastructure	4,536	1,365	-	5,901
Intangible assets	2,453	374	-	2,827
Total accumulated depreciation	250,401	15,070	(4,125)	261,346
Total capital assets, being depreciated, net	145,508	(168)	(243)	145,097
Capital assets, net	$ 263,834	$ 40,991	$ (10,107)	$ 294,718

Laguna Honda Hospital

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ (914)	$ -
Construction in progress	-	27,201	(27,190)	11
Total capital assets, not being depreciated	914	27,201	(28,104)	11
Capital assets, being depreciated:				
Facilities and improvements	546,781	28,103	-	574,884
Machinery and equipment	30,471	1,112	-	31,583
Property held under lease	771	-	-	771
Intangible assets	256	17	-	273
Total capital assets, being depreciated	578,279	29,232	-	607,511
Less accumulated depreciation for:				
Facilities and improvements	25,704	11,130	-	36,834
Machinery and equipment	11,951	4,104	-	16,055
Property held under lease	756	10	-	766
Intangible assets	26	53	-	79
Total accumulated depreciation	38,437	15,297	-	53,734
Total capital assets, being depreciated, net	539,842	13,935	-	553,777
Capital assets, net	$ 540,756	$ 41,136	$ (28,104)	$ 553,788

Other Fund - San Francisco Market Corporation

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Construction in progress	$ 2,193	$ 579	$ -	$ 2,772
Total capital assets, not being depreciated	2,193	579	-	2,772
Capital assets, being depreciated:				
Facilities and improvements	9,739	3	-	9,742
Machinery and equipment	60	12	(1)	71
Total capital assets, being depreciated	9,799	15	(1)	9,813
Less accumulated depreciation for:				
Facilities and improvements	6,144	274	-	6,418
Machinery and equipment	24	14	(1)	37
Total accumulated depreciation	6,168	288	(1)	6,455
Total capital assets, being depreciated, net	3,631	(273)	-	3,358
Capital assets, net	$ 5,824	$ 306	$ -	$ 6,130

Total Business-type Activities

	Balance July 1, 2011	Increases *	Decreases *	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 181,013	$ 21,584	$ (1,263)	$ 201,334
Intangible assets	5,162	-	-	5,162
Construction in progress	1,805,866	1,352,682	(979,039)	2,179,509
Total capital assets, not being depreciated	1,992,041	1,374,266	(980,302)	2,386,005
Capital assets, being depreciated:				
Facilities and improvements	11,694,321	884,839	(69,374)	12,509,786
Machinery and equipment	1,767,299	161,533	(22,948)	1,905,884
Infrastructure	1,193,047	10,093	-	1,203,140
Property held under lease	771	-	-	771
Intangible assets	203,723	4,232	-	207,955
Total capital assets, being depreciated	14,859,161	1,060,697	(92,322)	15,827,536
Less accumulated depreciation for:				
Facilities and improvements	4,421,911	283,474	(4,710)	4,700,675
Machinery and equipment	966,278	116,071	(22,401)	1,059,948
Infrastructure	409,190	34,898	-	444,088
Property held under lease	756	10	-	766
Intangible assets	116,801	10,490	-	127,291
Total accumulated depreciation	5,914,936	444,943	(27,111)	6,332,768
Total capital assets, being depreciated, net	8,944,225	615,754	(65,211)	9,494,768
Capital assets, net	$ 10,936,266	$ 1,990,020	$ (1,045,513)	$ 11,880,773

* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public protection	$ 14,124
Public works transportation and commerce	17,029
Human welfare and neighborhood development	426
Community Health	1,225
Culture and recreation	40,035
General administration and finance	20,128
Capital assets held by the City's internal service funds charged to the various functions on a prorated bases	1,590
Total depreciation expense - governmental activities	$ 94,557
Business-type activities:	
Airport	$ 167,309
Water	64,595
Power	13,855
Transportation	118,500
Hospitals	20,527
Sewer	44,799
Port	15,070
Market	288
Total depreciation expense - business-type activities	$ 444,943

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled $2.2 billion as of June 30, 2012. Hetch Hetchy had intangible assets of water rights having estimated useful lives from 51 to 100 years, which totaled $45.6 million as of June 30, 2012. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2012.

During the year ended June 30, 2012, the City's enterprise funds incurred total interest expense and interest income of approximately $436.0 million and $82.5 million, respectively. Of these amounts, net interest expense of approximately $82.1 million was capitalized.

During the year ended June 30, 2012, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $8.7 million, $1.6 million, and $2.1 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expenses in the accompanying financial statements.

(8) Bonds, Loans, Capital Leases and Other Payables

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and business-type activities for the year ended June 30, 2012, are as follows:

Type of Obligation	July 1, 2011	Additional Obligation	Current Maturities	June 30, 2012
Governmental activities:				
Commercial paper				
San Francisco County Transportation Authority.....	$ 150,000	$ -	$ -	$ 150,000
Multiple Capital Projects.....	17,519	247,517	(218,202)	46,834
Government activities short-term obligations.....	$ 167,519	$ 247,517	$ (218,202)	$ 196,834
Business-type activities:				
Commercial paper				
San Francisco International Airport.....	$ -	$ 10,450	$ -	$ 10,450
San Francisco Water Enterprise.....	150,000	24,000	-	174,000
Business-type activities short-term obligations.....	$ 150,000	$ 34,450	$ -	$ 184,450

San Francisco County Transportation Authority

In April 2004, the San Francisco County Transportation Authority (SFCTA) issued an initial tranche of $50.0 million and in September 2004, the SFCTA issued the second tranche of $100.0 million of a programmed $200.0 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide a source of financing for the Authority's voter-approved Proposition K Expenditure Plan. Under this program, the SFCTA is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable line of credit (LOC) issued by Landesbank Baden–Württemberg, New York Branch in the amount up to $217.8 million. On July 12, 2005, Landesbank Baden-Wurttenberg extended the expiration date of the irrevocable LOC from April 14, 2007 to December 29, 2015 and on April 13, 2010, increased the LOC fees from 14 basis points to 90 basis points based on the SFCTA's AA credit rating. The commercial paper notes are secured by a first lien gross pledge of the SFCTA's Sales Tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2012, $150.0 million in commercial paper notes were outstanding and maturing 10 days after year-end with interest rates ranging from 0.25% to 0.27%. For the year ended June 30, 2012, the SFCTA paid $2.0 million in LOC fees to Landesbank Baden-Württemberg.

City and County of San Francisco Lease Revenue Commercial Paper Certificates of Participation

In March 2009, the Board of Supervisor authorized the issuance of tax-exempt and taxable lease revenue commercial paper certificates of participation (CP) in an aggregate principal amount not to exceed $150.0 million to provide short term financing to 1) pay for acquisition, construction and rehabilitation of certain capital improvements within the City and the financing of vehicles and equipment; 2) fund capitalized interest with respect to the CP; 3) fund capitalized fees and expenses as defined in the trust agreement; and 4) pay for cost incurred in connection with the sale and delivery of the CP. In June 2010, the City obtained irrevocable lines of credit (LOC) issued by JP Morgan Chase Bank, National Association with a maximum available amount of $50.0 million and U.S. Bank, National Association with a maximum available amount of $50.0 million. Both LOCs expire on June 10, 2013.

The City issued commercial paper notes totaling $247.5 million and retired commercial paper notes totaling $218.2 million in fiscal year 2012 to provide interim financing for capital projects and capital equipment acquisitions, with each project receiving prior approval from the Board of Supervisors: Moscone Center Improvements, the Department of Public Works equipment purchase, HOPE SF, the War Memorial Veterans Building project, street improvement projects, disability access improvement in the Board of Supervisors chambers and the Port Facilities Improvement project. As of June 30, 2012, the outstanding principal amount of taxable commercial paper notes was $6.4 million and the tax-exempt commercial paper notes was $40.4 million. The taxable commercial paper notes bear interest rate of 0.18% and 0.21% and will mature on August 8, 2012 and the tax-exempt commercial paper notes bear interest rates of 0.16% and will mature on September 12, 2012. In June 2012, commercial paper notes in the amount of $16.7 million for street improvement projects and $0.5 million for the Board of Supervisors disability access improvement project was refunded through the issuance of Certificates of Participation (Multiple Capital Projects) Series 2012A.

San Francisco International Airport

In 1997, the Airport authorized the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter of credit securing the CP. The Airport has two $100.0 million direct-pay letters of credit from State Street Bank and from Barclays Bank both of which will expire on May 2, 2014. Each of these letters of credit supports separate subseries of commercial paper notes and permits the Airport to issue CP up to a combined maximum principal amount of $200.0 million.

During the fiscal year 2012, the Airport issued $10.5 million of commercial paper notes to fund capital improvement projects with interest rates on private activity CP (AMT) of 0.18% and on tax-exempt governmental purpose CP (non-AMT) ranging from 0.16% to 0.20%.

San Francisco Water Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $250.0 million in commercial paper pursuant to the voter-approved 2002 Proposition A and $250.0 million in commercial paper pursuant to the voter-approved 2002 Proposition E for a combined total authorization of $500.0 million. As of June 30, 2012, $174.0 million in commercial paper was outstanding under Proposition E. The commercial paper interest rate ranged from 0.10% to 0.27%. With maturities up to 270 days, the Water Enterprise intends to maintain the program by remarketing the commercial paper upon maturity over the next five years, at which time outstanding commercial paper will be refunded with long-term revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the commercial paper interest rates rise to a level that exceeds these benefits, the Water Enterprise will refinance the commercial paper with long-term fixed rate debts.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $300.0 million in commercial paper under the voter-approved 2002 Proposition E, for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. The Wastewater Enterprise has no commercial paper outstanding at June 30, 2012 and did not have any commercial paper related activities during fiscal year 2012.

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2012:

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rate	Amount
GENERAL OBLIGATION BONDS [a]:			
Earthquake safety and emergency response	2035	3.00% - 5.00%	$ 231,730
Branch libraries	2028	4.00% - 4.50%	26,690
Parks and playgrounds	2032	2.00% - 6.26%	150,905
Road repaving and street safety	2032	2.00% - 4.00%	63,940
San Francisco General Hospital	2030	4.00% - 6.26%	359,620
Seismic safety loan program	2031	3.36% - 5.83%	27,400
Refunding	2030	3.50% - 5.00%	646,045
General Obligation Bonds - governmental activities			1,506,330
LEASE REVENUE BONDS:			
San Francisco Finance Corporation [b], [e] & [f]	2034	2.00% - 5.75%*	273,460
Lease Revenue Bonds - governmental activities			273,460
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation [c] & [d]	2041	2.00% - 5.00%	531,376
Loans [c], [d] & [f]	2027	2.00% - 5.74%	13,878
Capital leases payable [c] & [f]	2018	3.17% - 7.05%	22,878
Accrued vacation and sick leave [d] & [f]			150,072
Accrued workers' compensation [d] & [f]			226,428
Estimated claims payable [d] & [f]			112,394
Other postemployment benefits obligation			754,501
Other long-term obligations - governmental activities			1,811,527
DEFERRED AMOUNTS:			
Bond issuance premiums			136,897
Bond issuance discounts			(1,792)
Bond refunding			(18,383)
Deferred amounts			116,722
Governmental activities total long-term obligations			$ 3,708,039

Debt service payments are made from the following sources:

[a] Property tax recorded in the Debt Service Fund.
[b] Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
[c] Revenues recorded in the Special Revenue Funds.
[d] Revenues recorded in the General Fund.
[e] Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
[f] User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008-1 & 2, both of which were financed with variable rate bonds that reset weekly. The rate at June 30, 2012 for Series 2008-1 & 2 was 0.23% and 0.17%, respectively.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
San Francisco International Airport:			
Revenue bonds *	2040	0.70% - 6.00%	$ 4,062,265
San Francisco Water Enterprise:			
Revenue bonds	2050	2.00% - 6.90%	4,335,810
Certificates of Participation	2042	2.00% - 6.49%	119,717
Accreted interest	2019	-	4,450
Hetch Hetchy Water and Power:			
Energy bonds	2028	4.74%	19,528
Certificates of Participation	2042	2.00% - 6.49%	16,298
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.70% - 5.00%	13,080
Lease revenue bonds	2022	5.00% - 5.50%	5,075
Downtown Parking - parking revenue refunding bonds	2018	4.45% - 5.38%	6,095
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.50% - 4.70%	2,535
Uptown Parking - revenue bonds	2031	4.50% - 6.00%	15,905
San Francisco General Hospital Medical Center:			
Certificates of Participation	2026	5.55%	22,006
Capital leases	2016	2.65% - 4.48%	2,923
San Francisco Wastewater Enterprise:			
Revenue bonds	2040	3.00% - 5.82%	446,765
Certificates of Participation	2042	2.00% - 6.49%	31,655
State of California - revolving funds loans	2021	2.80% - 3.40%	36,898
Port of San Francisco:			
Revenue bonds	2040	4.19% - 7.41%	35,495
Notes, loans and other payables	2029	4.50%	2,713
Laguna Honda Hospital:			
Certificates of participation	2031	4.00% - 5.25%	153,650
Capital leases	2015	3.00% - 4.00%	232
Accrued vacation and sick leave			98,188
Accrued workers' compensation			144,456
Estimated claims payable			56,993
Other postemployment benefits obligation			552,217
Deferred Amounts:			
Bond issuance premiums			344,033
Bond issuance discounts			(691)
Bond refunding			(155,773)
Business-type activities total long-term obligations			$ 10,372,518

* Includes Second Series Revenue Bonds Issue 36 A / B, 36C, 37C and 2010A, which were initially issued as variable rate bonds in a weekly mode. For the year ended June 30, 2012, the average interest rate on Issue 36A and B was 0.124% and 0.124%, respectively; for Issue 36C was 0.315%; for Issue 37C was 0.341% and for Issue 2010A-1, 2 & 3 was 0.128%, 0.140% & 0.132%, respectively.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in the respective enterprise funds.

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, 2012, the City's debt limit (3% of valuation subject to taxation) was $4.96 billion. The total amount of debt applicable to the debt limit was $1.51 billion. The resulting legal debt margin was $3.45 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation and no arbitrage liability was recognized as of June 30, 2012. The Finance Corporation has evaluated their lease revenue bonds and no liability was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2012. 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.

Assessment District

During June 1996, the City issued $1.0 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 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, 2012, the aggregate outstanding obligation of such bonds was $101.8 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2012, are as follows:

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,355,992	$ 674,775	$ (524,437)	$ 1,506,330	$ 97,386
Lease revenue bonds	280,750	9,815	(17,105)	273,460	18,935
Certificates of participation	574,210	129,315	(172,149)	531,376	15,395
Less deferred amounts:					
For issuance premiums	72,950	89,707	(25,760)	136,897	-
For issuance discounts	(1,857)	-	65	(1,792)	-
On refunding	(17,470)	(4,433)	3,520	(18,383)	-
Total bonds payable	2,264,575	899,179	(735,866)	2,427,888	131,716
Loans	10,072	4,359	(553)	13,878	583
Capital leases	141,377	2,666	(121,165)	22,878	2,196
Accrued vacation and sick leave pay	140,621	101,213	(91,762)	150,072	76,189
Accrued workers' compensation	222,828	42,511	(38,911)	226,428	41,192
Estimated claims payable	126,044	18,295	(31,945)	112,394	36,793
Other postemployment benefits obligation	615,227	224,520	(85,246)	754,501	-
Governmental activities long-term obligations	$ 3,520,744	$ 1,292,743	$ (1,105,448)	$ 3,708,039	$ 288,669

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. 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, 2012, are as follows:

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,215,230	$ 1,021,440	$ (1,174,405)	$ 4,062,265	$ 340,545
Revenue notes	25,460	-	(25,460)	-	-
Less deferred amounts:					
For issuance premiums	103,990	62,861	(17,307)	149,544	-
For issuance discounts	(4,249)	-	3,948	(301)	-
On refunding	(105,148)	(50,038)	27,318	(127,868)	-
Total bonds payable	4,235,283	1,034,263	(1,185,906)	4,083,640	340,545
Accrued vacation and sick leave pay	14,638	11,110	(10,119)	15,629	7,943
Accrued workers' compensation	4,966	2,013	(1,904)	5,075	998
Estimated claims payable	11,557	(1,386)	(8,839)	1,332	503
Other postemployment benefits obligation	60,537	15,287	-	75,824	-
Long-term obligations	$ 4,326,981	$ 1,061,287	$ (1,206,768)	$ 4,181,500	$ 349,989
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 3,113,080	$ 1,422,630	$ (199,900)	$ 4,335,810	$ 45,965
Certificates of Participation	119,717	-	-	119,717	1,971
Less deferred amounts:					
For issuance premiums	87,808	91,349	(7,662)	171,495	-
On refunding	(13,592)	(4,545)	1,900	(16,237)	-
Total bonds payable	3,307,013	1,509,434	(205,662)	4,610,785	47,936
Accreted interest payable	4,155	295	-	4,450	-
Accrued vacation and sick leave pay	11,575	8,331	(7,363)	12,543	6,182
Accrued workers' compensation	7,675	2,639	(2,350)	7,964	1,403
Estimated claims payable	26,990	2,565	(20,460)	9,095	2,899
Other postemployment benefits obligation	60,314	20,254	(7,559)	73,009	-
Long-term obligations	$ 3,417,722	$ 1,543,518	$ (243,394)	$ 4,717,846	$ 58,420
Hetch Hetchy Water and Power					
Bonds payable:					
Clean Renewable Energy Bonds	$ 5,059	$ 14,891	$ (422)	$ 19,528	$ 1,009
Certificates of Participation	16,298	-	-	16,298	268
Less deferred amounts:					
For issuance premiums	327	-	(54)	273	-
For issuance discounts	(157)	-	13	(144)	-
Total bonds payable	21,527	14,891	(463)	35,955	1,277
Accrued vacation and sick leave pay	2,590	2,225	(1,731)	3,084	1,634
Accrued workers' compensation	2,063	1,041	(783)	2,321	433
Estimated claims payable	2,130	2,321	(1,780)	2,671	529
Other postemployment benefits obligation	11,221	4,550	(1,469)	14,302	-
Long-term obligations	$ 39,531	$ 25,028	$ (6,226)	$ 58,333	$ 3,873

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2012 are as follows (continued):

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 40,640	$ -	$ (3,025)	$ 37,615	$ 3,175
Lease revenue bonds	5,455	-	(380)	5,075	400
Less deferred amounts:					
For issuance premiums	707	-	(46)	661	-
Total bonds payable	46,802	-	(3,451)	43,351	3,575
Accrued vacation and sick leave pay	27,081	19,412	(18,214)	28,279	16,328
Accrued workers' compensation	93,021	14,530	(19,712)	87,839	14,806
Estimated claims payable	48,002	2,458	(16,729)	33,731	13,411
Other postemployment benefits obligation	126,459	52,262	(25,352)	153,369	-
Long-term obligations	$ 341,365	$ 88,662	$ (83,458)	$ 346,569	$ 48,120
San Francisco General Hospital Medical Center					
Bonds payable:					
Certificates of Participation	$ 22,550	$ -	$ (544)	$ 22,006	$ 1,132
Capital Leases	628	2,779	(484)	2,923	981
Accrued vacation and sick leave pay	18,092	15,334	(12,531)	20,895	11,634
Accrued workers' compensation	22,210	5,063	(5,278)	21,995	3,845
Other postemployment benefits obligation	115,232	43,254	(16,288)	142,198	-
Long-term obligations	$ 178,712	$ 66,430	$ (35,125)	$ 210,017	$ 17,592
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 468,775	$ -	$ (22,010)	$ 446,765	$ 23,095
Certificates of participation	31,655	-	-	31,655	521
Less deferred amounts:					
For issuance premiums	21,408	-	(1,850)	19,558	-
On refunding	(13,189)	-	1,521	(11,668)	-
Total bonds payable	508,649	-	(22,339)	486,310	23,616
State of California - Revolving fund loans	46,492	-	(9,594)	36,898	8,322
Accrued vacation and sick leave pay	5,196	3,035	(2,533)	5,698	2,986
Accrued workers' compensation	3,609	1,858	(1,540)	3,927	734
Estimated claims payable	8,432	2,021	(1,915)	8,538	2,231
Other postemployment benefits obligation	20,873	7,974	(2,334)	26,513	-
Long-term obligations	$ 593,251	$ 14,888	$ (40,255)	$ 567,884	$ 37,889

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2012 are as follows (continued):

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 36,165	$ -	$ (670)	$ 35,495	$ 695
Less deferred amounts:					
For issuance discounts	(255)	-	9	(246)	-
Total bonds payable	35,910	-	(661)	35,249	695
Notes, loans, and other payables	2,819	-	(106)	2,713	110
Accrued vacation and sick leave pay	2,146	1,212	(1,044)	2,314	1,200
Accrued workers' compensation	2,796	537	(536)	2,797	425
Estimated claims payable	1,326	305	(5)	1,626	1,276
Other postemployment benefits obligation	10,706	3,962	(1,278)	13,390	-
Long-term obligations	$ 55,703	$ 6,016	$ (3,630)	$ 58,089	$ 3,706
Laguna Honda Hospital					
Bonds payable:					
Certificates of participation	$ -	$ 153,650	$ -	$ 153,650	$ 5,105
Less deferred amounts:					
For issuance premiums	-	2,502	-	2,502	-
Total bonds payable	-	156,152	-	156,152	5,105
Capital leases	24	344	(136)	232	108
Accrued vacation and sick leave pay	9,245	6,923	(6,422)	9,746	5,401
Accrued workers' compensation	11,846	4,408	(3,716)	12,538	2,586
Other postemployment benefits obligation	43,624	16,410	(6,422)	53,612	-
Long-term obligations	$ 64,739	$ 184,237	$ (16,696)	$ 232,280	$ 13,200
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 7,873,890	$ 2,444,070	$(1,400,010)	$ 8,917,950	$ 413,475
Revenue notes	25,460	-	(25,460)	-	-
Clean renewable energy bonds	5,059	14,891	(422)	19,528	1,009
Certificates of Participation	190,220	153,650	(544)	343,326	8,997
Lease revenue bonds	5,455	-	(380)	5,075	400
Less deferred amounts:					
For issuance premiums	214,240	156,712	(26,919)	344,033	-
For issuance discounts	(4,661)	-	3,970	(691)	-
On refunding	(131,929)	(54,583)	30,739	(155,773)	-
Total bonds payable	8,177,734	2,714,740	(1,419,026)	9,473,448	423,881
Accreted interest payable	4,155	295	-	4,450	-
State of California - Revolving fund loans	46,492	-	(9,594)	36,898	8,322
Notes, loans, and other payables	2,819	-	(106)	2,713	110
Capital leases	652	3,123	(620)	3,155	1,089
Accrued vacation and sick leave pay	90,563	67,582	(59,957)	98,188	53,308
Accrued workers' compensation	148,186	32,089	(35,819)	144,456	25,230
Estimated claims payable	98,437	8,284	(49,728)	56,993	20,849
Other postemployment benefits obligation	448,966	163,953	(60,702)	552,217	-
Long-term obligations	$ 9,018,004	$ 2,990,066	$(1,635,552)	$ 10,372,518	$ 532,789

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2012, for governmental activities are as follows:

	Governmental Activities [1] [2]							
Fiscal Year Ending	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest [3]	Principal	Interest	Principal [4]	Interest [4]	Principal	Interest
2013	$ 97,387	$ 70,902	$ 18,935	$ 7,174	$ 29,105	$ 25,801	$ 145,427	$ 103,877
2014	93,474	66,318	19,650	6,692	29,304	24,946	142,428	97,956
2015	88,090	61,952	17,370	6,150	31,050	23,657	136,510	91,759
2016	92,163	57,824	15,645	5,658	32,169	22,144	139,977	85,626
2017	83,494	53,560	13,995	5,242	29,984	20,737	127,473	79,539
2018-2022	393,764	210,676	61,540	21,429	114,012	84,949	569,316	317,054
2023-2027	379,380	120,024	71,880	12,891	95,303	60,909	546,563	193,824
2028-2032	263,338	32,836	49,900	4,155	103,375	36,520	416,613	73,511
2033-2037	15,240	1,549	4,545	395	71,725	14,005	91,510	15,949
2038-2042	-	-	-	-	32,105	2,969	32,105	2,969
Total	$ 1,506,330	$ 675,641	$ 273,460	$ 69,786	$ 568,132	$ 316,637	$ 2,347,922	$ 1,062,064

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

(2) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2, which bears interest at a weekly rate. An assumed rate of 0.35%, together with liquidity fee of 0.710% and remarketing fee of 0.0725%, were used to project the interest payment in this table.

(3) The interest is before the Federal interest subsidy for the Series 2010 C and Series 2010 D General Obligation Bonds. The Federal interest subsidy on the Series 2010 C and Series 2010 D General Obligation Bonds is approximately $47.2 million and $9.9 million, respectively, through the year ending 2030.

(4) Includes approximately $25.6 million in lease payments to the Successor Agency for the Moscone Convention Center through fiscal year 2018.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows:

	San Francisco International Airport [1]	
Fiscal Year Ending	Revenue Bonds	
June 30	Principal	Interest
2013	$ 152,355	$ 193,161
2014	163,110	188,722
2015	181,685	182,537
2016	187,245	174,890
2017	181,205	166,442
2018-2022	1,155,550	683,349
2023-2027	1,140,445	386,419
2028-2032	588,685	154,406
2033-2037	200,230	67,003
2038-2040	111,755	10,609
Total	$ 4,062,265	$ 2,207,538

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

The table below presents the Airport's revenue bond debt service requirements in the event (i) the letters of credit securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit and (ii) the Airport's outstanding fixed rate bonds scheduled to become due (via a mandatory tender by bondholders for purchase by the Airport) are not remarketed as or refunded with long-term fixed rate bonds:

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2013	$ 340,545	$ 192,152
2014	418,155	180,545
2015	216,225	165,280
2016	275,465	152,290
2017	162,405	142,911
2018-2022	997,090	581,836
2023-2027	897,800	326,000
2028-2032	442,595	144,053
2033-2037	200,230	67,003
2038-2040	111,755	10,609
Total	$ 4,062,265	$ 1,962,679

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

San Francisco Water Enterprise [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest [2]	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest [3]	Total Principal	Total Interest
2013	$ 45,965	$ 218,795	$ 1,971	$ 7,199	$ 47,936	$ 225,994
2014	44,150	219,973	2,035	7,132	46,185	227,105
2015	50,995	217,741	2,106	7,060	53,101	224,801
2016	63,465	214,966	2,199	6,968	65,664	221,934
2017	68,220	211,756	2,313	6,856	70,533	218,612
2018-2022	445,350	1,003,482	13,470	32,371	458,820	1,035,853
2023-2027	620,240	872,190	17,033	28,194	637,273	900,384
2028-2032	781,100	694,911	20,949	22,183	802,049	717,094
2033-2037	984,245	467,083	25,811	14,651	1,010,056	481,734
2038-2042	908,315	205,489	31,830	5,335	940,145	210,824
2043-2047	226,085	58,260	-	-	226,085	58,260
2048-2051	97,680	13,961	-	-	97,680	13,961
Total	$ 4,335,810	$ 4,398,607	$ 119,717	$ 137,949	$ 4,455,527	$ 4,536,556

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

(2) The interest is before the Federal interest subsidy for the Water Enterprise's Revenue Bonds. The Federal interest subsidy amounts represent 35% of the interest for the revenue bonds 2010 Sub-Series B, E and G which is approximately $565.6 million through the year ending 2051.

(3) The interest is before the Water Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable), which amounts to approximately $45.5 million through the year ending 2042.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

Hetch Hetchy Water and Power [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest [2]	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest [3]	Total Principal	Total Interest
2013	$ 1,009	$ 898	$ 268	$ 980	$ 1,277	1,878
2014	1,309	667	277	970	1,586	1,637
2015	1,321	625	287	961	1,608	1,586
2016	1,332	582	299	948	1,631	1,530
2017	1,344	539	315	933	1,659	1,472
2018-2022	6,906	2,027	1,834	4,408	8,740	6,435
2023-2027	5,538	857	2,319	3,839	7,857	4,696
2028-2032	769	25	2,852	3,019	3,621	3,044
2033-2037	-	-	3,514	1,994	3,514	1,994
2038-2042	-	-	4,333	728	4,333	728
Total	$ 19,528	$ 6,220	$ 16,298	$ 18,780	$ 35,826	$ 25,000

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

(2) Interest payments are not required on Clean Renewable Energy Bonds (CREBS) since the effective equivalent of interest on the bonds is paid in the form of Federal tax credits in-lieu of interest paid by the issuer. The interest on the Qualified Energy Conservation Bonds and the New Clean Renewable Energy Bonds is before Federal interest subsidies totaling $4.5 through fiscal year ending 2028.

(3) The interest is before the Hetch Hetchy Water and Power Enterprise's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $6.2 million through the year ending 2042.

Municipal Transportation Agency [1]

Fiscal Year Ending June 30	Revenue/ Lease Revenue Bonds Principal	Revenue/ Lease Revenue Bonds Interest
2013	$ 3,575	$ 2,267
2014	3,750	2,097
2015	3,930	1,917
2016	4,125	1,724
2017	4,325	1,512
2018-2022	12,795	4,680
2023-2027	4,360	2,433
2028-2032	5,830	915
Total	$ 42,690	$ 17,545

San Francisco General Hospital [1]

Fiscal Year Ending June 30	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest
2013	$ 2,113	$ 1,375
2014	1,979	1,300
2015	2,038	1,232
2016	1,718	1,082
2017	1,409	929
2018-2022	8,328	3,361
2023-2026	7,344	838
Total	$ 24,929	$ 10,117

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

San Francisco Wastewater Enterprise [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest [2]	Principal	Interest [3]	Principal	Interest
2013	$ 23,095	$ 22,902	$ 8,843	$ 3,003	$ 31,938	$ 25,905
2014	24,395	21,715	8,730	2,734	33,125	24,449
2015	25,790	20,428	6,243	2,469	32,033	22,897
2016	27,325	19,034	5,418	2,274	32,743	21,308
2017	18,855	17,890	3,947	2,097	22,802	19,987
2018-2022	110,920	73,919	10,088	9,038	121,008	82,957
2023-2027	62,670	50,358	4,503	7,455	67,173	57,813
2028-2032	45,995	37,822	5,540	5,867	51,535	43,689
2033-2037	55,315	23,478	6,825	3,873	62,140	27,351
2038-2042	52,405	6,245	8,416	1,410	60,821	7,655
Total	$ 446,765	$ 293,791	$ 68,553	$ 40,220	$ 515,318	$ 334,011

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

(2) Interest before subsidy amounts for the revenue bonds 2003 Refunding Series A and 2010 Series A and B. The Federal interest subsidy represents 35% of the interest for the 2010 Series B revenue bonds, which is approximately $78.2 million through the year ending 2041.

(3) The interest is before the Wastewater Enterprise's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $12.0 million through the year ending 2042.

Port of San Francisco [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 695	$ 2,151	$ 110	$ 122	$ 805	$ 2,273
2014	725	2,122	115	117	840	2,239
2015	755	2,088	120	112	875	2,200
2016	795	2,051	125	107	920	2,158
2017	835	2,008	131	101	966	2,109
2018-2022	5,005	9,221	747	411	5,752	9,632
2023-2027	6,955	7,269	932	227	7,887	7,496
2028-2032	7,815	4,422	433	29	8,248	4,451
2033-2037	6,880	2,383	-	-	6,880	2,383
2038-2042	5,035	525	-	-	5,035	525
Total	$ 35,495	$ 34,240	$ 2,713	$ 1,226	$ 38,208	$ 35,466

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

Laguna Honda Hospital [1]

Fiscal Year Ending June 30	Other Long-Term Obligations	
	Principal	Interest
2013	$ 5,213	$ 7,678
2014	5,443	7,411
2015	5,641	7,162
2016	5,875	6,875
2017	6,140	6,611
2018-2022	35,420	28,328
2023-2027	45,125	18,625
2028-2032	45,025	5,976
Total	$ 153,882	$ 88,666

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

Total Business-type Activities

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 226,694	$ 440,174	$ 18,518	$ 20,357	$ 245,212	$ 460,531
2014	237,439	435,296	18,579	19,664	256,018	454,960
2015	264,476	425,336	16,435	18,996	280,911	444,332
2016	284,287	413,247	15,634	18,254	299,921	431,501
2017	274,784	400,147	14,255	17,527	289,039	417,674
2018-2022	1,736,526	1,776,678	69,887	77,917	1,806,413	1,854,595
2023-2027	1,840,208	1,319,526	77,256	59,178	1,917,464	1,378,704
2028-2032	1,430,194	892,501	74,799	37,074	1,504,993	929,575
2033-2037	1,246,670	559,947	36,150	20,518	1,282,820	580,465
2038-2042	1,077,510	222,868	44,579	7,473	1,122,089	230,341
2043-2047	226,085	58,260	-	-	226,085	58,260
2048-2051	97,680	13,961	-	-	97,680	13,961
Total	$ 8,942,553	$ 6,957,941	$ 386,092	$ 296,958	$ 9,328,645	$ 7,254,899

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 year ended June 30, 2012, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 2011	$ 1,164,890
Increase in authorization in fiscal year 2012:	
Road Repaving and Street Safety Bonds	248,000
Bonds issued:	
Earthquake Safety and Emergency Response Bonds Series 2012A	(183,330)
Clean and Safe Neighborhood Parks Bonds Series 2012A	(73,355)
Road Repaving and Street Safety Bonds Series 2012C	(74,295)
Seismic and Safety Loan Program (6th draw)	(700)
Seismic and Safety Loan Program (7th draw)	(3,620)
Net authorized and unissued as of June 30, 2012	$ 1,077,590

The increase in authorized amount of $248.0 million of 2011 Road Repaving and Street Safety General Obligation Bonds was approved by at least two-third votes on Proposition B at an election held on November 8, 2011. The bonds will be issued to provide funds to improve and repair streets, sidewalks, and street structures.

In March 2012, the City issued the following series of General Obligation Bonds: 1) Earthquake Safety and Emergency Response, Series 2012A in the amount of $183.3 million. The bonds mature from June 2012 through June 2032 with interest rates ranging from 2.0% to 5.0%. The bonds were issued to provide funds to finance the improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure, and to pay certain costs related to the issuance of the 2012A bonds; 2) Clean and Safe Neighborhood Parks Series 2012B in the amount of $73.4 million to provide funds for the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and Port Commission and all other structures, improvements and related costs necessary for these purposes, and to pay certain costs related to the issuance of the 2012B bonds. Interest rates range from 2.0% to 4.0% with principal amortizing from June 2012 through June 2032; 3) Road Repaving and Street Safety Series 2012C in the amount of $74.3 million. The proceeds of the 2012C bonds will be used for the repair, reconstruction and improvement of various streets, stairways, bridges, overpasses and other traffic infrastructure within the City and to pay certain costs related to the issuance of the 2012C bonds. Interest rates range from 2.0% to 4.0% with principal amortizing from June 2012 through June 2032.

The debt service payments are funded through ad valorem taxes on property.

Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992, which authorized the issuance of up to a total of $350.0 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007, the Board of Supervisors approved Resolution No. 65-07, which authorized the issuance of indebtedness under Proposition A in the amount not to exceed $35.0 million. Such issuance was achieved pursuant to the terms of a credit agreement with Bank of America, N.A

In November and December 2011, the City made the sixth and seventh draws in the amount of $0.7 million and $3.6 million respectively. The sixth draw bears an interest rate of 3.36% with principal amortizing from June 2012 through June 2031 and the seventh draw bears an interest rate of 3.69% with principal amortizing from June 2012 through June 2031. Both draws are for below market rate loans.

Debt service payments of the Seismic Safety Loan Program Government Obligation Bonds are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Current Refunding

In November 2011, the City issued the General Obligation Refunding Bonds, Series 2011-R1 (Series 2011-R1) in the amount of $339.5 million with interest rates ranging from 2.0% to 5.0% and principal maturing from June 2012 through June 2030 to refund the following outstanding general obligation bonds of the City:

General Obligation Refunding Bonds, Series 2011-R1

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 2001D - Affordable Housing, 1996	$ 3,515	6.75%	100.0%	12/14/2011
Series 2002-1 General Obligation Refunding Bonds, 2002	12,010	4.13%	101.0%	12/14/2011
Series 2002A - Zoo Facilities, 1997	3,935	3.20% - 4.25%	100.5%	12/14/2011
Series 2002B - Branch Library Facilities, 2000	14,675	3.20% - 4.25%	100.5%	12/14/2011
Series 2003A - Neighborhood Recreation & Park Facilities Improvement, 2000	14,195	3.10% - 4.25%	101.0%	12/14/2011
Series 2003B - Education Facilities, 1997	19,970	3.10% - 4.25%	101.0%	12/14/2011
Series 2004-1 General Obligation Refunding Bonds, 2004	3,795	4.00%	102.0%	6/15/2012
Series 2004A - Neighborhood Recreation & Park Facilities Improvement, 2000	51,010	3.50% - 5.25%	102.0%	12/14/2011
Series 2004B - California Academy of Science Improvement, 2000	5,985	3.50% - 5.25%	102.0%	12/14/2011
Series 2005A - Laguna Honda Hospital, 1999	76,445	5.00%	102.0%	6/15/2012
Series 2005E - California Academy of Science Improvement, 2000	58,810	4.13% - 5.00%	102.0%	6/15/2012
Series 2005F - Steinhart Aquarium, 1995	21,665	4.13% - 5.00%	102.0%	6/15/2012
Series 2005G - Branch Library Facilities, 2000	25,200	4.13% - 5.00%	102.0%	6/15/2012
Series 2005H - Zoo Facilities, 1997	5,560	4.13% - 5.00%	102.0%	6/15/2012
Series 2005I - Laguna Honda Hospital, 1999	59,255	4.13% - 5.00%	102.0%	6/15/2012
	$ 376,025			

All of the refunded bonds have been redeemed as of June 30, 2012. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets. Although, the refunding resulted in the recognition of accounting loss of $3.1 million for the year ended June 30, 2012, the City in effect reduced its aggregate debt service payments by $43.6 million and obtained net present value benefit of $36.8 million.

Certificates of Participation

In November 2011, the City issued Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project) for $23.1 million and Series 2011B (Moscone Center North Refunding Project) for $63.4 million. The proceeds of the certificates were used to refund the outstanding bonds of San Francisco Redevelopment Agency's Lease Revenue Refunding Bonds (George Moscone Center) Series 2002 and Series 2004 of $65.1 million and $29.0 million respectively, fund the 2011 Reserve Account of the Reserve Fund for the certificates established under the trust agreement and pay costs of issuance of the certificates. The Series 2011A certificates mature from September 2012 through September 2024 and the Series 2011B certificates mature from September 2012 through September 2018. Interest rates for both series range from 2.0% to 5.0%. The refunding resulted in an accounting loss of $1.2 million in fiscal year 2012 and net present value savings of $10.3 million, equivalent to 10.10% on refunded bonds.

In June 2012, the City issued City and County of San Francisco Certificates of Participation Series 2012A (Multiple Capital Projects) for $42.8 million to fund a portion of the costs of acquisition, construction and installation of improvements to various City streets, fund the Reserve Account of the Reserve Fund established under the trust agreement, pay the cost of issuance of the certificates and refund Commercial Paper Certificates of Participation issued to finance street improvements and disability access to the Board of Supervisors chambers projects. The Series 2012A certificates mature from April 2013 through April 2036 with interest rates ranging from 2.0% to 5.0%.

At June 30, 2012, the City has a total of $531.4 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City. Total debt service payments remaining on the certificates of participation are $830.3 million payable through September 1, 2040. For the year ended June 30, 2012, principal and interest paid by the City totaled $18.5 million and $27.6 million, respectively.

Lease Revenue Bonds

The changes in governmental activities – lease revenue bonds related to the equipment program for the year ended June 30, 2012 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2011	$ 136,986
Increases in authorization this fiscal year	
Current year annual increase in Finance Corporation's equipment program	2,653
Current year maturities in Finance Corporation's equipment program	6,580
Bond Issued:	
Series 2011A, San Francisco Finance Corporation	(9,815)
Net authorized and unissued as of June 30, 2012	$ 136,404

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.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and the San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bond is $343.2 million payable through June 2034. For the year ended June 30, 2012, principal and interest paid by the Corporation and the total lease payments made by the City totaled $17.1 million and $6.0 million, respectively.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20.0 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 $20.0 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2012, the total authorized amount is $55.7 million. The total accumulated annual authorization since 1990 is $35.7 million of which $2.7 million is new annual authorization for the year ended June 30, 2012.

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 $182.1 million in equipment lease revenue bonds since 1991. As of June 30, 2012, $148.6 million has been repaid leaving $33.5 million in equipment lease revenue bonds outstanding and $22.2 million available for new issuance.

In May 2012, The Finance Corporation issued its nineteenth series of equipment lease revenue bonds, Series 2012A in the amount of $9.8 million with interest rates ranging from 2.0% to 3.0%. The bonds mature from April 2013 through April 2018.

(b) Emergency Communication System Refinancing

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and February 1999 for $31.3 million and $18.7 million, respectively. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in July 1998 for $22.6 million and $23.3 million, respectively.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center located on the northwest corner of Howard and Fourth Street in the City. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million (the "2000 Bonds") were issued. Each series of the bonds bear interest at a weekly rate and may bear interest at a different rate and in a different rate mode from other series of bonds.

In September 2008, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Expansion Project) Series S2008-1 and Series S2008-2 for a total of $145.3 million (the "Refunding Moscone Bonds") to provide funds, together with other available monies to refund the 2000 Bonds to address the concerns regarding the credit provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost of issuing the Bonds.

The Bonds are limited obligations of the Corporation payable from revenues, which consist of base rental payments to be made by the City, and other amounts held in certain funds and accounts, established under an indenture of trust. The payment of the principal of and interest on each series of the Bonds and the purchase price of each series of the Bonds upon the optional or mandatory tender thereof will initially be supported by separate irrevocable direct-pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and by State Street Bank and Trust Company for Series 2008-2. The Bonds were issued pursuant to Ordinance No. 203-08 adopted by the Board of Supervisors on August 12, 2008. The proceeds of the Bonds were used to provide funds, together with other City monies, to fully refinance a portion of the costs of acquiring, constructing and improving an expansion to the City's George R. Moscone Convention Center.

Owners of the Bonds may elect to have their Bonds, or portions of their Bonds, purchased at a purchase price equal to the principal amount of such Bonds (or portions thereof), plus accrued interest, if any, payable in immediately available funds, upon not less than seven (7) calendar days' irrevocable written notice. E.J. De La Rosa & Co., Inc. is the exclusive remarketing agent for the 2008-1 Bonds. Banc of America Securities LLC is the exclusive remarketing agent for the 2008-2 Bonds. The remarketing agents have agreed to use their best efforts to remarket the Bonds and have agreed to purchase for their own accounts Bonds tendered but not remarketed under certain conditions specified in remarketing agreements, at a price equal to 100 percent of the principal amount thereof plus accrued interest to the tender date.

