NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: Moody's: A1
S&P: AA-
Fitch: A+
(See "RATINGS" herein)

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

$163,335,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 2009A
(MULTIPLE CAPITAL IMPROVEMENT PROJECTS)

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: April 1, as shown on the inside cover**

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

The Certificates captioned above (the "Certificates") will be sold to provide funds to: (i) pay a portion of the costs of the acquisition, demolition, construction, reconstruction, installation, equipping, improvement or rehabilitation of the Laguna Honda Hospital (the "Project") and related property owned by the City and located at 375 Laguna Honda Boulevard; (ii) fund capitalized interest payable with respect to the Certificates on each date due through April 1, 2010; (iii) fund the 2009A Reserve Account of the Reserve Fund established under the Trust Agreement for the Certificates; and (iv) 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 May 1, 2009 (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 (the "Charter"). 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 May 1, 2009 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Project Lease to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES — Covenant to Budget." The obligation of the City to pay Base Rental is in consideration for the use and occupancy of the land and facilities subject to the Project Lease (the "Leased Property"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "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 April 1 and October 1 of each year, commencing October 1, 2009. 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 maturity 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 SHALL BE OBLIGATED TO MAKE BASE RENTAL PAYMENTS SUBJECT TO THE TERMS OF THE PROJECT LEASE AND NEITHER THE CITY NOR ANY OF ITS OFFICERS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES. SEE "CERTAIN RISK FACTORS."

MATURITY SCHEDULE

(See inside cover)

The Certificates are offered when, as and if executed and received by the underwriters named below (the "Underwriters"), subject to the approval of the validity of the Project Lease by Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about May 27, 2009.

DE LA ROSA & CO.

MERRILL LYNCH & CO. **BACKSTROM MCCARLEY BERRY & CO., LLC** **BARCLAYS CAPITAL**

Dated: May 12, 2009.

MATURITY SCHEDULE

(Base CUSIP Number: 79765D[1])

Certificate Payment Date (April 1)	Principal Amount	Interest Rate	Price or Yield[2]	CUSIP Suffix
2011	$4,795,000	1.950%	100%	UT5
2012	2,500,000	4.000	2.430	UU2
2012	2,390,000	5.000	2.430	UV0
2013	500,000	4.000	2.710	UW8
2013	4,605,000	5.000	2.710	UX6
2014	2,500,000	4.000	3.080	UY4
2014	2,860,000	5.000	3.080	UZ1
2015	550,000	4.000	3.350	VA5
2015	5,050,000	5.000	3.350	VB3
2016	2,995,000	4.000	3.580	VC1
2016	2,880,000	5.000	3.580	VD9
2017	450,000	4.000	3.800	VE7
2017	5,690,000	5.000	3.800	VF4
2018	2,990,000	4.000	100	VG2

Certificate Payment Date (April 1)	Principal Amount	Interest Rate	Price or Yield[2]	CUSIP Suffix
2018	$3,450,000	5.000%	4.000%	VH0
2019	935,000	4.125	4.200	VJ6
2019	5,800,000	5.000	4.200	VK3
2020	640,000	4.250	4.400	VL1
2020	6,420,000	5.000	4.400	VM9
2021	1,125,000	4.500	4.590	VN7
2021	6,285,000	5.000	4.590	VP2
2022	500,000	4.750	4.770	VQ0
2022	7,275,000	5.000	4.770	VR8
2023	8,165,000	5.000	4.880	VS6
2024	8,570,000	5.000	4.980	VT4
2025	9,000,000	5.000	5.070	VU1
2026	5,515,000	5.200	5.160	VV9
2026	3,935,000	5.250	5.160	VW7

$31,340,000 5.000% Term Bonds due April 1, 2029 — Yield 5.170% CUSIP 79765D VX5[1]
$23,625,000 5.250% Term Bonds due April 1, 2031 — Price 100% CUSIP 79765D VY3[1]

[2] Reoffering prices/yields furnished by the Underwriters. The City takes no responsibility for the accuracy thereof.

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.

This Official Statement is not to be construed as a contract with the Underwriters 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 UNDERWRITERS 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.

SUPPLEMENT TO OFFICIAL STATEMENT
May 20, 2009
supplementing the Official Statement dated May 12, 2009, regarding

$163,335,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 2009A
(MULTIPLE CAPITAL IMPROVEMENT PROJECTS)

Since the date of this Official Statement, a significant event occurred that has affected the State of California's budget situation. On May 19, 2009, five of six proposed Statewide budget-related ballot measures failed to pass. Also since the date of the Official Statement, the Governor released his May Revision to the 2009-10 State Budget, projecting that the State's budget deficit has now risen to $21.3 billion. In addition, on May 13, the City's largest employees' union rejected contract concessions for fiscal year 2009-10, negotiated in April by the union's management. This Supplement is intended to provide additional information to investors subsequent to the date of the Official Statement as part of the City's investor relations services.

State Special Election Update

Although the Governor signed the 2009-10 budget act on February 20, 2009, much of the budget depended on the results of the May 19 election and on revenue and expenditure projections for 2008-09 that are now out of date. Ordinarily, the Governor's January budget proposal undergoes a major revision in May as revenue and expenditure figures for the current year become available. The Governor released his May Revision of the adopted 2009-10 budget on May 14, 2009. The May Revision indicated that due to further deterioration in State revenue projections, a 2009-10 budget shortfall of approximately $15.4 billion will occur regardless of the outcome of the May 19 election, and anticipated that failure of the May 19 ballot measures would cause the budget shortfall to increase to approximately $21.3 billion without further budget actions.

Propositions 1A, 1B, 1C, 1D, and 1E failed to win the necessary majority vote for passage. According to the State's Legislative Analyst, Propositions 1C, 1D and 1E would have provided $5.8 billion to the State's general fund in 2009-10 through the securitization and sale of future rights to State Lottery revenues and diversion to general fund purposes of tax revenues that were previously dedicated by voter initiative to childhood development and mental health services. (The other propositions were expected to primarily affect State budgets beyond 2009-10.) In response to worsening revenue projections and the election results, the May Revision proposes the following budgetary measures, among numerous others: *Revenues:* accelerate state income tax withholding (+$1.7 billion) and personal and corporation estimated tax payments (+$610 million); sell a portion of the State Compensation Insurance Fund (+$1.0 billion); new oil leases off the Santa Barbara coast (+$100 million). *Expenditures:* cut $1.02 billion from 2008-09 California State University and University of California funding; cut and defer K-14 education funding (Proposition 98) by an aggregate $5.3 billion in 2008-09 and 2009-10; cut in-home medical care ($301.5 million); transfer the illegal immigrant prison population to federal custody and maintain other convicted criminals in county jails ($282 million); cut substance abuse treatment funding ($108 million). *Borrowing:* divert $1.98 billion in local property tax revenues to the State, to be repaid within three years under Proposition 1A of 2004. Additional changes include spending cuts, revenue enhancements, and shifting revenues and expenditures among programs and years.