Under irrevocable direct pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are effective through September 9, 2014 or such later date or dates as may be extended, and to the extent there is a unreimbursed draw of the letter(s) of credit, carries a fluctuating rate per annum: (A) for any day prior to the date that is 90 days from and including the date of the draw the higher of (i) the Prime Rate plus 2%; (ii) the Federal Funds Rate plus 3%; (iii) 7.5% per annum; (iv) the maximum rate of interest of such day borne by Bonds that are not Bank Bonds (the "Base Rate"), (B) on any day on or after the date that is 91 days from and including the date of the draw and prior to the date that is 61 from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 1%, and (C) on any day after the maturity date for the draw, a fluctuating rate of interest equal to the Base Rate in effect on such date plus 3%.

If the remarketing agent is unable to resell any Bonds that are "tendered" within the six month anniversary of the "tender" date, the City has a reimbursement agreement with Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 to convert the bonds to an installment loan payable in six (6) equal semiannual installments, commencing on the six month anniversary of the date of the "tender" date and bearing a fluctuating interest rate equal to the Draw Rate. The reimbursement agreement expires September 9, 2014 or such later date or dates as extended by mutual agreement. If the reimbursement agreement were to be exercised because the entire outstanding balance of $129.0 million of demand bonds were "tendered" and not resold, the City would be required to pay an amount not to exceed the fair rental value per annum of the leased asset per year for three (3) years under the reimbursement agreement at a rate per annum equal to the Draw Rate.

The City is required to pay to Bank of America, N.A. an annual commitment fee for the letter of credit of 0.70% per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears for Series 2008-1 Bonds and State Street Bank and Trust Company an annual commitment fee for the letter of credit of 0.72% per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears for Series 2008-2 Bonds. For fiscal year 2012-13, the City will pay a commitment fee of approximately $0.5 million to Bank of America, N.A. for Series 2008-1 Bonds and $0.5 million to State Street Bank and Trust Company for Series 2008-2 Bonds. In addition, the remarketing agent receives an annual fee of 0.0725% of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2012-13, the City will pay a remarketing fee of approximately $0.05 million each to E.J. De La Rosa & Co., Inc. for Series 2008-1 Bonds and Banc of America Securities LLC for Series 2008-2 Bonds.

The Refunding Moscone Bonds mature from April 2009 to April 2030. As of end of June 30, 2012, both series have a combined balance of $129.0 million and bear interest at a weekly rate. Interest rates as of June 30, 2012 for Series 2008-1 and Series 2008-2 were 0.23% and 0.17%, respectively.

San Francisco Marina West Harbor Loan

In March 2009, the City through the Recreation and Parks Department entered into a loan agreement with the Department of Boating and Waterways (Department) of the State of California. Under the Small Craft Harbor Construction Loan agreement, the Department will advance the City a total amount of $16.5 million in four phases of its construction project. Repayment of principal and interest begins on August 1, immediately after the final loan draw and annually thereafter until August 2045. Interest shall be compounded continuously at the rate of 4.5% on the unpaid balance. The loan repayment shall be made from project area gross revenues. Primary collateral for the loan consists of a lease/leaseback of the marina between the City and the Department with an assignment of rents and leases on marina revenues. In addition, the Department will receive a first lien position on the Marina Fund surplus revenues to cover any payment shortfall after construction completion. In January 2011, the Department authorized to fund the Phase V of the project for $7 million by an amendment to the loan agreement. Under the amended agreement, the City shall provide and maintain a reserve fund that will act as security of the loan. At a minimum, a reserve of two annual payments ($2.9 million) shall be accumulated during the first ten years of the loan repayment terms and thereafter be maintained at that level. During the year ended June 30, 2012, the City drew down $4.4 million and as of June 30, 2012 the amount of loan outstanding is $6.8 million.

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

Second Series Revenue Refunding Bonds, Series 2011C/D/E

In July 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011C/D/E, in the total amount of $350.4 million for debt service savings. The Series 2011C (AMT) and Series 2011D (Non-AMT/Governmental Purpose) bonds refunded long-term fixed rate bonds that were currently callable, while Series 2011E (Taxable) advance refunded fixed rate bonds and all of the Second Series Revenue Notes, Series 2008A-4. The Series 2011C bonds mature on May 1, 2025, the Series 2011D Bonds on May 1, 2031, and the Series 2011E bonds on May 1, 2020. The Series 2011C/D/E bonds are long-term fixed rate bonds that bear interest at rates between 0.7% and 5.0%.

The total proceeds of $370.9 million (consisting of the $350.4 million par amount of the Series 2011C/D/E bonds, plus original issue premium of $12.6 million, plus $5.2 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.7 million released from the Series 2008A-4 Reserve Account) were used to pay $1.7 million in underwriter's discount and $1.2 million in costs of issuance, make a $2.7 million deposit into the Issue 1 Reserve Account and make a $365.3 million deposit into irrevocable escrow funds with the Airport to defease and refund $357.8 million in revenue bonds and notes described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 51,225	5.00%	100%
16B	9,275	4.75%	100%
17 (Non-AMT)	3,960	4.75%	100%
18A (AMT)	23,055	5.00%	100%
20	18,455	4.50%	100%
21	4,255	4.50%	100%
22 (AMT)	10,785	4.75%	100%
23A (AMT)	22,460	5.00%	100%
27A (AMT)	60,715	5.13 – 5.25%	100%
27B	93,815	5.00 – 5.13%	100%
28A (AMT)	16,555	5.25 – 5.50%	100%
30 (Non-AMT)	17,810	5.25%	102%
Series 2008A Notes:			
2008A-4	25,460	6.50%	100%
Total	$ 357,825		

The refunded bonds were defeased and redeemed on August 1, 2011 (Issues 15A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, and 27B) and May 1, 2012 (Issues 28A, 30, Series 2008A-4). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets. The refunding resulted in the recognition of a deferred accounting gain of $0.6 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $19.0 million over the next twenty years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $12.7 million.

Second Series Revenue Refunding Bonds, Series 2011F/G/H

In September 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011F/G/H, in the total amount of $354.6 million, which were sold to refund $52.4 million of the Airport's Issue 36D/37D outstanding variable rate bonds to fixed rate, finance a payment related to the termination of the Issue 36D interest rate swap, and refund a portion of the Airport's outstanding fixed rate bonds for debt service savings. The Series 2011F (AMT) and Series 2011G (Non-AMT/Governmental Purpose) bonds refunded currently callable long-term fixed rate bonds as well as the Issue 36D/37D variable rate bonds, while Series 2011H (Taxable) advance refunded fixed rate bonds. The Series 2011F and 2011G bonds mature on May 1, 2030 and the 2011H bonds mature on May 1, 2022. The Series 2011F/G/H bonds mature between May 1, 2022 and May 1, 2030 and bear interest at rates between 0.95% and 5.3%.

The total proceeds of $376.3 million (consisting of the $354.6 million par amount of the Series 2011F/G/H bonds, plus original issue premium of $12.3 million, plus $6.6 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.5 million released from the Issue 36D/37D Reserve Account and $0.3 million released from the Issue 36D/37D cost of issuance account) were used to pay $1.5 million in underwriter's discount and $1.0 million in costs of issuance, make a $4.6 million swap termination payment, deposit $1.3 million into the Issue 1 Reserve Account, and deposit $367.9 million into irrevocable escrow funds with the Senior Trustee to defease and refund $354.4 million in revenue bonds described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 30,240	5.00%	100%
15B	13,970	4.50%	100%
16A (AMT)	6,940	5.00%	100%
16B	5,025	4.75%	100%
17 (Non-AMT)	2,145	4.75%	100%
18A (AMT)	13,515	5.00%	100%
20	19,825	4.50%	100%
21	4,580	4.50%	100%
22 (AMT)	11,945	4.75%	100%
23A (AMT)	17,110	5.00%	100%
27A (AMT)	45,700	5.25%	100%
28A	29,320	5.00 – 5.25%	100%
28B (Non-AMT)	13,895	5.00%	100%
28C (Non-AMT)	11,405	4.00%	100%
29A (AMT)	11,540	5.25%	100%
29B (Non-AMT)	53,175	5.13%	100%
30 (Non-AMT)	11,705	4.00% - 5.00%	102%
36D	32,685	3.45% - 3.52%	100%
37D	19,690	3.52%	100%
Total	$ 354,410		

The refunded bonds were defeased and redeemed or scheduled for redemption on September 23, 2011 (Issues 15A, 15B, 16A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 36D, 37D), May 1, 2012 (Issues 28A, 28B, 28C, 30) and May 1, 2013 (Issues 29A, 29B). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $0.5 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments (over forecasted payments, as Issue 36D/37D debt service was in variable-rate mode) by approximately $10.0 million over the next eighteen years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $6.3 million.

Second Series Revenue Refunding Bonds, Series 2012A/B

In March 2012, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2012A (AMT) and 2012B (Non-AMT/Governmental Purpose) in the total amount of $316.5 million to refund long-term fixed rate bonds that were currently callable. The Series 2012A/B bonds bear interest at fixed rates between 2.5% and 5.0%, and mature on May 1, 2032 and May 1, 2030, respectively.

The net proceeds of $361.5 million (consisting of the $316.5 million par amount of the Series 2012A/B bonds, plus original issue premium of $37.9 million, plus $7.1 million accumulated in the Debt Service Fund relating to the refunded bonds) were used to pay $1.3 million underwriter's discount and $1.0 million in costs of issuance and deposit $359.2 million into irrevocable escrow funds with the Senior Trustee to defease and refund $351.9 million in revenue bonds described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 52,200	5.00%	100%
15B	46,910	4.50%	100%
16B	10,895	4.75%	100%
17 (Non-AMT)	4,650	4.75%	100%
18A (AMT)	2,560	5.00%	100%
20	9,670	4.50%	100%
21	14,740	4.50%	100%
22 (AMT)	44,130	4.75%	100%
23A (AMT)	51,720	5.00%	100%
27A (AMT)	26,515	5.25%	100%
28A (AMT)	50,365	5.13%	100%
28B (Non-AMT)	32,210	5.00%	100%
30 (Non-AMT)	5,305	3.60% - 4.10%	102%
Total	$ 351,870		

The refunded bonds were defeased and redeemed on March 23, 2012 (Issues 15A, 15B, 16B, 17, 18A, 20, 21, 22, 23A, 27A) and May 1, 2012 (Issues 28A, 28B, 30). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets. The refunding resulted in the recognition of a deferred accounting loss of $0.3 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $56.5 million over the next twenty years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $33.3 million.

Second Series Revenue Refunding Bonds (Remarketing)

The Airport's variable rate bonds are subject to tender at par at the option of the holder thereof on seven days notice. These bonds are also subject to mandatory tender upon the occurrence of certain events such as the Airport's election to change the interest rate mode on such bonds or to replace the credit facility securing such bonds. Any tendered variable rate bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The following variable rate bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

In July 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association expiring on July 11, 2014. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026 and no

changes to principal amortization. Because the Issue 36C Bonds are secured by a letter of credit, they are no longer secured by a reserve account. The costs of remarketing were paid from Airport funds.

Second Series Variable Rate Revenue Refunding Bonds, Series 37C

In July 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. expiring on July 13, 2015. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy. The Issue 37C bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. The costs of remarketing were paid from Airport funds.

Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2012 is an aggregate principal amount of $382.6 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C, Issue 37C and Series 2010A (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by four separate irrevocable direct-pay letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below. Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.60% and 1.05% per annum. As of June 30, 2012, there were no unreimbursed draws under these facilities.

The primary terms of the letters of credit are as follows:

	Issue 36B	Issue 36C	Issue 37C	Issue 2010A
Principal amount	$ 40,620	$ 36,145	$ 89,895	$ 215,970
Expiration date	5/2/2014	7/11/2014	7/13/2015	1/31/2014
Credit provider	U.S. Bank National Association	U.S. Bank National Association	Union Bank, N.A.	JP Morgan Chase Bank, N.A.

Interest Rate Swaps

Objective and Terms – In December 2004, the Airport entered into seven forward starting interest rate swaps (the "2004 swaps") with an aggregate notational amount of $405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A E in February 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

In July 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, in May 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, in February 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and Issue 37A. Subsequently, in October and December 2008, the Airport refunded Issues 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps, with an aggregate notional amount of $205.1 million, were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

In December 2010, the Airport terminated the swap associated with the Series 2010A-3 bonds, with a notional amount of $72.0 million. The Airport paid a termination amount of $6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds in March 2011. Following the termination of the Depfa swap, the Series 2010A-3 bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B bonds, however, is now associated with the Series 2010A-3 bonds and a $7.7 million portion of the previously unhedged Issue 37D bonds.

In September 2011, the Airport refunded the Issue 36D bonds with proceeds of the Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notional amount of $30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of $4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD LIBOR BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD LIBOR BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below, which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2012, the Airport's derivative instruments comprised of six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2012.

No.	Current Bonds	Notional Amount	Effective Date
1	36AB	$ 70,000	2/10/2005
2	36AB	69,930	2/10/2005
3	36C	30,000	2/10/2005
4	2010A *	79,684	5/15/2008
5	37C	89,856	5/15/2008
6	2010A	143,947	2/1/2010
	Total	$ 483,417	

* The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C and 37C Bonds.

Fair Value – The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

As of June 30, 2012, the fair value of the Airport's six outstanding swaps, counterparty credit ratings and fixed rate payable by the Airport are as follows:

No.	Current Bonds	Counterparty / Guarantor	Counterparty Credit Ratings (S&P/ Moody's/ Fitch	Fixed Rate Payable by Airport	Fair Value to Airport
1	36AB	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.444%	$ (12,984)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.445%	(12,982)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.444%	(5,564)
4	2010A	Merrill Lynch Capital Services, Inc. / Merrill Lynch & Co.	A-/ Baa2/ A	3.898%	(21,520)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.898%	(24,268)
6	2010A	Goldman Sachs Bank USA / Goldman Sachs Group, Inc.	A-/ A3/ A	3.925%	(41,121)
		Total			$(118,439)

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statement of net assets. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2012 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance, June 30, 2011	$ 63,382	$ 68,304
Change in fair value to year end	35,597	48,555
Balance, June 30, 2012	$ 98,979	$ 116,859

Deferred outflows on derivative instruments of $99.0 million as of June 30, 2012 represented deferred outflow of resources offsetting interest rate swap liabilities. Derivative instruments of $116.9 million as of June 30, 2012 represented the fair values of interest rate swap contracts. The difference between the deferred outflows and derivative instruments above is due to the amortization of the off-market portions of the swaps.

Basis Risk - The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the year ended June 30, 2012, the Airport received $1.1 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk - As of June 30, 2012, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value.

Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30 2012, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer or substitute such swaps.

Termination Risk - All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps except the swaps associated with the Series 2010A Bonds, from the following insurers:

No.	Swap	Swap Insurer	Insurer credit ratings June 30, 2012 (S&P/Moody's)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
3	Issue 36C	Assured Guaranty Municipal Corp.	AA-/Aa3
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA-/Aa3
6	Series 2010A	None	N/A

* S&P downgraded FGIC's credit ratings to "CC" from "CCC" and subsequently withdrew (denoted by WD) their ratings on FGIC on April 22, 2009. Moody's downgraded FGIC to "Caa3" from "Caa1" and subsequently withdrew their ratings on FGIC on March 24, 2009.

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties

may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Terminating Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Each of the Airport's three bank counterparties, Goldman Sachs Group Inc., JPMorgan Chase Bank N.A. and Merrill Lynch & Co. was downgraded by one or more of the rating agencies during the year ended June 30, 2012. Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2"). This downgrade constitutes an Additional Terminating Event under the interest rate swap agreement.

The Airport is discussing appropriate cures to the Additional Terminating Event with Merrill Lynch. The downgrades to Goldman Sachs and JPMorgan did not constitute an Additional Termination Event under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2012, the fair value of each swap was negative to the Airport as shown above.

Second Series Revenue Refunding Notes, Series 2008A

On July 21, 2011, the last subseries of outstanding Series 2008A-4 Notes, totaling $25.5 million, was refunded by the Series 2011E Bonds in advance of its May 1, 2012 mandatory tender date. As of June 30, 2012, there are no remaining Series 2008A Second Series Revenue Notes outstanding.

San Francisco Water Enterprise

In August 2011, the Water Enterprise issued revenue bonds 2011 Series A, B, C, and D in the combined principal amount of $720.8 million. The purpose of the bonds is to provide new money for Water System Improvement Program (WSIP) capital projects, to finance Hetch Hetchy Water Improvements and to finance the Local Water Main Replacement Projects as well as refund $56.7 million of outstanding 2001 Series A and 2002 Series A revenue bonds with the balance applied to financing cost and cash-funded debt service reserve. Although the refunding resulted in the recognition of a deferred accounting loss of $2.7 million, the Water Enterprise achieved combined net present value debt service savings of $3.3 million or 5.8% of the refunded 2001A and 2002A principal. The bonds included serial and term bonds with interest ranging from 3.0% to 5.0% and have a final maturity of 2041.

In June 2012, the Water Enterprise issued revenue bonds 2012 Series A, B and C in the combined principal amount of $701.9 million to provide $530.0 million of new money for WSIP capital projects, $15.8 million to reimburse the San Francisco Public Utilities Commission (SFPUC) for costs to settle litigation arising out of certain capital projects of benefit to the Water Enterprise, and to refund $99.2 million of outstanding 2001 Series A and 2002 Series A revenue bonds with the balance applied to financing costs and a cash-funded debt service reserve. Although the refunding resulted in the recognition of a deferred accounting loss of $1.8 million, the Water Enterprise achieved combined net present value debt service savings of $11.6 million of the refunded principal. As of June 30, 2012, the

2002 Series A bonds outstanding was $3.8 million. The bonds included serial and term bonds with interest rates ranging from 4.0% to 5.0% and have a final maturity of 2043.

Hetch Hetchy Water and Power

In October 2011, Hetch Hetchy Power issued $8.3 million of taxable Qualified Energy Conservation Bonds (QECBs) to fund certain qualified green components for the San Francisco Public Utilities Commission's 525 Golden Gate Headquarters project. The QECBs were nonrated and privately placed with Bank of America Leasing. The QECBs bear interest rate of 4.74% and mature through 2028. After the federal tax subsidy, the effective interest rate on the QECBs is 1.2%. In April 2012, Hetch Hetchy issued $6.6 million of new taxable New Clean Renewable Energy Bonds (NCREBs) to fund certain qualified facilities that will provide clean, renewable energy at Davies Symphony Hall, City Hall and University Mount Reservoir. The NCREBs were nonrated and privately placed with Bank of America Leasing. The NCREBs bear interest rate of 4.74% and mature through 2028. After the federal subsidy, the net effective interest rate on the NCREBs is 1.5%. Both bonds are payable solely from net power revenues of Hetch Hetchy Power through the year ending June 30, 2028.

Laguna Honda Hospital

Prior to fiscal year 2011-12, the General Fund paid the debt service on the Certificates of Participation, Series 2009A, which were issued to finance a portion of the costs of the Laguna Honda Replacement Project. During fiscal year 2011-12, the Laguna Honda Hospital Enterprise Fund received moneys from the State under S.B. 1128 to provide supplemental MediCal reimbursements to defray the cost of its capital improvements to its qualified acute care facility. As such, during the year ended June 30, 2012, the City transferred the outstanding balance of these Certificates in the amount of $153.7 million from its governmental activities to the Laguna Honda Hospital Enterprise Fund.

(9) Employee Benefit Programs

(a) Retirement Plan

The City maintains a cost-sharing multiple-employer defined benefit pension plan (the Plan), which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District, and San Francisco Trial Court employees other than judges. Due to the relative insignificance of the other employers in the Plan, the City presents disclosure information for the Plan as if it were a single-employer plan. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), agent or cost-sharing multiple-employer, public employee pension plans, which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority, the former Redevelopment Agency and the Successor Agency.

Employees' Retirement System

Plan Description – Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authority, which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2012 was approximately $2.4 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Legislative Changes to the Plan – In June 2010, the voters of the City approved a Charter amendment to create new benefit plans for miscellaneous employees and firefighter and police employees who are hired on or after July 1, 2010. The new benefit plan covering miscellaneous employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation. The two new benefit plans covering firefighter and police employees hired on or after July 1, 2010 provide for: a) an increase in required employee contributions from 7.5% of covered compensation in the previous safety plans to 9% of covered compensation, and b) a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Membership of the Retirement System consisted of the following as of June 30, 2012:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,355	2,080	20,755	25,190
Active members	1,879	1,336	24,882	28,097
Terminated members entitled to but not yet receiving benefits	120	60	5,369	5,549
Total	4,354	3,476	51,006	58,836

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Deferred Retirement Option Program – In February 2008, the voters of the City and County approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer could elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and accrues monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation and service frozen as of the date of his or her entry into DROP. DROP was closed to new applicants on June 30, 2011.

Changes in DROP liabilities during the year ended June 30, 2012 are as follows:

DROP liability, beginning of year	$ 17,641
Additions	24,570
Distributions	(14,954)
DROP liability, end of year	$ 27,257

Funding Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2011-12 varied from 7% to 9% as a percentage of gross salary. For the year ended June 30, 2012, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2010 actuarial report, the required employer contribution rate for fiscal year 2011-12 was 18.09%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost – The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2010. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.75%; (2) cost of living adjustments of 2% to 5%; and (3) projected wage increases of 4.00% with additional for merit and promotion of 0.85% to 15.00% based on a participant's years of service and membership group. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and losses assumptions and supplemental COLAs are amortized as a level percentage of pay over an open 15-year period. Plan amendments and changes in interest crediting rate are amortized over a closed 20-year period.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 223,614	100%	$ -
6/30/2011	308,823	100%	-
6/30/2012	410,797	100%	-

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the actuarial value of assets was $16.3 billion; the actuarial accrued liability was $18.6 billion; the total unfunded actuarial accrued liability was $2.3 billion; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 87.7%; the annual covered payroll was $2.4 billion; and the ratio of the unfunded actuarial liability to annual covered payroll was 96.8%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above except the assumptions for the Investment rate of return of 7.66% and projected wage increases of 3.91%. The Retirement System's unfunded actuarial accrued liability from its July 1, 2010 actuarial valuation increased $711.3 million from a deficit of $1.57 billion to a deficit of $2.29 billion primarily due to investment experience during the year ended June 30, 2009. The actuarial value of assets is "smoothed" in order to mitigate the impact of investment performance volatility on employer contribution rates. Under the 5 years smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-09 will not be fully recognized until the July 1, 2013 actuarial valuation, which determines contribution rates for fiscal year 2014-15. As a result, the City's contribution rate is expected to continue to increase over the next three fiscal years even if the fund achieves its investment return assumptions. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

California Public Employees' Retirement System

Various City public safety, Port, and all Successor Agency and San Francisco County Transportation Authority employees are eligible to participate in PERS. Disclosures for the San Francisco County Transportation Authority and Successor Agency are included in the separately issued financial statements.

Plan Description – The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 100 active members. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death

benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

Miscellaneous Plan

Funding Policy – Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2011-12 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan – Cost for PERS for fiscal year 2011-12 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ -	N/A	$ -
6/30/2011	-	N/A	-
6/30/2012	-	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 2011-12 contribution rate is 22.10%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2011-12 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2009 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.55% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over 15 years. 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.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 15,657	100%	$ -
6/30/2011	16,664	100%	-
6/30/2012	23,888	100%	-

Funded Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation date, the actuarial value of assets was $743.2 million; the actuarial accrued liability was $787.2 million; the total unfunded actuarial accrued liability was $44.0 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 94.4%; the annual covered payroll was $104.1 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 42.3%. The assumptions included in the June 30, 2010 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.55% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $612.7 million in fiscal year 2011-12. 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 $189.2 million to provide postemployment health care benefits for 24,836 retired participants, of which $151.3 million related to the City employees. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(d) Postemployment Health Care Benefits

City (excluding the San Francisco County Transportation Authority and the Successor Agency)

Plan Description – The City maintains a single-employer, defined benefit other postemployment benefits plan, which provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through three plan choices: City Health Plan, Kaiser, and Blue Shield. The City does not issue a separate report on its other postemployment benefit plan.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2012, the City paid approximately $151.3 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of

each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years. The ARC was determined based on the July 1, 2010 actuarial valuation.

The net OPEB obligations are reflected in the statements of net assets of the governmental activities, business-type activities, proprietary funds, and fiduciary funds. The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	$ 397,862
Interest on Net OPEB obligation	46,715
Adjustment to annual required contribution	(38,727)
Annual OPEB cost	405,850
Contribution made*	(156,144)
Increase in net OPEB obligation	249,706
Net OPEB obligation - beginning of year	1,099,177
Net OPEB obligation - end of year	$ 1,348,883

* Contributions to the Retiree Health Care Trust Fund for fiscal year 2011-12 includes previously unrecognized prior years' employer contributions in excess of benefit payments to the Retiree Health Care Trust Fund.

The table below shows how the total net OPEB obligation as of June 30, 2012, is distributed.

Governmental activities	$ 754,501
Business-type activities	552,217
Fiduciary funds	42,165
Net OPEB obligation - end of year	$ 1,348,883

Eligible fiduciary funds' employees are City employees and thereby eligible for postemployment health benefits. These obligations are reported as other liabilities in the City's fiduciary funds financial statements.

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 374,214	33.9%	$ 852,782
6/30/2011	392,151	37.2%	1,099,177
6/30/2012	405,850	38.5%	1,348,883

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over an open thirty year period. As of July 1, 2010, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0.1%. The actuarial accrued liability for benefits was $4.42 billion, and the actuarial value of assets was $3.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $4.42 billion. For the year ended June 30, 2012, the estimated covered payroll (annual payroll of active employees covered by the plan) was $2.0 billion and the ratio of the UAAL to the covered payroll was 215.9%.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress,

presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2010, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). Unfunded liabilities are amortized using the level percentage of expected payroll over an open 30-year period. The actuarial assumptions included a 4.25% investment rate of return on investment; 4.0% payroll growth; and an ultimate medical inflation rate of 4.75% over 18 years.

San Francisco County Transportation Authority

The San Francisco County Transportation Authority (SFCTA) maintains a separate single-employer defined benefit OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2012. As of June 30, 2012, the SFCTA complied with GASB Statement No. 57 reporting requirements and performed OPEB valuations based on a common date. As such, the SFCTA performed the latest actuarial valuation as of June 30, 2011 in fiscal year 2011-12. SFCTA's most recent actuarial valuation was performed as of June 30, 2011, covering the fiscal years ended June 30, 2012 and 2013. SFCTA's OPEB plan was for retiree healthcare benefits and was 60.4% funded and the unfunded actuarial accrued liability was $0.3 million. Details of SFCTA's OPEB plan may be found in its financial statements for the year ended June 30, 2012. Financial statements for SFCTA can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

As of June 30, 2012, the SFCTA's annual OPEB expense of $158 was equal to the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 110	100%	$ -
6/30/2011	113	100%	-
6/30/2012	158	100%	-

Successor Agency

Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor Agency assumed the former Agency's postemployment healthcare plan. The Successor Agency sponsors a single-employer defined benefit plan providing other postemployment benefits (OPEB) to employees who retire directly from the former Agency and/or the Successor Agency. The Successor Agency is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by PERS and provides monthly retiree medical benefit contributions. Premiums in excess of the above Successor Agency contributions are paid by the retirees. Benefits provisions are established and may be amended by the Successor Agency. A publicly available report is not issued.

The Successor Agency's most recent actuarial valuation was performed as of June 30, 2011, and was the basis for the ARC for the former Agency's seven months' period ended January 31, 2012 and the Successor Agency's five months' period ended June 30, 2012. The Successor Agency's

OPEB plan was for retiree healthcare benefits and was 12.9% funded based on actuarial value of plan assets of $1.9 million and an accrued actuarial liability of $14.4 million resulting inan unfunded actuarial accrued liability of $12.5 million as of June 30, 2011, the plan's most recent actuarial valuation date.

Details of the Successor Agency's OPEB plan may be found in its financial statements for the five months' period ended June 30, 2012. Financial statements for the Successor Agency can be obtained from its finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

The following table shows the components of the Successor Agency's OPEB cost for the five months' period, the amount contributed to the plan, and changes in its net OPEB obligation:

Annual required contribution	$ 536
Interest on Net OPEB obligation	14
Adjustment to annual required contribution	(17)
Annual OPEB cost	533
Contribution made	(345)
Increase in net OPEB obligation	188
Net OPEB obligation - February 1, 2012	733
Net OPEB obligation - June 30, 2012	$ 921

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010 *	$ 1,296	93%	$ 643
6/30/2011 *	1,346	113%	470
1/31/2012 **	747	65%	733
6/30/2012 ***	533	65%	921

* Represents trend information for the former Agency for the fiscal year.
** Represents trend information for the former Agency for the period July 1, 2011 through January 31, 2012.
*** For the period February 1, 2012 through June 30, 2012.

Proposition B – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund

Proposition B was passed by voters on June 3, 2008, and increased the years of service required to qualify for employer-funded retiree health benefits for City employees and certain employees of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Now it states that between 5-10 years of service, there is no employer contribution, at 10-15 years there is a 50% contribution, between 15-20 years there is 75% contribution and only after 20 years of service will the employer pay 100% of the contribution.

Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%. The San

Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this trust fund if approved by their governing boards.

The City established the Retiree Health Care Trust Fund to receive contributions for the purpose of providing a funding source for certain post-employment benefits other than pension. The Retiree Health Care Trust Fund is administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System.

Proposition C – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund

Proposition C was passed by voters on November 8, 2011, created new Retirement System benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%; provided that employees commencing employment on or after January 7, 2012, otherwise eligible for membership in CalPERS may become members of the Retirement System.

Effective July 1, 2012, Proposition C provides for an increase or decrease of employee contributions to the Retirement System for certain Retirement System members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than $50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between $50,000 and $100,000 per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn $100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and provides that, effective July 1, 2012, no Supplemental COLA will be paid unless the Retirement System is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City and County of San Francisco. The RHCTF was established to receive employer and employee contributions prescribed by the Charter for the purpose of pre-funding certain postretirement health benefits. Proposition B requires employees hired on or after January 10, 2009 to contribute 2% of pay and the employer to contribute 1% of pay. Between January 10, 2009 and the establishment of the RHCTF, contributions were set aside and deposited into the RHCTF when it was established. Proposition C also requires all employees hired on or before January 9, 2009 to contribute 0.25% of pay to the RHCTF commencing July 1, 2016, increasing annually by 0.25% to a maximum of 1.0% of pay. The employer is required to contribute an equal amount. The RHCTF is currently invested in short-term fixed income securities. The RHCTF may not pay benefits from the Trust before January 1, 2020.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (SFCTA) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The SFCTA was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of

the voter-approved sales tax began on April 1, 1990. On November 4, 2003, the San Francisco voters approved Proposition K with a 74.7% affirmative vote, amending the City Business and Tax Code to extend the county-wide one-half of one percent sales tax, and to replace the 1989 Proposition B Plan with a new 30-year Expenditure Plan. The Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Within 20 years of the effective date of the adoption of the Proposition K Expenditure Plan, the SFCTA may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the SFCTA Board may adopt an updated Expenditure Plan anytime after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the SFCTA directs the use of the Sales Tax and may spend up to $485.2 million per year and may issue up to $1.88 billion in bonds secured by the Sales Tax. In addition to the sales tax program, the SFCTA also administers the following programs:

Congestion Management Agency Programs. On November 6, 1990, the SFCTA was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the SFCTA is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

Transportation Fund for Clean Air (TFCA) Program. On June 15, 2002, the SFCTA was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the Transportation Fund for Clean Air (TFCA) program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD) come from a $4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the SFCTA recommends projects that benefit air quality by reducing motor vehicle emissions.

Prop AA Program. On November 2, 2010, San Francisco voters approved Prop AA with a 59.6% affirmative vote, authorizing the SFCTA to collect an additional $10 annual vehicle registration fee on motor vehicles registered in San Francisco and to use the proceeds to fund transportation projects identified in the Expenditure Plan. Revenue collection began in May 2011. Prop AA revenues must be used to fund projects from the following three programmatic categories. The percentage allocation of revenues designated for each category over the 30-year Expenditure Plan period is shown in parenthesis following the category name: 1) Street Repair and Reconstruction (50%); 2) Pedestrian Safety (25%); and 3) Transit Reliability & Mobility Improvements (25%). The Authority is developing the first Prop AA Strategic Plan, including the specific projects that could be funded within the first five years (i.e., Fiscal Years 2012/13 to 2016/17). The first Prop AA allocations are anticipated in fall of 2012. The SFCTA could use up to 5% of the funds for administrative costs.

(11) Detailed Information for Enterprise Funds

(a) San Francisco International Airport

San Francisco International Airport (Airport), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five-member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2011 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (seventh) and air cargo (sixteenth). The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

Pledged Revenues under the 1991 Master Resolution – Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the Airport's parity common account (the Issue 1 Reserve Account), the Airport is required to deposit, with the trustee, an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the Issue 1 Reserve Account or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net revenues (as defined in the bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and

(b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differs from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

Passenger Facility Charges – The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of $4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. The Airport's most recent application amendment of $609.1 million was approved by the FAA in September 2006. The current authority to impose PFCs is estimated to end January 1, 2017. For the year ended June 30, 2012, the Airport reported approximately $81.4 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there were $91.1 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2012, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel agreed to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and

secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

Purchase commitments for construction, material and services as of June 30, 2012 are as follows:

Construction	$ 33,163
Operating	6,548
Total	$ 39,711

Transactions with Other Funds and Business Concentrations – Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment, to the City's General Fund, equal to 15% of concession revenue, but not less than $5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2012 was $34.0 million and was recorded as a transfer. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2012 was $ 115.4 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2012, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines..... 21%

(b) Port of San Francisco

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

Pledged Revenues – The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations, which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port pledged future net revenues to repay $36.7 million in Revenue Bonds issued in 2010. Annual principal and interest payments through 2040 are expected to require less than 17% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $69.7 million. The principal and interest payments made in 2012 were $2.8 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2012 were $17.5 million.

The Port has entered into a loan agreement with the California Department of Boating and Waterways for $3.5 million to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $3.9 million. Annual principal and interest payments were $0.2 million in 2012 and pledged harbor revenues were $0.1 million for the year ended June 30, 2012.

Commitments and Contingencies – The Port is presently planning various development and capital projects that involve a commitment to expend significant funds. As of June 30, 2012, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $72.4 million for capital projects and $2.4 million for general operations.

The development plan for the Pier 70 area in particular will require complex financing strategies including an array of public and private financing mechanisms in order to accomplish the Pier 70 Master Plan objectives, which include environmental remediation, preservation and adaptive reuse of historic buildings, construction of new infrastructure and public open spaces. The Port has pursued State legislative changes to increase funding options to address future capital requirements. In 2005, Senate Bill No. 1085 amended the California Government Code to enable the City and Port to form, in the Port area, infrastructure financing districts ("IFD") pursuant to Section 53395 et seq. Among other things, this legislation enumerated additional infrastructure improvements that qualify for infrastructure financing districts, including seismic upgrades, historic renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers and wharves.

The 2008 Clean and Safe Neighborhood Parks general obligation bond included $33.5 million for parks and open space projects currently in progress on Port property. 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, 2012, $27.9 million of Port funds have been appropriated and $11.4 million has been expended for projects under the agreement. In 2011, the Port and the United States Army Corps of Engineers entered into a cooperative agreement for a federal contract to cover the removal of Pier 36 in support of the Brannan Street Wharf project. This cost-sharing arrangement for pier removal is supported by a $4.8 million federal appropriation. The removal of Pier 36 was substantially completed and construction of the Brannan Street Wharf project had commenced by June 30, 2012.

34th America's Cup – San Francisco was selected on December 31, 2010 to host the 34th America's Cup (AC34) and related events (Event) under terms set forth in the Host and Venue Agreement (HVA) between the City and the America's Cup Event Authority, LLC (Event Authority) approved by the Board of Supervisors. Environmental review of the Event under the California Environmental Quality Act (CEQA) was completed and the final environmental impact report was certified by the City Planning Commission on December 15, 2011, and following appeal, was upheld by the Board of Supervisors on January 24, 2012. Port and City staff continue to work with various regulatory agencies to secure all required reviews and permits for the Event. On March 27, 2012, the Board of Supervisors approved a Lease Disposition Agreement (LDA) between the City and the Event Authority, subject to certain risk management conditions specified in the Board resolution. The Board resolution authorized the Port Executive Director, with Port Commission approval consistent with the Board's authorization, to execute the LDA. Port Commission approval was obtained on April 24, 2012 and the LDA was executed on August 14, 2012. Certain terms providing for Event Authority remedies in the case of certain force majeure events, which were not contemplated previously, were ratified by the Port Commission and the Board of Supervisors in September 2012.

The executed LDA sets forth the final agreed framework for the City to host the AC34 events in 2012 and 2013. The LDA defines the Port properties to be used as venues for the Event and the respective responsibilities of the City, Event Authority, and America's Cup Organizing Committee (ACOC) to prepare for and host the AC34. It replaces the previously proposed Development and Disposition Agreement and revises the HVA, removing the Event Authority's long-term lease and development rights from the HVA along with its investments in Port infrastructure. The Port is responsible, instead, for the completion of necessary improvements at piers that would be used for AC34 events. The Event Authority only has temporary use of waterfront facilities. The LDA sets forth the terms and conditions for which the Port would provide venues to the Event Authority, including the respective leases or licenses to use property for these venues and make improvements to these venues in preparation for AC34, at Port expense. Under the LDA, the Port is committed to complete approximately $16.2 million of infrastructure improvements to support Event venues programmed to

occur at or on the Port's waterfront facilities, including public access improvements to meet certain BCDC requirements and environmental improvements to meet other permitting requirements. Pursuant to the LDA, the Port is also committed to complete approximately $1.0 million of other capital repairs at various identified venue sites on Port property. In addition to the LDA obligations, there are other BCDC requirements for recreational water access improvements for kayaks and non-motorized craft at the Pier 52 public boat launch and for two temporary parklets during the 2013 AC34 events.

South Beach Harbor Project Obligations – A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the former Agency held leasehold interests to certain Port properties. Prior to recent legislation, it was planned for the Port to resume management and control on July 1, 2012 of its property, including the South Beach Harbor and other leasehold improvements completed by the former Agency. It is anticipated that certain transition actions following the February 1, 2012 dissolution of the Agency will be ratified or approved by subsequent action of the Successor Agency in accordance with State redevelopment dissolution law. The Port, commencing July 1, 2012, has been paying certain South Beach Harbor operating costs in accordance with an early transition plan. The Successor Agency intends to enter into a management and operating agreement with the Port for South Beach Harbor. This agreement, when approved, will among other things provide for the reimbursement of the costs paid by the Port. Through October 31, 2012, approximately $1.3 million has been paid on behalf of South Beach Harbor.

South Beach Harbor revenues are pledged to a 1986 revenue bond issue that pre-dates the Port's 2010 Revenue Bonds. South Beach Harbor project funds are available to pay current debt service, but berthing rate increases are required to cover future debt service and to meet the required level of debt service coverage specified in the bond indenture. Certain public access and other improvements required under BCDC Permit Amendment No. 17 for the South Beach Harbor Project were not completed by the former Agency. The required improvements, last estimated in 2004 to cost $6.2 million, must be completed by December 31, 2017.

Pollution Remediation Obligations – The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

The Port undertook a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. The 65-acre site has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Much of the site was owned and/or occupied by the U.S. Navy or its contractors for at least 60 years. Fifteen acres remain occupied by an on-going ship repair facility. Environmental conditions exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70.

The environmental investigation work includes preparation of a feasibility study to evaluate potential remedial action; a remedial action plan, which will establish institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impacts to the environment. Future development will likely cover existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. The contractor prepared an earlier report in 2009 describing potential remediation scenarios for Pier 70 site and probability of certain contamination being encountered in soil, soil vapor or groundwater, and various degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between $15.0 million and $50.0 million, with a most likely probability-weighted estimated cost of $27.5 million. The investigation work, completed in 2011, reduced the uncertainty regarding the nature and extent of contamination, potential need for remediation, and costs associated with implementation of a risk management plan. After stakeholder and regulatory reviews, the final report, "Feasibility Study and Remedial Action Plan, Pier 70 Master Plan Area ", was issued on May 31, 2012. In August 2012, the Port received the Regional Water Quality Control Board's official approval of the final report and its direction to proceed with preparing a risk management plan to implement the remedial action alternative that consisted of durable covers and institutional controls as described in the report. Using the two most likely discrete remediation scenarios (that entail the use of durable covers), Port management was able to reduce the probability-weighted remediation cost estimated as of June 30, 2012 to $13.5 million.

Other environmental conditions on Port property variously include asbestos and lead paint removal and oil contamination. The Port may be required to perform certain clean-up work if it intends to develop or lease such property, or at such time as may be required by the City or State. During the year ended June 30, 2012, the Port expended $0.5 million for the removal of asbestos and lead-based paint at Piers 27-29 and other sites in advance of construction work or tenant occupancy. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for these risks cannot be reasonably made at this time. Subsequent to June 30, 2012, an unknown underground storage tank (UST) was discovered on Port property in connection with a Department of Public Works (DPW) project. DPW will remove the UST and perform an initial characterization of site conditions. The Port will later work with the City on more systematic characterization, as well as any future required action based on the results. No remediation costs for this UST have been accrued as of June 30, 2012 because the potential liability for these costs cannot be reasonably made at this time.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2012, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2011	$ 21,650	$ 134	$ 21,784
Current year claims and changes in estimates	(8,032)	(17)	(8,049)
Vendor payments	(115)	(24)	(139)
Environmental liabilities at June 30, 2012	$ 13,503	$ 93	$ 13,596

(c) San Francisco Water Enterprise

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Enterprise delivers water, approximately 77,400 million gallons annually, to a total population of approximately 2.6 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. Under Proposition E, the City's Charter Amendment approved by the voters in June 2008, the Mayor nominates candidates subject to qualification requirements to the Commission and the Board of Supervisors votes to approve the nominees by a majority (at least six members).

Pledged Revenues – The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through the year ending 2051.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2012 and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 4,683,190
Principal and interest remaining due at the end of the year	8,734,417
Principal and interest paid during the year	122,289
Net revenue for the year ended June 30, 2012	159,183
Funds available for revenue bond debt service	186,656

During fiscal year 2012, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was $160.4 million. Such amounts are subject to final review by wholesale customers, along with a trailing wholesale balancing account compliance audit of the wholesale revenue requirement calculation. As of June 30, 2012, the wholesale customers owed the Water Enterprise approximately $18.8 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2012, the Water Enterprise had outstanding commitments with third parties of $969.3 million for various capital projects and for materials and supplies.

Transactions with Other Funds – The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately $30.6 million and $7.1 million, respectively, for the year ended June 30, 2012, are included in the operating expenses for services provided by other departments in the Water Enterprise's financial statements.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $11.7 million for the year ended June 30, 2012 and have been included in services provided by other departments.