The City estimates that, if effectuated in accordance with the Governor's May Revision, the property tax diversion under Proposition 1A of 2004 would likely amount to a loss to the City of approximately $91 million in fiscal year 2009-10 property tax revenues (of which the City's General Fund loss would be $71.2 million, net of formula funding requirements). The State's property tax diversion and borrowing must be approved by a two-thirds vote of both houses of the Legislature. The City can make no prediction regarding which of these budgetary proposals or others may be approved by the Legislature and Governor. The ultimate impact on the City is likely to be material and require additional revenue and expenditure measures by the City to balance its budget.

City Employee Negotiations

On May 13, 2009, the membership of Service Employees International Union (SEIU) Local 21, representing approximately 11,000 City workers, rejected a tentative agreement between SEIU's leadership and the City to amend the contract between the City and Local 21, which had been extended previously through 2009-10. The agreement would have made adjustments to compensation and paid holidays for covered City workers in exchange for delaying any layoffs until November 15, 2009, and accounted for approximately $38 million the City is seeking to save in fiscal year 2009-10 employment costs. The City cannot predict what impact, if any, this vote will have on the willingness of other City bargaining units to agree to requested concessions. In response to this and other budget news, the Mayor announced on May 14 that he will cut approximately 1,000 City jobs, including approximately 290 workers whose earlier terminations had been delayed pending these negotiations.

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

ORO EN PAZ FIERRO EN GUERRA

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Gavin Newsom

BOARD OF SUPERVISORS

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

Michela Alioto-Pier, *District 2*
John Avalos, *District 11*
David Campos, *District 9*
Carmen Chu, *District 4*
Chris Daly, *District 6*
Bevan Dufty, *District 8*
Sean Elsbernd, *District 7*
Eric Mar, *District 1*
Sophie Maxwell, *District 10*
Ross Mirkarimi, *District 5*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Edwin Lee, *City Administrator*

Benjamin Rosenfield, *Controller*

PROFESSIONAL SERVICES

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Hawkins Delafield & Wood LLP
San Francisco, California

Leslie M. Lava, Esq.
Sausalito, California

Co-Financial Advisors

Public Financial Management, Inc.
San Francisco, California

Kitahata & Company
San Francisco, California

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

$163,335,000

CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 2009A
(MULTIPLE CAPITAL IMPROVEMENT PROJECTS)

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 2009A (Multiple Capital Improvement Projects) (the "Certificates"). Any capitalized term not defined herein shall have the meaning given to such term in APPENDIX D: "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.

The City, exercising its Charter powers to convey and lease property for City purposes, conveys certain real property to the Trustee under the Property Lease in exchange for the Certificate proceeds and other consideration. The Trustee leases the Leased Property back to the City for the City's use under the Project Lease. The City will be obligated under the Project Lease to pay Base Rental payments and other payments to the Trustee each year during the term of the Project Lease (subject to certain conditions under which 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, at the City's direction, to finance the Project, consisting of improvements to the site and facilities at the City's Laguna Honda Hospital, and the equipping thereof.

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

Quotations from and summaries and explanations of the Certificates, the Trust Agreement, the Project Lease, the resolutions providing for the execution and delivery of the Certificates, other legal documents and 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, 1 Dr. Carlton B. Goodlett Place, Room 336, 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 nine-county San Francisco Bay Area (the "Bay Area") and northern California. The City proper occupies 49 square miles at the northern tip of the San Francisco Peninsula, between the Pacific Ocean and San Francisco Bay. Silicon Valley is about 40 minutes' drive to the south, and the wine country about an hour to the north. Major business sectors include retail and entertainment, 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's population in 2008 was approximately 774,000, making it the fourth largest city in the State. Economic, demographic, and other information about the Bay Area is provided in more detail in APPENDIX B: "CITY AND COUNTY OF SAN FRANCISCO – ECONOMY AND GENERAL INFORMATION."

The City is governed by a Board of Supervisors (the "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. Gavin Newsom has served as the Mayor of the City since 2004, and was re-elected in November 2007. The City's fiscal year 2008-09 adopted budget includes $6.53 billion of expenditures and reserves, of which $3.05 billion was allocated to the General Fund of the City and $3.48 billion was allocated to all other funds, including enterprise fund departments, such as the San Francisco International Airport, San Francisco Municipal Transportation Authority, and the San Francisco Public Utilities Commission. The City employs approximately 31,000 full-time-equivalent employees. Fiscal year 2008-09 total assessed valuation of taxable real property in the City is approximately $147.60 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."

THE CERTIFICATES

Authority for Execution and Delivery

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2009 (the "Trust Agreement"), by and between the City and County of San Francisco (the "City") and U.S. Bank National Association, as trustee (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 a Project Lease dated as of May 1, 2009 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. 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 a Property Lease, dated as of May 1, 2009 (the "Property Lease"), by and between the City, as lessor, and the Trustee, as lessee.

The Trust Agreement, the Property Lease, and the Project Lease were approved by the Board of Supervisors of the City by its Resolution No. 351-08, adopted on July 29, 2008 and signed by the Mayor on August 5, 2008. The Resolution authorized the execution and delivery of up to $185,000,000 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. The City has obtained a judgment in the Superior Court for the City and County of San Francisco validating the Project Lease, the Property Lease, the Trust Agreement and certain other matters. See "VALIDATION ACTION" herein.

Purpose

The proceeds of the Certificates will be used to: (i) pay a portion of the costs of the acquisition, demolition, construction, reconstruction, installation, equipping, improvement or rehabilitation of the Laguna Honda Hospital (the "Project") and related property owned by the City and located at 375 Laguna Honda Boulevard; (ii) fund capitalized interest payable with respect to the Certificates on each date due through April 1, 2010; (iii) fund the 2009A Reserve Account of the Reserve Fund for the Certificates established under the Trust Agreement; and (iv) pay costs of execution and delivery of the Certificates. See "THE PROJECT" and "ESTIMATED SOURCES

AND USES OF FUNDS” herein, for a further description of the expected application of proceeds of sale of the Certificates.

Form and Registration

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

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

Payment of Principal and Interest

The principal evidenced and represented by the Certificates shall be payable on April 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and shall evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each April 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 shall be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates is payable on April 1 and October 1 of each year, commencing on October 1, 2009 (each, an “Interest Payment Date”) and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall 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 shall 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 shall 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 shall 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 shall 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 shall be payable in lawful money of the United States of America Payments of interest represented by the Certificates will be made on each Interest Payment Date by check of the Trustee sent by first-class mail, postage prepaid, or by wire transfer to any Owner of $1,000,000 or more of Certificates to the account in the United States of America specified by such Owner in a written request delivered to the Trustee on or prior to the Regular Record Date for such Interest Payment Date, to the Owner thereof on the Regular Record Date.