(d) Hetch Hetchy Water and Power Enterprise

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City. Hetch Hetchy is a stand-alone enterprise comprised of two funds, Hetch Hetchy Power (AKA the Power Enterprise) and Hetch Hetchy Water, a portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service for the latter. Hetch Hetchy accounts for the activities of the Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource.

Approximately 68% of the electricity generated by Hetch Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone

Convention Center, and the Water and Wastewater Enterprises). The balance of electricity is sold to other utility districts, such as Turlock and Modesto Irrigation Districts. As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping and municipal load needs and any remaining energy either sold to other municipalities and/or government agencies (not for resale) or deposited into an energy bank account under the City's agreement with Pacific Gas and Electric (PG&E). Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.

Segment Information – Hetch Hetchy Power issued debt to finance its improvements. Both the Hetch Hetchy Water fund and the Hetch Hetchy Power fund are reported for in a single enterprise (i.e., Hetch Hetchy Water and Power Enterprise). However, investors in the debt rely solely on the revenue generated by the individual activities for repayment. Summary financial information for Hetch Hetchy is presented below:

Condensed Statement of Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Assets:			
Current assets	$ 44,392	$ 170,382	$ 214,774
Receivables from other funds and component units	-	20,494	20,494
Restricted cash and investments	14,880	9,851	24,731
Other noncurrent assets	13	572	585
Capital assets	87,941	247,454	335,395
Total assets	147,226	448,753	595,979
Liabilities:			
Current liabilities	3,369	24,466	27,835
Noncurrent liabilities	7,335	48,157	55,492
Total liabilities	10,704	72,623	83,327
Net assets:			
Invested in capital assets, net of related debt	87,941	221,699	309,640
Restricted	14,170	112	14,282
Unrestricted	34,411	154,319	188,730
Total net assets	$ 136,522	$ 376,130	$ 512,652

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Operating revenues	$ 32,495	$ 94,814	$ 127,309
Depreciation expense	(4,059)	(9,796)	(13,855)
Other operating expenses	(32,944)	(83,811)	(116,755)
Net operating income (loss)	(4,508)	1,207	(3,301)
Nonoperating revenues (expenses):			
Federal grants	-	2,581	2,581
Interest and investment income	874	2,589	3,463
Interest expense	-	(99)	(99)
Other nonoperating revenues (expenses)	(11)	40	29
Transfers in (out), net	14,073	(2)	14,071
Change in net assets	10,428	6,316	16,744
Net assets at beginning of year	126,094	369,814	495,908
Net assets at end of year	$ 136,522	$ 376,130	$ 512,652

Condensed Statement of Cash Flows	Hetch Hetchy Water	Hetch Hetchy Power	Total
Net cash provided by (used in):			
Operating activities	$ 2,578	$ 14,275	$ 16,853
Noncapital financing activities	27,711	3,153	30,864
Capital and related financing activities	(7,436)	(26,422)	(33,858)
Investing activities	786	6,786	7,572
Change in net assets	23,639	(2,208)	21,431
Cash and cash equivalents at beginning of year	35,130	166,649	201,779
Cash and cash equivalents at end of year	$ 58,769	$ 164,441	$ 223,210

Pledged Revenues – Hetch Hetchy Power has pledged future power revenues to repay bonds, issued since fiscal year 2009. Proceeds from the bonds provided financing for various capital construction projects. These bonds are payable solely from net power revenues of Hetch Hetchy Power and are payable through the year ending 2028.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2012, and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 21,216
Principal and interest remaining due at the end of the year	25,748
Principal and interest paid during the year	422
Net revenue for the year ended June 30, 2012	20,551

Commitments and Contingencies – As of June 30, 2012, Hetch Hetchy Water and Power had outstanding commitments, with third parties, of $31.7 million for various capital projects and other purchase agreements for materials and services.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were $4.3 million in fiscal year 2012. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries, in the lower Tuolumne River, for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared, between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The renegotiated agreement, with MID, became effective January 1, 2008, removed Hetch Hetchy's obligation to provide firm power, and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy Power amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement, between the City and TID, restates and amends the power sales agreement and terminates Hetch Hetchy's obligation to provide firm power at below market costs to TID to the end of the agreement's term on June 30, 2015. Hetch Hetchy will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2011-12, energy sales to the Districts totaled 277,838 megawatt hours (MWh) or $7.1 million.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy Power. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy Power and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2011-12, Hetch Hetchy purchased $13.5 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

The PG&E agreement contains a contractual provision allowing it to bank excess power produced, with a maximum of 110,000 of MWh. During fiscal year 2011-12, Hetch Hetchy Power generated 1,321,576 MWh of power, banked (deposited) in Deferred Delivery Account (DDA) 132,678 MWh and used (withdrew) 110,700 MWh. At June 30, 2012, the balance in the bank was 102,305 MWh or $2.9 million.

Hetch Hetchy is exposed to risks that could negatively impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the financial results of Hetch Hetchy are sensitive to variability in watershed hydrology and market prices for energy.

Transactions with Other Funds –The Water Enterprise purchases water from Hetch Hetchy Water and power from Hetch Hetchy Power. Included in the operating revenues are the water assessment fees totaling $30.6 million and purchased electricity for $7.1 million for the year ended June 30, 2012. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $8.6 million for the year ended June 30, 2012.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to Hetch Hetchy Water and Power and charge amounts designed to recover those departments' costs. These charges total approximately $5.8 million for the year ended June 30, 2012 and have been included in services provided by other departments.

(e) Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (MTA) is governed by the MTA Board of Directors. The MTA includes the entire City's surface transportation network, which encompasses pedestrians, bicycling, transit, traffic and parking regulation of the taxi industry, and five nonprofit parking garage corporations operated by separate non-profit corporations, whose operations are interrelated. The San Francisco Municipal Railway Improvement Corporation (SFMRIC), which was part of prior year reporting, was dissolved on October 4, 2011 and all remaining funds were transferred to MTA.

Proposition E, passed by the San Francisco voters in November 1999, amended the City Charter, calling for the creation of the MTA by consolidating MUNI and Department of Parking and Traffic (now named as Sustainable Streets) by July 1, 2002. The incorporations are intended to support the City's *Transit First* Policy. MUNI is one of America's oldest public transit agencies, the largest in the Bay Area and seventh largest system in the United States. It currently carries more than 200 million riders annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world famous cable cars, MUNI's fleet is among the most diverse in the world. The MTA's Sustainable Streets manages 40 City-owned garages and metered parking lots. It also manages all traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings, and parking meters. It also promotes the safe and efficient movement of people and goods throughout the City. In March 2009, the former Taxi Commission was merged with the MTA and has assumed responsibility for taxi regulation to advance reforms as well as upgrading conditions for drivers. MTA has regulatory power over the taxi industry and other motor vehicles for hire in San Francisco. The parking garages accounted for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities.

The tables below reflect the financial information of MUNI, the Sustainable Streets, Taxi Regulatory Services and the non-profit parking garages that are reported within the MTA, net of eliminations $181.8 million inter-agency transfers.

	MUNI	Sustainable Streets/Taxi	Parking Garages	Eliminations	Total
Assets					
Current assets	$ 486,406	$ 94,420	$ 3,971	$ -	$ 584,797
Noncurrent assets	2,010,770	53,959	70,443	-	2,135,172
Total assets	2,497,176	148,379	74,414	-	2,719,969
Liabilities					
Current liabilities	272,074	23,621	5,254	-	300,949
Current liabilities payable from restricted assets	1,241	-	-	-	1,241
Noncurrent liabilities	241,403	57,496	23,400	-	322,299
Total liabilities	514,718	81,117	28,654	-	624,489
Net assets					
Invested in capital assets, net of related debt	2,003,542	34,920	33,893	-	2,072,355
Restricted net assets	5,987	681	9,949	-	16,617
Unrestricted net assets (deficits)	(27,071)	31,661	1,918	-	6,508
Total net assets	$ 1,982,458	$ 67,262	$ 45,760	$ -	$ 2,095,480

	MUNI	Sustainable Streets/Taxi	Parking Garages	Eliminations/ Reclassifications	Total
Operating revenues	$ 220,167	$ 86,013	$ 44,284	$ -	$ 350,464
Operating expenses	810,025	126,930	19,740	-	956,695
Net operating income (loss)	(589,858)	(40,917)	24,544	-	(606,231)
Nonoperating income (loss)	127,840	118,948	(1,472)	(4,052)	241,264
Capital contributions	204,536	11,978	-	(63,627)	152,887
Transfers in	373,207	97,614	-	(113,464)	357,357
Transfers out	(14,940)	(154,734)	(22,186)	181,143	(10,717)
Change in net assets	100,785	32,889	886	-	134,560
Net assets, beginning of year	1,881,673	34,373	44,874	-	1,960,920
Net assets, end of year	$ 1,982,458	$ 67,262	$ 45,760	$ -	$ 2,095,480

The data below reflect the operations of the parking garages operated by separate nonprofit corporations managed by MTA. Information about these nonprofit corporations for the year ended June 30, 2012 is as follows:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 14,892	$ 16,608	$ 3,356	$ 5,609	$ 3,819	$ 44,284
Depreciation	680	1,024	174	361	137	2,376
Operating income	9,484	10,689	1,319	1,437	1,615	24,544
Interest and other nonoperating revenues (expenses)	(359)	(971)	-	(147)	5	(1,472)
Change in net assets	142	558	65	(35)	156	886
Capital assets, additions	115	389	-	-	35	539
Capital assets, deletions	-	(804)	(256)	-	-	(1,060)
Net working capital (deficit)	(1,599)	(1,586)	1,664	(874)	1,112	(1,283)
Total assets	20,099	36,873	3,187	11,386	2,869	74,414
Total liabilities	7,136	17,878	291	3,065	284	28,654
Net assets	12,963	18,995	2,896	8,321	2,585	45,760
Total debt outstanding	6,199	16,437	-	2,538	-	25,174

Operating and Capital Grants and Subsidies – The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and Sustainable Streets as determined by the City's budgetary accounting procedures and subject to the appropriation process. The amount of General Fund subsidy to the MTA was $274.0 million in fiscal year 2011-12.

The MTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2012, MUNI had approved capital grants with unused balances amounting to $630.2 million. Capital grants receivable as of June 30, 2012 totaled $70.1 million.

The MTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2012, MTA had various operating grants receivable of $21.4 million. In fiscal year 2011-12, the MTA's operating assistance also includes funding for American Disability Act (ADA) improvements for $1.2 million and other federal, state and local grants of $25.2 million to fund project expenses that are operating in nature.

The capital grants and operating assistance identified above include funds received and due from the SFCTA (a blended component unit). During the fiscal year 2011-12, the SFCTA approved $85.8 million in new capital grants and $13.7 million in new operating grants for MTA. During the same period, the MTA received total payments of $63.6 million for capital grants and $15.0 million in operating grants from the SFCTA. As of June 30, 2012, the MTA had $11.4 million due from the SFCTA for capital grants and $3.2 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond program that was approved by California voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. MTA received $88.6 million in fiscal year 2011-12 for different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2011-12, $18.1 million drawdowns were made from these funds for the various eligible project costs.

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 MTA from parking revenues and the General Fund.

Commitments and Contingencies – The MTA has outstanding contract commitments of approximately $188.9 million, with third parties, for various capital projects. Grant funding is available for a majority of this amount. The MTA also has outstanding commitments of approximately $30.6 million, with third parties, for non-capital expenditures. Various local funding sources are used to finance these expenditures. The MTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding.

Leveraged Lease-Leaseback of BREDA Vehicles – Tranches 1 and 2

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, MTA Board of Directors, and the City's Board of Supervisors, MUNI entered into the leveraged lease leaseback transactions for over 118 and 21 respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). Each transaction also referred to as "sale in lease out" or "SILO", was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Under the respective sublease, MUNI may exercise an option to purchase the Tranche 1 Equipment on specified dates between November 2026 through January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled sublease expiration dates. During the terms of the subleases, MUNI maintains custody of the Tranche 1 Equipment and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors, in full prepayment of the head lease. MUNI deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company that is currently rated "AA-" by Standard & Poor's ("S&P") and "Aa3" by Moody's Investor Services ("Moody's"). The terms of the SILO documents require the MUNI to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. In addition, FSA provided a surety policy, with respect to each SILO, to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require MUNI to replace AGM, as successor to FSA, as surety provider, if AGM's ratings are downgraded below "AA-/Aa3" by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. On March 20, 2012, Moody's placed the ratings of AGM on credit review for possible downgrade. As of June 30, 2012, Moody's has not yet announced the result of its credit review. Failure of MUNI to replace AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to MUNI. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, MUNI could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2012 after giving effect to the market value of the securities in the escrow

accounts would approximate $62.3 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations are not recorded on the financial statements of the MTA as of June 30, 2012.

As a result of the cash transactions above, MUNI recorded deferred revenue of $35.5 million and $4.4 million in fiscal year 2002 and 2003, respectively, for the difference between the amounts received of $388.2 million and $72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million, respectively. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million and $0.2 million in fiscal year 2011-12.

As of June 30, 2012, the outstanding payments to be made on the sublease through the end of the sublease term are $26.4 million and $1.0 million for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be $680.8 million and $154.2 million, respectively. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

(f) Laguna Honda Hospital

General Fund Subsidy – The Laguna Honda Hospital (LHH) is a skilled nursing facility, which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2012, the subsidy for LHH was approximately $4.5 million.

Net Patient Services Revenue – Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals and bad debt. These allowances are based on current payment rates, including per diems, DRG amounts and payment(s) received as a percentage of gross charges.

Third-party Payor Agreements – LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any

pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2012, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross accounts receivable	$ 64,972	$ 2,243	$ 585	$ 67,800
Less:				
Contractual Allowances	(19,792)	(683)	(178)	(20,653)
Total, net	$ 45,180	$ 1,560	$ 407	$ 47,147

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross revenue	$ 246,127	$ 16,039	$ 4,181	$ 266,347
Less:				
Contractual allowances	(120,708)	(11,456)	(1,207)	(133,371)
Total, net	$ 125,419	$ 4,583	$ 2,974	$ 132,976

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. For the year ended June 30, 2012, LHH accrued and recognized $33.5 million of revenue as a result of matching federal funds to local funds.

Deferred Credits and Other Liabilities – As of June 30, 2012, LHH recorded approximately $14.0 million in other liabilities for third-party payor settlements payable.

Replacement Project – The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be able to be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. The new Laguna Honda opened in December 2010 and is comprised of three new buildings housing 780 people.

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, 2012, general obligation bonds in the amount of $299 million have been sold to fund the Replacement Project and are reported as a governmental activity.

As of June 30, 2012, LHH has entered into various purchase contracts totaling approximately $21.9 million that are related to the old building remodel phase of the Replacement Project.

(g) San Francisco General Hospital Medical Center

General Fund Subsidy – San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2012, the subsidy for SFGH was $128.6 million.

Net Patient Services Revenue – Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals, and bad debt. These allowances are based on current payment rates, including per diems, DRG amounts and payment received as a percentage of gross charges.

Third-party Payor Agreements – SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-Cal Hospital/Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2012, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross accounts receivable	$ 213,492	$ 79,872	$ 112,920	$ 406,284
Less:				
Contractual allowances	(187,019)	(68,871)	(67,498)	(323,388)
Bad debt	-	-	(37,958)	(37,958)
Total, net	$ 26,473	$ 11,001	$ 7,464	$ 44,938

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross revenue	$ 833,653	$ 415,194	$ 1,153,133	$ 2,401,980
Less:				
Contractual allowances	(770,821)	(269,024)	(675,069)	(1,714,914)
Bad debt	-	-	(86,195)	(86,195)
Total, net	$ 62,832	$ 146,170	$ 391,869	$ 600,871

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Report" began in November 2010. The Waiver is intended to help sustain the State's Medicaid Program (known as Medi-Cal) test new innovations to help improve care and reduce costs, and to support the safety net in advance of health reform. Under the Waiver, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursements for inpatient hospital services; 2) Disproportionate Share Hospital payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) Delivery System Reform Incentive Program (DSRIP); and 5) the Low Income Health Program. The non-federal share of these payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Waiver approximated $192.2 million for the year ended June 30, 2012.

The DSRIP is a pay-for-performance initiative that challenges public hospital systems to meet specific benchmarks related to improving health care access, quality and safety and outcomes. The Low income Health Program (LIHP) is a coverage program for low-income uninsured adults that was included as part of California's Section 1115 Medicaid Waiver. The program builds off and expands the previous Health Care Coverage Initiative (HCCI). Revenues recognized under the LIHP approximated $25.7 million for the year ended June 30, 2012. The LIHP covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements as further discussed in the Healthy San Francisco Program section below. In addition, SFGH was reimbursed by the State of California, under the Short-Doyle Program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2012, reimbursement under the Short-Doyle Program amounted to approximately $5.4 million and is included in net patient service revenue.

Deferred Credits and Other Liabilities – As of June 30, 2012, SFGH recorded approximately $87.1 million in deferred credits and other liabilities, which was comprised of $59.9 million in deferred credits related to receipts under the periodic interim payment system and $27.2 million in third-party payor settlements payable.

Charity Care – SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $408.9 million and estimated costs and expenses to provide charity care were $143.5 million in fiscal year 2011-12.

Other Nonoperating Revenues – The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. For the year ended June 30, 2012, SFGH recognized $48.4 million as other nonoperating revenue for realignment funding.

Contract with the University of California San Francisco – The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2012, was approximately $130.9 million.

SFGH Rebuild – In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department of Public Health to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In October 2005, the San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Potrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. An institutional master plan, a hazardous materials assessment, a geotechnical analysis and rebuild space program were all completed in fiscal year 2007. Schematic design of the new building is complete and the project cost is estimated at $887.4 million.

Majority of the funding will be through issuance of bonds. In November 2008, San Francisco voters approved Proposition A, a ballot measure that authorized the City to issue general obligation bonds for the rebuild of the hospital. As of June 30, 2012, general obligation bonds, in the amount of $426.3 million have been sold to fund the hospital rebuild. On August 25, 2012, additional bonds were sold in the amount of $251.1 million. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds. Upon completion of the new facility, it will be contributed to the SFGH enterprise fund.

Healthy San Francisco Program – In July 2007, the City's Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Persons between the ages of 18-64 are eligible and persons whose income is at or below 500% of the federal poverty level are eligible for a subsidy.

Effective July 1, 2011, over 10,000 HSF participants were transitioned to a new program called San Francisco Provides Access to Healthcare (SF PATH). SF PATH is a new federally-supported health access program that provides affordable health care services for some low income people living in San Francisco. The program was created in preparation for the implementation of federal health reform. The HSF Program started on July 23, 2011 and going forward will reflect this 10,000 reduction in enrollment. New enrollment in HSF has not ceased, but total HSF enrollment has decreased as a result of the transfer of over 10,000 former HSF participants into SF PATH. The department's and Healthy San Francisco's foray into the Affordable Care Act (ACA) preparation and implementation began in earnest on July 1, 2011, with the successful transitioning of over 10,000 participants from HSF into the new SF PATH program designed to help prepare uninsured adults for ACA implementation.

As of June 30, 2012, over 46,822 uninsured adult residents were enrolled in HSF. Combined with the over 10,000 participants in SF PATH, both programs provided care to approximately 89% of the estimated 64,000 uninsured adults residents. In addition to increasing access by serving more uninsured adults, the program also expanded access by increasing the number of primary care medical homes that participate in the program. HSF ended the 2011-12 fiscal year with 37 primary care medical homes – a 37% increase from 2007-2008 (the program's first year).

Commitments and Contingencies – At the end of the year, SFGH has approximately $1.0 million in commitments for various capital projects.

(h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater Enterprise) was established in 1977, following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater Enterprise pursuant to bond resolution, to account for the City's municipal sewage treatment and disposal system.

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows, generated within the City, for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves, on a contractual basis, certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers, cost of service, through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 147,150 residential accounts, which discharge about 18.3 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,166 non-residential accounts, which discharge about 8.6 million units of sanitary flow per year.

Pledged Revenues – Wastewater Enterprise's revenues, which consist mainly of sewer service charges, are pledged for the payment of principal and interest on various revenue bonds. Proceeds, from the bonds, provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from net power revenues of Wastewater Enterprise and are payable through fiscal year ending 2041.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2012, and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 635,835
Principal and interest remaining due at the end of the year	740,556
Principal and interest paid during the year	42,190
Net revenue for the year ended June 30, 2012	107,637
Funds available for bond debt service	158,398

Commitments and Contingencies – As of June 30, 2012, Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling $81.9 million.

Pollution Remediation Obligations – The City and the Wastewater Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Wastewater Enterprise's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows, emanating from a local industrial discharger in the drainage areas to Yosemite Creek, is the likely responsible source of the contamination. As of June 30, 2012, the pollution remediation obligation reported in the accompanying statements of net assets is $571 for the Yosemite Creek project, based on estimated contractual costs.

Transactions with Other Funds – The Wastewater Enterprise purchases electricity, from Hetch Hetchy Power, at market rates. The amount was $8.6 million for the year ended June 30, 2012, and has been included in services provided by other departments.

The City's Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount totaling approximately $15.0 million for the year ended June 30, 2012 and has been included in services provided by other departments.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling approximately $9.6 million for the year ended June 30, 2012, and have been included in services provided by other departments.

SFPUC entered into a seventy-five year lease agreement, with the San Francisco Recreation and Park Commission, for the use of parking spaces at the parking garage located at 355 McAllister Street, beneath Civic Center Plaza, which is in closer proximity to SFPUC's new headquarters at 525 Golden Gate Avenue. The term of the agreement commenced on February 1, 2011, with 40 parking spaces allocated to SFPUC. On or about April 1, 2012, SFPUC will have the right to an additional 20 parking spaces. The total payment under this agreement is $6.3 million and the first payment, in the amount of $1.5 million, was made in the fiscal year 2011. Of this $1.5 million, SFPUC recognized $0.04 million as expenses for the 40 parking spaces, rented between February and June 2011, at $0.008 per month. The remaining $1.46 million was recorded as prepaid. Of the second payment in the amount of $1.5 million made in the fiscal year ended June 30, 2012, SFPUC recognized $84 as expenses and the remaining $1.42 million was recorded as prepaid. The expenses and prepayment were prorated and allocated among the three SFPUC Enterprises based on the use of parking spaces. The remaining payments will be made as follows:

Fiscal years ending June 30:	Amount
2013	$ 1,500
2014	1,500
2015	274
Total	$ 3,274

(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) SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO

As discussed in Note 1, the financial statements present the Successor Agency and its component units, entities for which the Successor Agency is considered to be financially accountable. The City and County of San Francisco Redevelopment Financing Authority (Financing Authority) is a joint powers authority formed between the former Agency and the City to facilitate the long-term financing of the former Agency activities. The Financing Authority is included as a blended component unit in the Successor Agency's financial statements because the Financing Authority provides services entirely to the Successor Agency.

Pursuant to the Redevelopment Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into the Successor Agency's Redevelopment Property Tax Trust Fund (Trust Fund) administered by the City's Controller for the benefit of holders of the former Agency's enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the Trust Fund, plus any unencumbered redevelopment cash and funds from asset sales are distributed by the City to the local agencies in the project area unless needed to pay enforceable obligations.

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2012, a summary of changes in capital assets was as follows:

	Balance February 1, 2012*	Additions	Balance June 30, 2012
Capital assets not being depreciated:			
Land held for lease	$ 30,363	$ -	$ 30,363
Capital assets being depreciated:			
Furniture and equipment - General	8,144	-	8,144
Building and improvements	223,474	-	223,474
Total capital assets being depreciated	231,618	-	231,618
Less accumulated depreciation for:			
Furniture and equipment	(8,016)	(12)	(8,028)
Building and improvements	(76,340)	(2,282)	(78,622)
Total accumulated depreciation	(84,356)	(2,294)	(86,650)
Total capital assets being depreciated, net	147,262	(2,294)	144,968
Total capital assets, net	$ 177,625	$ (2,294)	$ 175,331

* Amount represents capital assets transferred in from the former Agency on February 1, 2012.

(b) Summary of the Successor Agency's Long-Term Obligations

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Lease Revenue Bonds:			
Moscone Convention Center [(a)]	2015	7.05%	$ 7,478
Hotel tax revenue bonds [(b)]	2025	2.00% - 5.00%	42,930
Financing Authority Bonds:			
Tax allocation revenue bonds [(c)]	2042	2.38% - 9.00%	931,276
South Beach Harbor Variable Rate Refunding bonds [(d)]	2017	3.50%	5,690
California Department of Boating and Waterways Loan [(e)]	2037	4.50%	7,673
Total long-term bonds and loans			$ 995,047

Debt service payments are made from the following sources:

(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.

(b) Hotel taxes from the occupancy of guest rooms in the hotels located in the Redevelopment Project Areas.

(c) Redevelopment property tax revenues (note 12) and existing debt service/escrow trust funds.

(d) South Beach Harbor Project cash reserves, redevelopment property tax revenues and project revenues. The variable rate bonds were converted to fixed rate bonds on January 20, 2012.

(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Pledged Revenues for Bonds - The Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the redevelopment property tax revenues (i.e. former tax increment). These revenues have been pledged until the year 2042, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.76 billion. The redevelopment property tax revenues recognized during the period from February 1, 2012 through June 30, 2012 was $48.7 million as against the total debt service payment of $26.1 million.

The Moscone Convention Center Lease Revenue Bonds are secured by the pledge of the capital lease revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2015, the final maturity date of the remaining bonds. The total principal and interest remaining on these bonds is approximately $35.1 million. The lease payments received during the period from February 1, 2012 through June 30, 2012 was $12.8 million as against the total debt service payment of $0.

The Hotel Tax Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately $59.5 million. The hotel tax revenue recognized during the period from February 1, 2012 through June 30, 2012 was $1.9 million as against the total debt service payment of $1.9 million.

In 1992, the bank holding the letter of credit and the former Agency approved a restructuring of the debt involving a sublease of the South Beach Harbor (Harbor) by the former Agency to the Financing Authority, who then leased the Harbor back to the former Agency. The debt restructuring was performed in order for the former Agency to be in compliance with certain debt coverage covenants of the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A indenture. The annual sublease and leaseback payments to be made are calculated as the difference between the net revenues of the Harbor and 130% of the debt service on the bonds for the preceding fiscal year. As a result of the Successor Agency's compliance with certain debt coverage covenants, there were no annual lease payments required to be recorded for the period February 1, 2012 through June 30, 2012.

The interest rate for the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A is reset weekly by a remarketing agent. The rate varies depending on financial market conditions. In connection with the issuance of the bonds, the former Agency obtained an irrevocable letter of credit as a credit facility with Dexia Credit Local for the bonds. The letter of credit expired on January 27, 2012. The former Agency was required to pay the credit facility providers an annual commitment fee of 0.42% based on the outstanding principal amount of the bonds supported by the credit facility.

On January 20, 2012, in accordance with the terms of the bond indenture, the outstanding variable rate bonds were converted to fixed rate bonds and bear Mandatory Fixed Rate of 3.50% with final maturity on December 1, 2016.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2012, are as follows:

	February 1, 2012	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012
Bonds payable:				
Tax revenue bonds	$ 981,356	$ -	$ (1,460)	$ 979,896
Lease revenue bonds	7,478	-	-	7,478
Less deferred amounts:				
For issuance premiums	7,516	-	(351)	7,165
For issuance discounts	(5,567)	-	106	(5,461)
On refunding	(4,044)	-	193	(3,851)
Total bonds payable	986,739	-	(1,512)	985,227
Accreted interest payable	49,310	2,811	-	52,121
Notes, loans, and other payables	7,673	-	-	7,673
Accrued vacation and sick leave pay	2,223	356	(1,591)	988
Other postemployment benefits obligation	733	533	(345)	921
Successor Agency - long term obligations	$ 1,046,678	$ 3,700	$ (3,448)	$ 1,046,930

As of June 30, 2012, the debt service requirements to maturity, excluding accrued vacation and sick leave, are as follows (in thousands):

Successor Agency to the San Francisco Redevelopment Agency

Fiscal Year Ending June 30	Tax Revenue Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 43,668	$ 55,655	$ 3,131	$ 11,357	$ 191	$ 345	$ 46,990	$ 67,357
2014	45,966	53,704	2,921	10,766	199	337	49,086	64,807
2015	51,875	50,484	1,426	5,506	208	328	53,509	56,318
2016	53,375	46,583	-	-	218	318	53,593	46,901
2017	54,380	43,879	-	-	227	309	54,607	44,188
2018-2022	235,400	191,246	-	-	1,300	1,380	236,700	192,626
2023-2027	132,856	183,605	-	-	1,620	1,060	134,476	184,665
2028-2032	126,152	119,468	-	-	2,019	661	128,171	120,129
2033-2037	132,374	80,719	-	-	1,691	177	134,065	80,896
2038-2042	103,850	17,429	-	-	-	-	103,850	17,429
Total	$ 979,896	$ 842,772	$ 7,478	$ 27,629	$ 7,673	$ 4,915	$ 995,047	$ 875,316

Mortgage Revenue Bonds and Other Conduit Debt - In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $389 million as of June 30, 2012 have been issued by the former Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Successor Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

Due to/Advances from the Primary Government - In January 2003, the City and the Agency entered into a Cooperation and Tax Increment Reimbursement Agreement. The City agreed to advance tax increment revenues to the former Agency for the debt service payments on the Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2003 B and C. The former Agency agreed to make reimbursement payments related to the Jessie Square Parking Garage and fully repay the advances by fiscal year 2018. As of June 30, 2012, the long-term balance

due to the City's General Fund was $16.6 million. Interest will be accrued at the State of California Local Agency Investment Fund (LAIF) rate based on the balance due to the City. During the period February 1, 2012 through June 30, 2012, the City advanced $2.85 million in redevelopment property tax revenues to the Successor Agency for debt service payments. In addition, interest in the amount of $0.03 million was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of $1.0 million to the City.

The short-term balance of $2.6 million consists of $0.8 million in Jessie Square reimbursement payments due to the City's General Fund and $1.8 million in payments for services provided by the City, of which $1.0 million is due to the General Fund and $0.8 million is due to other nonmajor governmental funds.

(c) Commitments and Contingencies Related to the Successor Agency

At June 30, 2012, the Successor Agency had outstanding encumbrances totaling approximately $17.0 million.

The Successor Agency is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limit of $34 million and a deductible of $0.05 million self insurance retention per occurrence. Claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Successor Agency and the City. Workers' compensation insurance is provided by the State Compensation Insurance Fund up to statutorily determined limits.

The Successor Agency has noncancelable operating leases for its office sites, which are enforceable obligations of the Successor Agency. The leases require the following minimum annual payments:

Fiscal Years		Fiscal Years	
2013	$ 1,822	2023-2027	$ 4,351
2014	1,822	2028-2032	4,351
2015	1,822	2033-2037	4,350
2016	1,822	2038-2042	4,350
2017	1,267	2043-2047	4,350
2018-2022	4,351	2048-2052	2,828
		Total	$ 37,486

Rent payments totaling $0.8 million are included in the Successor Agency's financial statements for the five months ended June 30, 2012.

The Successor Agency assumed noncancelable operating leases from the former Agency on various facilities within the Yerba Buena Center, Western Addition and Hunters Point, South of Market, Mission Bay North, and South Beach Harbor project areas. The minimum future rental income are as follows (in thousands):

Fiscal Years		Fiscal Years	
2013	$ 4,433	2023-2027	$ 20,524
2014	4,216	2028-2032	22,246
2015	4,223	2033-2037	21,398
2016	4,167	2038-2042	19,650
2017	3,941	2043-2047	17,958
2018-2022	19,589	2048-2050	1,482
		Total	$ 143,827

For the five-month period ended June 30, 2012, operating lease rental income for noncancelable operating leases was $5.0 million. Within the operating lease rental income, $3.2 million represents contingent rental income received. At June 30, 2012, the leased assets had a net book value of $41.7 million.

The former Agency provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Successor Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $47.8 million. As of June 30, 2012, management has assigned approximately $4.8 million for the standby payment agreements. It is management's intent to assign 10% of the estimated maximum obligation.

(13) Treasure Island Development Authority

The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation. TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997. TIDA is governed by seven members of the TIDA Board of Directors who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Development Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy, which are not leased to TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing approximately 800 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan represented the culmination of nearly seven years of extensive public discourse about the future of Treasure Island, and was the product of the most extensive public review process for a large development project in the City's history. The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006. In May 2010, the TIDA Board and Board of Supervisors both unanimously endorsed a package of legislation that included an Update to the Development Plan and Term Sheet, terms of an Economic Development Conveyance Memorandum of Agreement (EDC MOA Term Sheet), and a Term Sheet between TIDA and the Treasure Island Homeless Development Initiative (TIHDI). The 2006 endorsement and 2010 update of the Development Plan marked two very important milestones in the project, as they very specifically guided the enormous efforts undertaken since then to make the ambitious development plans for Treasure Island a reality. Together the updated Development Plan, the EDC MOA Term Sheet and the TIHDI Term Sheet formed the comprehensive vision for the future of the former military base and represented a major milestone in moving the project closer towards implementation.

In April 2011, the TIDA Board and the Planning Commission certified the environmental impact report for the project and approved various project entitlements, including amendments to the Planning Code, Zoning Maps and General Plan, as well as a Development Agreement, Disposition and Development Agreement and Interagency Cooperation Agreement. These entitlements include detailed plans regarding land uses, phasing, infrastructure, transportation, sustainability, housing, including affordable housing, jobs and equal opportunity programs, community facilities and project financing, and provide a holistic picture of the future development. In June 2011, the Board of Supervisors unanimously upheld the certification of the project's environmental impact report as well as approved project entitlements. These project approvals are a key milestone in realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. Pending property transfer from the Navy, the first phase of horizontal infrastructure construction could begin in summer 2013. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

In July 2008 and amended in November 2011, the SFCTA entered into a loan agreement with TIDA in the amount of $10.3 million for the repayment of costs related to the Yerba Buena Island (YBI) Interchange Improvement Project. Under the terms of the agreement, TIDA will repay the SFCTA for all project costs incurred by the SFCTA and accrued interest, less federal government reimbursements to the SFCTA. If the federal grant funds do not become available for some or all of the project costs, or if the federal agency disallows the SFCTA's reimbursement claims on some or all of the project costs, then TIDA bears the responsibility to repay the SFCTA for all costs incurred on the YBI Interchange Improvement Project for a total loan obligation amount not-to-exceed $18.8 million. The repayment to the SFCTA may be paid by TIDA in four annual installment payments on the earlier of 30 days after the first close of escrow for transfer of the Naval Station Treasure Island from TIDA to Treasure Island Community Development, LLC or December 31, 2013. Interest shall accrue on all outstanding unpaid project costs until TIDA and federal agencies fully reimburse the SFCTA for all costs related to the project. Interest will be compounded quarterly, at the City Treasurer's Pooled Investment Fund rate or the SFCTA's borrowing rate, whichever is applicable, beginning on the date of the SFCTA's reimbursement claim to Caltrans until the SFCTA costs and all accrued interest has been repaid.

This loan is collateralized by the senior security interest in TIDA's right, title and interest in and to 1) the rents accruing under the Sublease, Development, Marketing and Property Management Agreement between TIDA and The John Stewart Company, related to the subleasing of existing residential units at the Naval Station Treasure Island; and 2) any and all other TIDA revenue, except revenue prohibited by applicable laws from being used for this purpose or is necessary for repayment of the annual amount of TIDA's pre-existing SFPUC utility obligation under the Memorandum of Understanding (MOU) between TIDA and SFPUC. As of June 30, 2012, TIDA has drawn down $9.4 million on the loan with the SFCTA and accrued $0.4 million in interest costs. In addition, the balance outstanding with the SFPUC under the MOU is $1.2 million at June 30, 2012. This obligation is payable $0.2 million per year through fiscal year 2017-18.

At June 30, 2012, TIDA has a balance due in the amount of $2.6 million to Hetch Hetchy's Sustainable Energy Account to repay its advance for its energy efficiency project.

(14) Interfund Receivables, Payables, and Transfers

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2012 is as follows (in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 25,044
	Internal Service Funds	52
	Municipal Transportation Agency	3,731
	Laguna Honda Hospital	18,454
		47,281
Nonmajor Governmental Funds	General Fund	203
	Nonmajor Governmental Funds	395
	Hetch Hetchy Water and Power Enterprise	214
	Internal Service Funds	2,769
	Wastewater Enterprise	267
	Water Enterprise	1,301
		5,149
General Hospital Medical Center	Nonmajor Governmental Funds	271
Water Enterprise	Nonmajor Governmental Funds	194
Hetch Hetchy Water and Power Enterprise	General Fund	615
	Nonmajor Governmental Funds	9,112
	Port of San Francisco	316
	General Hospital Medical Center	1,440
	Wastewater Enterprise	2,790
	Water Enterprise	2,394
		16,667
Municipal Transportation Agency	General Fund	120
	Nonmajor Governmental Funds	14,620
		14,740
Port of San Francisco	General Fund	274
Wastewater Enterprise	Nonmajor Governmental Funds	28
Total		$ 84,604

In addition to the routine short-term loans, Hetch Hetchy serves as the City's agency for energy efficiency projects and maintains the Sustainable Energy Account (SEA) fund to sponsor and financially support such projects at various City departments. In this role Hetch Hetchy may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2012, Hetch Hetchy loaned $12,048 to other City funds. Hetch Hetchy is also due $2,394 and $2,225 from the Water Enterprise and Wastewater Enterprise, respectively, to finance improvements to certain up-country water storage and transmission facilities.

Receivable Entity	Payable Entity	Amount
Hetch Hetchy Water and Power Enterprise [1]	Treasure Island Development Authority	$ 3,827
Primary government - governmental fund [1]	Treasure Island Development Authority	9,764
Primary government - General Fund [2]	Successor Agency	18,337
Primary government - governmental fund [2]	Successor Agency	840

(1) See discussion at Note 13.

(2) See discussion at Note 12(b) related to the Due to/Advances from the Primary Government.

Transfers Out:	Transfers In: Funds										
Funds	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy	Municipal Transportation Agency	San Francisco General Hospital	Port of San Francisco	Laguna Honda Hospital	Governmental Activities	Total
General fund	$ -	$ 146,106	$ 29	$ -	$ -	$ 273,993	$ 128,578	$ -	$ 4,484	$ -	$ 553,190
Nonmajor governmental funds	4,383	54,006	-	1,500	-	83,364	-	10,405	35,871	-	189,529
Internal Service Funds	1,216	-	-	-	-	-	-	-	-	-	1,216
San Francisco International Airport	33,993	-	-	-	-	-	-	-	-	-	33,993
Water Enterprise	-	1,012	-	-	14,073	-	-	-	-	-	15,085
Hetch Hetchy	-	2	-	-	-	-	-	-	-	-	2
Municipal Transportation Agency	-	10,717	-	-	-	-	-	-	-	-	10,717
San Francisco General Hospital	80,857	-	-	-	-	-	-	-	173	-	81,030
Wastewater Enterprise	-	1	-	-	-	-	-	-	-	-	1
Port	-	-	-	-	-	-	-	-	-	673	673
Laguna Honda Hospital	-	3,307	-	-	-	-	-	-	-	156,545	159,852
Total transfers out	$ 120,449	$ 215,151	$ 29	$ 1,500	$ 14,073	$ 357,357	$ 128,578	$ 10,405	$ 40,528	$ 157,218	$ 1,045,288

The $553.2 million General Fund transfer out includes a total of $407.1 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of $146.1 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families 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.

San Francisco International Airport transferred $34.0 million to the General Fund, representing a portion of concession revenue (note 11(a)).

Of the $83.4 million transfer to the MTA, $78.6 million was related to capital and operating transfers from the SFCTA. $4.8 million was transferred from nonmajor governmental funds bond proceeds to MTA for various street improvement projects. On the other hand, MTA transferred $10.7 million to nonmajor governmental funds to fund various street improvement projects.

The $35.9 million transfer from nonmajor governmental funds to the Laguna Honda Hospital (LHH) was for capital projects funded by the Laguna Honda Hospital Certificates of Participation from the City Facilities Improvement nonmajor governmental fund.

The $15.1 million transfer from Water Enterprise to other City departments includes $14.1 million to Hetch Hetchy Enterprise to finance improvements to certain up-country water storage and transmission facilities and $1.0 million to nonmajor governmental funds for landscape and irrigation project performed for the Water Enterprise and for participation in the surety bond program.

During the fiscal year, the City's governmental activities transferred the outstanding balance of the certificates of participation in the amount of $156.5 million to the Laguna Honda Hospital Fund along with the revenue stream dedicated to repay this obligation. This obligation was issued for the purpose of rebuilding and improving the Laguna Honda Hospital.

(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	
2013	$ 19,396
2014	16,170
2015	14,165
2016	9,162
2017	7,832
2018-2022	15,088
Total	$ 81,813

Operating lease expense incurred for fiscal year 2011-2012 was approximately $22.0 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	Total Business-type Activities
2013	$ 195	$ 2,868	$ 9,851	$ 12,914
2014	118	2,868	9,898	12,884
2015	75	2,868	10,117	13,060
2016	-	2,802	8,638	11,440
2017	-	2,709	8,270	10,979
2018-2022	-	13,546	44,365	57,911
2023-2027	-	13,546	50,968	64,514
2028-2032	-	13,546	59,353	72,899
2033-2037	-	13,546	71,939	85,485
2038-2042	-	13,546	-	13,546
2043-2047	-	13,546	-	13,546
2048-2052	-	5,644	-	5,644
Total	$ 388	$ 101,035	$ 273,399	$ 374,822

Operating lease expense incurred for the Airport, Port, and MTA for fiscal year 2011-2012 was $0.2 million, $2.9 million, and $12.3 million, respectively.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments:

Primary Government

Governmental Activities

Fiscal Years	
2013	$ 2,137
2014	1,968
2015	1,817
2016	1,764
2017	1,697
2028-2022	1,810
2023-2027	732
2028-2032	350
Total	$ 12,275

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2013	$ 94,191	$ 40,354	$ 1,180	$ 3,664	$ 988	$ 140,377
2014	92,132	34,807	1,216	3,528	79	131,762
2015	81,697	31,831	1,252	2,763	-	117,543
2016	76,804	27,277	1,290	1,918	-	107,289
2017	72,816	23,473	1,329	1,067	-	98,685
2028-2022	48,354	85,185	7,265	5,845	-	146,649
2023-2027	1,505	66,003	-	6,250	-	73,758
2028-2032	-	53,818	-	6,250	-	60,068
2033-2037	-	49,128	-	6,250	-	55,378
2038-2042	-	34,185	-	6,250	-	40,435
2043-2047	-	25,697	-	6,250	-	31,947
2048-2052	-	17,979	-	6,250	-	24,229
2053-2057	-	11,504	-	4,583	-	16,087
2058-2062	-	11,161	-	-	-	11,161
2063-2067	-	10,847	-	-	-	10,847
2068-2072	-	4,142	-	-	-	4,142
2073-2077	-	3,594	-	-	-	3,594
Total	$ 467,499	$ 530,985	$ 13,532	$ 60,868	$ 1,067	$ 1,073,951

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately $22.2 million and $14.0 million, respectively, in fiscal year 2011-12. In addition, the Airport has a car rental agreement that will expire on December 31, 2013. Under this agreement the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with the terms of their concession agreement, the minimum annual guarantee (MAG) for the rental car operators does not apply if the actual enplanements achieved during a one-month period is less than 80% of the actual enplanements of the same Reference Month in the Reference Year, and such shortfall continues for three consecutive months. The MAG attributable to the rental car companies was approximately $36.3 million for fiscal year 2012.

Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.4 billion at June 30, 2012.

In February 2011, the Asian Art Museum Foundation (Foundation) entered into an agreement with JP Morgan Chase Bank to refinance its obligations of $97.0 million. To facilitate the refinancing, the City entered into an assurance agreement which, in the event of nonpayment by the Foundation, requires the City to seek an appropriation to make debt payments as they become due. Since the City has not legally guaranteed the debt, and the City believes that the likelihood of nonpayment by the Foundation is remote, no amount is recorded in the City's financial statements related to this agreement.

(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); 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 Airport carries general liability insurance coverage of $1 billion, subject to a deductible of $10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a deductible of $500 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts naming the Airport as additional insured. The Airport carries public officials liability and employment practices liability coverage of $5 million, subject to a deductible of $100 per single occurrence for each wrongful act other than employment practices' violations, and $250 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels. The Airport has no liability insurance coverage for losses due to land movement or seismic activity, war, terrorism and hijacking.

The Port carries the following insurance: 1) marine general liability coverage of $50 million, subject to a deductible of $75 per occurrence; 2) hull and machinery liability coverage of $3.8 million, subject to a deductible of $100 per occurrence; 3) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1 billion and a deductible of $500 per occurrence; and 4) public officials and employee liability coverage of $5 million, subject to a deductible of $50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution and data processing equipment. In addition, the Port requires its tenants, licensees and contractors on all contracts to carry commercial general liability insurance in various amounts naming the Port and the City as additional insured parties. Tenants whose operations pose a significant environment risk are also required to post an environmental oversight deposit and an environmental performance deposit.

The MTA is self-insured up to the first $5 million per accident occurrence, and for over the threshold, MTA has purchased an excess liability insurance policy. Through coordination with the Controller and City Attorney's Office, the MTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process. Claim liabilities are actuarially-determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation and other economic social factors. Effective fiscal year 2013, the MTA Board had decided to no longer purchase an excess liability insurance policy.

The MTA purchases property insurance on scheduled facilities and personal property. Also insurance is purchased for scheduled City parking garages covering blanket property and business interruptions. Damages to facilities and property outside of the specified schedules are self-insured. For MTA contractors, MTA requires each contractor to provide its own insurance, the traditional insurance ensuring that the full scope of work be covered with satisfactory levels to limit the risk exposure to City and MTA's property.

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, 2012 has been actuarially determined and includes an estimate of incurred but not reported losses and allocated loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2010, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2010-2011	$ 240,579	$ 38,240	$ (54,338)	$ 224,481
2011-2012	224,481	26,579	(81,673)	169,387

Breakdown of the estimated claims payable at June 30, 2012 is as follows:

Governmental activities:	
Current portion of estimated claims payable	$ 36,793
Long-term portion of estimated claims payable	75,601
Total	$ 112,394
Business-type activities:	
Current portion of estimated claims payable	$ 20,849
Long-term portion of estimated claims payable	36,144
Total	$ 56,993

The Retirement System is involved in various other petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System, which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City's required annual contributions.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2012 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, 2012 was $371.0 million, which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2010, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2010-2011	$ 364,979	$ 81,202	$ (75,167)	$ 371,014
2011-2012	371,014	74,600	(74,730)	370,884

Breakdown of the accrued workers' compensation liability at June 30, 2012 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 41,192
Long-term portion of accrued workers' compensation liability	185,236
Total	$ 226,428

Business-type activities:	
Current portion of accrued workers' compensation liability	$ 25,230
Long-term portion of accrued workers' compensation liability	119,226
Total	$ 144,456

(17) Subsequent Events

(a) Long-term Debt Issuance

In July 2012, SFCTA entered into a new three-year credit facility with Wells Fargo Bank, National Association, in an amount equal to $217.8 million. The credit facility will expire on July 10, 2015 and has a fee of 45 basis points of the annual maximum debt service amount.

In July 2012, MTA issued a total of $63.8 million in Revenue Bonds, Series 2012A for $38.0 million, and Series 2012B for $25.8 million. The Series 2012A Bonds were issued to: (a) refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O'Farrell Parking Corporation, the City of San Francisco Downtown Parking Corporation and the City of San Francisco Uptown Parking Corporation; (b) make a deposit to the 2012 Reserve Account of the bond Reserve Fund; and (c) pay a portion of the cost of issuance of the Series 2012 Bonds. The Series 2012B Bonds were to: (a) finance a portion of the costs of various capital projects for the MTA; (b) make a deposit to the 2012 Reserve Account of the Bond Reserve Fund; and (c) pay a portion of the costs of issuance of the Series 2012 Bonds. The refunded bonds were redeemed on July 27, 2012. This refunding resulted in net present value savings of $6.7 million, representing 15.80% saving of refunded bonds, with the average coupon of refunded bonds 5.64%. The true interest cost (TIC) of the 2012 Revenue Bonds was 3.7%.

In August 2012, the City issued $289.3 million general obligation bonds consisting of San Francisco General Hospital Improvement Bonds Series 2012D in the amount of $251.0 million and Earthquake Safety and Emergency Response Bonds Series 2012E in the amount of $38.3 million. Both series bear Interest rates ranging from 4.0% to 5.0% and mature from June 2013 through June 2032.

The San Francisco General Hospital Improvement Bonds Series 2012D were issued to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center and to pay certain costs related to the issuance of the 2012D bonds. The proceeds of the Earthquake Safety and Emergency Response Bonds Series 2012E will be used to finance the improvement of the fire, earthquake and emergency response and ensure firefighters a reliable water supply for fires and disasters, through projects to the water supply infrastructure, the neighborhood fire stations and to replace the emergency command center and to pay for costs related to the issuance of the 2012E bonds.

In August 2012, the City issued $13.7 million in taxable commercial paper to refund $6.4 million of maturing taxable commercial paper and to provide $0.2 million and $7.1 million interim funding for the War Memorial Veterans Building Seismic Retrofit project and Port Facilities project, respectively. The note bears interest at 0.2% and is scheduled to mature on October 11, 2012.

In August 2012, the Water Enterprise issued Revenue Bonds, 2012 Series D in the principal amount of $24.0 million to refund $24.1 million of outstanding 2002 Series B Revenue Bonds, with the balance applied to financing costs and cash-funded debt service reserve. The bonds are serial bonds with interest rates ranging from 1.8% to 5.0%. A portion of the proceeds of the 2012 Series D bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2012 to refund and legally defease a portion of the outstanding 2002 Series B bonds. This deposit, together with certain available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal securities consisting of United States Treasury Securities-State and Local Government Series. The principal and interest on monies held by the escrow agent will be sufficient to redeem the refunded 2002 Series B bonds on November 1, 2012 by optional redemption date.

In September 2012, the City issued $43.8 million in tax exempt commercial paper to refund $40.4 million in maturing commercial paper and to provide $3.4 million interim financing for the Moscone Center improvement project, War Memorial Veterans Building Seismic Retrofit project and Port Facilities project. Interest rates on these notes are 0.16% and 0.18% with maturity date of December 15, 2012. In December 2012, the City issued two series of tax exempt commercial paper notes in a total amount of $44.0 million to refund the September 2012 issuance. Both series bear interest rate of 0.16% to mature on March 7, 2013.

The Airport issued $25.7 million of Subordinate CP Notes in July 2012, comprised of a $9.5 Subseries A-2 Note (AMT), a $10.2 million principal amount of Subseries B-2 Note (Non-AMT), and a $6.0 million Subseries C-2 Note (Taxable). In August 2012, the Airport remarketed an outstanding $3.7 million Subseries B-2 Note (Non-AMT) upon maturity. In September 2012, the Airport remarketed the following outstanding CP Notes upon maturity: $2.3 million Subseries A-2 (AMT), $4.5 million Subseries B-2 N (Non-AMT), and $6.0 million Subseries C-2 (Taxable).

In October 2012, the City issued $13.7 million in taxable commercial paper to retire $13.7 million of maturing taxable commercial paper. The note bears interest at 0.25% and is scheduled to mature on January 14, 2013.

The Airport issued five commercial paper notes totaling $49.9 million in November 2012. The first issuance was of three series with a total of $25.1 million, consisting of rolled note AMT Series A-2 for $9.5 million, rolled Non-AMT Series B-2 for $10.2 million and new money note Non-AMT Series B-2 for $5.4 million. The AMT Series A-2 and Non-AMT Series B-2 will mature on March 15, 2013 and bear interest rates of 0.25% and 0.23% respectively. The Non-AMT Series B-2 (New Money Note) will mature on March 12, 2013 and bear interest rate of 0.23%. The second issuance of $24.8 million consists of AMT Series A-2 for $16.1 million and $8.7 million Taxable Series C-2 new money CP Notes which will mature on February 12, 2013 and March 20, 2013 respectively. Both series bear interest rate of 0.24%.

In December 2012 the Airport issued three commercial paper notes totaling $12.8 million with maturity date of February 6, 2013. AMT Series A-2 was issued for $2.3 million, Non-AMT Series B-2 for $4.5 million and Taxable Series C-2 for $6.0 million, with interest rates of 0.18%, 0.16% and $0.18%, respectively.

The Airport authorized $502.2 million of capital plan bonds in March 2012, subject to Board of Supervisor approval. On October 2, 2012, the Board of Supervisors authorized the issuance of $543.2 capital plan bonds.

The Airport's Second Series Revenue Refunding Bonds, Series 2009D, are subject to mandatory tender for purchase on December 4, 2012. The Airport has selected bond counsel and underwriting teams to remarket or refund the Series 2009D Bonds on or before the mandatory tender date.

The letter of credit securing the Airport's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A, expires in May 2013. The Airport expects to replace the letter of credit in advance of its expiration date, but has not yet begun the process to select a replacement credit facility.

(b) Elections

On November 6, 2012, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition B – Authorizes the City to borrow up to $195.0 million by issuing general obligation bonds to fund repairs and improvements of the City's parks and public open spaces. The proceeds will be used for improving parks, playgrounds, public spaces along the waterfront and trail reconstruction.

Fiscal Impact: 1) In fiscal year 2013-14, following the issuance of the first series of bonds, and the year with the lowest tax rate, the estimated annual cost of debt service would be $3.7 million and result in property tax rate of $2.24 per $100 thousand of assessed valuation. 2) In fiscal year 2018-19, following the issuance of last series of bonds, the estimated annual costs of debt service would be $16.9 million and result in a property tax rate of $8.38 per $100 thousand of assessed valuation. 3) The best estimate of the average tax rate for these bonds from fiscal year 2013-14 through 2037-38 is $5.28 per $100 thousand of assessed valuation. 4) Based on these estimates, the highest estimated annual property tax cost for these bonds for the owner of a home with assessed value of $0.5 million would be approximately $43.36.

Proposition C – Amends the Charter to establish a Housing Trust Fund. The City would use the fund to build, purchase and improve affordable housing, provide a loan program for down payment assistance for moderate-income homebuyers and emergency first responders, and provide funds for a program that would help eligible households avoid foreclosure or eviction, or improve the safety, accessibility or efficiency of their homes.

Fiscal impact: The amendment will affect the cost of government for a thirty-year period beginning in fiscal year 2013-14 in that it would set aside funds for affordable housing which would otherwise be available for public purpose. The City would contribute a base $20.0 million annual allocation to the fund in the first year, (fiscal year 2013-14). For the following ten years, the annual allocation would be increased by $2.8 million each year until the fund reaches an annual allocation of $50.8 million in fiscal year 2024-25. From fiscal year 2025-26 through fiscal year 2042-43, the $50.8 million would be adjusted based on annual percentage increase or decrease in General Fund discretionary revenues.

Proposition E – Creates a new City business tax based on gross receipts rather than payroll costs. Under the new system, the tax on payroll would be eliminated or reduced. The new gross receipt tax would apply to businesses with $1.0 million or more in gross receipts and the $1.0 million threshold would be adjusted by the Consumer Price Index going forwards. The ordinance would increase the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 to 15,000 under the new structure. The ordinance would convert most existing payroll tax exclusions into gross receipt tax exclusions of the same size, terms and expiration dates.

Fiscal impact: The existing business registration fee structure would be replaced by a new higher graduated registration fee structure that would generate a net revenue increase to the City of approximately $28.5 million beginning in fiscal year 2013-14 and growing approximately the rate of inflation in subsequent years. Revenues from the business tax can be spent for any purpose.

(c) Successor Agency to the Redevelopment Agency of the City and County of San Francisco

On October 2, 2012, the Board of Supervisors adopted Ordinance No. 215-12 creating the Successor Agency Commission as the policy body of the Successor Agency and delegating to it the authority to act in place of the former Redevelopment Agency Commission to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations and the authority to take actions that the State redevelopment dissolution law requires or allows on behalf of the Successor Agency.

Assembly Bill 1484 (AB 1484), a trailer bill to the State's 2012-13 Budget Act, requires Successor Agencies to determine the unencumbered cash available for distribution to taxing entities through an Agreed-Upon Procedures Report, or Due Diligence Review (Review). The Review takes place in two phases. The first Review determines the amount available for distribution from the assets transferred from the Low and Moderate Income Housing Fund (LMIHF) assets that are held by the Successor Agency. The second Review determines amounts available for distribution from the assets transferred from all other funds of the former Agency, excluding the LMIHF assets that are held by the Successor Agency.

Pursuant to Health and Safety Code 34179.6 (d), the State Department of Finance (State) is authorized to adjust the results of the Review's stated balance of LMIHF available for distribution to the taxing entities. Based on the State's review, they made certain adjustments to the amounts owed and requested the City's Low and Moderate Income Housing Assets nonmajor fund pay $106.9 million to the taxing entities. The City and the Successor Agency has contested the State's request asserting that the balance includes bond proceeds, which are restricted from being distributed. Pursuant to AB 1484, the Successor Agency has held a meet and confer session on November 26, 2012 and is working with the State to resolve these issues. Due to the uncertainties surrounding the results of the State's evaluation, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.

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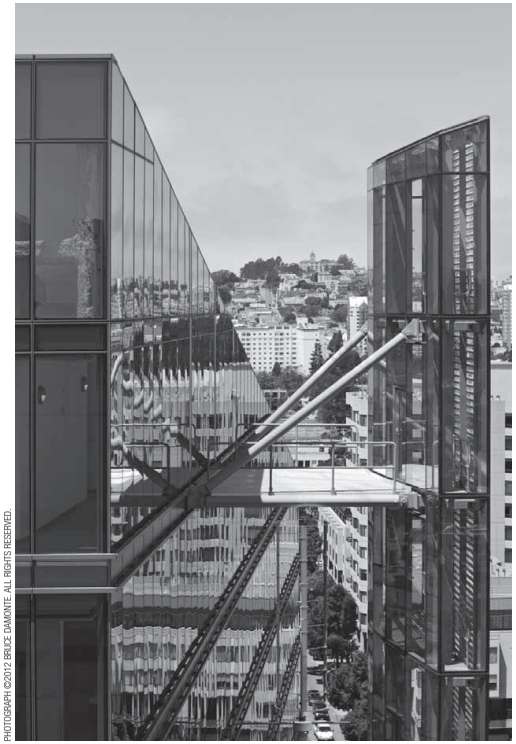
REQUIRED SUPPLEMENTARY INFORMATION



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CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2012
(Dollars in Thousands)

The schedules of funding progress presented below provide consolidated snapshots of the entity's ability to meet current and future liabilities with plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension or OPEB plans. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

Employees' Retirement System – Pension Plan [1]

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (O/UAAL)	Funded Ratio	Covered Payroll	O/UAAL as a % of Covered Payroll
07/01/09	$ 16,004,730	$ 16,498,649	$ (493,919)	97.0%	$ 2,537,785	-19.5%
07/01/10	16,069,058	17,643,394	(1,574,336)	91.1%	2,398,823	-65.6%
07/01/11	16,313,120	18,598,728	(2,285,608)	87.7%	2,360,413	-96.8%

(1) As a result of the Retirement Board's decision to phase in a reduction of the Plan's assumed investment rate of return from 7.75% to 7.50% over three years, the assumed investment rate of return used for the most recent actuarial valuation as of July 1, 2011 was 7.66%. The unfunded actuarial liability (UAL) as of July 1, 2011 was $2.29 billion, an increase of $711.3 million from the UAL of $1.57 billion as of July 1, 2010. This increase in the unfunded liability is primarily a result of the market value losses during fiscal year 2008-2009 that are being recognized over five years as well as liability experience losses related to changes to the economic and demographic assumptions approved by the Retirement Board.

The July 1, 2011 valuation results incorporate the following significant assumption changes approved by the Retirement Board at its December 14, 2011 Board meeting:

- Investment Rate of Return Assumption – phase in reduction from 7.75% to 7.50% over three years (7.66% as of July 1, 2011; 7.58% as of July 1, 2012; and 7.50% as of July 1, 2013)
- Wage/inflation Assumption – phase in reduction from 4.00% to 3.75% over three years (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%)
- Long-term Consumer Price Index Assumption – phase in reduction from 3.50% to 3.25% over three years (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%)

California Public Employees' Retirement System – Pension Plan (Safety Members)

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/08	$ 673,275	$ 685,150	$ (11,875)	98.3%	$ 89,009	-13.3%
06/30/09	707,615	758,124	(50,509)	93.3%	101,929	-49.6%
06/30/10 [2]	743,188	787,186	(43,998)	94.4%	104,072	-42.3%

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2012
(Dollars in Thousands)

City and County of San Francisco – Other Postemployment Health Care Benefits

Actuarial Valuation Date [1]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	$ -	$ 4,036,324	$ (4,036,324)	0.0%	$ 2,066,866	-195.3%
07/01/08	-	4,364,273	(4,364,273)	0.0%	2,296,336	-190.1%
07/01/10 [2]	-	4,420,146	(4,420,146)	0.0%	2,303,650	-191.9%

(1) The actuarial valuation report is conducted once every two years.

(2) As of July 1, 2010, the City set-aside approximately $3.2 million in assets for the OPEB plan. However, the Retiree Health Care Trust Fund was not established until December 2010 and these assets will be reflected in the next actuarial valuation report.

San Francisco County Transportation Authority – Other Postemployment Health Care Benefits

Actuarial Valuation Date [1]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/08	$ -	$ 182	$ (182)	0.0%	$ 1,978	-9.2%
01/01/10	173	374	(201)	46.3%	2,858	-7.0%
06/30/11 [2]	405	671	(266)	60.4%	3,251	-8.2%

(1) The actuarial valuation report is conducted once every two years.

(2) As of June 30, 2012, the SFCTA complied with GASB Statement No. 57 and completed an OPEB actuarial valuation based on a common date of its trust account with CalPERS. CalPERS requires June 30 valuations to be prepared for each odd numbered year. As such, the SFCTA performed its latest actuarial valuation as of June 30, 2011.

Successor Agency – Other Postemployment Health Care Benefits

Actuarial Valuation Date [1]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/07	$ -	$ 13,829	$ (13,829)	0.0%	$ 9,634	-143.5%
06/30/09	493	13,790	(13,297)	3.6%	10,515	-126.5%
06/30/11 [2]	1,856	14,390	(12,534)	12.9%	4,185	-299.5%

(1) The actuarial valuation report is conducted once every two years and was conducted for the former Agency.

(2) The most recent actuarial valuation available.

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

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CITY AND COUNTY OF SAN FRANCISCO
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Building Inspection Fund – Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings. This fund shall be used by the Department of Building Inspection to defray the costs of the Bureau of Building Inspection in processing and reviewing permits applications and plans, filed inspections, code enforcement and reproduction of documents.

Children and Families Fund – Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

Community/Neighborhood Development Fund – Accounts for various grants primarily from the Department of Housing and Urban Development including federal grants administered by the former Redevelopment Agency to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

Community Health Services Fund – Accounts for state and federal grants used to promote public health and mental health programs.

Convention Facilities Fund – Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

Court's Fund – Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

Culture and Recreation Fund – Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

Environmental Protection Fund – Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

Gasoline Tax Fund – Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

General Services Fund – Accounts for the activities of several non-grant activities, generally established by administrative action.

Gift Fund – Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

Golf Fund – Accounts for the revenue and expenditures related to the City's six golf courses.

Human Welfare Fund – Accounts for state and federal grants used to promote education and discourage domestic violence.

SPECIAL REVENUE FUNDS (Continued)

Low and Moderate Income Housing Asset Fund – Accounts for the former Redevelopment Agency's affordable housing assets upon its dissolution on January 31, 2012.

Open Space and Park Fund – Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

Public Library Fund – Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

Public Protection Fund – Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

Public Works, Transportation and Commerce Fund – Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

Real Property Fund – Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

San Francisco County Transportation Authority Fund – Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

Senior Citizens' Program Fund – Accounts for grant revenues from the federal and state government to be used to promote the well-being of San Francisco senior citizens.

War Memorial Fund – Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.

General Obligation Bond Fund – Accounts for property taxes and other revenues, (including the tobacco settlement revenues in excess of the $100 million required to fund the Laguna Honda Hospital construction project) for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

Certificates of Participation (COP) Funds – Accounts for Base Rental payments from the various Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

Other Bond Funds – Accounts for funds and debt service for the revolving fund loans operated and managed by the Mayor's Office of Community Development to assist with economic development efforts in low income neighborhoods (Facade Improvement Program) and for loans under the U.S. Department of Housing and Urban Development section 108 of the Housing and Community Development Act of 1974 (Fillmore Renaissance Center and Boys and Girls Club Hunters' Point Clubhouse) and the Asphalt Plant Expansion Loan.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

City Facilities Improvement Fund – Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

Earthquake Safety Improvement Fund – Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

Fire Protection Systems Improvement Fund – Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

Moscone Convention Center Fund – Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

Public Library Improvement Fund – Accounts for bond proceeds and private gifts which are designated for construction of public library facilities. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

Recreation and Park Projects Fund – Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

Street Improvement Fund – Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Bequest Fund – Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2012
(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
ASSETS					
Deposits and investments with City Treasury	$ 671,702	$ 65,664	$ 578,410	$ 7,500	$ 1,323,276
Deposits and investments outside City Treasury	13,894	29,600	37,119	-	80,613
Receivables:					
Property taxes and penalties	3,529	4,925	-	-	8,454
Other local taxes	16,246	-	-	-	16,246
Federal and state grants and subventions	131,883	-	7,793	-	139,676
Charges for services	16,324	-	2	-	16,326
Interest and other	5,741	205	339	3	6,288
Due from other funds	2,288	-	2,861	-	5,149
Due from / advance to component unit	10,500	-	104	-	10,604
Loans receivable (net of allowance for uncollectibles)	66,973	-	-	-	66,973
Deferred charges and other assets	11,972	-	36	-	12,008
Total assets	$ 951,052	$ 100,394	$ 626,664	$ 7,503	$ 1,685,613
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 100,669	$ 2	$ 44,930	$ 74	$ 145,675
Accrued payroll	19,773	-	2,853	11	22,637
Deferred tax, grant and subvention revenues	76,372	4,270	643	74	81,359
Due to other funds	40,449	-	9,215	-	49,664
Deferred credits and other liabilities	88,046	15,414	4,588	40	108,088
Bonds, loans, capital leases and other payables	152,044	-	44,790	-	196,834
Total liabilities	477,353	19,686	107,019	199	604,257
Fund balances:					
Nonspendable	1,104	-	-	-	1,104
Restricted	538,197	80,708	562,893	7,304	1,189,102
Assigned	28,006	-	-	-	28,006
Unassigned	(93,608)	-	(43,248)	-	(136,856)
Total fund balances	473,699	80,708	519,645	7,304	1,081,356
Total liabilities and fund balances	$ 951,052	$ 100,394	$ 626,664	$ 7,503	$ 1,685,613

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2012
(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
Revenues:					
Property taxes	$ 116,792	$ 179,922	$ -	$ -	$ 296,714
Business taxes	2,362	-	-	-	2,362
Sales and use tax	81,165	-	-	-	81,165
Hotel room tax	50,902	-	-	-	50,902
Licenses, permits and franchises	14,748	-	-	-	14,748
Fines, forfeitures and penalties	6,293	15,353	-	-	21,646
Interest and investment income	10,314	2,186	8,483	126	21,109
Rents and concessions	55,392	7,164	320	1,375	64,251
Intergovernmental:					
Federal	219,708	-	2,624	-	222,332
State	96,389	771	11,206	-	108,366
Other	27,216	-	5,965	-	33,181
Charges for services	119,059	-	-	-	119,059
Other	61,661	4,058	493	332	66,544
Total revenues	862,001	209,454	29,091	1,833	1,102,379
Expenditures:					
Current:					
Public protection	87,928	-	-	-	87,928
Public works, transportation and commerce	198,064	-	-	-	198,064
Human welfare and neighborhood development	292,200	-	-	20	292,220
Community health	107,301	-	-	-	107,301
Culture and recreation	209,490	-	-	1,420	210,910
General administration and finance	20,259	-	-	-	20,259
General City responsibilities	18	-	-	-	18
Debt service:					
Principal retirement	-	167,465	-	-	167,465
Interest and fiscal charges	2,779	94,721	6,206	-	103,706
Bond issuance costs	-	2,294	3,092	-	5,386
Capital outlay	-	-	270,094	-	270,094
Total expenditures	918,039	264,480	279,392	1,440	1,463,351
Excess (deficiency) of revenues over (under) expenditures	(56,038)	(55,026)	(250,301)	393	(360,972)
Other financing sources (uses):					
Transfers in	121,298	75,500	18,353	-	215,151
Transfers out	(108,832)	(12,752)	(67,927)	(18)	(189,529)
Issuance of bonds and loans:					
Face value of bonds issued	4,320	425,955	373,815	-	804,090
Face value of loans issued	4,359	-	-	-	4,359
Premium on issuance of bonds	-	62,361	26,975	-	89,336
Payment to refunded bond escrow agent	-	(487,390)	-	-	(487,390)
Other financing sources-capital leases	871	-	7,751	-	8,622
Total other financing sources (uses)	22,016	63,674	358,967	(18)	444,639
Extraordinary gain from dissolution of the Redevelopment Agency	198,129	-	-	-	198,129
Net change in fund balances	164,107	8,648	108,666	375	281,796
Fund balances at beginning of year	309,592	72,060	410,979	6,929	799,560
Fund balances at end of year	$ 473,699	$ 80,708	$ 519,645	$ 7,304	$ 1,081,356

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds
June 30, 2012
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
ASSETS						
Deposits and investments with City Treasury	$ 60,671	$ 70,857	$ 68,574	$ 28,731	$ 36,695	$ -
Deposits and investments outside City Treasury	1	-	3,023	1	-	-
Receivables:						
Property taxes and penalties	-	1,322	-	-	-	-
Other local taxes	-	-	-	-	-	-
Federal and state grants and subventions	-	6,307	12,533	23,105	-	-
Charges for services	762	-	-	-	2,553	189
Interest and other	34	47	2,777	22	-	-
Due from other funds	-	-	-	35	-	-
Due from / advance to component unit	-	-	222	-	-	-
Loans receivable (net of allowance for uncollectibles)	324	-	66,649	-	-	-
Deferred charges and other assets	-	-	446	-	-	-
Total assets	$ 61,792	$ 78,533	$ 154,224	$ 51,894	$ 39,248	$ 189
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 730	$ 14,754	$ 8,580	$ 15,178	$ 4,400	$ -
Accrued payroll	1,799	916	772	2,083	37	-
Deferred tax, grant and subvention revenues	-	5,096	2,866	5,354	-	-
Due to other funds	-	-	-	633	-	2,667
Deferred credits and other liabilities	9,899	4,135	54,263	782	2,143	-
Bonds, loans, capital leases and other payables	-	-	1,513	-	-	-
Total liabilities	12,428	24,901	67,994	24,030	6,580	2,667
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	49,364	53,632	83,957	27,864	32,668	-
Committed	-	-	-	-	-	-
Assigned	-	-	2,273	-	-	-
Unassigned	-	-	-	-	-	(2,478)
Total fund balances	49,364	53,632	86,230	27,864	32,668	(2,478)
Total liabilities and fund balances	$ 61,792	$ 78,533	$ 154,224	$ 51,894	$ 39,248	$ 189

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (continued)
June 30, 2012
(In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
ASSETS						
Deposits and investments with City Treasury	$ -	$ 907	$ 12,968	$ 11,369	$ 9,737	$ 2,374
Deposits and investments outside City Treasury	-	373	-	-	192	4
Receivables:					-	
Property taxes and penalties	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-
Federal and state grants and subventions	61	1,348	3,613	707	-	-
Charges for services	317	-	233	2,204	-	363
Interest and other	-	-	5	573	19	1
Due from other funds	1,782	143	-	203	-	-
Due from / advance to component unit	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-
Deferred charges and other assets	-	-	-	-	-	-
Total assets	$ 2,160	$ 2,771	$ 16,819	$ 15,056	$ 9,948	$ 2,742
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 2,956	$ 242	$ 1,366	$ 1,731	$ 245	$ 720
Accrued payroll	284	298	339	462	46	236
Deferred tax, grant and subvention revenues	120	1,410	233	30	148	-
Due to other funds	1,660	-	-	-	-	-
Deferred credits and other liabilities	5	-	-	256	30	-
Bonds, loans, capital leases and other payables	-	-	-	-	-	-
Total liabilities	5,025	1,950	1,938	2,479	469	956
Fund balances:						
Nonspendable	-	-	-	-	192	-
Restricted	-	821	14,881	6,223	9,287	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	6,354	-	1,786
Unassigned	(2,865)	-	-	-	-	-
Total fund balances	(2,865)	821	14,881	12,577	9,479	1,786
Total liabilities and fund balances	$ 2,160	$ 2,771	$ 16,819	$ 15,056	$ 9,948	$ 2,742

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (continued)
June 30, 2012
(In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
ASSETS						
Deposits and investments with City Treasury	$ -	$ 175,253	$ 27,944	$ 37,282	$ 61	$ 17,124
Deposits and investments outside City Treasury	-	3,044	-	-	1	149
Receivables:						-
Property taxes and penalties	-	-	1,105	1,102	-	-
Other local taxes	-	-	-	-	-	-
Federal and state grants and subventions	6,695	-	-	-	42,696	76
Charges for services	-	-	-	-	3,826	5,452
Interest and other	4	30	15	19	237	-
Due from other funds	-	-	-	-	-	22
Due from / advance to component unit	-	-	-	-	-	514
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-
Deferred charges and other assets	-	6,251	-	-	6	4,357
Total assets	$ 6,699	$ 184,578	$ 29,064	$ 38,403	$ 46,827	$ 27,694
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 1,483	$ 3,882	$ 607	$ 1,728	$ 6,605	$ 1,395
Accrued payroll	30	-	1,257	3,717	2,316	3,381
Deferred tax, grant and subvention revenues	2,273	-	960	958	25,992	983
Due to other funds	2,688	71	-	-	15,998	273
Deferred credits and other liabilities	-	2,691	3,447	3,446	-	4,814
Bonds, loans, capital leases and other payables	-	-	-	-	-	531
Total liabilities	6,474	6,644	6,271	9,849	50,911	11,377
Fund balances:						
Nonspendable	-	-	-	-	-	-
Restricted	-	177,934	22,793	27,503	-	-
Committed	-	-	-	-	-	-
Assigned	225	-	-	1,051	-	16,317
Unassigned	-	-	-	-	(4,084)	-
Total fund balances	225	177,934	22,793	28,554	(4,084)	16,317
Total liabilities and fund balances	$ 6,699	$ 184,578	$ 29,064	$ 38,403	$ 46,827	$ 27,694

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (continued)
June 30, 2012
(In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
ASSETS					
Deposits and investments with City Treasury	$ 14,714	$ 84,637	$ -	$ 11,804	$ 671,702
Deposits and investments outside City Treasury	419	6,687	-	-	13,894
Receivables:					
Property taxes and penalties	-	-	-	-	3,529
Other local taxes	-	16,246	-	-	16,246
Federal and state grants and subventions	-	32,641	2,101	-	131,883
Charges for services	425	-	-	-	16,324
Interest and other	-	1,958	-	-	5,741
Due from other funds	-	103	-	-	2,288
Due from / advance to component unit	-	9,764	-	-	10,500
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	66,973
Deferred charges and other assets	-	912	-	-	11,972
Total assets	$ 15,558	$ 152,948	$ 2,101	$ 11,804	$ 951,052
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 828	$ 32,407	$ 510	$ 322	$ 100,669
Accrued payroll	1,148	238	-	414	19,773
Deferred tax, grant and subvention revenues	-	29,905	44	-	76,372
Due to other funds	-	14,912	1,547	-	40,449
Deferred credits and other liabilities	-	2,050	-	85	88,046
Bonds, loans, capital leases and other payables	-	150,000	-	-	152,044
Total liabilities	1,976	229,512	2,101	821	477,353
Fund balances:					
Nonspendable	-	912	-	-	1,104
Restricted	13,582	6,705	-	10,983	538,197
Committed	-	-	-	-	-
Assigned	-	-	-	-	28,006
Unassigned	-	(84,181)	-	-	(93,608)
Total fund balances	13,582	(76,564)	-	10,983	473,699
Total liabilities and fund balances	$ 15,558	$ 152,948	$ 2,101	$ 11,804	$ 951,052

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
Revenues:						
Property taxes	$ -	$ 43,797	$ -	$ -	$ -	$ -
Business taxes	-	-	2,362	-	-	-
Sales and use tax	-	-	-	-	-	-
Hotel room tax	-	-	-	-	42,226	-
Licenses, permits and franchises	6,664	-	-	-	-	-
Fines, forfeitures and penalties	-	-	-	2,656	-	24
Interest and investment income	506	1,221	3,393	467	518	-
Rents and concessions	-	-	-	-	20,733	-
Intergovernmental:						
Federal	-	9,808	44,018	72,921	-	-
State	-	14,942	3,709	25,328	-	-
Other	-	-	691	32	-	-
Charges for services	50,223	-	5,599	3,776	-	2,989
Other	2	1,035	46,240	641	789	-
Total revenues	57,395	70,803	106,012	105,821	64,266	3,013
Expenditures:						
Current:						
Public protection	-	-	-	-	-	376
Public works, transportation and commerce	40,461	-	10,737	5,110	-	5
Human welfare and neighborhood development	-	120,003	100,478	-	3,362	-
Community health	-	-	-	107,301	-	-
Culture and recreation	-	-	318	-	50,202	-
General administration and finance	-	-	1,890	-	-	-
General City responsibilities	-	-	-	-	-	-
Debt service:						
Interest and fiscal charges	-	-	8	-	-	-
Total expenditures	40,461	120,003	113,431	112,411	53,564	381
Excess (deficiency) of revenues over (under) expenditures	16,934	(49,200)	(7,419)	(6,590)	10,702	2,632
Other financing sources (uses):						
Transfers in	388	57,016	-	2,574	-	-
Transfers out	(70)	(11)	(2,728)	(34)	(2,394)	(4,190)
Issuance of bonds and loans						
Face value of bonds issued	-	-	4,320	-	-	-
Face value of loans issued	-	-	-	-	-	-
Other financing sources-capital leases	-	-	-	-	-	-
Total other financing sources (uses)	318	57,005	1,592	2,540	(2,394)	(4,190)
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	5,916	-	-	-
Net change in fund balances	17,252	7,805	89	(4,050)	8,308	(1,558)
Fund balances at beginning of year	32,112	45,827	86,141	31,914	24,360	(920)
Fund balances at end of year	$ 49,364	$ 53,632	$ 86,230	$ 27,864	$ 32,668	$ (2,478)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (continued)
Year ended June 30, 2012
(In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
Revenues:						
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-
Licenses, permits and franchises	252	-	-	2,142	-	-
Fines, forfeitures and penalties	3	1,130	-	-	67	-
Interest and investment income	3	-	160	98	177	40
Rents and concessions	340	-	-	1,238	-	3,137
Intergovernmental:						
Federal	85	2,910	-	2,437	-	-
State	86	6,152	33,408	-	-	-
Other	-	672	-	-	-	-
Charges for services	6,496	1	1,434	2,032	42	7,189
Other	2,663	352	17	761	3,536	-
Total revenues	9,928	11,217	35,019	8,708	3,822	10,366
Expenditures:						
Current:						
Public protection	-	-	-	251	18	-
Public works, transportation and commerce	14,763	-	29,330	-	313	1
Human welfare and neighborhood development	-	10,218	-	-	320	-
Community health	-	-	-	-	-	-
Culture and recreation	10,352	-	-	1,230	732	11,609
General administration and finance	-	1	-	6,024	71	-
General City responsibilities	-	1	-	17	-	-
Debt service:						
Interest and fiscal charges	71	-	-	-	-	-
Total expenditures	25,186	10,220	29,330	7,522	1,454	11,610
Excess (deficiency) of revenues over (under) expenditures	(15,258)	997	5,689	1,186	2,368	(1,244)
Other financing sources (uses):						
Transfers in	671	1	336	291	-	1,688
Transfers out	(24)	(21)	(2,373)	-	(1,108)	(618)
Issuance of bonds and loans						
Face value of bonds issued	-	-	-	-	-	-
Face value of loans issued	4,359	-	-	-	-	-
Other financing sources-capital leases	-	-	871	-	-	-
Total other financing sources (uses)	5,006	(20)	(1,166)	291	(1,108)	1,070
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-
Net change in fund balances	(10,252)	977	4,523	1,477	1,260	(174)
Fund balances at beginning of year	7,387	(156)	10,358	11,100	8,219	1,960
Fund balances at end of year	$ (2,865)	$ 821	$ 14,881	$ 12,577	$ 9,479	$ 1,786

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (continued)
Year ended June 30, 2012
(In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
Revenues:						
Property taxes	$ -	$ -	$ 36,498	$ 36,497	$ -	$ -
Business taxes	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-
Licenses, permits and franchises	222	-	-	-	606	-
Fines, forfeitures and penalties	8	-	-	-	2,344	61
Interest and investment income	-	166	369	511	137	365
Rents and concessions	-	1,373	-	25	-	58
Intergovernmental:						
Federal	14,291	-	-	33	61,933	-
State	601	-	168	290	9,980	87
Other	44	-	-	-	3	1,386
Charges for services	158	-	-	922	13,274	24,493
Other	34	3,803	-	-	196	819
Total revenues	15,358	5,342	37,035	38,278	88,473	27,269
Expenditures:						
Current:						
Public protection	-	-	-	-	87,283	-
Public works, transportation and commerce	-	-	1,518	373	8	15,359
Human welfare and neighborhood development	19,500	19,621	-	-	2,608	10,368
Community health	-	-	-	-	-	-
Culture and recreation	-	-	36,604	86,646	-	-
General administration and finance	-	-	18	284	94	69
General City responsibilities	-	-	-	-	-	-
Debt service:						
Interest and fiscal charges	-	-	-	-	-	13
Total expenditures	19,500	19,621	38,140	87,303	89,993	25,809
Excess (deficiency) of revenues over (under) expenditures	(4,142)	(14,279)	(1,105)	(49,025)	(1,520)	1,460
Other financing sources (uses):						
Transfers in	4,358	-	618	52,870	329	-
Transfers out	(39)	-	-	(95)	(2,150)	(755)
Issuance of bonds and loans						
Face value of bonds issued	-	-	-	-	-	-
Face value of loans issued	-		-	-	-	-
Other financing sources-capital leases	-	-	-	-	-	-
Total other financing sources (uses)	4,319	-	618	52,775	(1,821)	(755)
Extraordinary gain from dissolution of the Redevelopment Agency	-	192,213	-	-	-	-
Net change in fund balances	177	177,934	(487)	3,750	(3,341)	705
Fund balances at beginning of year	48	-	23,280	24,804	(743)	15,612
Fund balances at end of year	$ 225	$ 177,934	$ 22,793	$ 28,554	$ (4,084)	$ 16,317

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (continued)
Year ended June 30, 2012
(In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
Revenues:					
Property taxes	$ -	$ -	$ -	$ -	$ 116,792
Business taxes	-	-	-	-	2,362
Sales and use tax	-	81,165	-	-	81,165
Hotel room tax	-	-	-	8,676	50,902
Licenses, permits and franchises	-	4,862	-	-	14,748
Fines, forfeitures and penalties	-	-	-	-	6,293
Interest and investment income	165	1,823	-	195	10,314
Rents and concessions	26,063	-	-	2,425	55,392
Intergovernmental:					
Federal	-	5,081	6,191	-	219,708
State	-	551	1,087	-	96,389
Other	-	24,388	-	-	27,216
Charges for services	3	-	-	428	119,059
Other	-	726	47	-	61,661
Total revenues	26,231	118,596	7,325	11,724	862,001
Expenditures:					
Current:					
Public protection	-	-	-	-	87,928
Public works, transportation and commerce	368	79,711	-	7	198,064
Human welfare and neighborhood development	-	-	5,722	-	292,200
Community health	-	-	-	-	107,301
Culture and recreation	-	-	-	11,797	209,490
General administration and finance	11,808	-	-	-	20,259
General City responsibilities	-	-	-	-	18
Debt service:					
Interest and fiscal charges	2	2,685	-	-	2,779
Total expenditures	12,178	82,396	5,722	11,804	918,039
Excess (deficiency) of revenues over (under) expenditures	14,053	36,200	1,603	(80)	(56,038)
Other financing sources (uses):					
Transfers in	125	-	33	-	121,298
Transfers out	(13,382)	(78,645)	-	(195)	(108,832)
Issuance of bonds and loans					
Face value of bonds issued	-	-	-	-	4,320
Face value of loans issued	-	-	-	-	4,359
Other financing sources-capital leases	-	-	-	-	871
Total other financing sources (uses)	(13,257)	(78,645)	33	(195)	22,016
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	198,129
Net change in fund balances	796	(42,445)	1,636	(275)	164,107
Fund balances at beginning of year	12,786	(34,119)	(1,636)	11,258	309,592
Fund balances at end of year	$ 13,582	$ (76,564)	$ -	$ 10,983	$ 473,699