Prepayment of the Certificates

Optional Prepayment

The Certificates with a Certificate Payment Date on or before April 1, 2019 are not subject to optional prepayment prior to their respective stated Certificate Payment Dates. Certificates with a Certificate Payment Date on or after April 1, 2020 are subject to prepayment prior to their respective stated Certificate Payment Dates, as a whole or in part on any date on or after April 1, 2019, in the event the City exercises its option under the Project Lease to prepay the principal component of Base Rental payments, at a prepayment price equal to 100% of the principal amount of Certificates to be prepaid plus accrued interest to the date fixed for prepayment.

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.

Mandatory Sinking Account Installment Prepayment.

The $31,340,000 term Series 2009A Certificates with a Certificate Payment Date of April 1, 2029, are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on April 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (April 1)	Sinking Account Installment Amount
2027	$9,940,000
2028	10,440,000
2029†	10,960,000

† Final Certificate Payment Date.

The $23,625,000 term Series 2009A Certificates with a Certificate Payment Date of April 1, 2031, are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on April 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (April 1)	Sinking Account Installment Amount
2030	$11,510,000
2031†	12,115,000

† Final Certificate Payment Date.

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 the Certificates scheduled to be paid on each Certificate Payment Date to be prepaid. Among the Certificates scheduled to be paid on a particular Certificate Payment Date, the Trustee, with the consent of the City, 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 shall 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 shall 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 shall further state that on the specified date there shall 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 shall cease to accrue and be payable. Neither the failure to receive any notice nor any defect therein shall 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, shall be held by the Trustee so as to be available for the prepayment on the scheduled prepayment date, and if a prepayment notice shall have been given as described above, then from and after such prepayment date, no additional interest shall become due with respect to the Certificates to be prepaid, and such Certificate or portion thereof shall no longer be deemed Outstanding under the provisions of this Trust Agreement; however, all money held by or on behalf of the Trustee for the prepayment of such Certificates shall be held in trust for the account of the Owners thereof.

If the City shall acquire any Certificate by purchase or otherwise, such Certificate shall no longer be deemed Outstanding and shall 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 shall 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 shall 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 shall affect the sufficiency of such cancellation.

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

Purchase of Certificates

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

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Source of Payment

The Certificates 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 April 1, 2031, unless extended as described in this section.

Pursuant to the Trust Agreement, the City has granted to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (excluding the Rebate Fund), including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award not required to be used for repair or replacement of the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property; (iv) all amounts on hand from time to time in the 2009A 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 has covenanted in the Project Lease to take such action as may be necessary to include all Rental Payments in its annual budget and to make the necessary annual appropriations for such Rental Payments. The Project Lease provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law.

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

The City expects to be reimbursed for a portion of the Base Rental payments. See “THE PROJECT—State Reimbursement to City for Base Rental” herein.

For a discussion of the budget and finances of the City, see APPENDIX A: “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – City Budget and Finances” and APPENDIX C: “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2008.” For a discussion of the City’s investment policy regarding pooled cash, see APPENDIX H: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY."

Limited Obligation

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

Base Rental Payments; Additional Rental; Capitalized Interest

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.

Base Rental payments are payable by the City on March 25 and September 25 of each year during the term of the Lease, commencing September 25, 2009, provided that any such payment shall be for that portion of the applicable period that the City has use and occupancy of all or a portion of the 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, noncompletion of the construction of the Facilities, or defects in the title to the Leased Property, Base Rental payments are subject to abatement. See "CERTAIN RISK FACTORS – Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental and Additional Rental due under the Project Lease in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Project Lease.

Additional Rental. 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.

Capitalized Interest. Prior to completion of that portion of the Project comprising of buildings and other improvements located on the real property subject to the Project Lease (the "Facilities"), proceeds of the sale of the Certificates will be deposited into the Base Rental Fund in an amount sufficient to pay all interest evidenced by the Certificates through April 1, 2010. The City estimates that the portion of the Leased Property known as the "Link Building" being financed with the proceeds of the Certificates will be available for use and occupancy on October 31, 2009. The City estimates that the portion of the Leased Property known as the "East Residence" being financed with the proceeds of the Certificates will be available for use and occupancy on December 31, 2009. See "THE PROJECT—Completion of the Project" herein.

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 abatement.

Rental Payments shall be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or due to noncompletion of any portion thereof, except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the 2009A 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 shall 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 shall 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 April 1, 2041. See "CERTAIN RISK FACTORS—Abatement."

The City has the option, but not the obligation, to deliver Substitute Leased Property (defined below) for all or a portion of the Leased Property pursuant to the substitution provisions of the Project Lease during any period of abatement. 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 maintained pursuant to the Project Lease and moneys on deposit in the 2009A Reserve Account of the Reserve Fund to make payments of principal and interest represented by the Certificates. Any abatement of Base Rental payments could affect the City's ability to pay debt service on the Certificates, although the Project Lease requires the City to maintain rental interruption insurance commencing the date of the Final Completion and the Trust Agreement requires that a Reserve Fund be established. See "CERTAIN RISK FACTORS—Abatement."

Reserve Fund; 2009A Reserve Account

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee, and within the Reserve Fund, there is created a 2009A Reserve Account to be held with the Trustee. The 2009A Reserve Account shall only be available to support payments with respect to the Certificates. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the 2009A Reserve Account of the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount will be at least equal to the Reserve Requirement. The Reserve Requirement with respect to the Certificates, as of any date of calculation, is the least of (i) the maximum annual principal and interest payable with respect to the Certificates in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest payable with respect to the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered. As of the date of delivery of the Certificates, the Reserve Requirement is $12,752,473.76.

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 shall 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 shall notify each Rating Agency prior to making any such substitution), and (ii) the Trustee shall 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 shall be for the term of the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted shall 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 shall 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 shall only be available for such series of Certificates). In the event of any such transfer, the Trustee shall 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 April 1 and October 1, commencing October 1, 2009, and at such other time or times as directed by the City, shall be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date, or transferred to such other fund as the City may designate. The Reserve Fund may secure Additional Certificates on a parity basis or, alternatively, a separate account in the Reserve Fund may be established for one or more series of Additional Certificates.

Replacement, Maintenance and Repairs

The Project Lease requires the City, at its own expense and as determined and specified by the Director of Real Estate of the City, to maintain or cause to be maintained the Leased Property in good order, condition and repair during the term of the Project Lease. The Trust Agreement requires that if the Leased Property or any portion thereof is damaged or destroyed, the City must elect to either prepay the Certificates or replace or repair the affected portion of the Leased Property in accordance with the Project Lease. Under the Project Lease, the City must replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with 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 shall be applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds are sufficient to prepay: (i) all of the Certificates Outstanding and to pay all other amounts due under the Project Lease and under the Trust Agreement or (ii) any portion of the Certificates such that the resulting Rental Payments payable in any Project Lease Year following such partial prepayment are sufficient to pay in the then current and any future Project Lease Year the principal and interest evidenced and represented by all Certificates to remain Outstanding and all other amounts due under the Project Lease and under the Trust Agreement to the extent they are due and payable in such Project Lease Year. See APPENDIX D: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Project Lease."

Insurance with Respect to the Leased Property

The Project Lease requires the City to maintain or cause to be maintained throughout the term of the Project Lease (but during the period of construction of the Facilities only the insurance described in clauses (i) and (v) below shall be required and may be provided by the contractor under the construction contract for the Facilities): (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than $5,000,000 per accident; and (iv) commencing on the date of Final Completion of the Facilities, 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 October 1 of each year, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above, with such insurance not subject to any deductible; and (v) builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount represented by the Certificates, or the replacement cost of the Facilities, which insurance shall be outstanding until Final Completion of the Facilities. Except as provided above, all policies of insurance required under the Project Lease may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

The 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 fee title of the real property subject to the Project Lease (the "Site") in the name of the City and a leasehold interest in the Leased Property in the name of the Trustee and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates.

The 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 at this time.

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

Eminent Domain

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

Addition, Release and Substitution of Leased Property

If no Project Lease Event of Default has occurred and is continuing, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City shall 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 County Recorder of the 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 as described above, 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, shall 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).

See APPENDIX D: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Project Lease – Addition, Release and Substitution."

Additional Certificates

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

The Board of Supervisors of the City adopted Ordinance No. 74-09 on May 5, 2009, and the Mayor approved the Ordinance on May 11, 2009. The Ordinance authorizes the execution and delivery of a series of Additional Certificates in an aggregate principal amount of not to exceed $42 million, as well as amendments to the Project Lease and the Trust Agreement to facilitate such Additional Certificates, all for the purpose of financing the acquisition, construction, and installation of certain street and related improvements to various City streets. The City expects to issue these Additional Certificates in late summer 2009.

ESTIMATED SOURCES AND USES OF FUNDS

Following is a table of estimated sources and uses of funds with respect to the Certificates:

Sources of Funds:	
Certificate Par Amount	$163,335,000.00
Plus: Original Issue Premium	2,914,406.75
Total Sources	$166,249,406.75
Uses of Funds:	
Project Fund	$145,000,000.00
Base Rental Fund[1]	6,718,168.84
2009A Reserve Account	12,752,473.76
Underwriter's Discount	955,366.86
Costs of Delivery[2]	823,397.29
Total Uses	$166,249,406.75

(1) Represents capitalized interest through April 1, 2010.

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

CERTIFICATE PAYMENT SCHEDULE

The Project Lease requires the City to make Base Rental payments on each March 25 and September 25, commencing September 25, 2009, in payment for the use and occupancy of the Leased Property during the term of the Project Lease.

The Trust Agreement requires that Base Rental payments be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, commencing on October 1, 2009, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Certificates as the same shall become due and payable, as shown in the following table. Capitalized interest payable from a portion of the proceeds of the Certificates deposited in the Base Rental Fund concurrently with the execution and delivery of the Certificates will be applied to pay interest on the Certificates through April 1, 2010.

Certificate Payment Schedule

Payment Date	Principal	Total Interest	Semi-Annual Debt Service
October 1, 2009		$2,740,305.71	$2,740,305.71
April 1, 2010		3,977,863.13	3,977,863.13
October 1, 2010		3,977,863.13	3,977,863.13
April 1, 2011	$4,795,000	3,977,863.13	8,772,863.13
October 1, 2011		3,931,111.88	3,931,111.88
April 1, 2012	4,890,000	3,931,111.88	8,821,111.88
October 1, 2012		3,821,361.88	3,821,361.88
April 1, 2013	5,105,000	3,821,361.88	8,926,361.88
October 1, 2013		3,696,236.88	3,696,236.88
April 1, 2014	5,360,000	3,696,236.88	9,056,236.88
October 1, 2014		3,574,736.88	3,574,736.88
April 1, 2015	5,600,000	3,574,736.88	9,174,736.88
October 1, 2015		3,437,486.88	3,437,486.88
April 1, 2016	5,875,000	3,437,486.88	9,312,486.88
October 1, 2016		3,305,586.88	3,305,586.88
April 1, 2017	6,140,000	3,305,586.88	9,445,586.88
October 1, 2017		3,154,336.88	3,154,336.88
April 1, 2018	6,440,000	3,154,336.88	9,594,336.88
October 1, 2018		3,008,286.88	3,008,286.88
April 1, 2019	6,735,000	3,008,286.88	9,743,286.88
October 1, 2019		2,844,002.50	2,844,002.50
April 1, 2020	7,060,000	2,844,002.50	9,904,002.50
October 1, 2020		2,669,902.50	2,669,902.50
April 1, 2021	7,410,000	2,669,902.50	10,079,902.50
October 1, 2021		2,487,465.00	2,487,465.00
April 1, 2022	7,775,000	2,487,465.00	10,262,465.00
October 1, 2022		2,293,715.00	2,293,715.00
April 1, 2023	8,165,000	2,293,715.00	10,458,715.00
October 1, 2023		2,089,590.00	2,089,590.00
April 1, 2024	8,570,000	2,089,590.00	10,659,590.00
October 1, 2024		1,875,340.00	1,875,340.00
April 1, 2025	9,000,000	1,875,340.00	10,875,340.00
October 1, 2025		1,650,340.00	1,650,340.00
April 1, 2026	9,450,000	1,650,340.00	11,100,340.00
October 1, 2026		1,403,656.25	1,403,656.25
April 1, 2027	9,940,000	1,403,656.25	11,343,656.25
October 1, 2027		1,155,156.25	1,155,156.25
April 1, 2028	10,440,000	1,155,156.25	11,595,156.25
October 1, 2028		894,156.25	894,156.25
April 1, 2029	10,960,000	894,156.25	11,854,156.25
October 1, 2029		620,156.25	620,156.25
April 1, 2030	11,510,000	620,156.25	12,130,156.25
October 1, 2030		318,018.75	318,018.75
April 1, 2031	12,115,000	318,018.75	12,433,018.75
Total	$163,335,000	$111,135,182.68	$274,470,182.68

THE LEASED PROPERTY

The Leased Property consists of the Link Building and the East Residence building, currently under construction on the campus of the City's Laguna Honda Hospital, described under "THE PROJECT", below, together with certain limited rights of ingress and egress and appurtenant rights. The Link Building is designed to accommodate 60 beds on three floors, and is currently scheduled to be completed and available for use and occupancy by the City on October 31, 2009. The East Residence is designed to accommodate 420 beds on seven floors, and is currently scheduled to be completed and available for use and occupancy by the City on December 31, 2009. The combined value of the two buildings upon completion is estimated by the City to be approximately $215 million. The Facilities that are part of the Leased Property constitute a portion of the Project being financed with the proceeds of the Certificates. See "THE PROJECT," below.