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Building Inspection Fund				Children and Families Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 42,680	$ 42,680	$ 43,797	$ 1,117
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	6,563	6,563	6,663	100	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	252	252	71	(181)	333	333	775	442
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	9,709	9,982	9,808	(174)
State	-	-	-	-	13,844	14,935	14,852	(83)
Other	-	-	-	-	-	-	-	-
Charges for services	40,681	40,679	50,223	9,544	-	-	-	-
Other revenues	-	2	2	-	205	1,035	1,035	-
Total revenues	47,496	47,496	56,959	9,463	66,771	68,965	70,267	1,302
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	47,733	46,027	40,461	5,566	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	121,561	123,408	119,957	3,451
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
Total expenditures	47,733	46,027	40,461	5,566	121,561	123,408	119,957	3,451
Excess (deficiency) of revenues over (under) expenditures	(237)	1,469	16,498	15,029	(54,790)	(54,443)	(49,690)	4,753
Other financing sources (uses):								
Transfers in	-	388	388	-	55,510	56,970	56,970	-
Transfers out	-	-	-	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	(2,620)	(777)	-	777
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	388	388	-	52,890	56,193	56,970	777
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	(237)	1,857	16,886	15,029	(1,900)	1,750	7,280	5,530
Budgetary fund balance (deficit), July 1	237	31,998	31,998	-	1,900	49,455	49,455	-
Budgetary fund balance (deficit), June 30	$ -	$ 33,855	$ 48,884	$ 15,029	$ -	$ 51,205	$ 56,735	$ 5,530

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Community/Neighborhood Development Fund				Community Health Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	735	735	2,362	1,627	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	2,700	2,700	2,656	(44)
Interest and investment income	50	2,879	2,946	67	60	380	313	(67)
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	7,311	44,010	44,010	-	79,703	70,503	70,503	-
State	1,266	5,340	5,340	-	23,130	25,071	25,071	-
Other	-	691	691	-	-	32	32	-
Charges for services	5,150	5,163	5,599	436	200	3,745	3,776	31
Other revenues	362	45,436	46,122	686	458	623	623	-
Total revenues	14,874	104,254	107,070	2,816	106,251	103,054	102,974	(80)
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	6,861	10,737	10,737	-	-	5,110	5,110	-
Human welfare and neighborhood development	7,257	101,169	96,094	5,075	-	-	-	-
Community health	-	-	-	-	106,251	107,301	107,301	-
Culture and recreation	375	318	318	-	-	-	-	-
General administration and finance	2,537	1,910	1,910	-	-	-	-	-
Total expenditures	17,030	114,134	109,059	5,075	106,251	112,411	112,411	-
Excess (deficiency) of revenues over (under) expenditures	(2,156)	(9,880)	(1,989)	7,891	-	(9,357)	(9,437)	(80)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	2,574	2,574	-
Transfers out	-	(2,556)	(2,556)	-	-	-	-	-
Issuance of bonds	-	4,320	4,320	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	464	464	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	2,228	2,228	-	-	2,574	2,574	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	5,916	5,916	-	-	-	-
Net change in fund balances	(2,156)	(7,652)	6,155	13,807	-	(6,783)	(6,863)	(80)
Budgetary fund balance (deficit), July 1	2,156	75,115	75,115	-	-	38,952	38,952	-
Budgetary fund balance (deficit), June 30	$ -	$ 67,463	$ 81,270	$ 13,807	$ -	$ 32,169	$ 32,089	$ (80)

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Convention Facilities Fund				Court's Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	42,227	42,227	42,228	1	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	35	35	24	(11)
Interest and investment income	-	-	-	-	-	-	-	-
Rents and concessions	20,694	20,694	20,615	(79)	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	3,500	3,500	3,008	(492)
Other revenues	-	789	789	-	-	-	-	-
Total revenues	62,921	63,710	63,632	(78)	3,535	3,535	3,032	(503)
Expenditures:								
Public protection	-	-	-	-	4,576	385	376	9
Public works, transportation and commerce	-	-	-	-	-	5	5	-
Human welfare and neighborhood development	500	3,362	3,362	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	58,426	57,464	50,202	7,262	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
Total expenditures	58,926	60,826	53,564	7,262	4,576	390	381	9
Excess (deficiency) of revenues over (under) expenditures	3,995	2,884	10,068	7,184	(1,041)	3,145	2,651	(494)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(11,889)	(13,142)	(1,253)	11,889	-	(4,190)	(4,190)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	(506)	(506)	(506)	-	-	-	-	-
Total other financing sources (uses)	(12,395)	(13,648)	(1,759)	11,889	-	(4,190)	(4,190)	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	(8,400)	(10,764)	8,309	19,073	(1,041)	(1,045)	(1,539)	(494)
Budgetary fund balance (deficit), July 1	8,400	29,123	29,123	-	1,041	(910)	(910)	-
Budgetary fund balance (deficit), June 30	$ -	$ 18,359	$ 37,432	$ 19,073	$ -	$ (1,955)	$ (2,449)	$ (494)

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Culture and Recreation Fund				Environmental Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	262	262	252	(10)	-	-	-	-
Fines, forfeitures, and penalties	-	3	3	-	-	-	1,130	1,130
Interest and investment income	45	45	24	(21)	-	-	-	-
Rents and concessions	311	311	340	29	-	-	-	-
Intergovernmental:								
Federal	-	85	85	-	249	1,806	2,849	1,043
State	-	86	86	-	582	6,219	6,219	-
Other	-	-	-	-	391	701	701	-
Charges for services	6,869	7,176	6,496	(680)	-	-	-	-
Other revenues	793	877	2,663	1,786	3,083	2,060	354	(1,706)
Total revenues	8,280	8,845	9,949	1,104	4,305	10,786	11,253	467
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	807	14,763	14,763	-	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	4,305	10,416	10,218	198
Community health	-	-	-	-	-	-	-	-
Culture and recreation	8,130	10,555	10,352	203	-	-	-	-
General administration and finance	-	-	-	-	-	1	1	-
Total expenditures	8,937	25,318	25,115	203	4,305	10,417	10,219	198
Excess (deficiency) of revenues over (under) expenditures	(657)	(16,473)	(15,166)	1,307	-	369	1,034	665
Other financing sources (uses):								
Transfers in	651	671	671	-	-	-	-	-
Transfers out	-	-	-	-	-	(21)	(21)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	4,359	4,359	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	(84)	(84)	(71)	13	-	-	-	-
Total other financing sources (uses)	567	4,946	4,959	13	-	(21)	(21)	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	(90)	(11,527)	(10,207)	1,320	-	348	1,013	665
Budgetary fund balance (deficit), July 1	90	12,250	12,250	-	-	(36)	(36)	-
Budgetary fund balance (deficit), June 30	$ -	$ 723	$ 2,043	$ 1,320	$ -	$ 312	$ 977	$ 665

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Gasoline Tax Fund				General Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	2,254	2,254	2,142	(112)
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	42	42	78	36	45	45	62	17
Rents and concessions	-	-	-	-	-	1,238	1,238	-
Intergovernmental:								
Federal	-	-	-	-	-	2,437	2,437	-
State	30,026	31,860	33,408	1,548	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	800	800	1,666	866	2,018	2,023	2,032	9
Other revenues	-	17	17	-	394	761	761	-
Total revenues	30,868	32,719	35,169	2,450	4,711	8,758	8,672	(86)
Expenditures:								
Public protection	-	-	-	-	293	251	251	-
Public works, transportation and commerce	31,204	28,865	28,459	406	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	1,230	1,230	-
General administration and finance	-	-	-	-	4,581	6,028	6,028	-
Total expenditures	31,204	28,865	28,459	406	4,874	7,509	7,509	-
Excess (deficiency) of revenues over (under) expenditures	(336)	3,854	6,710	2,856	(163)	1,249	1,163	(86)
Other financing sources (uses):								
Transfers in	336	336	336	-	18	278	278	-
Transfers out	-	(2,373)	(2,373)	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	336	(2,037)	(2,037)	-	18	278	278	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	-	1,817	4,673	2,856	(145)	1,527	1,441	(86)
Budgetary fund balance (deficit), July 1	-	10,336	10,336	-	145	11,097	11,097	-
Budgetary fund balance (deficit), June 30	$ -	$ 12,153	$ 15,009	$ 2,856	$ -	$ 12,624	$ 12,538	$ (86)

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Gift and Other Expendable Trusts Fund				Golf Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	48	67	19	-	-	-	-
Interest and investment income	-	19	38	19	10	10	26	16
Rents and concessions	-	-	-	-	3,631	3,631	3,137	(494)
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	42	42	-	8,412	8,412	7,189	(1,223)
Other revenues	1,148	3,598	3,536	(62)	-	-	-	-
Total revenues	1,148	3,707	3,683	(24)	12,053	12,053	10,352	(1,701)
Expenditures:								
Public protection	-	18	18	-	-	-	-	-
Public works, transportation and commerce	143	313	313	-	-	1	1	-
Human welfare and neighborhood development	328	320	320	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	677	732	732	-	12,659	13,058	11,609	1,449
General administration and finance	-	71	71	-	-	-	-	-
Total expenditures	1,148	1,454	1,454	-	12,659	13,059	11,610	1,449
Excess (deficiency) of revenues over (under) expenditures	-	2,253	2,229	(24)	(606)	(1,006)	(1,258)	(252)
Other financing sources (uses):								
Transfers in	-	-	-	-	1,627	1,688	1,688	-
Transfers out	-	(993)	(993)	-	(1,021)	(1,021)	(618)	403
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(993)	(993)	-	606	667	1,070	403
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	-	1,260	1,236	(24)	-	(339)	(188)	151
Budgetary fund balance (deficit), July 1	-	8,207	8,207	-	-	1,957	1,957	-
Budgetary fund balance (deficit), June 30	$ -	$ 9,467	$ 9,443	$ (24)	$ -	$ 1,618	$ 1,769	$ 151

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Human Welfare Fund				Low and Moderate Income Housing Asset Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	210	202	222	20	-	-	-	-
Fines, forfeitures, and penalties	-	8	8	-	-	-	-	-
Interest and investment income	-	-	-	-	-	166	166	-
Rents and concessions	-	-	-	-	-	1,373	1,373	-
Intergovernmental:								
Federal	20,676	16,372	16,372	-	-	-	-	-
State	40	607	607	-	-	-	-	-
Other	100	44	44	-	-	-	-	-
Charges for services	161	161	158	(3)	-	-	-	-
Other revenues	215	34	34	-	-	3,803	3,803	-
Total revenues	21,402	17,428	17,445	17	-	5,342	5,342	-
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	-	-	-	-	-	-	-
Human welfare and neighborhood development	23,867	19,430	19,430	-	-	19,621	19,621	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
Total expenditures	23,867	19,430	19,430	-	-	19,621	19,621	-
Excess (deficiency) of revenues over (under) expenditures	(2,465)	(2,002)	(1,985)	17	-	(14,279)	(14,279)	-
Other financing sources (uses):								
Transfers in	2,413	4,288	4,288	-	-	-	-	-
Transfers out	(16)	(55)	(39)	16	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,397	4,233	4,249	16	-	-	-	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	192,213	192,213
Net change in fund balances	(68)	2,231	2,264	33	-	(14,279)	177,934	192,213
Budgetary fund balance (deficit), July 1	68	131	131	-	-	-	-	-
Budgetary fund balance (deficit), June 30	$ -	$ 2,362	$ 2,395	$ 33	$ -	$ (14,279)	$ 177,934	$ 192,213

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Open Space and Park Fund				Public Library Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ 35,565	$ 35,565	$ 36,497	$ 932	$ 35,565	$ 35,565	$ 36,497	$ 932
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	452	452	217	(235)	222	222	280	58
Rents and concessions	-	-	-	-	24	24	25	1
Intergovernmental:								
Federal	-	-	-	-	8	33	33	-
State	152	152	168	16	469	474	290	(184)
Other	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	1,001	1,001	922	(79)
Other revenues	-	-	-	-	-	-	-	-
Total revenues	36,169	36,169	36,882	713	37,289	37,319	38,047	728
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	1,518	1,518	-	-	373	373	-
Human welfare and neighborhood development	-	-	-	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	38,976	37,694	36,604	1,090	85,666	86,646	86,646	-
General administration and finance	-	18	18	-	-	284	284	-
Total expenditures	38,976	39,230	38,140	1,090	85,666	87,303	87,303	-
Excess (deficiency) of revenues over (under) expenditures	(2,807)	(3,061)	(1,258)	1,803	(48,377)	(49,984)	(49,256)	728
Other financing sources (uses):								
Transfers in	1,021	1,021	618	(403)	47,430	52,870	52,870	-
Transfers out	-	-	-	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	1,021	1,021	618	(403)	47,430	52,870	52,870	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	(1,786)	(2,040)	(640)	1,400	(947)	2,886	3,614	728
Budgetary fund balance (deficit), July 1	1,786	23,203	23,203	-	947	24,724	24,724	-
Budgetary fund balance (deficit), June 30	$ -	$ 21,163	$ 22,563	$ 1,400	$ -	$ 27,610	$ 28,338	$ 728

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Public Protection Fund				Public Works, Transportation and Commerce Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	489	489	606	117	-	-	-	-
Fines, forfeitures, and penalties	1,615	1,615	2,344	729	-	162	162	-
Interest and investment income	52	141	94	(47)	-	58	-	(58)
Rents and concessions	-	-	-	-	-	-	58	58
Intergovernmental:								
Federal	8,703	65,616	65,616	-	-	-	-	-
State	8,296	9,780	9,780	-	-	87	87	-
Other	-	3	3	-	-	1,386	1,386	-
Charges for services	3,467	14,866	14,708	(158)	11,242	19,457	25,375	5,918
Other revenues	-	196	196	-	-	881	819	(62)
Total revenues	22,622	92,706	93,347	641	11,242	22,031	27,887	5,856
Expenditures:								
Public protection	20,402	86,961	86,961	-	-	-	-	-
Public works, transportation and commerce	-	8	8	-	-	15,767	15,359	408
Human welfare and neighborhood development	2,372	2,608	2,608	-	11,242	10,481	10,368	113
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	94	94	-	-	69	69	-
Total expenditures	22,774	89,671	89,671	-	11,242	26,317	25,796	521
Excess (deficiency) of revenues over (under) expenditures	(152)	3,035	3,676	641	-	(4,286)	2,091	6,377
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(1,820)	(2,150)	(2,150)	-	-	(390)	(390)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	(103)	(103)	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(1,820)	(2,150)	(2,150)	-	-	(493)	(493)	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	(1,972)	885	1,526	641	-	(4,779)	1,598	6,377
Budgetary fund balance (deficit), July 1	1,972	17,016	17,016	-	-	14,535	14,535	-
Budgetary fund balance (deficit), June 30	$ -	$ 17,901	$ 18,542	$ 641	$ -	$ 9,756	$ 16,133	$ 6,377

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Real Property Fund				San Francisco County Transportation Authority Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	72,193	72,193	81,165	8,972
Hotel room tax	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	4,261	4,261	4,862	601
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	1,222	1,222	1,823	601
Rents and concessions	1,289	25,539	26,063	524	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	6,222	5,865	5,081	(784)
State	-	-	-	-	571	508	551	43
Other	-	-	-	-	20,918	57,597	24,388	(33,209)
Charges for services	-	-	3	3	-	-	-	-
Other revenues	-	-	-	-	22	3,215	726	(2,489)
Total revenues	1,289	25,539	26,066	527	105,409	144,861	118,596	(26,265)
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	368	368	-	157,816	187,920	161,467	26,453
Human welfare and neighborhood development	-	-	-	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	1,289	11,808	11,808	-	-	-	-	-
Total expenditures	1,289	12,176	12,176	-	157,816	187,920	161,467	26,453
Excess (deficiency) of revenues over (under) expenditures	-	13,363	13,890	527	(52,407)	(43,059)	(42,871)	188
Other financing sources (uses):								
Transfers in	-	125	125	-	-	-	-	-
Transfers out	-	(13,217)	(13,217)	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	122,420	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	(2)	(2)	-	-	-	-	-
Total other financing sources (uses)	-	(13,094)	(13,094)	-	122,420	-	-	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	-	269	796	527	70,013	(43,059)	(42,871)	188
Budgetary fund balance (deficit), July 1	-	12,790	12,790	-	118,471	118,471	118,471	-
Budgetary fund balance (deficit), June 30	$ -	$ 13,059	$ 13,586	$ 527	$ 188,484	$ 75,412	$ 75,600	$ 188

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Senior Citizens' Program Fund				War Memorial Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Sales and use tax	-	-	-	-	-	-	-	-
Hotel room tax	-	-	-	-	8,676	8,676	8,676	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	-	-
Rents and concessions	-	-	-	-	1,821	2,214	2,425	211
Intergovernmental:								
Federal	4,713	4,799	4,799	-	-	-	-	-
State	807	843	843	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	339	403	428	25
Other revenues	95	47	47	-	-	-	-	-
Total revenues	5,615	5,689	5,689	-	10,836	11,293	11,529	236
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	-	-	-	-	8	7	1
Human welfare and neighborhood development	5,615	5,689	5,689	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	11,827	12,105	11,797	308
General administration and finance	-	-	-	-	-	-	-	-
Total expenditures	5,615	5,689	5,689	-	11,827	12,113	11,804	309
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	(991)	(820)	(275)	545
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	(991)	(820)	(275)	545
Budgetary fund balance (deficit), July 1	-	2	2	-	991	11,221	11,221	-
Budgetary fund balance (deficit), June 30	$ -	$ 2	$ 2	$ -	$ -	$ 10,401	$ 10,946	$ 545

CITY AND COUNTY OF SAN FRANCISCO

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	TOTAL			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 113,810	$ 113,810	$ 116,791	$ 2,981
Business taxes	735	735	2,362	1,627
Sales and use tax	72,193	72,193	81,165	8,972
Hotel room tax	50,903	50,903	50,904	1
Licenses, permits, and franchises	14,039	14,031	14,747	716
Fines, forfeitures, and penalties	4,350	4,571	6,394	1,823
Interest and investment income	2,785	6,266	6,913	647
Rents and concessions	27,770	55,024	55,274	250
Intergovernmental:				
Federal	137,294	221,508	221,593	85
State	79,183	95,962	97,302	1,340
Other	21,409	60,454	27,245	(33,209)
Charges for services	83,840	107,428	121,625	14,197
Other revenues	6,775	63,374	61,527	(1,847)
Total revenues	615,086	866,259	863,842	(2,417)
Expenditures:				
Public protection	25,271	87,615	87,606	9
Public works, transportation and commerce	244,564	311,783	278,949	32,834
Human welfare and neighborhood development	177,047	296,504	287,667	8,837
Community health	106,251	107,301	107,301	-
Culture and recreation	216,736	219,802	209,490	10,312
General administration and finance	8,407	20,283	20,283	-
Total expenditures	778,276	1,043,288	991,296	51,992
Excess (deficiency) of revenues over (under) expenditures	(163,190)	(177,029)	(127,454)	49,575
Other financing sources (uses):				
Transfers in	109,006	121,209	120,806	(403)
Transfers out	(14,746)	(40,108)	(27,800)	12,308
Issuance of bonds	-	4,320	4,320	-
Issuance of loans	-	4,359	4,359	-
Issuance of commercial paper	122,420	361	361	-
Budget reserves and designations	(2,620)	(777)	-	777
Loan repayments and other financing sources (uses)	(590)	(592)	(579)	13
Total other financing sources (uses)	213,470	88,772	101,467	12,695
Extraordinary gain from dissolution of the Redevelopment Agency	-	-	198,129	198,129
Net change in fund balances	50,280	(88,257)	172,142	260,399
Budgetary fund balance (deficit), July 1	138,204	489,637	489,637	-
Budgetary fund balance (deficit), June 30	$ 188,484	$ 401,380	$ 661,779	$ 260,399

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
BUILDING INSPECTION FUND				
Public Works, Transportation and Commerce				
Building Inspection	$ 47,733	$ 46,014	$ 40,448	$ 5,566
Public Works	-	13	13	-
Total Building Inspection Fund	47,733	46,027	40,461	5,566
CHILDREN AND FAMILIES FUND				
Human Welfare and Neighborhood Development				
Child Support Services	13,145	13,148	12,878	270
Children and Families Commission	24,204	22,955	22,955	-
Mayor's Office	84,212	87,305	84,124	3,181
Total Children and Families Fund	121,561	123,408	119,957	3,451
COMMUNITY/NEIGHBORHOOD DEVELOPMENT FUND				
Public Works, Transportation and Commerce				
Mayor's Office	6,861	10,327	10,327	-
Public Works	-	410	410	-
	6,861	10,737	10,737	-
Human Welfare and Neighborhood Development				
Mayor's Office	1,398	95,324	90,940	4,384
Rent Arbitration Board	5,859	5,845	5,154	691
	7,257	101,169	96,094	5,075
Culture and Recreation				
Recreation and Park Commission	375	318	318	-
General Administration and Finance				
Administrative Services	735	722	722	-
City Planning	1,802	1,188	1,188	-
	2,537	1,910	1,910	-
Total Community/Neighborhood Development Fund	17,030	114,134	109,059	5,075
COMMUNITY HEALTH SERVICES FUND				
Public Works, Transportation and Commerce				
Public Works	-	5,110	5,110	-
Community Health				
Community Health Network	106,251	107,301	107,301	-
Total Community Health Services Fund	106,251	112,411	112,411	-
CONVENTION FACILITIES FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	500	3,362	3,362	-
Culture and Recreation				
Arts Commission	-	23	23	-
Administrative Services	58,426	57,441	50,179	7,262
	58,426	57,464	50,202	7,262
Total Convention Facilities Fund	58,926	60,826	53,564	7,262

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Expenditures by Department
Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
COURT'S FUND				
Public Protection				
Trial Courts	4,576	385	376	9
Public Works, Transportation and Commerce				
Public Works	-	5	5	-
Total Court's Fund	4,576	390	381	9
CULTURE AND RECREATION FUND				
Public Works, Transportation and Commerce				
Mayor's Office	807	803	803	-
Public Utilities Commission	-	13,932	13,932	-
Public Works	-	28	28	-
	807	14,763	14,763	-
Culture and Recreation				
Arts Commission	1,417	3,906	3,906	-
Asian Art Museum	500	425	425	-
Fine Arts Museums	3,952	3,224	3,224	-
Recreation and Park Commission	2,261	3,000	2,797	203
	8,130	10,555	10,352	203
Total Culture and Recreation Fund	8,937	25,318	25,115	203
ENVIRONMENTAL PROTECTION FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	4,305	10,416	10,218	198
General Administration and Finance				
City Planning	-	1	1	-
Total Environmental Protection Fund	4,305	10,417	10,219	198
GASOLINE TAX FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency	-	723	723	-
Public Utilities Commission	-	526	526	-
Public Works	31,204	27,616	27,210	406
Total Gasoline Tax Fund	31,204	28,865	28,459	406
GENERAL SERVICES FUND				
Mayor's Office	-	1	1	-
Trial Courts	293	250	250	-
	293	251	251	-
Culture and Recreation				
Fine Arts Museum	-	1,230	1,230	-
General Administration and Finance				
Administrative Services	324	31	31	-
Assessor/Recorder	1,565	1,520	1,520	-
Board of Supervisors	-	47	47	-
Telecommunications and Information Services	2,298	3,669	3,669	-
Treasurer/Tax Collector	394	761	761	-
	4,581	6,028	6,028	-
Total General Services Fund	4,874	7,509	7,509	-

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Expenditures by Department
Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GIFT FUND				
Public Protection				
District Attorney	-	2	2	-
Fire Department	-	1	1	-
Police Department	-	15	15	-
	-	18	18	-
Public Works, Transportation and Commerce				
Mayor's Office	143	1	1	-
Public Works	-	312	312	-
	143	313	313	-
Human Welfare and Neighborhood Development				
Mayor's Office	-	30	30	-
Social Services	328	271	271	-
Commission on Status of Women	-	19	19	-
	328	320	320	-
Culture and Recreation				
Arts Commission	-	26	26	-
Public Library	18	225	225	-
Recreation and Park Commission	659	366	366	-
War Memorial	-	115	115	-
	677	732	732	-
General Administration and Finance				
Administrative Services	-	70	70	-
Telecommunications and Information Services	-	1	1	-
	-	71	71	-
Total Gift Fund	1,148	1,454	1,454	-
GOLF FUND				
Public Works, Transportation and Commerce				
Public Works	-	1	1	-
	-	1	1	-
Culture and Recreation				
Recreation and Park Commission	12,659	13,058	11,609	1,449
Total Golf Fund	12,659	13,059	11,610	1,449
HUMAN WELFARE FUND				
Human Welfare and Neighborhood Development				
Commission on Status of Women	210	194	194	-
Social Services	23,657	19,236	19,236	-
Total Human Welfare Fund	23,867	19,430	19,430	-
LOW AND MODERATE INCOME HOUSING ASSET FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	-	19,621	19,621	-
Total Low and Moderate Income Housing Asset Fund	-	19,621	19,621	-

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Expenditures by Department
Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OPEN SPACE AND PARK FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency	-	127	127	-
Public Utilities Commission	-	306	306	-
Public Works	-	1,085	1,085	-
	-	1,518	1,518	-
Culture and Recreation				
Arts Commission	-	7	7	-
Recreation and Park Commission	38,976	37,687	36,597	1,090
	38,976	37,694	36,604	1,090
General Administration and Finance				
Telecommunications and Information Services	-	18	18	-
Total Open Space and Park Fund	38,976	39,230	38,140	1,090
PUBLIC LIBRARY FUND				
Public Works, Transportation and Commerce				
Public Works	-	373	373	-
Culture and Recreation				
Arts Commission	-	22	22	-
Public Library	85,666	86,624	86,624	-
	85,666	86,646	86,646	-
General Administration and Finance				
City Attorney	-	284	284	-
Total Public Library Fund	85,666	87,303	87,303	-
PUBLIC PROTECTION FUND				
Public Protection				
District Attorney	5,067	5,649	5,649	-
Emergency Communications Department	1,039	49,047	49,047	-
Fire Department	-	234	234	-
Mayor's Office	-	154	154	-
Police Commission	8,800	25,385	25,385	-
Public Defender	212	342	342	-
Sheriff	2,525	3,010	3,010	-
Trial Courts	2,759	3,140	3,140	-
	20,402	86,961	86,961	-
Public Works, Transportation and Commerce				
Public Works	-	8	8	-
Human Welfare and Neighborhood Development				
Mayor's Office	2,372	2,608	2,608	-
General City Responsibilities				
Administrative Services	-	94	94	-
Total Public Protection Fund	22,774	89,671	89,671	-

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Expenditures by Department
Budget and Actual – Budget Basis (Continued)
Special Revenue Funds
Year ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND				
Public Utilities Commission	-	39	39	-
Public Works	-	15,728	15,320	408
	-	15,767	15,359	408
Human Welfare and Neighborhood Development				
Mayor's Office	11,242	10,481	10,368	113
General Administration and Finance				
Administrative Services	-	12	12	-
City Planning	-	57	57	-
	-	69	69	-
Total Public Works, Transportation and Commerce Fund	11,242	26,317	25,796	521
REAL PROPERTY FUND				
Public Works, Transportation and Commerce				
Public Works	-	368	368	-
	-	368	368	-
General Administration and Finance				
Administrative Services	1,289	11,808	11,808	-
Total Real Property Fund	1,289	12,176	12,176	-
SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND				
Public Works, Transportation and Commerce				
Board of Supervisors	157,816	187,920	161,467	26,453
Total SF County Transportation Authority Fund	157,816	187,920	161,467	26,453
SENIOR CITIZENS' PROGRAM FUND				
Human Welfare and Neighborhood Development				
Social Services Department	5,615	5,689	5,689	-
Total Senior Citizens' Program Fund	5,615	5,689	5,689	-
WAR MEMORIAL FUND				
Public Works, Transportation and Commerce				
Public Works	-	8	7	1
Culture and Recreation				
War Memorial	11,827	12,105	11,797	308
Total War Memorial Fund	11,827	12,113	11,804	309
Total Special Revenue Funds With Legally Adopted Budgets	$ 778,276	$ 1,043,288	$ 991,296	$ 51,992

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Debt Service Funds
June 30, 2012
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
ASSETS				
Deposits and investments with City Treasury	$ 65,664	$ -	$ -	$ 65,664
Deposits and investments outside City Treasury	-	29,600	-	29,600
Receivables:				
Property taxes and penalties	4,925	-	-	4,925
Interest and other	130	75	-	205
Total assets	$ 70,719	$ 29,675	$ -	$ 100,394
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2	$ -	$ -	$ 2
Deferred tax, grant and subvention revenues	4,270	-	-	4,270
Deferred credits and other liabilities	15,414	-	-	15,414
Total liabilities	19,686	-	-	19,686
Fund balances:				
Restricted	51,033	29,675	-	80,708
Total fund balances	51,033	29,675	-	80,708
Total liabilities and fund balances	$ 70,719	$ 29,675	$ -	$ 100,394

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Debt Service Funds

Year ended June 30, 2012
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
Revenues:				
Property taxes	$ 179,922	$ -	$ -	$ 179,922
Fines, forfeitures and penalties	15,353	-	-	15,353
Interest and investment income	1,807	379	-	2,186
Rents and concessions	-	7,164	-	7,164
Intergovernmental:				
State	771	-	-	771
Other	4,024	34	-	4,058
Total revenues	201,877	7,577	-	209,454
Expenditures:				
Debt service:				
Principal retirement	148,411	18,500	554	167,465
Interest and fiscal charges	66,793	27,563	365	94,721
Bond issuance costs	1,325	969	-	2,294
Total expenditures	216,529	47,032	919	264,480
Deficiency of revenues under expenditures	(14,652)	(39,455)	(919)	(55,026)
Other financing sources (uses):				
Transfers in	25,022	49,559	919	75,500
Transfers out	-	(12,752)	-	(12,752)
Issuance of bonds and loans				
Face value of bonds issued	339,475	86,480	-	425,955
Premium on issuance of bonds	52,056	10,305	-	62,361
Payment to refunded bond escrow agent	(390,198)	(97,192)	-	(487,390)
Total other financing sources, net	26,355	36,400	919	63,674
Net change in fund balances	11,703	(3,055)	-	8,648
Fund balances at beginning of year	39,330	32,730	-	72,060
Fund balances at end of year	$ 51,033	$ 29,675	$ -	$ 80,708

CITY AND COUNTY OF SAN FRANCISCO

Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Budget Basis Debt Service Fund

Year ended June 30, 2012
(In Thousands)

	General Obligation Bond Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 188,843	$ 188,843	$ 179,922	$ (8,921)
Fines, forfeitures, and penalties	-	15,353	15,353	-
Interest and investment income	-	-	1,369	1,369
Intergovernmental:				
State	750	750	771	21
Other revenues	-	4,024	4,024	-
Total revenues	189,593	208,970	201,439	(7,531)
Expenditures:				
Debt service:				
Principal retirement	189,593	148,411	148,411	-
Interest and fiscal charges	-	66,793	66,793	-
Bond issuance costs	-	757	757	-
Total expenditures	189,593	215,961	215,961	-
Excess (deficiency) of revenues over (under) expenditures	-	(6,991)	(14,522)	(7,531)
Other financing sources (uses):				
Transfers in	-	25,022	25,022	-
Issuance of bonds and loans				
Face value of bonds issued	-	3,500	3,500	-
Loan repayments and other financing uses	-	(2,707)	(2,707)	-
Total other financing sources (uses)	-	25,815	25,815	-
Net change in fund balances	-	18,824	11,293	(7,531)
Budgetary fund balance, July 1	-	46,882	46,882	-
Budgetary fund balance, June 30	$ -	$ 65,706	$ 58,175	$ (7,531)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Capital Projects Funds
June 30, 2012
(In Thousands)

	City Facilities Improvement Fund	Earthquake Safety Improvement Fund	Fire Protection Systems Improvement Fund	Moscone Convention Center Fund
ASSETS				
Deposits and investments with City Treasury	$ 375,175	$ 45	$ 8,307	$ 76
Deposits and investments outside City Treasury	7,290	-	-	2,432
Receivables:				
Federal and state grants and subventions	-	-	-	-
Charges for services	-	-	-	-
Interest and other	226	-	5	-
Due from other funds	-	-	-	-
Due from / advance to component unit	-	-	-	-
Deferred charges and other assets	-	-	-	36
Total assets	$ 382,691	$ 45	$ 8,312	$ 2,544
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 30,892	$ -	$ -	$ 482
Accrued payroll	720	-	-	7
Deferred tax, grant and subvention revenues	-	-	-	-
Due to other funds	-	-	-	9,112
Deferred credits and other liabilities	34	-	-	-
Bonds, loans, capital leases and other payables	8,599	-	-	36,191
Total liabilities	40,245	-	-	45,792
Fund balances:				
Restricted	342,446	45	8,312	-
Unassigned	-	-	-	(43,248)
Total fund balances	342,446	45	8,312	(43,248)
Total liabilities and fund balances	$ 382,691	$ 45	$ 8,312	$ 2,544

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds – Capital Projects Funds (continued)
June 30, 2012
(In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
ASSETS				
Deposits and investments with City Treasury	$ 3,096	$ 107,243	$ 84,468	$ 578,410
Deposits and investments outside City Treasury	-	-	27,397	37,119
Receivables:				
Federal and state grants and subventions	-	6,620	1,173	7,793
Charges for services	-	-	2	2
Interest and other	1	63	44	339
Due from other funds	2,307	462	92	2,861
Due from / advance to component unit	-	-	104	104
Deferred charges and other assets	-	-	-	36
Total assets	$ 5,404	$ 114,388	$ 113,280	$ 626,664
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,937	$ 5,471	$ 6,148	$ 44,930
Accrued payroll	63	578	1,485	2,853
Deferred tax, grant and subvention revenues	-	524	119	643
Due to other funds	-	-	103	9,215
Deferred credits and other liabilities	38	85	4,431	4,588
Bonds, loans, capital leases and other payables	-	-	-	44,790
Total liabilities	2,038	6,658	12,286	107,019
Fund balances:				
Restricted	3,366	107,730	100,994	562,893
Unassigned	-	-	-	(43,248)
Total fund balances	3,366	107,730	100,994	519,645
Total liabilities and fund balances	$ 5,404	$ 114,388	$ 113,280	$ 626,664

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Capital Projects Funds
Year Ended June 30, 2012
(In Thousands)

	City Facilities Improvement Fund	Earthquake Safety Improvement Fund	Fire Protection Systems Improvement Fund	Moscone Convention Center Fund
Revenues:				
Interest and investment income	$ 5,608	$ -	$ 137	$ -
Rents and concessions	-	-	-	-
Intergovernmental:				
Federal	-	-	-	-
State	-	-	-	-
Other	-	-	-	-
Other	-	-	-	-
Total revenues	5,608	-	137	-
Expenditures:				
Debt service:				
Interest and fiscal charges	4,230	-	-	1,017
Bond issuance costs	1,046	-	-	-
Capital outlay	135,890	342	79	22,191
Total expenditures	141,166	342	79	23,208
Excess (deficiency) of revenues over (under) expenditures	(135,558)	(342)	58	(23,208)
Other financing sources (uses):				
Transfers in	4,673	-	-	523
Transfers out	(40,088)	-	-	-
Issuance of bonds and loans:				
Face value of bonds issued	183,330	-	-	-
Premium on issuance of bonds	16,898	-	-	-
Other financing sources-capital leases	-	-	-	-
Total other financing sources, net	164,813	-	-	523
Net change in fund balances	29,255	(342)	58	(22,685)
Fund balances at beginning of year	313,191	387	8,254	(20,563)
Fund balances at end of year	$ 342,446	$ 45	$ 8,312	$ (43,248)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds – Capital Projects Funds (continued)
Year Ended June 30, 2012
(In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
Revenues:				
Interest and investment income	$ 64	$ 1,598	$ 1,076	$ 8,483
Rents and concessions	-	-	320	320
Intergovernmental:				
Federal	-	-	2,624	2,624
State	-	5,995	5,211	11,206
Other	-	539	5,426	5,965
Other	-	108	385	493
Total revenues	64	8,240	15,042	29,091
Expenditures:				
Debt service:				
Interest and fiscal charges	524	-	435	6,206
Bond issuance costs	-	547	1,499	3,092
Capital outlay	10,398	52,023	49,171	270,094
Total expenditures	10,922	52,570	51,105	279,392
Excess (deficiency) of revenues over (under) expenditures	(10,858)	(44,330)	(36,063)	(250,301)
Other financing sources (uses):				
Transfers in	519	1,761	10,877	18,353
Transfers out	-	(14,213)	(13,626)	(67,927)
Issuance of bonds and loans:				
Face value of bonds issued	-	73,355	117,130	373,815
Premium on issuance of bonds	-	3,818	6,259	26,975
Other financing sources-capital leases	4,886	2,865	-	7,751
Total other financing sources, net	5,405	67,586	120,640	358,967
Net change in fund balances	(5,453)	23,256	84,577	108,666
Fund balances at beginning of year	8,819	84,474	16,417	410,979
Fund balances at end of year	$ 3,366	$ 107,730	$ 100,994	$ 519,645

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CITY AND COUNTY OF SAN FRANCISCO

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

Central Shops Fund – Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

Finance Corporation – Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

Reproduction Fund – Accounts for printing, design and mail services required by various City departments and agencies.

Telecommunications and Information Fund – Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city personnel. It also accounts for the related billings to various departments for specific services performed and operating support from the General Fund.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Net Assets – Internal Service Funds

June 30, 2012
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom-munications & Information Fund	Total
Assets					
Current assets:					
Deposits and investments with City Treasury	$ 2,958	$ 325	$ 1,046	$ 29,310	$ 33,639
Deposits and investments outside City Treasury	10	-	-	-	10
Receivables:					
Charges for services	89	3	27	-	119
Interest and other	-	29	5	609	643
Due from other funds	-	8	-	-	8 (1)
Capital leases receivable	-	20,813	-	-	20,813
Restricted assets:				-	
Deposits and investments outside City Treasury	-	61,713	-	-	61,713
Total current assets	3,057	82,891	1,078	29,919	116,945
Noncurrent assets:					
Restricted assets:					
Deposits and investments outside City Treasury	-	4,816	-	-	4,816
Capital leases receivable	-	252,927	-	-	252,927
Capital assets:					
Facilities and equipment, net of depreciation	292	-	270	4,909	5,471
Deferred charges and other assets	-	4,655	-	-	4,655
Total noncurrent assets	292	262,398	270	4,909	267,869
Total assets	3,349	345,289	1,348	34,828	384,814
Liabilities					
Current liabilities:					
Accounts payable	1,828	699	115	4,902	7,544
Accrued payroll	677	-	85	1,561	2,323
Accrued vacation and sick leave pay	400	-	-	1,075	1,475
Accrued workers' compensation	-	-	-	183	183
Bonds, loans, capital leases, and other payables	-	18,935	132	323	19,390
Accrued interest payable	-	1,758	-	-	1,758
Due to other funds	-	2,821	-	8	2,829 (1)
Deferred credits and other liabilities	-	65,544	-	140	65,684
Total current liabilities	2,905	89,757	332	8,192	101,186
Noncurrent liabilities:					
Accrued vacation and sick leave pay	419	-	-	1,185	1,604
Accrued workers' compensation	-	-	-	812	812
Other postemployment benefits obligation	3,524	-	-	11,856	15,380
Bonds, loans, capital leases, and other payables	-	255,532	30	334	255,896
Total noncurrent liabilities	3,943	255,532	30	14,187	273,692
Total liabilities	6,848	345,289	362	22,379	374,878
Net Assets					
Invested in capital assets, net of related debt	292	-	108	4,252	4,652
Unrestricted (deficit)	(3,791)	-	878	8,197	5,284
Total net assets (deficit)	$ (3,499)	$ -	$ 986	$ 12,449	$ 9,936

(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Assets - Proprietary Funds on page 33.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds

Year ended June 30, 2012
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom-munications & Information Fund	Total
Operating revenues:					
Charges for services	$ 26,462	$ -	$ 6,119	$ 64,685	$ 97,266
Operating expenses:					
Personal services	12,826	-	1,512	29,127	43,465
Contractual services	2,184	-	3,265	24,278	29,727
Materials and supplies	11,071	-	290	3,680	15,041
Depreciation and amortization	196	101	163	1,231	1,691
General and administrative	107	-	1	277	385
Services provided by other departments	1,051	-	509	3,771	5,331
Other	4	-	11	689	704
Total operating expenses	27,439	101	5,751	63,053	96,344
Operating income (loss)	(977)	(101)	368	1,632	922
Nonoperating revenues (expenses):					
Interest and investment income	-	6,098	2	375	6,475
Interest expense	(8)	(5,997)	-	-	(6,005)
Other, net	-	-	-	124	124
Total nonoperating revenues (expenses)	(8)	101	2	499	594
Income (loss) before transfers	(985)	-	370	2,131	1,516
Transfers in	29	-	-	-	29
Transfers out	-	-	(2)	(1,214)	(1,216)
Change in net assets	(956)	-	368	917	329
Total net assets (deficit) - beginning	(2,543)	-	618	11,532	9,607
Total net assets (deficit) - ending	$ (3,499)	$ -	$ 986	$ 12,449	$ 9,936

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Cash Flows – Internal Service Funds

Year ended June 30, 2012
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom-munications & Information Fund	Total
Cash flows from operating activities:					
Cash received from customers	$ 26,507	$ 21,647	$ 6,148	$ 64,264	$ 118,566
Cash paid to employees for services	(12,029)	-	(1,490)	(26,961)	(40,480)
Cash paid to suppliers for goods and services	(13,977)	(19,528)	(4,001)	(31,529)	(69,035)
Net cash provided by operating activities	501	2,119	657	5,774	9,051
Cash flows from noncapital financing activities:					
Transfers in	29	-	-	-	29
Transfers out	-	-	(2)	(1,214)	(1,216)
Net cash provided by (used in) noncapital financing activities	29	-	(2)	(1,214)	(1,187)
Cash flows from capital and related financing activities:					
Bond sale proceeds	-	10,150	-	-	10,150
Acquisition of capital assets	-	-	-	(929)	(929)
Retirement of capital lease obligation	-	(17,105)	(127)	(313)	(17,545)
Bond issue costs paid	-	(532)	-	-	(532)
Interest paid on long-term debt	-	(6,002)	-	-	(6,002)
Net cash (used in) capital financing activities	-	(13,489)	(127)	(1,242)	(14,858)
Cash flows from investing activities:					
Proceeds from sale of investments with trustees	-	14,489	-	-	14,489
Interest income received	-	216	2	375	593
Other investing activities	(8)	-	-	-	(8)
Net cash provided by (used in) investing activities	(8)	14,705	2	375	15,074
Increase in cash and cash equivalents	522	3,335	530	3,693	8,080
Cash and cash equivalents - beginning of year	2,446	53,627	516	25,617	82,206
Cash and cash equivalents - end of year	$ 2,968	$ 56,962	$ 1,046	$ 29,310	$ 90,286
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	$ (977)	$ (101)	$ 368	$ 1,632	$ 922
Adjustments for non-cash activities:					
Depreciation and amortization	196	101	163	1,231	1,691
Other	-	-	-	124	124
Changes in assets/liabilities:					
Receivables, net	45	17,105	29	(135)	17,044
Accounts payable	455	-	74	1,220	1,749
Accrued payroll	126	-	23	209	358
Accrued vacation and sick leave pay	(15)	-	-	50	35
Accrued workers' compensation	-	-	-	121	121
Other postemployment benefits obligation	687	-	-	1,787	2,474
Due to other funds	(16)	-	-	(56)	(72)
Deferred credits and other liabilities	-	(14,986)	-	(409)	(15,395)
Total adjustments	1,478	2,220	289	4,142	8,129
Net cash provided by operating activities	$ 501	$ 2,119	$ 657	$ 5,774	$ 9,051
Reconciliation of cash and cash equivalents to the combining statement of net assets:					
Deposits and investments with City Treasury:					
Unrestricted	$ 2,958	$ 325	$ 1,046	$ 29,310	$ 33,639
Deposits and investments outside City Treasury:					
Unrestricted	10	-	-	-	10
Restricted	-	66,529	-	-	66,529
Total deposits and investments	2,968	66,854	1,046	29,310	100,178
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	-	(9,892)	-	-	(9,892)
Cash and cash equivalents at end of year on combining statement of cash flows	$ 2,968	$ 56,962	$ 1,046	$ 29,310	$ 90,286
Non-cash capital and related financing activities:					
Acquisition of capital assets on accounts payable and capital lease	$ -	$ 3,455	$ -	$ -	$ 3,455

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units.