THE PROJECT

Description of the Project

Laguna Honda Hospital, originally constructed in 1866 as an almshouse for San Francisco's poor and homeless, is operated by City's Department of Public Health to provide over 1,000 residents with long-term 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.

The Project consists of the demolition and replacement of some of the existing facilities and additional site improvements, including (i) demolition of all existing hospital facilities except the front wings of the Main Hospital Building; (ii) construction and equipping of four new hospital buildings; (iii) construction and equipping of an assisted living facility; and (iv) expansion of existing outpatient programs and services. The new buildings plus the retained building area were originally designed to total about 987,000 gross square feet in four buildings (an addition of approximately 282,500 square feet), to accommodate 1,200 hospital beds (an addition of about 135 beds), plus 140 assisted living beds. The Project was redesigned in 2005 to accommodate 780 beds in three buildings, and includes new hospital buildings and additional off-street parking spaces. The Project includes construction of the Facilities that are part of the Leased Property.

Architects for the project are Anshen+Allen, Architects & Gordon H. Chong+Partners, Laguna Honda Joint Venture Architects. Under the Project Lease, the Trustee appoints the City as its agent for the purposes of the construction, renovation, installation and equipping, as necessary, of the Project.

Completion of the Project

Construction of the Project commenced in June 2005, and is now approximately 85% complete. Completion of the two of the new buildings (South Residence and Link Buildings) is scheduled for October 31, 2009, and completion of the final new building (East Residence) is scheduled for December 31, 2009, approximately twelve months behind the original schedule.

The first phase of remodeling of the existing buildings to be kept is scheduled to be completed by March 2010. The final phases of the work, including the demolition of a portion of the existing wings of the main hospital and the associated sitework creating entrances to the remodeled existing hospital will follow the relocation of all remaining residents from the existing main hospital. These phases are expected to be complete by late 2012.

Total costs are now estimated to be $593.9 million, exceeding the original budget by approximately $193 million. In order to finance the Project, the Board of Supervisors has previously issued $299 million of general obligation bonds authorized by the voters of the City as Proposition A at the November 1999 election. All required environmental approvals for the Project have been obtained.

The term "Final Completion" as defined in the Project Lease means the acquisition and installation of improvements to and the substantial readiness of the Facilities (subject to minor architectural finish items e.g., "punch list" items) as evidenced by the delivery of the Certificate of Final Completion. The Certificate of Final Completion is the notice required to be filed with the Trustee pursuant to the Project Lease, stating that the Facilities has been completed. No assurances can be given that Final Completion of the Facilities will be achieved by April 1, 2010. Upon the Final Completion of the Facilities, the City is required to maintain rental interruption insurance in the amount required by the Project Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES—Insurance with Respect to the Leased Property."

State Reimbursement to City for Base Rental

Although payment of the Rental Payments under the Project Lease is a General Fund obligation of the City, payable from any lawfully available funds of the City, the City expects to make Base Rental payments, or reimburse itself for payment of the Base Rental, in part, from moneys received from the State under S.B. 1128. S.B. 1128 was passed by the State Legislature in 1999 to provide supplemental MediCal reimbursements to defray the cost of capital improvements to a qualified acute care facility, including buildings and fixed equipment. MediCal, the State program providing health care services for qualified low-income persons, insures approximately 95% of Laguna Honda Hospital's patients. Funding under S.B. 1128 is available to the City only to reimburse the City for debt service on revenue bonds or other financing instruments used for upgrading or construction of buildings and equipment to a level required by currently accepted medical practice standards. The Project Lease is a qualifying financing instrument. Funding of the S.B. 1128 reimbursement depends on appropriations to be made by the State Legislature in every year. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Impact of State Budget.

CERTAIN RISK FACTORS

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

Rental Payments Not a Debt of the City

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

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Project Lease and amounts held in the 2009A 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 shall be obligated to make Rental Payments subject to the terms of the Project Lease, and neither the City nor any of its officers shall incur any liability or any other obligation with respect to the delivery of the Certificates.

Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A – "CITY AND

COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES "— Overlapping Debt," "– Tax-Supported Debt Service," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX C – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2008."

Construction-Period Risk

Except to the extent of certain amounts available to the Trustee for payment of Base Rental, including capitalized interest deposited in the Base Rental Fund and amounts on deposit in the Reverse Fund, the obligation of the City under the Project Lease to make Base Rental payments will be dependent upon the City's use and right of occupancy of the Leased Property. Rental insurance proceeds are not available for payment of Base Rental prior to the Final Completion of the Facilities.

During the construction period, the Facilities will be subject to all of the ordinary construction risks and delays applicable to projects of its kind. Such risks include but are not limited to (i) inclement weather, affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) natural disaster (including earthquake, for which losses are uninsured), operating risks or hazards or other unexpected conditions or events adversely affecting the progress of work; (iii) contractor claims or nonperformance; (iv) increased materials costs, labor costs, or failure of contractors to execute within contract price, resulting in insufficient funding for the Facilities; (v) work stoppages or slowdowns; (vi) failure of contractors to meet schedule terms; (vii) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, which can arise at any time during the construction of the Facilities, or (viii) other factors.

Completion of the Facilities is currently behind its original schedule. See "THE PROJECT—Completion of the Project." There can be no assurance that Final Completion of the Facilities will not be delayed further, preventing the City's use and occupancy of the Leased Property on the currently projected date.

Abatement

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

The Project Lease provides that 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 April 1, 2041. Moneys in the 2009A Reserve Account 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 2009A Reserve Account 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 2009A Reserve Account 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 or may be adjusted during an event of abatement. Upon abatement, it may be that the value of the Leased Property is substantially higher or lower than its value at the time of execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

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 2009A 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**.**

2009A Reserve Account

At the time of delivery of the Certificates, proceeds of the Certificates in the amount of $12,752,473.76 will be deposited in the 2009A Reserve Account of the Reserve Fund. In the event of abatement or default, the amounts on deposit in the 2009A Reserve Account may be significantly less than the amount of Base Rental due at the time of abatement or default.

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

The Project Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may, subject to applicable laws regarding use of such property, take possession of and re-let the Leased Property for the account of the City. The Leased Property is unique and re-letting might prove to be difficult or impossible. In addition, portions of the Leased Property have been improved with the proceeds of voter-approved general obligation bonds, and it is unclear whether any re-letting would be permitted to result in use of the Leased Property that is inconsistent with the hospital purposes for which those bonds were approved. The amounts received from any such re-letting may be insufficient to pay the scheduled principal and interest represented by the Certificates when due, and the City is not required by the Project Lease or the Trust Agreement, and cannot be compelled, to replenish the 2009A Reserve Account to the Reserve Fund Requirement. In addition, the Trust Agreement provides that no remedies such as re-letting may be exercised so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or subject to State personal income taxes. The enforcement of any remedies provided for in the Project Lease and in the Trust Agreement could prove to be both expensive and time consuming.