Trust Funds

Employees' Retirement System – Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

Health Service System – Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

Retiree Health Care Trust - Accounts for the contributions from employees, City contributions and the earnings and profits from investment of monies. Disbursements are to be made for benefits, expenses and other charges properly allocable to the trust fund.

Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Assistance Program Fund – Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

Deposits Fund – Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

Payroll Deduction Fund – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

State Revenue Collection Fund – Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

Tax Collection Fund – Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

Transit Fund – Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

Other Agency Funds – Accounts for monies held as agent for a variety of purposes.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Fiduciary Net Assets – Fiduciary Funds
Pension and Other Employee Benefit Trust Funds

June 30, 2012
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post-employment Benefit Trust Fund	
	Employees' Retirement System	Health Service System	Retiree Health Care	Total
ASSETS				
Deposits and investments with City Treasury	$ 4,780	$ 106,969	$ 17,308	$ 129,057
Deposits and investments outside City Treasury:				
Cash and deposits	28,516	-	-	28,516
Short term investments	706,721	-	-	706,721
Alternative investments	2,021,472	-	-	2,021,472
Debt securities	4,047,549	-	-	4,047,549
Equity securities	7,220,971	-	-	7,220,971
Real estate	1,403,412	-	-	1,403,412
Foreign currency contracts, net	(15,790)	-	-	(15,790)
Invested in securities lending collateral	914,105	-	-	914,105
Receivables:				
Employer and employee contributions	34,088	35,935	672	70,695
Brokers, general partners and others	317,884	-	-	317,884
Interest and other	33,467	3,553	10	37,030
Total assets	16,717,175	146,457	17,990	16,881,622
Liabilities				
Accounts payable	15,438	26,570	-	42,008
Estimated claims payable	-	9,358	-	9,358
Payable to brokers	463,386	-	-	463,386
Deferred Retirement Option Program liabilities	27,257	-	-	27,257
Payable to borrowers of securities	917,370	-	-	917,370
Deferred credits and other liabilities	-	57,310	-	57,310
Total liabilities	1,423,451	93,238	-	1,516,689
Net Assets				
Held in trust for pension benefits and other purposes	$ 15,293,724	$ 53,219	$ 17,990	$ 15,364,933

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
Pension and Other Employee Benefit Trust Funds

Year ended June 30, 2012
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post-employment Benefit Trust Fund	
	Employees' Retirement System	Health Service System	Retiree Health Care	Total
Additions:				
Employees' contributions	$ 198,160	$ 110,902	$ 6,141	$ 315,203
Employer contributions	410,797	612,743	3,070	1,026,610
Total contributions	608,957	723,645	9,211	1,341,813
Investment income/loss:				
Interest	195,517	716	261	196,494
Dividends	170,759	-	-	170,759
Net appreciation/(depreciation) in fair value of investments	(246,965)	667	-	(246,298)
Securities lending income	4,718	-	-	4,718
Total investment income	124,029	1,383	261	125,673
Less investment expenses:				
Securities lending borrower rebates and expenses	913	-	-	913
Other investment expenses	(44,540)	-	-	(44,540)
Total investment expenses	(43,627)	-	-	(43,627)
Total additions, net	689,359	725,028	9,472	1,423,859
Deductions:				
Benefit payments	968,528	699,295	-	1,667,823
Refunds of contributions	11,030	-	-	11,030
Administrative expenses	14,916	-	44	14,960
Total deductions	994,474	699,295	44	1,693,813
Change in net assets	(305,115)	25,733	9,428	(269,954)
Net assets at beginning of year	15,598,839	27,486	8,562	15,634,887
Net assets at end of year	$ 15,293,724	$ 53,219	$ 17,990	$ 15,364,933

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year ended June 30, 2012
(In Thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Assistance Program Fund				
ASSETS				
Deposits and investments with City Treasury	$29,000	$ 5,623	$ 5,815	$ 28,808
Receivables:				
Interest and other	-	297	281	16
Total assets	$29,000	$ 5,920	$ 6,096	$ 28,824
LIABILITIES				
Accounts payable	$ 121	$ 1,192	$ 1,166	$ 147
Agency obligations	28,879	6,841	7,043	28,677
Total liabilities	$29,000	$ 8,033	$ 8,209	$ 28,824
Deposits Fund				
ASSETS				
Deposits and investments with City Treasury	$16,072	$ 37,386	$ 39,418	$ 14,040
Deposits and investments outside City Treasury	-	23	-	23
Receivables:				
Interest and other	47	81	74	54
Deferred charges and other assets	31,690	2,856	8	34,538
Total assets	$47,809	$ 40,346	$ 39,500	$ 48,655
LIABILITIES				
Accounts payable	$ 1,380	$ 13,367	$ 13,894	$ 853
Agency obligations	46,429	36,579	35,206	47,802
Total liabilities	$47,809	$ 49,946	$ 49,100	$ 48,655
Payroll Deduction Fund				
ASSETS				
Deposits and investments with City Treasury	$14,058	$ 53	$ -	$ 14,111
Receivables:				
Employer and employee contributions	52,716	5,725	-	58,441
Total assets	$66,774	$ 5,778	$ -	$ 72,552
LIABILITIES				
Accounts payable	$59,473	$ -	$ 46,769	$ 12,704
Agency obligations	7,301	52,547	-	59,848
Total liabilities	$66,774	$ 52,547	$ 46,769	$ 72,552

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Assets and Liabilities – Agency Funds (continued)
Year ended June 30, 2012
(In Thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
State Revenue Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 751	$ 3,606	$ 3,531	$ 826
Deposits and investments outside City Treasury	-	2	-	2
Receivables:				
Interest and other	-	2	2	-
Total assets	$ 751	$ 3,610	$ 3,533	$ 828
LIABILITIES				
Accounts payable	$ 218	$ 3,666	$ 3,486	$ 398
Agency obligations	533	3,605	3,708	430
Total liabilities	$ 751	$ 7,271	$ 7,194	$ 828
Tax Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 18,927	$2,998,171	$2,956,817	$ 60,281
Deposits and investments outside City Treasury	402	179	402	179
Receivables:				
Interest and other	151,597	1,780,449	1,760,393	171,653
Total assets	$ 170,926	$4,778,799	$4,717,612	$ 232,113
LIABILITIES				
Accounts payable	$ 834	$ 150,627	$ 134,500	$ 16,961
Agency obligations	170,092	2,400,145	2,355,085	215,152
Total liabilities	$170,926	$2,550,772	$2,489,585	$ 232,113
Transit Fund				
ASSETS				
Deposits and investments with City Treasury	$ 2,467	$ 55,297	$ 49,699	$ 8,065
Receivables:				
Interest and other	-	41	39	2
Total assets	$ 2,467	$ 55,338	$ 49,738	$ 8,067
LIABILITIES				
Accounts payable	$ 317	$ 16,932	$ 16,082	$ 1,167
Agency obligations	2,150	39,438	34,688	6,900
Total liabilities	$ 2,467	$ 56,370	$ 50,770	$ 8,067

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Assets and Liabilities – Agency Funds (continued)
Year ended June 30, 2012
(In Thousands)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Other Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 22,470	$ 241,553	$ 248,450	$ 15,573
Deposits and investments outside City Treasury	-	4	-	4
Receivables:				
Interest and other	399	422	451	370
Total assets	$ 22,869	$ 241,979	$ 248,901	$ 15,947
LIABILITIES				
Accounts payable	$ 13,415	$ 131,173	$ 142,229	$ 2,359
Agency obligations	9,454	231,200	227,066	13,588
Total liabilities	$ 22,869	$ 362,373	$ 369,295	$ 15,947
Total Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 103,745	$ 3,341,689	$ 3,303,730	$ 141,704
Deposits and investments outside City Treasury	402	208	402	208
Receivables:				
Employer and employee contributions	52,716	5,725	-	58,441
Interest and other	152,043	1,781,292	1,761,240	172,095
Deferred charges and other assets	31,690	2,856	8	34,538
Total assets	$ 340,596	$ 5,131,770	$ 5,065,380	$ 406,986
LIABILITIES				
Accounts payable	$ 75,758	$ 316,957	$ 358,126	$ 34,589
Agency obligations	264,838	2,770,355	2,662,796	372,397
Total liabilities	$ 340,596	$ 3,087,312	$ 3,020,922	$ 406,986

STATISTICAL SECTION

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CITY AND COUNTY OF SAN FRANCISCO

Net Assets by Component – Last Ten Fiscal Years

(Accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$ 983,834	$ 1,096,834	$ 1,159,696	$ 1,438,010	$ 1,454,614	$ 1,436,842	$ 1,725,203	$ 1,833,733	$ 1,910,341	$ 2,199,316
Restricted for:										
Cash and emergencies requirements by Charter [1]	59,337	55,139	-	-	-	-	-	-	-	-
Reserve for rainy day	-	-	48,139	121,976	133,622	117,792	98,297	39,582	33,439	34,109
Debt service	7,795	9,996	46,575	53,076	28,310	23,130	30,724	34,308	36,805	48,202
Capital projects	86,912	48,313	25,101	10,589	19,128	-	-	63,323	82,315	91,997
Community development	158,591	163,875	208,532	71,207	63,043	95,136	64,031	66,251	59,763	240,771
Transportation Authority activities	149,070	135,466	75,282	23,727	10,390	1,693	2,515	1,966	1,386	6,705
Building inspection programs	24,353	25,284	22,066	20,691	17,213	16,475	13,959	21,837	32,112	49,364
Children and families	40,444	33,655	40,090	42,849	45,531	43,666	46,273	40,886	45,827	53,632
Culture, recreation, grants and other purposes	68,436	63,326	76,068	84,531	113,606	112,219	116,032	113,917	155,152	150,383
Unrestricted (deficit)	(265,950)	(325,147)	(200,467)	(72,038)	(14,446)	(261,897)	(791,831)	(1,062,818)	(1,046,861)	(954,469)
Total governmental activities net assets	$ 1,312,822	$ 1,306,741	$ 1,501,082	$ 1,794,618	$ 1,871,011	$ 1,585,056	$ 1,305,203	$ 1,152,985	$ 1,310,279	$ 1,920,010
Business-type activities										
Invested in capital assets, net of related debt	$ 3,273,449	$ 3,416,154	$ 3,391,450	$ 3,438,397	$ 3,795,006	$ 3,935,008	$ 4,204,644	$ 4,277,799	$ 4,481,404	$ 4,519,090
Restricted for:										
Debt service	273,242	242,537	202,006	256,055	249,656	282,187	58,716	71,128	62,421	53,951
Capital projects	147,693	128,387	161,231	148,957	75,771	111,463	140,932	188,580	161,580	176,570
Other purposes	61,616	61,241	66,753	32,354	23,709	28,254	31,459	18,854	18,741	18,913
Unrestricted	542,813	464,658	446,039	536,670	567,122	491,437	324,395	259,533	268,328	262,742
Total business-type activities net assets	$ 4,298,813	$ 4,312,977	$ 4,267,479	$ 4,412,433	$ 4,711,264	$ 4,848,349	$ 4,760,146	$ 4,815,894	$ 4,992,474	$ 5,031,266
Primary government										
Invested in capital assets, net of related debt	$ 4,257,283	$ 4,512,988	$ 4,551,146	$ 4,876,407	$ 5,249,620	$ 5,371,850	$ 5,630,550	$ 5,735,844	$ 5,993,892	$ 6,459,434
Restricted for:										
Cash and emergencies requirements by Charter	59,337	55,139	-	-	-	-	-	-	-	-
Reserve for rainy day	-	-	48,139	121,976	133,622	117,792	98,297	39,582	33,439	34,109
Debt service	281,037	252,533	248,581	309,131	277,966	305,317	89,440	105,436	99,226	102,153
Capital projects	234,605	176,700	186,332	159,546	94,899	111,463	140,932	239,209	223,694	246,027
Community development	158,591	163,875	208,532	71,207	63,043	95,136	64,031	66,251	59,763	240,771
Transportation Authority activities	149,070	135,466	75,282	23,727	10,390	1,693	2,515	1,966	1,386	6,705
Building inspection programs	24,353	25,284	22,066	20,691	17,213	16,475	13,959	21,837	32,112	49,364
Children and families	40,444	33,655	40,090	42,849	45,531	43,666	46,273	40,886	45,827	53,632
Culture, recreation, grants and other purposes	130,052	124,567	142,821	116,885	137,315	140,473	147,491	132,771	173,893	169,296
Unrestricted	276,863	139,511	245,572	464,632	552,676	229,540	(168,139)	(414,903)	(360,479)	(410,215)
Total primary activities net assets	$ 5,611,635	$ 5,619,718	$ 5,768,561	$ 6,207,051	$ 6,582,275	$ 6,433,405	$ 6,065,349	$ 5,968,879	$ 6,302,753	$ 6,951,276

Notes:
[1] The City's Charter was amended in November 2003 and replaced the reserve for cash and emergencies requirements by Charter with the reserve for rainy day.

CITY AND COUNTY OF SAN FRANCISCO

STATISTICAL SECTION

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources:
Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY AND COUNTY OF SAN FRANCISCO

Changes in Net Assets – Last Ten Fiscal Years

(Accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009 [1]	2010	2011	2012
Expenses										
Governmental activities:										
Public protection	$ 778,710	$ 727,580	$ 738,688	$ 780,642	$ 861,689	$ 1,020,457	$ 1,109,311	$ 1,089,309	$ 1,099,791	$ 1,158,618
Public works, transportation and commerce	287,910	169,179	213,335	272,397	309,095	342,411	254,955	225,589	239,230	210,415
Human welfare and neighborhood development	626,306	651,250	619,753	858,396	751,034	848,195	908,449	933,039	885,194	942,523
Community health	542,480	517,066	503,259	478,844	516,321	567,410	608,733	599,741	613,883	673,905
Culture and recreation	242,398	232,187	256,336	244,423	290,547	347,433	319,994	310,063	318,083	307,269
General administration and finance	186,144	183,258	152,850	167,490	194,653	250,295	238,601	221,471	224,027	237,818
General City responsibilities	53,026	73,530	59,024	49,054	67,948	80,887	72,634	80,246	84,444	96,147
Unallocated Interest on long-term debt	77,827	86,131	89,690	94,923	94,060	97,694	93,387	102,635	110,142	110,145
Total governmental activities expenses	2,794,801	2,640,181	2,632,935	2,946,169	3,085,347	3,554,782	3,606,064	3,562,093	3,574,794	3,736,840
Business-type activities:										
Airport	641,036	618,301	628,445	633,102	624,832	651,581	683,335	662,347	690,875	746,610
Transportation	628,180	660,650	711,733	695,593	726,053	830,411	863,218	905,694	905,218	959,088
Port	61,074	61,185	54,897	55,329	61,937	67,495	71,778	73,573	68,661	72,307
Water	186,579	206,211	197,848	213,584	236,824	252,802	277,162	325,242	362,802	431,248
Power	95,427	121,629	116,683	119,146	95,020	109,436	96,228	119,109	119,282	130,709
Hospitals	561,673	562,188	598,160	646,149	714,349	812,399	820,236	842,488	885,294	954,566
Sewer	153,845	150,586	160,650	160,701	168,954	182,712	184,977	201,403	201,629	214,593
Market	894	949	1,055	1,035	1,061	1,052	1,144	1,119	1,152	1,138
Total business-type activities expenses	2,328,708	2,381,699	2,469,471	2,524,639	2,629,030	2,907,888	2,998,078	3,130,975	3,234,913	3,510,259
Total primary government expenses	$ 5,123,509	$ 5,021,880	$ 5,102,406	$ 5,470,808	$ 5,714,377	$ 6,462,670	$ 6,604,142	$ 6,693,068	$ 6,809,707	$ 7,247,099
Program Revenues										
Governmental activities:										
Charges for services:										
Public protection	$ 44,291	$ 40,349	$ 54,805	$ 51,874	$ 58,979	$ 66,343	$ 90,044	$ 58,980	$ 62,105	$ 61,412
Public works, transportation and commerce	84,057	83,176	95,081	113,861	111,364	115,939	72,287	71,288	101,846	93,809
Human welfare and neighborhood development	26,349	23,931	21,375	29,181	56,367	108,956	33,988	25,813	56,628	68,794
Community health	41,906	38,933	44,850	52,183	50,266	52,455	60,708	65,756	64,419	58,864
Culture and recreation	44,629	53,369	64,614	64,720	65,407	70,576	74,477	81,855	76,528	78,828
General administration and finance	36,525	43,585	41,348	55,799	10,502	20,376	33,530	35,190	37,601	44,358
General City responsibilities	41,123	59,609	28,956	31,647	29,604	26,980	27,377	37,806	29,316	29,142
Operating Grants and Contributions	809,670	823,784	834,607	859,919	927,256	926,089	909,695	997,091	1,040,116	998,701
Capital Grants and Contributions	46,029	39,209	55,435	248,329	50,479	36,079	44,048	50,349	57,719	41,174
Total Governmental activities program revenues	1,174,579	1,205,945	1,241,071	1,507,513	1,360,224	1,423,793	1,346,154	1,424,128	1,526,278	1,475,082
Business-type activities:										
Charges for services:										
Airport	500,116	486,132	477,314	455,342	503,914	535,771	551,283	578,041	607,323	668,672
Transportation	155,656	186,390	187,913	210,692	222,115	257,341	257,083	311,311	334,140	350,464
Port	54,467	56,702	57,519	58,588	61,193	64,498	66,438	66,579	72,266	77,260
Water	170,253	168,260	184,835	201,833	216,531	234,216	265,781	265,218	288,395	342,101
Power	132,190	124,474	132,303	149,500	108,224	119,855	115,274	128,590	140,035	127,309
Hospitals	429,128	453,607	493,596	472,327	515,092	558,167	568,210	606,276	726,522	740,920
Sewer	134,745	137,806	148,888	164,703	193,411	202,549	208,654	209,843	229,216	244,155
Market	1,296	1,413	1,462	1,503	1,567	1,564	1,546	1,681	1,655	1,672
Operating Grants and Contributions	164,257	169,767	180,807	188,672	183,301	181,725	186,805	182,572	204,153	200,318
Capital Grants and Contributions	204,751	94,818	93,724	110,403	150,080	152,511	107,118	180,253	213,364	173,975
Total business-type activities program revenues	1,946,859	1,879,369	1,958,361	2,013,563	2,155,428	2,308,197	2,328,192	2,530,364	2,817,069	2,926,846
Total primary government program revenues	$ 3,121,438	$ 3,085,314	$ 3,199,432	$ 3,521,076	$ 3,515,652	$ 3,731,990	$ 3,674,346	$ 3,954,492	$ 4,343,347	$ 4,401,928

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CITY AND COUNTY OF SAN FRANCISCO

Fund Balances of Governmental Funds – Last Ten Fiscal Years

(Modified accrual basis of accounting)
(In Thousands)

	Fiscal Year						
	2003	2004 (1)	2005	2006	2007	2008	2009 (2)
General Fund							
Reserved by charter for cash and emergency requirements	$ 59,337	$ -	$ -	$ -	$ -	$ -	$ -
Reserved for rainy day	-	55,139	48,139	121,976	133,622	117,792	98,297
Reserved for assets not available for appropriation	6,768	7,142	9,031	10,710	12,665	11,358	11,307
Reserved for encumbrances	43,195	42,501	57,762	38,159	60,948	63,068	65,902
Reserved for appropriation carryforward	26,880	35,754	36,198	124,009	161,127	99,959	91,075
Reserved for subsequent years' budgets	15,414	6,242	22,351	27,451	32,062	36,341	6,891
Unreserved	44,718	63,657	134,199	138,971	141,037	77,117	28,203
Total general fund	$ 196,312	$ 210,435	$ 307,680	$ 461,276	$ 541,461	$ 405,635	$ 301,675
All other governmental funds							
Reserved for assets not available for appropriation	$ 25,906	$ 17,443	$ 17,683	$ 20,202	$ 19,413	$ 19,814	$ 19,781
Reserved for debt service	33,866	18,800	45,540	57,429	51,299	47,334	75,886
Reserved for encumbrances	278,656	142,784	97,920	423,120	288,948	193,461	167,169
Reserved for appropriation carryforward	227,818	287,690	549,571	294,340	292,234	314,051	501,006
Reserved for subsequent years' budgets	8,004	8,005	8,004	8,004	8,004	13,504	11,245
Unreserved reported in:							
Special revenue funds	67,988	19,043	30,809	35,243	47,445	(27,758)	(69,468)
Capital projects funds	40,561	10,048	7,193	13,662	(373)	2,126	(26,153)
Permanent fund	4,227	3,326	3,856	2,308	3,508	3,502	3,871
Total other governmental funds	$ 687,026	$ 507,139	$ 760,576	$ 854,308	$ 710,478	$ 566,034	$ 683,337

	2010 (3)	2011 (3)	2012 (3)
General Fund			
Nonspendable	$ 14,874	$ 20,501	$ 19,598
Restricted	39,582	33,439	34,109
Committed	4,677	33,431	79,276
Assigned	132,645	240,635	305,413
Unassigned	-	-	17,329
Total general fund	$ 191,778	$ 328,006	$ 455,725
All other governmental funds			
Nonspendable	$ 192	$ 192	$ 1,104
Restricted	861,188	831,269	1,189,102
Assigned	27,493	27,622	28,006
Unassigned	(81,566)	(59,523)	(136,856)
Total other governmental funds	$ 807,307	$ 799,560	$ 1,081,356

Notes:

(1) The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

(2) The change in reserved and unreserved fund balance in fiscal year 2008-2009 is explained in Management's Discussion and Analysis.

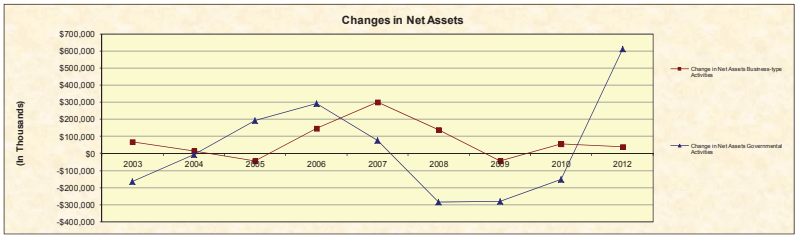
(3) The City implemented GASB Statement No. 54 in fiscal year 2011 and restated the presentation for fiscal year 2010.

CITY AND COUNTY OF SAN FRANCISCO

Changes in Net Assets – Last Ten Fiscal Years (continued)

(Accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009 (1)	2010	2011	2012
Net (expenses)/revenue										
Governmental activities	$ (1,620,222)	$ (1,434,236)	$ (1,391,864)	$ (1,438,656)	$ (1,725,123)	$ (2,130,989)	$ (2,259,910)	$ (2,137,965)	$ (2,048,516)	$ (2,261,758)
Business-type activities	(381,849)	(502,330)	(511,110)	(511,076)	(473,602)	(599,691)	(669,886)	(600,611)	(417,844)	(583,413)
Total primary government net expenses	$ (2,002,071)	$ (1,936,566)	$ (1,902,974)	$ (1,949,732)	$ (2,198,725)	$ (2,730,680)	$ (2,929,796)	$ (2,738,576)	$ (2,466,360)	$ (2,845,171)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	$ 686,858	$ 723,786	$ 920,314	$ 1,016,220	$ 1,126,992	$ 1,189,511	$ 1,302,071	$ 1,345,040	$ 1,340,590	$ 1,355,855
Business taxes	276,651	264,832	292,763	323,153	337,592	396,025	388,653	354,019	391,779	437,678
Sales and use tax	172,396	182,567	161,451	175,138	184,723	190,967	172,794	164,769	181,474	198,236
Hotel room tax	122,853	142,437	151,993	173,923	194,290	219,089	214,460	186,849	209,962	239,567
Utility users tax	71,378	70,938	72,574	76,444	78,729	86,964	89,801	94,537	91,683	91,676
Other local taxes	84,050	113,513	152,067	170,159	211,082	155,951	126,017	194,070	251,285	353,746
Interest and investment income	26,332	11,856	29,490	71,129	86,233	57,929	35,434	27,877	17,645	31,453
Other	196,496	170,163	47,153	56,022	33,046	25,939	44,086	54,410	58,524	91,236
Transfers - internal activities of primary government	(178,991)	(251,937)	(241,600)	(329,996)	(451,171)	(477,341)	(393,259)	(435,824)	(337,132)	(251,088)
Extraordinary gain	-	-	-	-	-	-	-	-	-	323,130
Total governmental activities	1,458,023	1,428,155	1,586,205	1,732,192	1,801,516	1,845,034	1,980,057	1,985,747	2,205,810	2,871,489
Business-type activities:										
Interest and investment income	50,215	17,620	33,268	53,161	85,692	67,217	49,691	44,471	42,299	82,533
Other	188,446	237,692	237,102	272,873	218,184	233,244	181,759	176,064	214,993	288,584
Special item	33,000	9,245	(46,358)	-	17,386	(41,026)	-	-	-	-
Transfers - internal activities of primary government	178,991	251,937	241,600	329,996	451,171	477,341	393,259	435,824	337,132	251,088
Total business-type activities	450,652	516,494	465,612	656,030	772,433	736,776	624,709	656,359	594,424	622,205
Total primary government	$ 1,908,675	$ 1,944,649	$ 2,051,817	$ 2,388,222	$ 2,573,949	$ 2,581,810	$ 2,604,766	$ 2,642,106	$ 2,800,234	$ 3,493,694
Change in Net Assets										
Governmental activities	$ (162,199)	$ (6,081)	$ 194,341	$ 293,536	$ 76,393	$ (285,955)	$ (279,853)	$ (152,218)	$ 157,294	$ 609,731
Business-type activities	68,803	14,164	(45,498)	144,954	298,831	137,085	(45,177)	55,748	176,580	38,792
Total primary government	$ (93,396)	$ 8,083	$ 148,843	$ 438,490	$ 375,224	$ (148,870)	$ (325,030)	$ (96,470)	$ 333,874	$ 648,523



Note:

(1) In fiscal year 2008-09, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

CITY AND COUNTY OF SAN FRANCISCO

Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years
(Modified accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2003	2004	2005 [1]	2006	2007	2008	2009 [2]	2010	2011	2012
Revenues:										
Property taxes	$ 686,154	$ 721,437	$ 918,645	$ 1,008,151	$ 1,107,864	$ 1,179,688	$ 1,272,385	$ 1,331,957	$ 1,380,356	$ 1,352,857
Business taxes	276,651	264,832	292,763	323,153	337,592	396,025	388,653	354,019	391,779	437,678
Sales and use tax	172,396	182,567	161,451	175,138	184,723	190,967	172,794	164,769	181,474	198,236
Hotel room tax	122,853	142,437	151,993	173,923	194,290	219,089	214,460	186,849	209,962	239,567
Utility users tax	71,378	70,938	72,574	76,444	78,729	86,964	89,801	94,537	91,683	91,676
Other local taxes	84,050	113,513	152,067	170,159	211,082	155,951	126,017	194,070	251,285	353,889
Licenses, permits and franchises	21,648	23,788	25,942	27,662	27,428	30,943	32,153	33,625	35,977	39,770
Fines, forfeitures and penalties	9,000	25,183	12,509	14,449	8,871	13,217	9,694	22,255	11,770	30,090
Interest and investment income	25,570	11,630	28,268	70,046	83,846	54,256	33,547	27,038	17,041	31,371
Rent and concessions	55,369	58,979	49,450	52,426	52,493	70,160	77,014	78,527	78,995	89,183
Intergovernmental:										
Federal	320,254	344,155	348,764	350,985	381,688	328,315	362,582	448,890	484,704	420,974
State	690,271	630,953	522,937	565,989	582,666	561,095	575,774	552,641	581,119	588,532
Other	24,623	18,259	25,783	23,500	15,689	15,907	15,186	7,397	32,017	33,181
Charges for services	221,883	217,647	241,750	263,994	273,057	288,689	280,407	243,128	258,015	264,856
Other	27,092	57,144	57,487	61,565	44,084	81,321	30,318	51,023	97,194	83,634
Total revenues	2,809,192	2,883,462	3,062,383	3,357,584	3,584,102	3,672,587	3,680,785	3,790,725	4,103,371	4,255,494
Expenditures										
Public protection	734,811	706,758	738,494	787,398	865,556	1,018,212	999,518	1,021,505	1,031,181	1,079,203
Public works, transportation and commerce	267,034	165,555	195,896	274,669	280,907	236,569	248,161	243,454	226,920	250,879
Human welfare and neighborhood development	670,670	662,948	644,899	697,102	740,171	828,903	886,686	918,301	870,091	918,414
Community health	524,771	512,914	501,050	471,741	509,844	543,046	578,828	581,392	595,222	653,263
Culture and recreation	252,477	273,163	239,022	256,979	286,135	309,612	313,442	303,134	310,392	311,156
General administration and finance	163,748	153,709	135,118	161,195	167,505	215,054	190,680	187,221	191,641	203,157
General City responsibilities	53,323	74,623	62,799	53,763	57,532	71,205	73,147	86,498	85,463	96,150
Debt service:										
Principal retirement	100,902	78,831	80,306	86,970	98,169	106,580	126,501	154,051	148,231	167,465
Interest and fiscal charges	64,243	61,886	61,524	75,975	71,266	75,844	74,466	89,946	101,716	103,706
Bond issuance costs	1,646	1,350	4,842	1,933	3,683	1,090	4,746	2,145	2,161	5,386
Capital outlay	248,928	165,872	130,224	153,493	283,370	133,155	152,473	182,448	214,817	270,094
Total expenditures	3,082,553	2,857,609	2,794,174	3,021,218	3,364,138	3,539,270	3,648,648	3,770,095	3,777,835	4,058,873
Excess (deficiency) of revenues over expenditures	(273,361)	25,853	268,209	336,366	219,964	133,317	32,137	20,630	325,536	196,621

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CITY AND COUNTY OF SAN FRANCISCO

Assessed Value of Taxable Property [1][3][4]
Last Ten Fiscal Years
(In Thousands)

Fiscal Year [4]	Assessed Value: Real Property	Assessed Value: Personal Property	Assessed Value: Total	Exemptions [2]: Non-reimbursable	Exemptions [2]: Reimbursable	Exemptions [2]: Redevelopment Tax Increments	Total Taxable Assessed Value	Total Direct Tax Rate
2003.....	$ 93,467,166	$ 4,639,579	$ 98,106,745	$ 3,407,736	$ 671,640	$ 3,777,328	$ 90,250,041	1.00%
2004.....	99,878,960	3,848,851	103,727,811	3,706,357	689,558	3,892,143	95,439,753	1.00%
2005.....	106,805,910	3,736,998	110,542,908	4,017,052	678,120	5,199,856	100,647,880	1.00%
2006.....	114,767,252	3,465,752	118,233,004	4,246,112	657,834	6,453,299	106,875,759	1.00%
2007.....	126,074,101	3,524,897	129,598,998	4,617,851	657,144	7,333,916	116,990,087	1.00%
2008.....	136,887,654	3,807,362	140,695,016	5,687,576	652,034	10,134,313	124,221,093	1.00%
2009.....	152,150,004	3,943,357	156,093,361	6,193,368	657,320	8,860,502	140,382,171	1.00%
2010.....	164,449,745	4,093,813	168,543,558	6,751,558	660,435	9,289,538	151,842,027	1.00%
2011.....	162,347,329	4,066,754	166,414,083	6,910,812	663,664	11,540,067	147,299,540	1.00%
2012.....	168,914,782	3,716,092	172,630,874	7,205,992	660,247	13,842,390	150,922,245	1.00%

Source: Controller, City and County of San Francisco

Notes:

(1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or $1/$100 of the assessed value, excluding the tax rate for debt service.

(2) Exemptions are summarized as follows:

(a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).

(b) Reimbursable exemptions arise from Article XII(25) which reimburses local governments for revenues lost through the homeowners' exemption in Article XIII(3) (k).

(c) Tax increments were allocations made to the former San Francisco Redevelopment Agency under authority of California Constitution, Article XVI and Section 33675 of the California Health & Safety Code. Actual allocations are limited under an indebtedness agreement between the City and the former Redevelopment Agency, through January 31, 2012, and to the Successor Agency after January 31, 2012.

(3) Based on certified assessed values.

(4) Based on year end actual assessed values.

CITY AND COUNTY OF SAN FRANCISCO

Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years (Continued)
(Modified accrual basis of accounting)
(In Thousands)

	Fiscal Year 2003	2004	2005 [1]	2006	2007	2008	2009 [2]	2010	2011	2012
Other financing sources (uses):										
Transfer in.....	226,520	204,660	271,553	224,523	217,298	244,770	352,693	302,790	304,682	335,600
Transfer out.....	(423,936)	(456,852)	(513,423)	(555,155)	(668,847)	(724,172)	(746,178)	(740,349)	(630,625)	(742,719)
Issuance of bonds and loans:										
Face value of bonds issued.....	71,310	116,645	346,225	219,120	312,955	310,155	456,935	393,010	232,965	804,090
Face value of loans issued.....	323	2,156	500	5,359	141	1,829	-	599	1,813	4,359
Premium on issuance of bonds.....	-	1,411	11,989	10,233	3,521	13,071	12,875	16,647	16,799	89,336
Discount on issuance of bonds.....	-	-	-	-	(1,856)	-	-	-	-	-
Payment to refunded bond escrow agent.....	-	(65,802)	(38,913)	-	(159,610)	(283,494)	(120,000)	-	(142,458)	(487,390)
Other financing sources - capital leases.....	33,520	6,165	4,542	6,882	12,789	24,254	24,881	20,746	19,769	12,304
Total other financing sources (uses).....	(92,263)	(191,617)	82,473	(89,038)	(283,609)	(413,587)	(18,794)	(6,557)	(197,055)	15,580
Extraordinary gain.....	-	-	-	-	-	-	-	-	-	197,314
Net change in fund balances.....	$ (365,624)	$ (165,764)	$ 350,682	$ 247,328	$ (63,645)	$ (280,270)	$ 13,343	$ 14,073	$ 128,481	$ 409,515
Debt service as a percentage of noncapital expenditures.....	5.84%	5.25%	5.31%	5.71%	5.51%	5.34%	5.79%	6.90%	7.07%	7.30%
Debt service as a percentage of total expenditures.....	5.36%	4.92%	5.08%	5.39%	5.04%	5.15%	5.51%	6.47%	6.62%	6.68%

Notes:

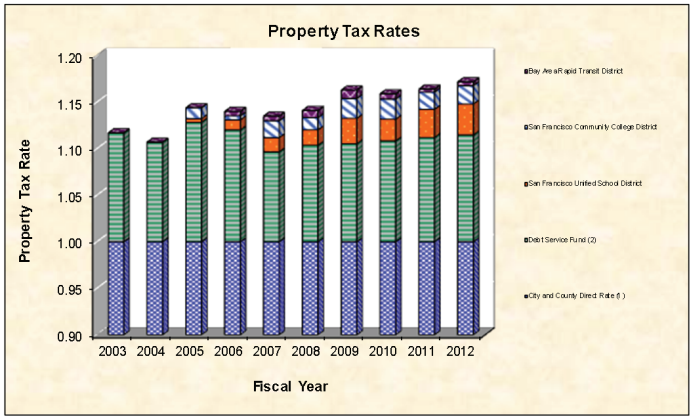
(1) Prior to fiscal year 2004-2005, transfers of base rental payments from various Certificate of Participation Special Revenue Funds which provide for debt service payments were recorded as current expenditures in paying departments/funds and rental income in debt service funds. Beginning fiscal year 2004-2005, they were recorded as transfers.

(2) In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

CITY AND COUNTY OF SAN FRANCISCO

Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per $1,000 of Assessed Value)

		Overlapping Rates				
Fiscal Year	City and County Direct Rate [1]	Debt Service Fund [2]	San Francisco Unified School District	San Francisco Community College District	Bay Area Rapid Transit District	Total
2003	1.00000000	0.11671113	0.00028887	-	-	1.1170
2004	1.00000000	0.10682335	0.00017665	-	-	1.1070
2005	1.00000000	0.12838968	0.00393518	0.01167514	-	1.1440
2006	1.00000000	0.12012547	0.01092226	0.00415227	0.00480000	1.1400
2007	1.00000000	0.09657879	0.01532351	0.01809770	0.00500000	1.1350
2008	1.00000000	0.10365766	0.01666683	0.01307551	0.00760000	1.1410
2009	1.00000000	0.10532566	0.02737873	0.02129561	0.00900000	1.1630
2010	1.00000000	0.10839903	0.02336031	0.02154066	0.00570000	1.1590
2011	1.00000000	0.11210000	0.03020000	0.01860000	0.00310000	1.1640
2012	1.00000000	0.11470000	0.03340000	0.01960000	0.00410000	1.1718



Notes:
(1) Proposition 13 allows each county to levy a maximum tax of $1 per $100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.
(2) On June 6, 1978, California voters approved a constitutional amendment to Article XIIIA of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIIIA (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.

CITY AND COUNTY OF SAN FRANCISCO

Principal Property Assessees
Current Fiscal Year and Nine Fiscal Years Ago
(Dollar in Thousands)

		Fiscal Year 2012			Fiscal Year 2003		
Assessee	Type of Business	Taxable Assessed Value [1]	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value [2]
HWA 555 Owners LLC	Office, Commercial	$ 904,469	1	0.57%	$ -		-
Paramount Group Real Estate Fund	Office, Commercial	740,958	2	0.47	-		-
Emporium Mall LLC	Retail, Commercial	472,558	3	0.30	-		-
HD333 LLC	Office, Commercial	386,927	4	0.24	-		-
SHC Embarcadero LLC	Office, Commercial	383,331	5	0.24	299,387	8	0.32%
Post-Montgomery Associates	Office, Commercial	372,229	6	0.23	367,796	6	0.39
SF Hilton Inc	Hotel	369,887	7	0.23	-		-
SHR St. Francis LLC	Hotel	361,132	8	0.23	-		-
PPF Off One Maritime Plaza LP	Office, Commercial	353,118	9	0.22	-		-
One Embarcadero Center Venture	Office, Commercial	330,566	10	0.21	-		-
Embarcadero Center Venture	Office, Commercial	-		-	1,356,255	1	1.44
555 California Street Partners	Office, Commercial	-		-	890,850	2	0.95
Pacific Gas & Electric Company	Utilities	-		-	861,722	3	0.91
Pacific Bell	Utilities, Communications	-		-	574,803	4	0.61
YBG Associates LLC	Hotel	-		-	371,633	5	0.39
Knickerbocker Properties	Office	-		-	304,688	7	0.32
China Basin Ballpark Company LLC	Possessory Interest-Stadium	-		-	291,054	9	0.31
101 California Venture	Office	-		-	266,151	10	0.28
Total		$ 4,675,175		2.94%	$ 5,584,339		5.92%

Source: Assessor, City and County of San Francisco

Notes:
(1) Data for fiscal year 2011-12 updated as of July 1, 2011.
(2) Assessed values for fiscal years 2011-2012 and 2002-2003 are from the tax rolls of calendar years 2011 and 2002, respectively.

CITY AND COUNTY OF SAN FRANCISCO

Property Tax Levies and Collections [1][2]
Last Ten Fiscal Years
(Dollar In Thousands)

Fiscal Year	Total Adjusted Levy	Collected within the Fiscal Year of the Levy: Amount	Collected within the Fiscal Year of the Levy: Percentage of Original Levy	Collections in Subsequent Years [3]	Total Collections to Date: Amount	Total Collections to Date: Percentage of Adjusted Levy
2003	$1,051,921	$ 1,028,649	97.79%	$ 5,766	$ 1,034,415	98.34%
2004	1,100,951	1,079,354	98.04	9,092	1,088,446	98.86
2005	1,208,044	1,179,959	97.68	18,010	1,197,969	99.17
2006	1,291,491	1,263,396	97.82	17,524	1,280,920	99.18
2007	1,411,316	1,372,174	97.23	5,959	1,378,133	97.65
2008	1,530,484	1,487,715	97.21	20,781	1,508,496	98.56
2009	1,731,668	1,658,599	95.78	21,463	1,680,062	97.02
2010	1,868,098	1,787,809	95.70	40,111	1,827,920	97.85
2011	1,849,132	1,799,523	97.32	45,787	1,845,310	99.79
2012	1,922,368	1,883,666	97.99	37,566	1,921,232	99.94

Source: Controller, City and County of San Francisco

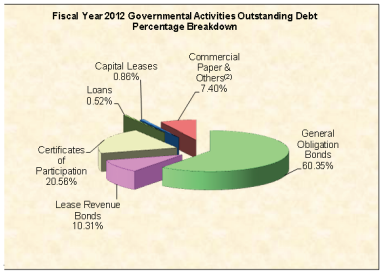
Notes:
(1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District and San Francisco Redevelopment Agency.
(2) Does not include SB-813 supplemental property taxes.
(3) Collections in subsequent years reflect assessment appeals reduction.