The Project Lease provides that any remedies on default shall 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, shall proceed), without any further notice: (i) to reenter the Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, relet the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due by pursuing any remedy available in law or in equity.

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 and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties in the State. See “CERTAIN RISK FACTORS – Bankruptcy” herein.

No Acceleration on Default

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

Release and Substitution of the Leased Property

The Project Lease permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See APPENDIX D: “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 the City’s boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the Certificates.

Seismic Risks

The City is 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 3 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 because the City does not expect to be able to procure earthquake insurance in reasonable amounts at reasonable costs on the open market from reputable insurance companies. Rental interruption insurance required to be maintained under the Project Lease is not required to cover earthquake hazards.

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. Upon the Final Completion of the Facilities, the City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months Base Rental payments. The 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 – 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 "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution" herein.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or that the State Legislature or the City's Board of Supervisors will not enact legislation that will amend the laws of the State Constitution or the Charter, respectively, in a manner that could 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, "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 – Risk Retention Program."

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.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Certificate Owners and the Trustee would be prohibited from taking any steps to enforce their rights under the Project Lease and from taking steps to collect amounts due from the City under the Project Lease.

The Project Lease and the Trust Agreement will each state that U.S. Bank National Association ("U.S. Bank") has entered into such agreement in its capacity as Trustee and not in its individual corporate capacity. Were U.S. Bank 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 U.S. Bank. No opinion will be delivered in connection with the delivery of the Certificates to the effect that the leased assets or payments by the City under the Project Lease do not constitute property of U.S. Bank or that the Trust Agreement or the Certificates do not constitute obligations of U.S. Bank. Were U.S. Bank 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 U.S. Bank. 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.

Other

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future; however the *ad valorem* property tax required to be levied to pay debt service on the Certificates 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 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 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 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 of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

See APPENDIX C: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2008" for information on the City's appropriations limit.

Articles XIII C and XIII D of the California Constitution

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

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

COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES–City Budget and Finances—Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218.

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

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

Statutory Limitations

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

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

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Court of Appeals have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See, *Fielder v. City of Los Angeles*, 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, derived from the State Constitution, to impose taxes. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

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

Proposition 1A

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

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

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

Future Initiatives

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

TAX MATTERS

Opinion of Co-Special Counsel

In the opinion of Hawkins Delafield & Wood LLP and Leslie M. Lava, Esq., Co-Special Counsel to the City, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest with respect to the Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering their opinion, Co-Special Counsel have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Certificates, and Co-Special Counsel have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest with respect to the Certificates from gross income under Section 103 of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest with respect to certain tax-exempt certificates apply to the Certificates.

In addition, in the opinion of Co-Special Counsel to the City, under existing statutes, interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California.

Co-Special Counsel express no opinion regarding any other Federal or state tax consequences with respect to the Certificates. Co-Special Counsel render their opinion under existing statutes and court decisions as of the delivery date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Co-Special Counsel express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest with respect to the Certificates, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

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

Certain Collateral Federal Tax Consequences

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

The Certificates are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the pro rata interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Certificates, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Certificates should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest with respect to the Certificates may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

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

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

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

Certificate Premium

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

Information Reporting and Backup Withholding

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

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

Miscellaneous

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

Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

OTHER LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinions of Hawkins Delafield & Wood LLP, San Francisco, California, and Leslie M. Lava, Esq., Sausalito, California, Co-Special Counsel. Complete copies of the proposed forms of Co-Special Counsel opinions are contained in APPENDIX G hereto, and will be made available to the Underwriters of the Certificates at the time of the original delivery of the Certificates. None of Co-Special Counsel, Disclosure Counsel or Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Ronald E. Lee, Esq., Davis, California.

PROFESSIONALS INVOLVED IN THE OFFERING

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

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2008-09, which is due not later than March 27, 2010, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of material 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 material events is summarized in APPENDIX E: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

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

ABSENCE OF LITIGATION

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

VALIDATION ACTION

The City filed a complaint on September 15, 2008, pursuant to State Code of Civil Procedure Sections 860 through 870.5 in the Superior Court for the State in and for the City to validate the Project Lease, the Property Lease, the Trust Agreement and certain other matters. On January 15, 2009, a judgment was rendered finding the Project Lease, the Property Lease and the Trust Agreement to be valid, legal and binding obligations of the City in accordance with their terms and in conformity with all applicable provisions of law, including Article XVI, Section 18 of the State Constitution.

State Code of Civil Procedure Section 870(a) provides that such a judgment, if no appeal is taken, or if taken and the judgment affirmed, shall thereupon become and thereafter be forever binding and conclusive, as to all matters therein adjudicated or which could have been adjudicated against the City and against all other persons. State Code of Civil Procedure Section 870(b) provides that no appeal shall be allowed from such a judgment unless a notice of appeal is filed within 30 days after the entry of judgment. No notice of appeal has been filed.

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 "A1," "AA-," and "A+" respectively, to the Certificates. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Certificates. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moodys.com; S&P, at www.sandp.com; and Fitch, at www.fitchratings.com. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Certificates. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

UNDERWRITING

The Certificates are being purchased by De La Rosa & Co., Merrill Lynch & Co., Barclays Capital, and Backstrom McCarley Berry & Co., LLC (collectively, the "Underwriters") pursuant to a purchase contract between the Underwriters and the City, dated May 12, 2009 (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City at a purchase price of $165,294,039.89. Under the terms of the Purchase Contract, the Underwriters will be obligated to purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Co-Special Counsel, and certain other conditions to be satisfied by the City.

The Underwriters have certified the reoffering prices or yields set forth on the inside cover of this Official Statement, and the City takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Certificates is $2,914,406.75, and the Underwriter's gross compensation (or "spread") is $955,366.86. The Underwriters 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 Underwriters.

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 Underwriters 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

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of May 5, 2009.

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, investments, bonds and other long-term obligations, and labor relations, employment benefits and retirement costs. See Appendix B for a discussion of the City and San Francisco Bay Area economy and demographic information.

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 specified documents and other information that is inconsistent with the information set forth in this Official Statement should be disregarded and no such other information is a part of or incorporated into this Appendix A.

Government and Organization

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 to 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. Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. The San Francisco International Airport ("SFO" or the "Airport"), although located 14 miles south of downtown San Francisco in San Mateo County, is owned and operated by the City. In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their respective dates of original acquisition.

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

The City has an elected Board of Supervisors consisting of eleven members and an elected Mayor who serves as chief executive officer. Members of the Board of Supervisors and the Mayor each serve a four-year term. In 2000, a Charter amendment went into effect that changed the Board of Supervisors election system from a Citywide vote to elections by district. The Mayor and members of the Board of Supervisors are subject to term limits as established by the Charter. Members of the Board of Supervisors may serve no more than two successive four-year terms and may not serve another term until four years have elapsed since the end of the second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer & Tax Collector, Sheriff, and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. School functions are carried out by the San Francisco Unified School District (grades K-12) and the San Francisco Community College District (post-secondary). Each is a separate legal entity with a separately elected governing board. The Charter provides a civil service system for most City employees.

Gavin Newsom was elected the 42nd Mayor of the City on December 9, 2003, and was sworn into office on January 8, 2004. Mayor Newsom was re-elected on November 6, 2007, and sworn into his second term of office on January 8, 2008. Mayor Newsom had been elected to the Board of Supervisors three times and served on the Board of Supervisors from 1997 until he was elected Mayor. Mayor Newsom grew up in the San Francisco Bay Area and graduated from Santa Clara University in 1989 with a Bachelor of Arts degree in Political Science.

Table A-1 lists the eleven elected Board of Supervisors and their respective terms served.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO BOARD OF SUPERVISORS					
Name	District	Date Appointed	Date Elected	Term	Current Term Expiration
Eric Mar	1	N/A	Nov-08	2009 - 2013	2013
Michela Alioto-Pier	2	1/27/2004	N/A	1/27/04 - 1/8/05	
			Nov-04	2005 - 2007	
			Nov-06	2007 - 2011	2011
David Chiu*	3	N/A	Nov-08	2009 - 2013	2013
Carmen Chu	4	9/25/2007	N/A	9/25/07 - 1/11/08	
		1/11/2008	N/A	1/11/08 - 1/8/09	
			Nov-08	2009 - 2011	2011
Ross Mirkarimi	5	N/A	Nov-04	2005 - 2009	
			Nov-08	2009 - 2013	2013
Chris Daly	6	N/A	Nov-00	2001 - 2003	
			Nov-02	2003 - 2007	
			Nov-06	2007 - 2011	2011
Sean Elsbernd	7	8/5/2004	N/A	8/5/04 - 1/8/05	
			Nov-04	2005 - 2009	
			Nov-08	2009 - 2013	2013
Bevan Dufty	8	12/11/2002	N/A	12/11/02 - 1/8/03	
			Nov-02	2003 - 2007	
			Nov-06	2007 - 2011	2011
David Campos	9	12/4/2008	N/A	12/4/08 - 1/8/09	
			Nov-08	2009 - 2013	2013
Sophie Maxwell	10	N/A	Nov-00	2001 - 2003	
			Nov-02	2003 - 2007	
			Nov-06	2007 - 2011	2011
John Avalos	11	N/A	Nov-08	2009 - 2013	2013

* President of the Board of Supervisors.

Chris Daly, an affordable housing organizer, and Sophenia (Sophie) Maxwell, an electrician, were elected to two-year terms in 2000 and were re-elected in November 2002 and 2006. Bevan Dufty, a former Congressional aide and Neighborhood Services Director of the City, was elected to a four-year term on the Board of Supervisors on December 10, 2002 and re-elected in November 2006. Michela Alioto-Pier was appointed to the Board of Supervisors in January 2004 and elected to a four-year term in November 2006. She previously served on the San Francisco Port Commission. Sean Elsbernd was appointed to the Board of Supervisors in August 2004. He was elected to a four-year term in November 2004 and re-elected in November 2008. He previously served as liaison to the Board of Supervisors in the Mayor's Office, a legislative aide to the Board of Supervisors, and Co-Director of the Congressional Human Rights Caucus. Ross Mirkarimi, an investigator for the District Attorney's Office, was elected to a four year term in November 2004 and re-elected in November 2008. Carmen Chu, a former deputy director in the Mayor's Office of Public Policy and Finance, was appointed to fill the vacancy left by the resignation of Supervisor Ed Jew in September 2007. She was elected to a four year term in November 2008. David Chiu, a Democratic Counsel, was elected to a four-year term in November 2008. He was elected President of the Board of Supervisors by a majority of the Board of Supervisors in January 2009. Eric Mar was elected to a four-year term in November 2008. He previously served as a Commissioner and past President of the San Francisco Board of Education. John Avalos was elected to a four-year term in November 2008. He previously served as a legislative aide for Supervisor Chris Daly.

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

Benjamin Rosenfield serves as the City Controller. Mr. Rosenfield was appointed to a 10-year term as Controller by Mayor Gavin Newsom and confirmed by the Board of Supervisors in March 2008. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the $6.08 billion fiscal year 2008-09 budget. The City Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under City Administrator Edwin Lee from 2005 to 2008. He was responsible for preparation and monitoring of the City's 10-year capital plan, oversight of a number of internal service offices under the City Administrator, and worked on implementing the City's new 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 Mayor Gavin 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 leader in the Controller's Office. Mr. Rosenfield succeeds Edward Harrington who served as the Controller, following the Mayor's appointment of Mr. Harrington to the position of General Manager of the San Francisco Public Utilities Commission.

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

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

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

City Budget and Finances

General

The City Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. No obligation to expend City funds can be incurred without a prior certification by the City Controller that sufficient revenues are or will be available in the then - current fiscal year, which ends June 30, to meet such obligation as it becomes due. The City Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the City Controller can certify these surplus funds as a source for supplemental appropriation that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's actual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or "Original Budget" 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 fiscal year, the City Controller issues detailed Six-Month and Nine-Month Budget Status Reports to apprise the City's policy makers of the current status of the budget, including projected year-end revenues, expenditures and fund balances. The Charter and Administrative Code of the City require the City Controller, the Mayor's Budget Director and the Budget Analyst for the Board of Supervisors to issue annually a Three-Year Budget Projection to report on the City's financial condition. The most recent reports can be viewed at the City Controller's website at www.sfgov.org/controller.

Budget Process

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

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

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

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

The Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire budget ordinance, the Charter directs the Mayor to promptly return the budget ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any budget ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors as required by Section 2.106 of the Charter. For a further discussion of limits on the ability of the City to impose and increase taxes and other revenue sources, see "Constitutional and Statutory Limitations on Taxes and Expenditures" in the front part of this Official Statement.

Under the Charter, the Treasurer and Tax Collector, 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 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 and Tax Collector has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be and have been repaid within the same fiscal year in which the transfer was made together with interest at the rate earned on the pooled funds at the time the funds were used. The City has not issued tax and revenue anticipation notes ("TRANs") to finance cash flow needs since fiscal year 1996-97 nor does the City anticipate issuing TRANs for fiscal year 2008-09. See "—Investment Policy" below.

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

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

The Rainy Day Reserve's Economic Stabilization account is subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures. Moneys in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years in which 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.