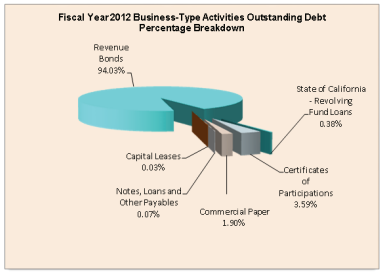
CITY AND COUNTY OF SAN FRANCISCO

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(In Thousands, except Per Capita Amounts)

Fiscal Year	Governmental Activities: General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Loans	Capital Leases	Commercial Paper & Others [1]	Subtotal
2003.....	$ 857,983	$ 252,148	$ 292,702	$ 9,278	$ 212,649	$ 49,470	$ 1,874,230
2004.....	843,499	245,826	287,483	9,515	194,815	94,196	1,675,334
2005.....	1,097,050	230,738	280,561	7,961	198,703	188,602	2,003,615
2006.....	1,252,217	231,497	273,522	12,377	190,279	182,899	2,142,791
2007.....	1,172,363	250,095	416,258	11,640	185,736	177,062	2,213,154
2008.....	1,120,688	283,469	408,020	12,495	174,149	170,577	2,169,398
2009.....	1,193,927	293,326	564,110	11,329	164,383	163,905	2,390,980
2010.....	1,429,899	285,085	591,049	10,607	152,273	162,114	2,631,027
2011.....	1,401,080	281,274	582,221	10,072	141,377	167,519	2,583,543
2012.....	1,606,170	274,467	547,251	13,878	22,878	196,834	2,661,478

Fiscal Year	Business-Type Activities: Revenue Bonds	General Obligation Bonds	State of California - Revolving Fund Loans	Certificates of Participations	Commercial Paper	Notes, Loans and Other Payables	Capital Leases	Subtotal	Total Primary Government: Total Primary Government	Percentage of Personal Income [3]	Per Capita [3]
2003....	$ 5,230,828	$ 800	$ 165,125	$ -	$ -	$ 33,398	$ 4,210	$ 5,434,351	$ 7,108,581	18.86%	$ 9,172
2004....	5,105,883	400	150,196	-	25,000	30,995	4,881	5,317,365	6,992,699	15.80	9,043
2005....	5,017,292	-	134,783	-	80,000	27,278	4,754	5,264,107	7,267,722	14.81	9,346
2006....	5,450,963	-	118,868	-	-	22,962	5,522	5,598,315	7,741,106	14.36	9,947
2007....	5,321,564	-	102,438	-	50,000	18,447	4,499	5,496,948	7,710,102	13.69	9,648
2008....	5,239,031	-	89,101	-	68,000	13,749	3,843	5,413,724	7,583,122	13.03	9,385
2009....	4,803,640	-	75,339	-	435,880	324,042	2,835	5,641,536	8,032,516	14.33	9,852
2010....	7,009,485	-	61,140	194,112 [3]	128,660	73,322	1,416	7,468,138	10,099,165	17.82	12,542
2011....	7,959,399	-	46,492	193,579	150,000	31,730	652	8,381,852	10,965,395	18.71	13,490
2012....	9,124,807	-	36,898	348,641	184,450	7,163	3,155	9,705,114	12,366,592	20.36	15,073





Notes:
(1) Includes commercial paper issued by San Francisco County Transportation Authority and the City for multiple capital projects. The amount for fiscal year 2004 to fiscal year 2010 includes obligation on 2003 Refunding Settlement Obligation Bonds S2003-R1 which finally matured on March 15, 2011.
(2) Includes $22,550 in Certificates of Participation which was presented in fiscal year 2010 in Capital Leases.
(3) See Demographic and Economic Statistics, for personal income and population data.

CITY AND COUNTY OF SAN FRANCISCO

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(In Thousands, except Per Capita Amounts)

Fiscal Year	General Obligation Bonds [1]	Less: Amounts Restricted for Debt Service [1]	Total	Per Capita [2]	Percentage of Taxable Assessed Value [3]
2003	$ 857,983	$ 13,304	$ 844,679	$ 1,090	0.89%
2004	843,499	1,533	841,966	1,089	0.84
2005	1,097,050	33,774	1,063,276	1,367	1.00
2006	1,252,217	46,929	1,205,288	1,533	1.06
2007	1,172,363	35,249	1,137,114	1,423	0.91
2008	1,120,688	31,883	1,088,805	1,348	0.81
2009	1,193,927	40,907	1,153,020	1,414	0.77
2010	1,429,898	36,901	1,392,997	1,730	0.86
2011	1,401,080	39,330	1,361,750	1,675	0.85
2012	1,606,170	51,033	1,555,137	1,895	0.94

Notes:

(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements. The amounts of general obligation bonds include unamortized bond discount, bond premium, and bond refunding loss.

(2) Population data can be found in Demographic and Economic Statistics.

(3) Taxable property data can be found in Assessed Value of Taxable Property.

CITY AND COUNTY OF SAN FRANCISCO

Legal Debt Margin Information
Last Ten Fiscal Years
(In Thousands)

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	$ 2,840,970	$ 3,000,644	$ 3,195,776	$ 3,419,607	$ 3,749,434
Total net debt applicable to limit [1]	859,625	844,350	1,086,355	1,232,205	1,155,944
Legal debt margin	$ 1,981,345	$ 2,156,294	$ 2,109,421	$ 2,187,402	$ 2,593,490
Total net debt applicable to the limit as a percentage of debt limit	30.26%	28.14%	33.99%	36.03%	30.83%

	Fiscal Year				
	2008	2009	2010	2011	2012
Debt limit	$ 4,050,223	$ 4,497,000	$ 4,853,760	$ 4,785,098	$ 4,962,746
Total net debt applicable to limit [1]	1,098,913	1,165,141	1,386,640	1,355,992	1,506,330
Legal debt margin	$ 2,951,310	$ 3,331,859	$ 3,467,120	$ 3,429,106	$ 3,456,416
Total net debt applicable to the limit as a percentage of debt limit	27.13%	25.91%	28.57%	28.34%	30.35%

Legal Debt Margin Calculation for Fiscal Year 2012

Total assessed value	$ 172,630,874
Less: non-reimbursable exemptions [2]	7,205,992
Assessed value [2]	$ 165,424,882
Debt limit (three percent of valuation subject to taxation [3])	$ 4,962,746
Debt applicable to limit - general obligation bonds	1,506,330
Legal debt margin	$ 3,456,416

Notes:

(1) Per outstanding bonds, net of unamortized bond discount, bond premium and bond refunding loss.

(2) Source: Assessor, City and County of San Francisco

(3) City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.
"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

CITY AND COUNTY OF SAN FRANCISCO

Direct and Overlapping Debt
June 30, 2012

District	Total General Debt Outstanding	Estimated Percentage Applicable to City and County [1]	Estimated Share of Overlapping Debt
Bay Area Rapid Transit District	$ 412,540,000	32.00%	$ 132,012,800
San Francisco Unified School District	680,085,000	100.00	680,085,000
San Francisco Community College District	358,270,000	100.00	358,270,000
Subtotal, overlapping debt			1,170,367,800
City and County of San Francisco direct debt [1]			1,506,329,987
Total net direct and overlapping debt			$ 2,676,697,787
Population - 2012 [2]			820,466
Estimated direct and overlapping debt per capita			$ 3,262.42

Note: Overlapping districts are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping districts that is borne by the residents and businesses of the City. This process recognizes that, when considering the district's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the City's taxable assessed value that is within the district's boundaries and dividing it by the City's total taxable assessed value.

(2) Source: US Census Bureau.

CITY AND COUNTY OF SAN FRANCISCO

Pledged-Revenue Coverage – Last Ten Fiscal Years
(In Thousands)

San Francisco International Airport [1]

Fiscal Year	Operating Revenues [2]	Less: Operating Expenses [3]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	$ 533,253	$ 295,672	$ 237,581	$ 52,260	$ 224,364	$ 276,624	0.86
2004	493,682	235,765	257,917	70,630	221,208	291,838	0.88
2005	496,485	253,931	242,554	78,555	207,430	285,985	0.85
2006	480,673	267,387	213,286	79,125	199,419	278,544	0.77
2007	540,186	284,692	255,494	79,415	192,746	272,161	0.94
2008	565,139	295,849	269,290	75,510	214,839	290,349	0.93
2009	574,088	315,823	258,265	88,205	178,372	266,577	0.97
2010	597,429	305,995	291,434	97,715	190,490	288,205	1.01
2011	622,709	331,399	291,310	134,800	177,581	312,381	0.93
2012	701,025	369,376	331,649	135,760	189,696	325,456	1.02

(1) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the Airport Commission's 1991 Master Resolution which authorized the sale and issuance of these bonds.
(2) Operating revenues consist of Airport operating revenues and interest and investment income.
(3) In accordance with GASB Statement No. 44, Airport operating expenses related to the pledged revenues exclude interest, depreciation and amortization.

San Francisco Water Department [4]

Fiscal Year	Gross Revenues [5]	Less: Operating Expenses [6]	Adjustments[8]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	$ 181,275	$ 167,523	$ 89,747	$ 103,499	$ 11,789	$ 21,655	$ 33,444	3.09
2004	174,528	187,378	122,180	109,330	13,345	24,537	37,882	2.89
2005	189,928	176,453	83,078	96,553	14,055	23,939	37,994	2.54
2006	213,499	186,934	110,638	137,203	14,790	20,585	35,375	3.88
2007	241,078	202,498	112,101	150,681	16,160	48,955	65,115	2.31
2008	246,885	223,052	134,215	158,048	19,170	45,023	64,193	2.46
2009	272,869	248,315	125,203	149,757	25,520	44,065	69,585	2.15
2010	275,041	277,970	141,615	138,686	26,605	42,990	69,595	1.99
2011	305,678	261,927	126,126	169,877	27,795	58,759 [7]	86,554	1.96
2012	375,551	304,562	115,667	186,656	44,050	78,239 [7]	122,289	1.53

(4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(5) Gross Revenue consists of charges for services, rental income and other income, investing activities and capacity fees.
(6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest.
(7) Interest payment was restated to exclude capitalized interest in FY 2011 through FY 2012. FY2012 also includes a "springing" amendment.
(8) Adjustments column included adjustment to investing activities, depreciation & non-cash expenses, changes in working capital and other available funds presented in the published Annual Disclosure Reports.

Municipal Transportation Agency

Fiscal Year	Base Rental Payment and Gross Meter Revenue Charges [9]	Less: Operating Expenses [10][11]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	$ 15,633	$ 6,227	$ 9,406	$ 3,274	$ 2,312	$ 5,586	1.68
2004	25,604	10,430	15,174	4,943	2,854	7,797	1.95
2005	25,623	14,071	11,552	5,193	2,573	7,766	1.49
2006	31,116	14,960	16,156	5,471	2,317	7,788	2.07
2007	31,801	16,907	14,894	5,734	1,989	7,723	1.93
2008	33,091	18,038	15,053	6,017	1,747	7,764	1.94
2009	33,970	18,879	15,091	5,165	1,395	6,560	2.30
2010	39,538	19,018	20,520	2,680	1,149	3,829	5.36
2011	41,204	21,077	20,127	1,615	1,068	2,683	7.50
2012	47,810	19,419 [12]	28,391	1,685	995	2,680	10.59

(9) The Parking Authority leased North Beach, Moscone, and San Francisco General Hospital garages to the City. In return, the City pledged to pay off the debt service with its base (lease) rental payment. Gross Meter Revenue consists of revenues from all meters in San Francisco except the meters on Port and Airport properties.
(10) The annual budget for the Parking Program includes the Parking Authority that manages garages and the Parking Meter Program that maintains meters. The operating expense is the year-end total expenditures net of all debt service payments.
(11) Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses related to the pledged revenue stream do not include interest, depreciation and amortization expenses.
(12) $1.1M garage administration expenditure recovery was received from non-SFMTA garages and not-for-profit garages in FY2012.

CITY AND COUNTY OF SAN FRANCISCO

Pledged-Revenue Coverage – Last Ten Fiscal Years (Continued)
(In Thousands)

San Francisco Wastewater Enterprise [13]

Fiscal Year	Gross Revenues [14]	Less: Operating Expenses [15]	Adjustments [16]	Net Available Revenue [17]	Debt Service Principal	Debt Service Interest [17]	Debt Service Total [17]	Coverage [17]
2003	$ 134,745	$ 90,808	$ -	$ 43,937	$ 69,871	$ 15,820	$ 85,691	0.51
2004	138,842	129,916	57,461	66,387	-	20,233	20,233	3.28
2005	151,981	139,290	36,700	49,391	-	17,219	17,219	2.87
2006	170,517	140,954	35,788	65,351	-	17,219	17,219	3.80
2007	199,160	151,600	49,600	97,160	33,445	16,718	50,163	1.94
2008	206,648	165,245	66,109	107,512	34,500	15,698	50,198	2.14
2009	210,646	169,300	77,800	119,146	35,665	14,646	50,311	2.37
2010	211,899	185,512	86,880	113,267	37,130	13,183	50,313	2.25
2011	231,143	179,084	56,239	108,298	26,320	18,563 [18]	44,883	2.41
2012	247,130	195,857	107,125	158,398	22,010	20,180 [18]	42,190	3.75

(13) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(14) Gross revenue consists of charges for services, rental income and other income.
(15) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest.
(16) Adjustments includes Depreciation and Non-Cash Expense, Changes, in Working Capital, Investment Income, SRF Loan Payments, Other available Funds that are printed in published Annual Disclosure Reports.
(17) Restated to agree to the published Annual Disclosure Reports for FY 2004, 2005, 2007, 2008, 2009.
(18) Interest payment was restated to exclude capitalized interest in FY 2011 and FY 2012. FY2012 also includes a "springing" amendment.

Port of San Francisco [19]

Fiscal Year	Total Operating Revenues [20]	Less: Operating Expenses [21]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	$ 56,241	$ 50,103	$ 6,138	$ 3,405	$ 1,976	$ 5,381	1.14
2004	57,782	49,707	8,075	3,595	1,719	5,314	1.52
2005	59,217	43,786	15,431	3,920	1,012	4,932	3.13
2006	61,581	44,893	16,688	3,390	554	3,944	4.23
2007	65,416	50,887	14,529	3,975	453	4,428	3.28
2008	68,111	56,406	11,705	4,070	348	4,418	2.65
2009	68,722	57,574	11,148	4,185	222	4,407	2.53
2010	68,892	58,756	10,136	4,320	75	4,395	2.31
2011	73,774	51,788	21,986	485	2,358	2,843	7.73
2012	79,819	55,470	24,349	670	2,175	2,845	8.56

(19) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(20) Total revenues consist of operating revenues and interest and investment income.
(21) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indenture, also excludes amortized dredging costs.

Hetch Hetchy Water and Power [22] [23]

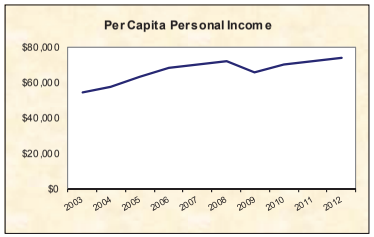
Fiscal Year	Gross Revenues [24]	Less: Operating Expenses [25]	Adjustments [26]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
2003	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
2004	-	-	-	-	-	-	-	
2005	-	-	-	-	-	-	-	
2006	-	-	-	-	-	-	-	
2007	-	-	-	-	-	-	-	
2008	-	-	-	-	-	-	-	
2009	97,671	49,337	4,907	53,241	422	-	422	126.16
2010	105,711	86,334	14,521	33,898	422	-	422	80.33
2011	113,253	86,266	14,786	41,773	422	-	422	98.99
2012	100,622	93,607	13,536	20,551	422	-	422	48.70

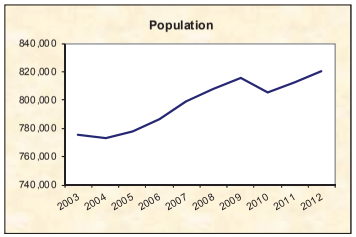
(22) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
(23) There were no Hetch Hetchy bonds from 2000 to 2008.
(24) Gross Revenue consists of charges for power services, rental income and other income.
(25) Operating Expenses only include power operating expense.
(26) Adjustments include adjustments to investment income, depreciation, non-cash items and changes to working capital.

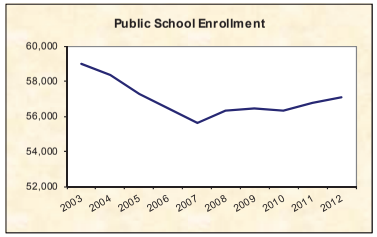
CITY AND COUNTY OF SAN FRANCISCO

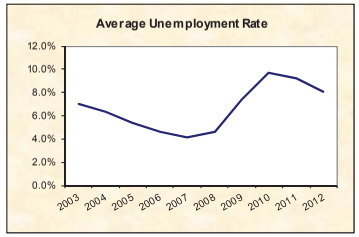
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population [1]	Personal Income (In Thousands) [2]	Per Capita Personal Income [2]	Median Age [3]	Public School Enrollment [4]	Average Unemployment Rate [5]
2003	775,046	$42,174,150	$54,415	38.3	59,015	7.0%
2004	773,284	44,820,235	57,961	39.2	58,323	6.3%
2005	777,660	49,085,123	63,119	39.4	57,276	5.4%
2006	786,149	53,902,906	68,566	39.4	56,459	4.6%
2007	799,185	56,306,703	70,455	40.0	55,590	4.1%
2008	808,001	58,199,006	72,028	40.4	56,315	4.6%
2009	815,358	56,037,063	68,727	38.5	56,454	7.4%
2010	805,235	56,665,228	70,371	38.5	56,299	9.7%
2011	812,826 [6]	58,619,926 [7]	72,119 [8]	37.3 [9]	56,758	9.2%
2012	820,466 [6]	60,747,034 [7]	74,040 [8]	37.9 [9]	57,105	8.1%









Source:
(1) US Census Bureau released on January 1, 2011. Fiscal year 2011 is updated from last year's CAFR with newly available data.
(2) US Bureau of Economic Analysis
(3) US Census Bureau, American Community Survey
(4) California Department of Education
(5) California Employment Development Department.

Notes:
(6) 2011 is updated from last year's CAFR with newly available data. 2012 population was estimated by multiplying the estimated 2011 population by the 2010 - 2011 population growth rate.
(7) Personal income was estimated by assuming that its percentage of state personal income in 2011 and 2012 remained at the 2010 level of 3.56 percent. Fiscal year 2011 is updated from last year's CAFR with newly available data.
(8) Per capita personal income for 2011 and 2012 was estimated by dividing the estimated personal income for 2011 and 2012 by the reported and estimated population in 2011 and 2012, respectively. Fiscal year 2011 is updated from last year's CAFR with newly available data.
(9) Median age in 2012 was estimated by averaging the median age in 2010 and 2011. 2011 is updated from last year's CAFR with newly available data

CITY AND COUNTY OF SAN FRANCISCO

Principal Employers
Current Year and Eight Years Ago

	Year 2011 (1)			Year 2003 (2)		
Employer	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City and County of San Francisco	24,805	1	5.30%	28,718	1	6.64%
University of California, San Francisco	22,493	2	4.81%	8,630	2	2.00
San Francisco Unified School District	9,157	3	1.96%	6,600	5	1.53
Wells Fargo & Co	8,329	4	1.78%	7,279	3	1.68
California Pacific Medical Center	6,200	5	1.33%	3,800	10	0.88
Gap, Inc	6,000	6	1.28%	-	-	-
State of California	4,429	7	0.95%	7,048	4	1.63
PG&E Corporation	4,340	8	0.93%	4,700	8	1.09
San Francisco State University	3,544	9	0.76%	-	-	-
Kaiser Permanente	3,537	10	0.76%	-	-	-
AT&T	-	-	-	5,200	7	1.20
Pacific Bell/SBC Communications	-	-	-	4,600	9	1.06
United States Postal Service	-	-	-	5,295	6	1.22
Total	92,834		19.86%	81,870		18.93%

Source:
Total City and County of San Francisco employee count is obtained from the State of California Employee Development Department. All other data is obtained from the San Francisco Business Times Book of Lists.

Note:
(1) The latest data as of calendar year-end 2011 is presented.
(2) Information for 2002 is not available.

CITY AND COUNTY OF SAN FRANCISCO

Full-Time Equivalent City Government Employees by Function (1)
Last Ten Fiscal Years

	Fiscal Year									
Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Protection										
Fire Department	1,899	1,835	1,752	1,706	1,665	1,726	1,602	1,532	1,512	1,474
Police	2,688	2,669	2,616	2,664	2,765	2,870	2,949	2,757	2,681	2,665
Sheriff	920	937	929	944	939	951	1,016	1,048	953	1,010
Other	982	954	930	958	978	1,019	996	981	969	956
Total Public Protection	6,489	6,395	6,227	6,272	6,347	6,566	6,563	6,318	6,115	6,105
Public Works, Transportation and Commerce										
Municipal Transportation Agency	4,569	4,518	4,386	4,232	4,374	4,358	4,528	4,358	4,160	4,141
Airport Commission	1,306	1,214	1,203	1,248	1,220	1,228	1,248	1,233	1,294	1,377
Department of Public Works	1,077	1,053	1,059	1,035	1,040	1,060	1,030	822	791	783
Public Utilities Commission	1,513	1,589	1,513	1,573	1,596	1,609	1,580	1,549	1,584	1,616
Other	546	507	505	532	538	543	565	490	508	536
Total Public Works, Transportation and Commerce	9,011	8,881	8,666	8,620	8,768	8,798	8,951	8,452	8,337	8,453
Community Health										
Public Health	6,309	6,093	5,928	5,956	5,988	6,196	6,023	5,838	5,696	5,671
Total Community Health	6,309	6,093	5,928	5,956	5,988	6,196	6,023	5,838	5,696	5,671
Human Welfare and Neighborhood Development										
Human Services	1,744	1,735	1,697	1,663	1,745	1,812	1,810	1,662	1,685	1,691
Other	316	317	312	306	313	312	309	296	284	269
Total Human Welfare and Neighborhood Development	2,060	2,052	2,009	1,969	2,058	2,124	2,119	1,958	1,969	1,960
Culture and Recreation										
Recreation and Park Commission	976	1,001	954	916	922	942	919	898	851	834
Public Library	613	617	616	606	631	641	649	649	645	628
War Memorial	95	95	96	95	96	96	97	63	63	63
Other	149	156	149	200	199	204	203	199	201	199
Total Culture and Recreation	1,833	1,869	1,815	1,817	1,848	1,883	1,868	1,809	1,760	1,724
General Administration and Finance										
Administrative Services	401	405	383	378	438	505	539	647	616	637
City Attorney	321	319	308	321	324	327	318	306	300	299
Telecommunications and Information Services	324	313	276	261	270	307	265	252	210	196
Controller	155	141	170	179	184	188	198	180	194	201
Human Resources	213	188	172	151	156	155	144	138	119	123
Treasurer/Tax Collector	185	192	197	199	208	208	212	220	211	208
Mayor	72	56	51	48	51	57	55	49	42	37
Other	466	466	454	491	520	571	547	554	540	567
Total General Administration and Finance	2,137	2,080	2,011	2,028	2,151	2,318	2,278	2,346	2,232	2,268
General City Responsibility	4	4	4	3	-	-	-	-	-	-
Subtotal annually funded positions	27,843	27,374	26,660	26,665	27,160	27,885	27,802	26,721	26,109	26,181
Capital project funded positions	1,875	1,567	1,597	1,588	1,628	1,750	1,519	1,928	1,885	1,892
Total annually funded positions	29,718	28,941	28,257	28,253	28,788	29,635	29,321	28,649	27,994	28,073

Source: Controller, City and County San Francisco

(1) Data represent budgeted and funded full-time equivalent positions.

CITY AND COUNTY OF SAN FRANCISCO

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Protection										
Fire and Emergency Communications										
Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile	N/A	8:09	7:59	8:01	8:04	7:36	7:06	7:10	7:19	7:18
Police										
Average time from dispatch to arrival on scene for highest priority calls (1)	2:45	2:58	3:07	3:09	3:15	4:08	3:49	3:33	4:07	4:15
Number of homicides per 100,000 population (2)	N/A	10.8	9.8	12.8	9.6	11.8	8.2	5.3	6.3	7.4
Percentage of San Franciscans who report feeling safe or very safe crossing the street (3)	45%	45%	51%	N/A	48%	N/A	56%	N/A	N/A	N/A
Public Works, Transportation, and Commerce										
General Services Agency - Public Works										
Percentage of San Franciscans who rate cleanliness of neighborhood streets as good or very good	N/A	52%	49%	N/A	49%	N/A	50%	N/A	52%	N/A
Number of blocks of City streets repaved	292	154	186	267	243	334	310	312	427	346
Municipal Transportation Agency										
Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good) (3)	3.21	3.20	3.13	N/A	2.84	N/A	2.98	N/A	3.55	3.02
Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points (4)	70.4%	68.8%	71.0%	69.2%	70.8%	70.6%	74.4%	73.5%	72.9%	61.9%
Percentage of scheduled service hours delivered (5)	96.5%	97.2%	95.3%	94.2%	94.3%	95.9%	96.9%	96.6%	96.2%	97.5%
Airport										
Percent change in air passenger volume	-5.9%	5.3%	5.5%	1.5%	2.8%	8.4%	-0.8%	4.8%	5.3%	8.0%
Human Welfare and Neighborhood Development										
Environment										
Percentage of total solid waste materials diverted in a calendar year	52%	63%	67%	67%	69%	70%	72%	77%	78%	80%
Culture and Recreation										
Recreation and Park										
Percentage of San Franciscans who rate the quality of the City's park grounds (landscaping) as good or very good (3)	67%	67%	60%	N/A	57%	N/A	65%	N/A	N/A	N/A
Citywide percentage of park maintenance standards met for all parks inspected	N/A	N/A	N/A	83%	86%	88%	89%	91%	90%	91%
Public Library										
Percentage of San Franciscans who rate the quality of library staff assistance as good or very good	79%	81%	76%	N/A	75%	N/A	79%	N/A	79%	N/A
Circulation of materials at San Francisco libraries	6,793,335	6,755,843	7,279,926	7,459,821	7,685,892	8,334,391	9,638,160	10,849,582	10,679,061	10,971,974
Asian and Fine Arts Museums										
Number of visitors to City-owned art museums (6)	727,437	763,242	696,271	1,546,617	1,879,868	1,739,096	2,693,469	2,599,322	2,426,861	1,779,573

Source: Controller, City and County of San Francisco

(1) Measure changed from median time to average time in FY 2008. Values for FY 2001 through FY 2007 reflect median time, FY 2008 reflects average time.
(2) Value for FY 2008 is based on a different source for population data than prior fiscal years. FY 2008 and FY 2010 have been restated.
(3) Value for FY 2005 has been restated to be consistent with City Survey data.
(4) Values for FY 2003 through FY 2005 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
(5) Values for FY 2003 and FY 2006 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
(6) The California Academy of Sciences opened on September 27, 2008.

N/A = Information is not available. Note that in most cases this is due to the fact that the City Survey, which was administered annually until 2005, then biennially afterwards, is the data source.

CITY AND COUNTY OF SAN FRANCISCO

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police protection (1)										
Number of stations	11	10	10	10	10	10	10	10	10	10
Number of police officers	2,388	2,170	2,180	2,070	2,304	2,455	2,356	2,261	2,288	2,243
Fire protection (2)										
Number of stations	45	45	45	48	42	42	42	42	46	46
Number of firefighters	1,795	1,690	1,675	1,333	1,012	978	809	768	778	718
Public works										
Mile of street (3)	1,252	1,050	1,050	1,051	1,051	1,291	1,318	1,317	1,317	1,315
Number of streetlights (4)	41,042	41,031	41,431	41,571	42,029	42,957	43,492	43,973	44,530	44,594
Water (4)										
Number of services	169,251	169,689	169,975	170,471	170,873	172,471	172,885	172,680	173,033	173,454
Average daily consumption (million gallons).	243.2	257.2	239.7	236.3	247.1	247.5	236.6	219.9	213.6	212.0
Mile of water mains	1,450	1,450	1,453	1,457	1,457	1,457	1,465	1,465	1,473	1,488
Sewers (4)										
Mile of collecting sewers	993	993	993	993	993	993	993	993	993	959
Mile of transport/storage sewers	15	15	15	15	15	17	17	17	17	17
Recreation and cultures										
Number of parks (5)	230	209	210	220	209	222	222	220	220	220
Number of libraries (6)	27	27	27	27	28	28	28	28	28	28
Number of library volumes (million) (6)	2.3	2.1	2.4	2.6	2.7	2.8	2.9	3.3	3.5	3.6
Public school education (7)										
Attendance centers	118	118	119	117	112	112	112	115	115	115
Number of classrooms	3,418	3,439	3,434	3,390	3,256	3,269	2,723	2,779	2,797	2,797
Number of teachers, full-time equivalent	3,362	3,138	3,171	3,103	3,103	3,113	3,167	3,312	3,132	3,245
Number of students	59,521	57,805	57,144	56,236	55,497	56,259	55,272	55,779	55,571	56,310

Sources:

(1) Police Commission, City and County of San Francisco
(2) Fire Commission, City and County of San Francisco
(3) Department of Public Works, City and County of San Francisco
(4) Public Utilities Commission, City and County of San Francisco
(5) Parks and Recreation Commission, City and County of San Francisco
(6) Library Commission, City and County of San Francisco
(7) San Francisco Unified School District

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Trust Agreement, the Project Lease and the Property Lease. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions. All capitalized terms not defined in the Official Statement have the meanings set forth in the Trust Agreement.

DEFINITIONS

"Additional Certificates" means any additional certificates of participation executed and delivered pursuant to the Trust Agreement.

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

"Base Rental" means the amounts specified as such in the Project Lease, as such amounts may be adjusted from time to time in accordance with the terms of the Project Lease, and any amounts as may be specified in a supplement to the Project Lease in connection with Additional Certificates, but does not include Additional Rental.

"Certificates" means the 2013 Certificates and all Additional Certificates under the Trust Agreement.

"Commission" shall mean the Port Commission of the City as duly constituted from time to time under the Charter of the City, and all commissions, agencies or public bodies which shall succeed to the powers, duties and obligations of the Commission.

"Defeasance Securities" means (i) Government Obligations and (ii) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or Government Obligations; (c) the principal of and interest on the Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the Government Obligations are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (f) the municipal obligations have the same ratings as Governmental Obligations.

"Facilities" means the improvements, structures and fixtures related thereto and located on the Site, together with all other works, property or structures located from time to time on the Site.

"Final Completion" or "Final Completion of the Facilities" means, with respect to the construction of any Facilities that are being financed with the proceeds of the 2013 Certificates or any Additional Certificates, the construction, the installation of improvements and the substantial readiness of the Facilities for use and occupancy by the City (subject to minor architectural finish items e.g., 'punch list' items) as evidenced by the delivery of a certificate of completion.

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

"Government Certificates" means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Government Obligations, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the Government Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in trust

in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Government Obligations" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon) if held by a custodian on behalf of the Trustee, obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, and prerefunded municipal obligations that have the same ratings as direct obligations of the United States of America.

"Leased Property" means the Site and the Facilities, as the same may be modified, substituted or supplemented in accordance with the terms of the Project Lease.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City and only to the extent that the same are acquired at Fair Market Value:

(a) Government Obligations or Government Certificates;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself and any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the full faith and credit of the United States of America;

(c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm-G or AAAm and by Moody's of Aaa;

(d) Certificates of deposit issued by a state or national bank or a state or federal savings and loan; provided that such certificates of deposit will be either (i) continuously and fully insured by the FDIC; or (ii) have a maturity of not greater than 365 days and have one of the two highest short-term letter and numerical ratings, at the time of purchase, of Moody's and S&P;

(e) Savings accounts or money market deposits that are fully insured by FDIC;

(f) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates;

(g) Commercial paper of "prime" quality rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States;

(h) Bonds or notes issued by any state or municipality which are rated, at the time of purchase, by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(i) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P; provided that the maturity cannot exceed 270 days;

(j) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of

New York and a member of SPIC, or with a dealer or parent holding company that is rated, at the time of purchase, A or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) herein, which, exclusive of accrued interest, will be maintained at least 100% of par. In addition, repurchase agreements will meet the following criteria: (i) the third party (who will not be the provider of the collateral) has possession of the repurchase securities and the Government Obligations or Government Certificates; (ii) failure to maintain the requisite collateral levels will require liquidation; and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities;

(k) Defeasance Securities described in clause (ii) of the definition thereof;

(l) Any other debt or fixed income security specified by the City (except securities of the City and any agency, department, commission or instrumentality thereof) and rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, including prerefunded municipal obligations;

(m) The Local Agency Investment Fund administered by the State of California; and

(n) Any investment, with confirmation from the Rating Agencies that the ratings on the Certificates will not be lowered as a result of such investment.

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

"Port Area" shall mean all real and personal property, which are owned, controlled or operated by the Commission or over which the Commission has management, supervision or control, or which the Commission deems to be of benefit to the Port Area.

"Port Indenture" means that certain Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee, as the same may be amended or supplemented pursuant to the terms thereof.

"Proceeds" means the sale proceeds of the 2013C Certificates, plus any investment earnings thereon.

"Project" means the capital improvements and related improvements and equipment to be financed with the 2013 Certificates, consisting of a cruise ship terminal and related facilities at Piers 27 and 29, repairs and improvements to the substructure of Pier 29, a shoreside power system located off of Pier 70, and the removal of seven PCB containing transformers, apron improvements at Pier 19, improvements to Pier 30 and 32, and apron and other public access improvements at other Port facilities, and any property, projects facilities financed with Additional Certificates, as the same may be amended, modified or supplemented in accordance with the Trust Agreement, and as more fully set forth in the Tax Certificate.

"Project Lease Term" means the term of the Project Lease as provided in Section 2 thereof. The Project Lease Term is scheduled to terminate on February 28, 2028, but may be extended as provided in the Project Lease.

"Project Lease Year" means the period from the Closing Date through February 28, 2014 and thereafter the period from March 1 to and including the following February 28 or 29, as applicable, during the Project Lease Term.

"Qualified Facility" means a dock or wharf and property that is functionally related and subordinate to a dock or wharf, including storage or training facilities directly related to the dock or wharf and physically located on or adjacent to the dock or wharf as described in Treasury Regulation section 1.103-8(3).

"Qualified Project Costs" means costs paid with respect to the portion of the Project financed with proceeds of the 2013C Certificates that meet each of the following requirements: (i) the costs are properly chargeable to capital account (or would be so chargeable with a proper election by the City or but for a proper election by the City to deduct such costs) in accordance with general federal income tax principles and in accordance with United States Treasury Regulations §1.103-8(a)(1), provided, however, that only such portion of interest accrued during

rehabilitation or construction of the portion of the Project financed with proceeds of the 2013C Certificates shall be eligible to be a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all costs of the portion of the Project financed with proceeds of the 2013C Certificates; and provided further that interest accruing after the date of completion of the portion of the Project financed with proceeds of the 2013C Certificates shall not be a Qualified Project Cost. Qualified Project Costs shall include only (A) the actual out-of-pocket costs incurred by such City in constructing or rehabilitating the portion of the Project financed with proceeds of the 2013C Certificates (or any portion thereof), (B) any reasonable fees for supervisory services actually rendered by the City; (ii) the costs are paid with respect to a qualified facility or facilities within the meaning of Section 142(c) of the Code, (iii) the costs are paid after the earlier of 60 days prior to the date of a declaration of "official intent" to reimburse costs paid with respect to the portion of the Project financed with proceeds of the 2013C Certificates (within the meaning of §1.150-2 of the United States Treasury Regulations) or the date of issue of the 2013C Certificates, and (iv) if the costs relating to the portion of the Project financed with proceeds of the 2013C Certificates were previously paid and are to be reimbursed with proceeds of the 2013C Certificates such costs were (A) costs of issuance of the 2013C Certificates, (B) preliminary capital expenditures (within the meaning of United States Treasury Regulations §1.150-2(f)(2)) with respect to the portion of the Project financed with proceeds of the 2013C Certificates (such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the portion of the Project financed with proceeds of the 2013C Certificates that do not exceed twenty percent (20%) of the issue price of the 2013C Certificates (as defined in United States Treasury Regulations §1.148-1), or (C) were capital expenditures with respect to the portion of the Project financed with proceeds of the 2013C Certificates that are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the portion of the Project financed with proceeds of the 2013C Certificates is placed in service (but no later than three (3) years after the expenditure is paid).

"Qualified Reimbursable Costs" means (i) expenditures paid for costs of issuance of the 2013C Certificates, (ii) preliminary capital expenditures (within the meaning of Treasury Regulation section 1.150-2(f)(2)) with respect to the Project, such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the Project that do not exceed 20% of the issue price of the 2013C Certificates, and (iii) capital expenditures that (A) were paid no earlier than 60 days before the date of the adoption (being May 8, 2012) by the City of a declaration of intent to reimburse such expenditures from the proceeds of obligations, and (B) are reimbursed no later than 18 months after the later of the date the expenditure was paid or the date the Project is placed in service (but no later than 3 years after the expenditure is paid).

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

"Reserve Requirement" means, with respect to each of the 2013B Certificates and the 2013C Certificates, as of any date of calculation, the least of (1) an amount equal to the maximum annual payments of principal and interest with respect to the 2013B Certificates and the 2013C Certificates, as applicable, (2) 125% of average annual payments of principal and interest with respect to the 2013B Certificates and the 2013C Certificates, as applicable, (3) 10% of the initial principal amount represented by the 2013B Certificates and the 2013C Certificates, as applicable. Notwithstanding the foregoing, the Reserve Requirement with respect to the 2013C Certificates shall, prior to March 1, 2014 not exceed $2,390,638.13, and shall, on and after March 1, 2034, not exceed $1,734,027.78. The Reserve Requirement for a series of Additional Certificates will be determined in a supplement to the Trust Agreement entered into in connection with such Additional Certificates. The Reserve Requirement may be applied separately for each future series of Certificates or on an aggregate basis if the Reserve Fund or any account therein secures more than one series of Certificates on a parity basis.

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

"Tax Certificate" means the Certificate as to Arbitrage dated the Closing Date and the Certificate Regarding Use of Proceeds dated the Closing Date, both executed by the City and as appropriate any Tax Certificate executed by the City in connection with Additional Certificates.

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

"2013 Certificates" means the 2013B Certificates and the 2013C Certificates.

"2013B Certificates" means the City and County of San Francisco Certificates of Participation, Series 2013B (Port Facilities Project) authorized hereby and at any time Outstanding under the Trust Agreement.

"2013B Project Account" means the account within the Project Fund established pursuant to the Trust Agreement in connection with the 2013B Certificates.

"2013B Reserve Account" means the account within the Reserve Fund established pursuant to the Trust Agreement in connection with the 2013B Certificates.

"2013B Certificates" means the City and County of San Francisco Certificates of Participation, Series 2013B (Port Facilities Project) authorized hereby and at any time Outstanding under the Trust Agreement.

"2013C Certificates" means the City and County of San Francisco Certificates of Participation, Series 2013C (Port Facilities Project) authorized hereby and at any time Outstanding under the Trust Agreement.

"2013C Project Account" means the account within the Project Fund established pursuant to the Trust Agreement in connection with the 2013C Certificates.

"2013C Reserve Account" means the account within the Reserve Fund established pursuant to the Trust Agreement in connection with the 2013C Certificates.

TRUST AGREEMENT

Although certain provisions of the Trust Agreement are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Authorization and Designation

The Trustee is authorized and directed under the Trust Agreement to execute and deliver the 2013 Certificates to the original purchaser or purchasers thereof. The Certificates evidence proportionate interests in the right to receive Base Rental payments under the Project Lease, as more particularly described therein, in the Trust Agreement and in the Certificates. The 2013B Certificates will be designated "City and County of San Francisco Certificates of Participation, Series 2013B (Port Facilities Project)" and the 2013C Certificates will be designated "City and County of San Francisco Certificates of Participation, Series 2013C (Port Facilities Project)."

Application of Insurance Proceeds

If the Leased Property or any portion thereof is damaged or destroyed, the City will make an election either to prepay Certificates or to repair or replace the Leased Property or affected portion thereof in accordance with the provisions of the Project Lease. Notwithstanding the provisions of the Project Lease, a City Representative will, within 180 days of the occurrence of the event of damage or destruction (unless such time period is extended at the option of the City), notify the Trustee in writing of its election. The proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Leased Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund (the "Special Fund") and made available for and, to the extent necessary, will be applied to the prepayment of Certificates in accordance with the Trust Agreement or applied to the cost of repair or replacement of the Leased Property or the affected portion thereof, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application,

such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any insurance, including the proceeds of any self-insurance, remaining after the Leased Property or any portion thereof which was damaged or destroyed is restored to and made available to the City in substantially the same condition and fair rental value as that which existed prior to the damage or destruction or the prepayment, or provision for the prepayment, of Certificates as required in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, will be applied as provided in the following two sentences. Such amounts will, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it will so notify the Trustee in writing, and then any excess amounts will be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Notwithstanding anything in the Project Lease to the contrary, in the event the proceeds of any insurance relate to Leased Property that is within the Port Area, either (i) such proceeds shall be applied to the cost of repair or replacement of the Leased Property or the affected portion thereof, (ii) the City shall, subject to the limitations set forth in Section 6.08 of the Port Indenture, acquire and/or construct a new facility that will be substituted as the Leased Property pursuant to Section 16 of the Project Lease, or (iii) the City will otherwise substitute another site and facility as the Leased Property under the Project Lease.

Eminent Domain

If the Leased Property or any portion thereof will be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) then the provisions set forth in the Project Lease pertaining to eminent domain will apply. Notwithstanding the provisions of the Project Lease, the City will, with the prior written consent of a City Representative, within 90 days of the conclusion of the eminent domain proceeding, notify the Trustee in writing of whether the Leased Property will be replaced or the Certificates prepaid. The proceeds of any condemnation award will as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund and made available for and, to the extent necessary, will be applied to prepay Certificates in accordance with the Trust Agreement or applied to the cost of replacement of the Leased Property, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed (and the Trustee may conclusively rely on the City Representative's directions with respect thereto).

The proceeds of any condemnation award remaining after the Leased Property has been replaced by property available to the City in substantially the same condition and fair rental value as that which existed prior to the eminent domain proceedings or the prepayment, or provision for the prepayment, in part, of Certificates as required under the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, will be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (proportionately among any Reserve Accounts in the Reserve Fund). Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence will, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property (including any replacement property) is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it will so notify the Trustee in writing, and then any excess amounts will be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City directs in writing that such amounts are to be transferred to the Rebate Fund.

Notwithstanding anything in the Project Lease to the contrary, in the event the proceeds of any eminent domain proceedings relate to Leased Property that is within the Port Area, either (i) such proceeds shall be applied

to the cost of repair or replacement of the Leased Property or the affected portion thereof, (ii) the City shall, subject to the limitations set forth in Section 6.08 of the Port Indenture, acquire and/or construct a new facility that will be substituted as the Leased Property pursuant to Section 16 of the Project Lease, or (iii) the City will otherwise substitute another site and facility as the Leased Property under the Project Lease.

Title Insurance

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

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental payable by the City under the Project Lease, upon written direction of the City such proceeds will be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence will, if there is first delivered to the Trustee a written certificate of a City Representative to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts will be transferred to the Base Rental Fund and used to prepay Certificates pursuant to the special mandatory prepayment provisions of the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

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

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

(d) In the event of any defect in title, the City shall have the option, but not the obligation, to additional Leased property or substitute Leased Property, but only in compliance with the applicable provisions of the Property Lease.

Amendments to Trust Agreement

The Trust Agreement may be amended in writing by agreement between the parties thereto, but no such amendment will become effective as to the Owners unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners upon the written agreement of a City Representative and the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Trust Agreement, (b) in regard to questions arising under the Trust Agreement which the City and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement and which will not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to preserve and maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates, (d) to qualify the Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect, (e) to execute and deliver Additional Certificates in accordance with the Trust Agreement, or (f) for any other reason, provided such modification or

amendment does not materially adversely affect the interests of the Owners of the Certificates then Outstanding; provided that the City and the Trustee may rely, in entering into any such amendment or modification thereof, upon the opinion of Independent Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

No amendment may impair the right of any Owner to receive principal and interest with respect to his or her Certificate without the consent of the affected Owner. No such amendment or supplement may (1) extend the payment date of any Certificate or reduce the rate of interest with respect thereto or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or any supplement to the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the section of the Trust Agreement pertaining to Amendments to the Trust Agreement, without the prior written consent of the Owners of all Certificates then Outstanding.

Amendments to Property Lease or Project Lease

The Property Lease or the Project Lease may be amended in writing by agreement between the parties thereto, with the written consent of the Trustee, but no such amendment will become effective as to the Owners of the Certificates Outstanding unless and until approved in writing by the Owners of not less than a majority of the aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Property Lease, the Project Lease and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners, upon the written agreement between the respective parties thereto, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Property Lease or the Project Lease, (b) in regard to questions arising under the Property Lease or the Project Lease, which the City or the Trustee deem necessary or desirable and not inconsistent with the terms thereof and which will not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to modify or amend the description of the Leased Property to release from the Property Lease or the Project Lease any portion thereof or to add or substitute other property and/or improvements for the Leased Property or any portion thereof in accordance with the Project Lease, (d) to execute and deliver Additional Certificates in accordance with the Trust Agreement, or (e) for any other reason, provided such modification or amendment does not materially adversely affect the interests of the affected Owners; provided that the City and the Trustee may request and rely, in entering into any such amendment or modification thereof or giving its consent thereto, upon the opinion of Independent Counsel (which opinion may rely upon the certificates or opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

Notwithstanding anything in the Trust Agreement to the contrary, no amendment to the Property Lease or the Project Lease for the purpose of adding, substituting or releasing property and/or improvements described in clause (c) above will be effective unless and until the City will have satisfied the requirements set forth in the Project Lease.

City to Perform Property Lease and Project Lease

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

Compliance with Trust Agreement

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

General

The City certifies, declares, recites and warrants that upon the date of execution and delivery of any of the Certificates, all conditions, acts and things required by law and the Trust Agreement to exist, to have happened and to have been performed precedent to the execution and delivery of the Project Lease do exist, have happened and have been performed in due time, form and manner as may be required by law, and that the City is now duly authorized to execute and deliver the Project Lease and the Certificates upon execution and delivery by the Trustee will be entitled to the benefit, protection and security of the provisions of the Trust Agreement and will comply in all respects with the applicable laws of the State.

Performance

The City will faithfully observe all covenants and other provisions contained in the Financing Documents to which it is a party.

Prosecution and Defense of Suits

The City will promptly take such action as may be necessary to cure any defect in the title to the Leased Property or any part thereof, whether now existing or hereafter occurring, and will prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

Further Assurances

The City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming to the Owners the rights and benefits provided in the Trust Agreement.

Continuing Disclosure

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

Tax Matters

Federal Guarantee Prohibition The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the obligations of the City under the Project Lease to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. The City will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates and the Project Lease.

No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of delivery of the Project Lease would have caused any of the obligations of the City under the Project Lease to be "arbitrage bonds" within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of delivery of the Project Lease.

Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Certificates for at least 3 years after the Certificates mature or are redeemed (whichever is earlier); however, if the Certificates are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Certificates.

Compliance with Tax Certificate. The City will comply with the provisions of the Tax Certificate with respect to the 2013 Certificates, which are incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. The tax covenants contained in the Trust Agreement will survive payment in full or defeasance of the 2013 Certificates.

Private Activity Bond Limitation. With respect to the 2013B Certificates, the City will assure that the proceeds of the 2013B Certificates are not so used as to cause the obligations of the City under that portion of the Project Lease relating to the 2013B Certificates to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Additional Covenants with respect to the 2013C Certificates. The following additional covenants shall apply only with respect to the 2013C Certificates and the portion of the Project financed with the Proceeds of the 2013C Certificates:

Qualified Bonds. The City will assure that the Proceeds of the 2013C Certificates are used in a manner such that the 2013C Certificates will satisfy the requirements of section 142(a)(2) of the Code (including the Treasury Regulations thereunder) relating to qualified docks and wharves, and the City will use that portion of the Project financed with the Proceeds of the 2013C Certificates in such a manner that it qualifies as a dock or wharf within the meaning of section 142(a)(2) of the Code for so long as the 2013C Certificates remain outstanding.

Public Use Requirement. The portion of the Project financed with the Proceeds of the 2013 Certificates will satisfy the public use requirement either (a) by being located in a public port or (b) by being available for use by members of the general public.

Governmental Ownership Requirement. The City covenant that the portion of the Project financed with proceeds of the 2013C Certificates will be owned by the City or by a governmental unit within the meaning of section 142(b)(1) of the Code. For this purpose, leased property is treated as owned by a governmental unit only if (A) the lessee irrevocably elects (which election is binding on the lessee and all successors under the lease) not to claim depreciation or investment credits for such property; (B) the lease term does not exceed 80 percent of the reasonably expected economic life of the property financed; and (C) any option to purchase is at a price equal to the fair market value at the time of exercise of the option.

Prohibited Private Business Uses. The City covenants that no proceeds of the 2013C Certificates will be used to finance the following facilities if such facilities are used for a private business use:

(i) lodging facilities;

(ii) retail facilities (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the port facility;

(iii) retail facilities (other than parking) located outside of the port terminal;

(iv) office buildings for use by individuals other than employees of a governmental unit or of the operating authority; and

(v) industrial parks or manufacturing facilities.

Costs of Issuance Limitation. The City covenants that no portion of the Proceeds of the 2013C Certificates will be used for costs of issuance of the 2013C Certificates in excess of an amount equal to 2% of the principal amount of the 2013C Certificates, less original issue discount (if any) on the 2013C Certificates, all within the meaning of section 147(g)(1) of the Code. For this purpose, if the fees of the original purchaser of the 2013C Certificates are retained as a discount on the purchase of the 2013C Certificates, such retention will be deemed to be an expenditure of Proceeds of the 2013C Certificates for said fees.

Limitation of Expenditure of Proceeds. The City covenants that not less than 95% of the net proceeds of the 2013C Certificates (within the meaning of section 150(a)(3) of the Code) will be paid for Qualified Project Costs.

Limitation on Land Acquisition. The City covenants that less than 25% of the Proceeds of the 2013C Certificates will be used, directly or indirectly, for the acquisition of land.

Existing Facilities Limit. The City covenants that no Proceeds of the 2013C Certificates will be used for the acquisition of any tangible property or an interest therein, other than land or an interest in land, unless the first use of such property is pursuant to such acquisition; provided, however, that this limitation will not apply with respect to any building (and the equipment therefor) if rehabilitation expenditures (as defined in section 147(d) of the Code) with respect to such building equal or exceed 15% of the portion of the cost of acquiring such building (and equipment) financed with Proceeds of the 2013C Certificates; and provided, further, that this limitation will not apply with respect to any structure other than a building if rehabilitation expenditures with respect to such structure equal or exceed 100% of the portion of the cost of acquiring such structure financed with the Proceeds of the 2013C Certificates.

Certain Uses Prohibited. The City covenants that no Proceeds of the 2013C Certificates will be used directly or indirectly to provide any airplane, skybox or other private luxury box, health club facility, facility used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

Limitation on Office Space. The City covenants that no Proceeds of the 2013C Certificates will be used to finance office space unless the office is located on the premises of that portion of the Project financed with the Proceeds of the 2013C Certificates and not more than a *de minimis* amount of the functions to be performed at such office is not directly related to the day-to-day operations at that portion of the Project financed with the Proceeds of the 2013C Certificates.

Public Use Requirement. The Project financed with the Proceeds of the 2013C Certificates will satisfy the public use requirement either (a) by being located in a public port and directly serving members of the general public or serving common carriers serving members of the general public or (b) by being available for use by members of the general public.

Taxable Certificates. Any Additional Certificates representing interest that is included in gross income for federal income tax purposes will not be governed by the tax covenants summarized above. Additional Certificates representing interest that is included in gross income for federal income tax purposes will be governed by the provisions of a supplement to the Trust Agreement.

Events of Default

Any one or more of the following events are an "Event of Default" under the Trust Agreement: the City defaults under the Project Lease by failing to deposit with the Trustee any Base Rental payment required to be so deposited by the related Interest Payment Date; or the City breaches any other provision of the Project Lease or fails to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Trust Agreement, other than such failure as may constitute an Event of Default under the Trust Agreement pertaining to the failure to pay Base Rental, for a period of 60 days after written notice, specifying such failure and requesting that

it be remedied, has been given to the City by the Trustee or to the City and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding, provided, that failure to comply with the Continuing Disclosure Certificate will not constitute an Event of Default under the Trust Agreement; provided, further, however, if the failure stated in the notice cannot be corrected within such 60-day period, then such period will be extended so long as corrective action is instituted by the City within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner.

Remedies on Default

Upon the occurrence and continuance of any Event of Default specified in the Trust Agreement, pertaining to the failure to deposit with the Trustee any Base Rental payment required to be so deposited, the Trustee will proceed, or upon the occurrence and continuance of any other Event of Default under the Trust Agreement, the Trustee may proceed (and upon written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding, and after being indemnified to its satisfaction, will proceed) to exercise the remedies set forth in the Project Lease to the extent an Event of Default has occurred under the Project Lease.

Notice of Events of Default

If an Event of Default occurs under the Trust Agreement, the Trustee will give notice, at the expense of the City of such Event of Default to the Owners. Such notice will state that an Event of Default has occurred and will provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Owners. The notice provided for in the Trust Agreement will be given by first-class mail, postage prepaid, to the Owners within 30 days of the Trustee's receipt of knowledge of the occurrence of such Event of Default.

No Remedy Exclusive

No remedy conferred upon or reserved to the Trustee under the Trust Agreement is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it will not be necessary to give any notice other than such notice as may be required in the Trust Agreement or by law.

Waiver; No Additional Waiver Implied by One Waiver

The Trustee may in its discretion waive any Event of Default and its consequences and will also do so upon the written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding; provided, however, that no default in the payment of the principal, premium, if any, or interest with respect to any Certificate will be waived unless prior to such waiver, all arrears of such payments have been made and all fees and expenses of the Trustee have been paid. In case of any such waiver, the Trustee, the City and the Owners will be restored to their former positions and rights under the Trust Agreement, respectively, but such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Trust Agreement.

Action by Owners

In the event the Trustee fails to take any action to eliminate an Event of Default under the Trust Agreement, the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding may institute suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Trust Agreement, but only if such Owners will have first made written request of the Trustee after the right to exercise such powers or right of action will have arisen, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee will have been offered security and indemnity

satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will have refused or neglected to comply with such request within a reasonable time.

Notwithstanding any other provision in the Trust Agreement, the right of any Owner to receive principal and interest in accordance with the terms of his or her Certificate or to institute suit for the enforcement of any such payment on or after such payments become due will not be impaired or affected without the consent of such Owner.

Application of Proceeds in Event of Default

Except to the extent necessary to compensate the Trustee for its reasonable fees and expenses (including reasonable attorneys' fees and expenses) and to pay all principal of and interest then due and unpaid with respect to all Outstanding Certificates, all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Trust Agreement or the Project Lease will be deposited by the Trustee into the Base Rental Fund and used first to pay interest with respect to the Certificates and then to pay the principal with respect to the Certificates. If the amount deposited into the Base Rental Fund is not sufficient to pay all overdue interest payments, the amounts deposited will be distributed pro rata to Owners on the basis of the amount of interest due and unpaid to such Owners. If the amount deposited into the Base Rental Fund is not sufficient to pay all overdue payments of principal, the amounts deposited will be distributed pro rata to Owners on the basis of the amount of principal due and unpaid to such Owners.

To the extent not required to be deposited into the Base Rental Fund pursuant to the immediately preceding paragraph, all damages or other payments received by the Trustee from the enforcement of any rights and powers under the Trust Agreement will be applied as follows in the order of priority indicated: (i) deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement; and (ii) any remaining amounts will deposited into and retained in the Base Rental Fund for application to the payments due with respect to the Certificates on the next succeeding payment dates thereof.

THE PROJECT LEASE

Although certain provisions of the Project Lease are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Project Lease.

Rental Payments

The City agrees, subject to the terms of the Project Lease, to pay to the Trustee the Base Rental and to pay to the parties entitled thereto Additional Rental in an aggregate amount not greater than the fair rental value of the Leased Property in each Project Lease Year. In satisfaction of its obligations under the Project Lease, the City will pay the Base Rental and Additional Rental in the amounts, at the times and in the manner set forth in the Project Lease, such amounts constituting the aggregate rent payable under the Project Lease.

Budget

The City covenants under the Project Lease to take such action as may be necessary to include all Rental Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Rental Payments, subject to the rental abatement provisions of the Project Lease. The requirement to include the Rental Payments in the annual budget and to make the necessary appropriations therefor are deemed to be, and will be construed as, ministerial duties imposed by law. Notwithstanding the foregoing, the obligation of the City to make Base Rental or Additional Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Payment; Credit

Amounts necessary to pay Base Rental will be deposited by the City on the dates set forth in the Project Lease, in lawful money of the United States of America, at the Principal Office of the Trustee, or at such other place or places as may be established in accordance with the Trust Agreement. Except as provided in the provisions of the Project Lease regarding rental abatement, any amount necessary to pay any Base Rental or portion thereof that is not so deposited will remain due and payable until received by the Trustee. Notwithstanding any dispute between the City and the Trustee under the Project Lease, the City will make all Rental Payments when due and will not withhold any Rental Payments pending the final resolution of such dispute or for any reason whatsoever. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified under the Project Lease will be absolute and unconditional without any right of set-off or counterclaim, and without abatement, subject only to the applicable provisions of the Project Lease. Amounts required to be deposited with the Trustee pursuant to the Project Lease on any date set forth in the Project Lease will be reduced as permitted in the Project Lease.

Rental Abatement

Except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for payments in respect of the Project Lease or to the Trustee for payments in respect of the Certificates, Rental Payments due under the Project Lease will be subject to abatement in accordance with the Project Lease during any period in which, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or any portion thereof, there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City. The amount of annual rental abatement will be such that the resulting Rental Payments in any Project Lease Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement will continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect. In the event of any such damage, destruction, condemnation or title defect, the Project Lease will continue in full force and effect, except as set forth in the Project Lease under sections pertaining to eminent domain and application of insurance proceeds. Notwithstanding the foregoing, the City in its sole discretion may in lieu of abatement elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the Project.

Triple Net Lease

The Project Lease is intended to be a triple net lease. The City agrees that the Rental Payments provided for therein will be an absolute net return to the Trustee free and clear of any expenses, charges or set-offs whatsoever.

Insurance

The City will maintain or cause to be maintained, throughout the Project Lease Term (but during the period of construction of any Facilities financed with the proceeds of any Additional Certificates only the insurance described in paragraphs (i) and (vi) below will be required with respect to such Facilities and Additional Certificates and may be provided by the contractor under the construction contract for such Facilities):

(i) General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Leased Property. Such liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City.

(ii) All risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates (to the extent commercially available). Said insurance will, as nearly as practicable, cover loss or damage by fire, lightning, explosion,

windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

(iii) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates; provided that no such earthquake insurance will be required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies.

(iv) Rental interruption insurance with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least 24 months (such amount to be adjusted annually on or prior to September 1 of each year, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months), to insure against loss of rental income from the Leased Property caused by perils covered by the insurance required by clauses (ii) and (iii) above. Such insurance will not be subject to any deductible.

(v) Boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment.

(vi) In the case of construction of any Facilities financed with the proceeds of Additional Certificates, builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Additional Certificates, or the replacement cost of such Facilities, which insurance will be outstanding until Final Completion of such Facilities.

Notwithstanding anything in the Project Lease to the contrary, the City will have the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under the Project Lease, including a program of self-insurance (other than rental interruption insurance and title insurance), in whole or in part.

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

Eminent Domain

If the Leased Property, or so much thereof as to render the remainder of the Leased Property unusable for the City's purposes under the Project Lease, will be taken under the power of eminent domain, then the Project Lease will terminate as of the later of the day possession will be so taken and the date of entry of the interlocutory judgment and in either case, after payment of any Additional Rental owed thereunder. Notwithstanding the foregoing, the City may, at its option, but is not obligated to apply the proceeds relating to the condemnation to the replacement of the condemned Leased Property, and in the event there has been an abatement of Rental Payments pursuant to the Project Lease, then Rental Payments will again begin to accrue with respect thereto upon replacement of the Leased Property.

If less than a substantial portion of the Leased Property will be taken under the power of eminent domain, and the remainder is useable for the City's purposes, then the Project Lease will continue in full force and effect as to the remaining portions of the Leased Property, subject only to such rental abatement as is required by the Project Lease. The City and the Trustee waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking will be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If the City elects, pursuant to the Trust Agreement, to apply such proceeds to the repair or replacement of the condemned portion of the Leased Property, and in the event there has been an abatement of Rental Payments pursuant to the Project Lease, then Rental Payments will again begin to accrue with respect thereto upon the completion of repair or replacement of such portion of the Leased Property.

Assignment

The City will not sell, mortgage, pledge, assign or transfer any interest of the City in the Project Lease or in the Leased Property by voluntary act or by operation of law, or otherwise; provided, however, that the City may grant concessions (including by sublease) to others involving the use of any portion of the Leased Property whether or not such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Property. Any such concession will be, and will specifically state that it is, subject and subordinate in all respects to the Project Lease. Subject to the limitations set forth in the Project Lease, the City will at all times remain liable for the performance of the covenants and conditions on its part to be performed under the Project Lease, notwithstanding any granting of concessions which may be made. Nothing contained in the Project Lease will be construed to relieve the City of its primary obligation to pay Rental Payments as provided in the Project Lease or to relieve the City of any other obligations contained therein. In no event will the City sublease to or permit the use of all or any part of the Leased Property by any person so as to cause the interest component with respect to the Certificates to be includable in gross income for federal income tax purposes or to be subject to State personal income tax.

The City expressly approves and consents to the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Project Lease, including the right to receive Base Rental Payments thereunder.

Right of Entry

Representatives of the Trustee will, subject to reasonable security precautions, have the right (but not the duty) to enter upon the Leased Property during reasonable business hours (and in emergencies at all times) (i) to inspect the same, (ii) for any purpose connected with the rights or obligations of the Trustee under the Project Lease, or (iii) for all other lawful purposes.

Quiet Enjoyment

The Trustee covenants and agrees that the City, upon keeping and performing the covenants and agreements contained in the Project Lease, will, at all times during the Project Lease Term, peaceably and quietly have, hold, and enjoy the Leased Property.

Events of Default

The following will be events of default under the Project Lease: (i) the City fails to deposit with the Trustee any Base Rental payment required to be so deposited pursuant to the applicable Project Lease provisions by the related Interest Payment Date; (ii) the City fails to pay any item of Additional Rental as and when the same will become due and payable pursuant to the Project Lease, or (iii) the City breaches any other terms, covenants or conditions contained in the Project Lease, in the Property Lease or in the Trust Agreement, and will fail to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee, or its assignee to the City, or, if such breach cannot be remedied within such 60-day period, will fail to institute corrective action within such 60-day period and diligently pursue the same to completion; provided, however, that failure to comply with the Continuing Disclosure Certificate will not constitute an event of default under the Project Lease.

Remedies on Default

The Trustee will have the right, at its option or upon receiving the direction of the majority of the Owners in aggregate principal amount of the Certificates, without any further demand or notice (to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due under the Project Lease pursuant to Section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity, other than by terminating the Project Lease or reentering and reletting the Lease Property, or except as expressly provided therein. The Trustee or any assignee of the rights of the Trustee thereunder will not exercise its remedies thereunder so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or the interest with respect to the Certificates to be subject to State personal income tax; provided that the Trustee or any assignee may rely upon an opinion of Independent Counsel in determining the

impact of remedies on such tax matters. Notwithstanding any other provision of the Project Lease or the Trust Agreement, in no event will the Trustee have the right to accelerate the payment of any Base Rental under the Project Lease.

Each and every remedy of the Trustee or any assignee of the rights of the Trustee under the Project Lease is cumulative and the exercise of one remedy will not impair the right of the Trustee or its assignee to any or all other remedies. If any statute or rule validly will limit the remedies given to the Trustee or any assignee of the rights of the Trustee, the Trustee or its assignee nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law.

All damages and other payments received by the Trustee pursuant to the provisions of the Project Lease pertaining to default will be applied in the manner set forth in the Trust Agreement.

Addition, Release and Substitution

(a) If no Project Lease Event of Default has occurred and is continuing thereunder, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City will have delivered to the Trustee and to the Rating Agencies all of the following:

(i) Executed copy of the Project Lease and, if applicable, the Property Lease or amendments thereto containing the amended legal description of the Leased Property;

(ii) Evidence that a copy of the Project Lease and, if applicable, the Property Lease or amendments thereto containing the amended legal description of the Leased Property have been duly recorded in the official records of the Recorder of the City and County of San Francisco;

(iii) A certificate of a City Representative stating that the annual fair rental value of the Leased Property and/or improvements that will constitute the Leased Property after such addition, release or substitution will be at least equal to 100% of the maximum amount of Base Rental payments becoming due in the then current Project Lease Year or in any subsequent Project Lease Year;

(iv) In the case of the addition or substitution of property for the then existing Leased Property, a title policy or policies meeting the requirements of the Project Lease, or a commitment or commitments for such policies or amendments or endorsements to existing policies resulting in the issuance of a title insurance policy with respect to the Leased Property after such addition or substitution in an amount at least equal to the amount of such insurance provided with respect to the Leased Property prior to such addition or substitution. Each such insurance instrument, when issued, will insure such added or substituted project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted project and as will not result in an abatement of Base Rental payments payable by the City under the Project Lease;

(v) A certificate of a City Representative stating that such addition, release or substitution does not materially adversely affect the ability of the City to perform its obligations under the Project Lease or the Property Lease;

(vi) (A) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Constitution and laws of the State and by the Project Lease, the Property Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Project Lease, the Property Lease and the Trust Agreement; and (3) will, upon the execution and delivery thereof, be valid and binding upon the Trustee and the City in accordance with its terms; and (B) an opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax

purposes or the interest component of the Base Rental payments relating to the Certificates to be subject to State personal income tax;

(vii) A certificate of a City Representative stating that the useful life of the project that will constitute the Leased Property after such addition, release or substitution meets or exceeds the remaining term of the Certificates; and

(viii) A certificate of the Director of Property stating the useful life of the project that will constitute the Leased Property after such addition, release or substitution and that such project is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such project in the manner intended by the City).

(b) Notwithstanding any other provision of the Project Lease, including subsection (a) above, or any provision of the Trust Agreement, upon Final Completion of the Cruise Ship Terminal located at Pier 27, the City shall have the absolute right to make the Cruise Ship Terminal located at Pier 27 and its related site, as described in Exhibit A hereto, the only Leased Property subject to the Project Lease and the Property Lease, and to release from the Project Lease and the Property Lease the other portion of the Leased Property, being a portion of the campus of Laguna Honda Hospital, without meeting the conditions set forth in subsections (a)(iii) through (viii) above. The Trustee agrees to execute any amendments to the Property Lease and the Project Lease in order to effectuate such release. Subsequent to the execution and recordation of such an amendment to the Project Lease, references to the Leased Property in the Project Lease shall be deemed to include only the Cruise Ship Terminal located at Pier 27 and the related site, and shall not be deemed to include the other portion of the initial Leased Property, being a portion of the campus of Laguna Honda Hospital, so released.

THE PROPERTY LEASE

Although certain provisions of the Property Lease are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Property Lease.

Lease of Leased Property

The City leases to the Trustee the real property located in the City and County of San Francisco, California and described in Exhibit A attached to the Property Lease (the "Site"), together with all buildings and improvements then situated or thereafter constructed thereon (collectively, the "Leased Property"), subject (i) to the terms thereof and (ii) to Permitted Encumbrances.

Assignment and Project Lease

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

The City expressly approves and consents to the Project Lease and the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Project Lease, including the right to receive Base Rental Payments payable thereunder.

Right of Entry

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

Quiet Enjoyment

The Trustee at all times during the term of the Property Lease will peaceably and quietly have, hold and enjoy all of the Leased Property.

Default

In the event that the Trustee or its assignee will be in default in the performance of any obligation on its part to be performed under the terms of the Property Lease, the City may exercise any and all remedies granted by law, except that no merger of the Property Lease and of the Project Lease will be deemed to occur as a result thereof; provided, however, that the City will have no power to terminate the Property Lease by reason of any default on the part of the Trustee or its assignee so long as any Certificate is Outstanding. So long as any such assignee of the Trustee or any successor in interest to the Trustee will duly perform the terms and conditions of the Property Lease, such assignee will be deemed to be and will become the tenant of the City under the Property Lease and will be entitled to all of the rights and privileges granted under any such assignment.

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

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$37,700,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION

$4,830,000	**$32,870,000**
SERIES 2013B	**SERIES 2013C**
(Port Facilities Project)	**(Port Facilities Project)**
(Non-AMT)	**(AMT)**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the delivery of the certificates of participation captioned above (the "Certificates"). The Certificates are issued pursuant to that certain Trust Agreement (the "Trust Agreement"), dated as of October 1, 2013, between the City and U.S. Bank National Association, as trustee (the "Trust Agreement"). Pursuant to Section 8.10 of the Trust Agreement and Section 4.8 of that certain Project Lease dated as of October 1, 2013, by and between the Trustee and the City, the City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters (defined below) in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms will have the following meanings:

"Annual Report" will mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" will mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Certificates or to dispose of ownership of any Certificates; or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Dissemination Agent" will mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" will mean either the registered owners of the Certificates, or, if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" will mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" will mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made

through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at *http://emma.msrb.org.*

"Participating Underwriter" will mean any of the original underwriters or purchasers of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Rule" will mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City will, or will cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2012-13 Fiscal Year (which is due not later than March 27, 2014), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City will provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City will submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City will send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent will (if the Dissemination Agent is other than the City), file a report with the City certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

SECTION 4. Content of Annual Reports. The City's Annual Report will contain or incorporate by reference the following information, as required by the Rule:

(a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;

(b) a summary of budgeted general fund revenues and appropriations;

(c) a summary of the assessed valuation of taxable property in the City;

(d) a summary of the ad valorem property tax levy and delinquency rate;

(e) a summary of aggregate annual scheduled lease payments or rental obligations with respect to outstanding certificates of participation and lease revenue bonds payable from the general fund of the City.

(f) a summary of outstanding and authorized but unissued general fund lease obligations, certificates of participation, and other long-term obligations payable from the general fund of the City.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates:

(1) Principal and interest payment delinquencies;
(2) Nonpayment related defaults, if material;
(3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
(7) Modifications to the rights of Certificate holders, if material;
(8) Certificate calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
(13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
(14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate will terminate upon the legal defeasance, prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final Certificate Payment Date of the Certificates, the City will give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent will have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the Certificates or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City will describe such amendment in the next Annual Report, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate will be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Remedies. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, 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, and that the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate will inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and will create no rights in any other person or entity.

SECTION 12. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Date: October 31, 2013.

CITY AND COUNTY OF SAN FRANCISCO

_____
Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of City:	CITY AND COUNTY OF SAN FRANCISCO
Name of Issue:	CITY AND COUNTY OF SAN FRANCISCO CERTIFICATES OF PARTICIPATION SERIES 2013B AND SERIES 2013C (PORT FACILITIES PROJECT)
Date of Delivery:	October 31, 2013

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated the Date of Delivery. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____[to be signed only if filed]_____
Title: _____

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

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1-11 of this Appendix E, concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the certificates (as used in this Section, the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates

representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX F

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINIONS

October __, 2013

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102-4682

OPINION: $4,830,000 City and County of San Francisco
Certificates of Participation Series 2013B (Port Facilities Project)

and

$32,780,000 City and County of San Francisco
Certificates of Participation Series 2013C (Port Facilities Project)

Ladies and Gentlemen:

We have acted as co-special counsel to the City and County of San Francisco (the "City") in connection with the delivery by the City of the Project Lease, dated as of October 1, 2013 (the "Project Lease") between U.S. Bank National Association, as trustee under the hereinafter defined Trust Agreement (the "Trustee"), as lessor, and the City, as lessee. Under the Trust Agreement dated as of October 1, 2013 (the "Trust Agreement") between the City and the Trustee, the Trustee has executed and delivered $4,830,000 City and County of San Francisco Certificates of Participation Series 2013B (Port Facilities Project) (the "Series 2013B Certificates") and $32,870,000 City and County of San Francisco Certificates of Participation Series 2013C (Port Facilities Project) (the "Series 2013C Certificates" and, together with the Series 2013B Certificate, the "Certificates"), both dated October __, 2013. In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Certificates evidence the direct, undivided fractional interests of the owners thereof in base rental payments to be made by the City under the Project Lease (the "Base Rental Payments") to the Trustee. The City authorized execution and delivery of the Project Lease, the Trust Agreement and the Certificates pursuant to a resolution of the Board of Supervisors adopted on May 1, 2012 and duly approved by the Mayor of the City on May 8, 2012, and a resolution of the Board of Supervisors adopted on July 30, 2013 and duly approved by the Mayor of the City on August 7, 2013 (collectively, the "Resolution"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the City contained in the Project Lease, the Property Lease (as such term is defined in the Trust Agreement) and the Trust Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is duly created and validly existing as a charter city and county with the power to adopt the Resolution, to enter into the Project Lease and the Trust Agreement and to perform the agreements on its part contained therein.

2. The Project Lease, the Property Lease and the Trust Agreement have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the Trustee, and the Project Lease, the Property Lease and the Trust Agreement constitute the valid and binding obligations of the City, enforceable against the City in accordance with their terms.

3. Subject to the terms and provisions of the Project Lease, the Base Rental Payments are payable from all legally available funds of the City. By virtue of the Trust Agreement, the owners of the Certificates are entitled to receive their proportionate share of the Base Rental Payments in accordance with the provisions of the Trust Agreement.

4. The portion of the Base Rental Payments designated as and comprising interest and received by the owners of the Series 2013B Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the delivery of the Project Lease in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the Series 2013B Certificates in gross income for federal income tax purposes to be retroactive to the date of delivery of the Project Lease. We express no opinion regarding other federal tax consequences arising with respect to the Project Lease and the Series 2013B Certificates.

5. The portion of the Base Rental Payments designated as and comprising interest and received by the owners of the Series 2013C Certificates is excluded from gross income for federal income tax purposes, except for any period during which the Series 2013C Certificates are held by a "substantial user" of the facilities financed by the said Series 2013C Certificates or a "related person" within the meaning of section 147(a) of the Internal Revenue Code of 1986 (the "Code"). It should be noted, however, that, such interest is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Project Lease in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the Series 2013C Certificates in gross income for federal income tax purposes to be retroactive to the date of delivery of the Project Lease. We express no opinion regarding other federal tax consequences arising with respect to the Project Lease and the Series 2013C Certificates.

6. The portion of the Base Rental Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Certificates and the enforceability of the Project Lease, the Property Lease and the Trust Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted

APPENDIX G

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY

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

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE TREASURER & TAX COLLECTOR

INVESTMENT POLICY

Effective October 2012

1.0 Policy

It is the policy of the Office of the Treasurer & Tax Collector of the City and County of San Francisco (Treasurer's Office) to invest public funds in a manner which will preserve capital, meet the daily cash flow demands of the City, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to all funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management.

3.0 Prudence

The standard of prudence to be used by the Treasurer's Office shall be the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 and 27000.3. The Section reads as follows: The Prudent Investor Standard states that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Treasurer's Office, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Treasurer's Office.

This standard of prudence shall be applied in the context of managing those investments that fall under the Treasurer's direct control. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

The primary objectives, in priority order, of the Treasurer's Office's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the Treasurer's Office shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, the Treasurer's Office will diversify its investments.

4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet cash flow needs which might be reasonably anticipated.

4.3 Return on Investments: The portfolio shall be designed with the objective of generating a market rate of return without undue compromise of the first two objectives.

5.0 Delegation of Authority

The Treasurer of the City and County of San Francisco (Treasurer) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 1. Any modification made by the Treasurer to this Investment Policy shall be ratified by the County Treasury Oversight Committee within five working days to stay in effect.

6.0 Authorized Broker/Dealer Firms

The City seeks to employ a fair and unbiased broker-dealer selection process, which culminates in an array of medium to large-sized firms that provide the best investment opportunities and service to the City.

The Treasurer's Office will evaluate and classify broker-dealers based on the qualifications of the firm and firm's assigned individual. Approved broker-dealers will be evaluated and may be classified into one of the following categories:

FULL ACCESS – Broker-dealers will have significant opportunity to present investment ideas to the investment team.

LIMITED ACCESS – Broker-dealers will have limited opportunity to present investment ideas to the investment team.

All others may apply for Provisional status appointment. Provisional appointments will be made for:

(1) Applicants who have changed firms;
(2) Applicants (firm and individual) who were not approved by the Treasurer's Office in the past year; and
(3) Broker-dealers who have been classified as Limited Access, but are seeking Full Access status.

Broker-dealers, who are granted Provisional status, will be treated as Full Access firms for a limited time period of up to six months. During the Provisional status period, the investment team will evaluate the applicant and provide a determination of status (Full Access, Limited Access or Not Approved). Broker-dealers may reapply for Provisional status every two years. A limited number of broker-dealers will be granted Provisional status concurrently.

All broker-dealers are encouraged to apply for consideration. All applicants will be evaluated and classified based on the qualifications of the firm and the firm's assigned individual. A score will be assigned to each applicant and will serve as the sole determinant for Full Access, Limited Access, or Not-Approved status.

All approved broker-dealers will be re-assessed annually. During the reassessment period, broker-dealers will be sent the City's most recent Investment Policy and are expected to respond with a policy acknowledgement letter, updated profile information and a completed questionnaire.

All securities shall be purchased and sold in a competitive environment.

The Treasurer's Office will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices.

7.0 Authorized & Suitable Investments

Investments will be made pursuant to the California Government Code (including Section 53601 et seq.) and this investment policy to ensure sufficient liquidity to meet all anticipated disbursements.

Unless otherwise noted, the maximum maturity from the trade settlement date can be no longer than five years.

Types of investment vehicles not authorized by this investment policy are prohibited.

In an effort to limit credit exposure, the Treasurer's Office will maintain Eligible Issuer, Eligible Counterparty and Eligible Money Market lists for security types where appropriate. These lists are intended to guide investment decisions. Investments, at time of purchase, are limited solely to issuers, counterparties and money market funds listed; however, investment staff may choose to implement further restrictions at any time.

The Treasurer's Office shall establish a Credit Committee comprised of the Treasurer, Chief Assistant Treasurer, Chief Investment Officer and additional investment personnel at the Treasurer's discretion. The Committee shall review and approve all eligible issuers and counterparties prior to inclusion on the aforementioned Eligible Issuer and Eligible Counterparty lists. The Committee shall also be charged with determining the collateral securing the City's repurchase agreements.

In the event of a downgrade of the issuer's credit rating below the stated requirements herein, the Credit Committee shall convene and determine the appropriate action.

In addition, the Treasurer's Office shall conduct an independent credit review, or shall cause an independent credit review to be conducted, of the collateralized CD issuers to determine the creditworthiness of the financial institution. The credit review shall include an evaluation of the issuer's financial strength, experience, and capitalization, including, but not limited to leverage and capital ratios relative to benchmark and regulatory standards (See Section 7.4).

The following policy shall govern unless a variance is specifically authorized by the Treasurer and ratified by the Treasury Oversight Committee pursuant to Section 5.0.

7.1 U.S. Treasuries

United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
100% of the portfolio value	100%	100%	5 years

7.2 Federal Agencies

Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
85% of the portfolio value	100%	100%	5 years

7.3 State and Local Government Agency Obligations

The Treasurer's Office may purchase bonds, notes, warrants, or other evidences of indebtedness of any local or State agency within the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or State, or by a department, board, agency, or authority of the local agency or State.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
20% of the portfolio value	5%	No Limit	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO (Nationally Recognized Statistical Rating Organization). This limitation applies to all local and State agencies within the 50 United States with the exception of the State of California.

7.4 Public Time Deposits (Term Certificates Of Deposit)

The Treasurer's Office may invest in non-negotiable time deposits (CDs) that are FDIC insured or fully collateralized in approved financial institutions.

The Treasurer's Office will invest in FDIC-insured CDs only with those firms having at least one branch office within the boundaries of the City and County of San Francisco.

Collateralized CDs are required to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The Treasurer's Office, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The Treasurer's Office shall have a signed agreement with any depository accepting City funds per Government Code Section 53649.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
No Limit	None	N/A	13 months

Issuer Minimum Credit Rating (applies to collateralized CDs only): Maintenance of the minimum standards for "well-capitalized" status as established by the Federal Reserve Board. The current standards are as follows:

- Tier 1 risk-based capital ratio of 8% or greater
- Combined Tier 1 and Tier 2 capital ratio of 10% or greater
- Leverage ratio of 5% or greater

Failure to maintain minimum standards may result in early termination, subject to the discretion of the Treasurer's Office.

7.5 Negotiable Certificates Of Deposit / Yankee Certificates Of Deposit

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Yankee certificates of deposit are negotiable instruments that are issued by a branch of a foreign bank.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
30% of the portfolio value	No Limit	N/A	5 years

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.6 Bankers Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
40% of the portfolio value	No Limit	No Limit	180 days

Issuer Minimum Credit Rating: None

7.7 Commercial Paper

Obligations issued by a corporation or bank to finance short-term credit needs, such as accounts receivable and inventory, which may be unsecured or secured by pledged assets.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
25% of the portfolio value	10%	None	270 days

Issuer Minimum Credit Rating: Issuers must possess a short-term credit rating of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.8 Medium Term Notes

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S.

Allocation Maximum	Issuer Limit Maximum	Issue Limit Maximum	Maturity/Term Maximum
15% of the portfolio value	10%	5%	24 months

Issuer Minimum Credit Rating: Issuers must possess either a short-term or long-term credit rating (dependent upon maturity length) of the second highest ranking or better (irrespective of +/-) from at least one NRSRO.

7.9 Repurchase Agreements

The Treasurer's Office shall selectively utilize this investment vehicle with terms not to exceed one year, secured solely by government securities and said collateral will be delivered to a third party custodian, so that recognition of ownership of the City and County of San Francisco is perfected.

7.10 Reverse Repurchase and Securities Lending Agreements

This procedure shall be limited to occasions when the cost effectiveness dictates execution, specifically to satisfy cash flow needs or when the collateral will secure a special rate. A reverse repurchase agreement shall not exceed 45 days; the amount of the agreement shall not exceed $75MM; and the offsetting purchase shall have a maturity not to exceed the term of the repo.

7.11 Money Market Funds

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.).

Allocation Maximum	Issuer Limit Maximum	Percentage of Fund's Net Assets Maximum	Maturity/Term Maximum
No Limit	N/A	5%	N/A

Issuer Minimum Credit Rating: Fund rating must be rated in at least the second highest rating category from two NRSRO or independent investment research firms (e.g. Morningstar or Lipper).

7.12 Local Agency Investment Fund (LAIF)

Investments in LAIF, a California state investment fund available to California municipalities, are authorized.

8.0 Interest and Expense Allocations

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets, managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated and charged to the Pooled Investment Fund on a quarterly basis, with the exception of San Francisco International Airport costs which are charged directly through a work order.

The San Francisco Controller allocates the net interest earnings of the Pooled Investment Fund. The earnings are allocated monthly based on average balances.

9.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer's Office shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

10.0 Deposit and Withdrawal of Funds

California Government Code Section 53684 et seq. provides criteria for outside local agencies, where the Treasurer does not serve as the agency's treasurer, to invest in the County's Pooled Investment Fund, subject to the consent of the Treasurer. Currently, no government agency outside the geographical boundaries of the City and County of San Francisco shall have money invested in City pooled funds.

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the San Francisco Controller. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer. In accordance with California Government Code Sections 27136 et seq. and 27133(h) et seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration for the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interests of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the value shown on the Controller's books as of the date of withdrawal.

11.0 Limits on Receipt of Honoraria, Gifts and Gratuities

In accordance with California Government Code Section 27133(d) et seq., this Investment Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or others persons with whom the Treasurer conducts business. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of those limits must report the gifts, dates and firms to the Treasurer and complete the appropriate State disclosure.

These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the California Fair Political Practices Commission. Members of the Treasury Oversight Committee also must abide by the following sections of the Treasurer's Office Statement of Incompatible Activities: Section III(A)(l)(a), (b) and (c) entitled "Activities that Conflict with Official Duties," and Section III(C) entitled "Advance Written Determination".

12.0 Reporting

In accordance with the provisions of California Government Code Section 53646, which states that the Treasurer may render a quarterly report or a monthly report on the status of the investment portfolio to the Board of Supervisors, Controller and Mayor, the Treasurer regularly submits a monthly report. The report includes the investment types, issuer, maturity date, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a statement of compliance with the investment policy or an explanation for non-compliance; and a statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why moneys will not be available if that is the case.

13.0 Social Responsibility

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.

13.1 Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses. Prior to making investments, the Treasurer's Office will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.

13.2 Community Investments

Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low

income affordable housing, and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

13.3 City Ordinances

All depository institutions are to be advised of applicable City contracting ordinances, and shall certify their compliance therewith, if required.

14.0 Treasury Oversight Committee

A Treasury Oversight Committee was established by the San Francisco Board of Supervisors in Ordinance No. 316-00. The duties of the Committee shall be the following:

(a) Review and monitor the investment policy described in California Government Code Section 27133 and prepared annually by the Treasurer.

(b) Cause an annual audit to be conducted to determine the Treasurer's compliance with California Government Code Article 6 including Sections 27130 through 27137 and City Administrative Code Section 10.80-1. The audit may examine the structure of the investment portfolio and risk. This audit may be a part of the County Controller's usual audit of the Treasurer's Office by internal audit staff or the outside audit firm reviewing the Controller's Annual Report.

(c) Nothing herein shall be construed to allow the Committee to direct individual decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the Treasurer. (See California Government Code, Section 27137.)

APPENDIX I

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASK/OFFER: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The CAFR is the City's official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the City's structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEPOSITORY INSTITUTIONS: These institutions hold City and County moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

DERIVATIVES: (l) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FDIC DEPOSIT INSURANCE COVERAGE: The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds. FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities. There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic. To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.
Basic FDIC Deposit Insurance Coverage Limits*
Single Accounts (owned by one person) $250,000 per owner
Joint Accounts (two or more persons) $250,000 per co-owner
IRAs and certain other retirement accounts $250,000 per owner
Trust Accounts $250,000 per owner per beneficiary subject to specific limitations and requirements**
*The financial reform bill, officially named the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, made the $250,000 FDIC coverage limit permanent.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest that depository institutions lend monies overnight to other depository institutions. Also referred to as the overnight lending rate.This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

GOVERNMENT SECURITIES: Obligations of the U.S. Government and its agencies and instrumentalities.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NRSRO: Nationally Recognized Statistical Rating Organization; Credit rating agencies that are registered with the SEC. Such agencies provide an opinion on the creditworthiness of an entity and the financial obligations issued by an entity.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE l5(C))3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

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