If the Controller projects that per-pupil revenues for the San Francisco Unified School District will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Economic Stabilization account to the San Francisco Unified School District. 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 2008-09, $19.3 million was appropriated and transferred to the San Francisco Unified School District to partially offset the District's planned layoffs and declining per-pupil revenues. The Controller does not currently expect to project any additional transfers to the San Francisco Unified School District in fiscal year 2008-09.

Capital Plan

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

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 and adopted by the Board of Supervisors and the Mayor on or before each May 1. The fiscal year 2010-19 Capital Plan (the "Plan") was approved by the Capital Planning Committee on February 25, 2009 and adopted by the Board of Supervisors on April 7, 2009. The Plan contains $17.4 billion in capital investment over the coming decade for all City departments, including $4.1 billion in projects for General Fund-supported departments. The Plan also assumes $62.7 million (or 68% of the annual amount needed to keep capital assets in a state of good repair and renewal) for General Fund pay-as-you-go capital projects in fiscal year 2009-10. The amount for General Fund pay-as-you-go capital projects is assumed to grow 10% each year so that by the end of the ten-year plan, the City will cover 83% of its annual pay-as-you-go needs. The Plan is not incorporated by reference herein but may be found at www.sfgov.org/cpp.

Fiscal Year 2007-08 General Fund Results

The General Fund portion of the fiscal year 2007-08 Revised Budget totaled $2.78 billion. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the Municipal Transportation Agency ("MTA"), the Public Utilities Commission ("PUC", which includes the Water Enterprise, the Wastewater Enterprise, and the Hetch Hetchy

Water and Power System), the Port, and the City-owned Hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2003-04 through 2007-08.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2007-08 was issued on January 30, 2009. The fiscal year 2007-08 CAFR reported that the audited General Fund unreserved and available for appropriation fiscal year-end fund balance as of June 30, 2008 was $105.06 million (see Table A-4), $23.40 million more than the $81.67 million assumed in the fiscal year 2008-09 Original Budget. This $23.40 million resulted primarily from additional expenditure savings and tax revenue in fiscal year 2007-08. In addition to this available year-end General Fund balance, the City's two Rainy Day Reserve accounts together totaled approximately $117.80 million ($117.56 million in the Economic Stabilization account and $0.24 million in the One-Time Spending account).

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2003-04 through 2008-09
(000s)

	FY 2003-04 Final Revised Budget	FY 2004-05 Final Revised Budget	FY 2005-06 Final Revised Budget	FY 2006-07 Final Revised Budget	FY 2007-08 Final Revised Budget	FY 2008-09 Original Budget[2]
Prior-Year Budgetary Fund Balance & Reserves	$207,167	$222,611	$324,724	$478,001	$563,435	$111,204
Budgeted Revenues						
Property Taxes	$527,767	$645,495	$696,660	$837,543	$934,720	$1,018,877
Business Taxes	288,619	295,230	288,320	332,168	359,718	394,556
Other Local Taxes	371,251	381,389	413,712	477,804	534,420	552,977
Licenses, Permits and Franchises	17,074	16,132	19,128	20,917	22,076	25,041
Fines, Forfeitures and Penalties	31,843	12,196	11,475	4,899	6,496	3,861
Interest and Investment Earnings	12,579	6,490	11,393	33,994	35,519	21,367
Rents and Concessions	19,316	21,902	19,583	20,138	19,805	21,107
Grants and Subventions	663,997	612,970	685,948	667,683	713,294	693,839
Charges for Services	107,847	119,637	130,773	133,331	137,103	147,748
Other	19,296	29,061	13,090	13,809	9,306	11,414
Total Budgeted Revenues	$2,059,589	$2,140,502	$2,290,083	$2,542,286	$2,772,457	$2,890,787
Bond Proceeds & Return of Excess Deposits	31,207	596	597	901	1,278	1,783
Expenditure Appropriations						
Public Protection	$668,872	$699,088	$743,958	$804,082	$883,539	$899,378
Public Works, Transportation & Commerce	60,467	63,250	46,708	55,679	72,033	53,143
Human Welfare & Neighborhood Development	507,740	525,887	548,935	578,581	647,787	654,162
Community Health	445,236	419,404	453,716	428,460	458,462	513,858
Culture and Recreation	93,017	92,245	81,126	93,091	102,254	104,232
General Administration & Finance [1]	131,959	122,666	140,674	178,318	213,433	182,139
General City Responsibilities	83,406	62,541	53,601	61,834	77,172	78,524
Total Expenditure Appropriations	$1,990,697	$1,985,081	$2,068,718	$2,200,045	$2,454,680	$2,485,436
Budgetary reserves and designations, net	$9,301	$13,487	$22,712	$20,539	$20,013	$32,766
Transfers In	$150,354	$161,840	$108,902	$62,659	$68,847	$118,218
Transfers Out	(292,664)	(339,436)	(436,092)	(498,202)	(541,853)	(603,790)
Net Transfers In/Out	($142,310)	($177,596)	($327,190)	($435,543)	($473,006)	($485,572)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$155,655	$187,545	$196,784	$365,061	$389,471	$0
Variance of Actual vs. Budget	66,956	137,179	281,217	198,374	71,722	
Total Actual Budgetary Fund Balance	$222,611	$324,724	$478,001	$563,435	$461,193	$0

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

[2] FY 2008-09 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the FY 2007-08 Final Revised Budget Total Actual Budgetary Fund Balance upon the release of the FY 2008-09 Final Revised Budget.

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, 2008 was $405.64 million using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues (as shown in Table A-4) of $2.72 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, 2004 through June 30, 2008.

TABLE A-3

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

	2004	2005	2006	2007	2008
Reserved for rainy day (Economic Stabilization account)	$55,139	$48,139	$97,910	$117,556	$117,556
Reserved for rainy day (One-time Spending account)			24,066	16,066	236
Reserved for encumbrances	42,501	57,762	38,159	60,948	63,068
Reserved for appropriation carryforward	32,813	36,198	124,009	161,128	99,959
Reserved for subsequent years' budgets					
Reserved for baseline appropriation funding mandates	-	6,223	5,232	2,891	1,491
Reserved for budget savings incentive program (citywide)	2,588	2,628	2,628	10,540	16,181
Reserved for budget savings incentive program (Recreation & Park)	-	3,075	3,366	-	3,266
Reserved for salaries and benefits (MOU)	3,654	9,150	13,349	11,806	12,777
Reserved for litigation	2,940	-	2,877	6,824	2,626
Total Reserved Fund Balance	$139,635	$163,175	$311,596	$387,759	$317,160
Unreserved - designated for litigation & contingency	$27,970	$24,370	$20,823	$43,794	$38,969
Unreserved - available for appropriation	55,006	137,179	145,582	131,882	105,064
Total Unreserved Fund Balance	$82,976	$161,549	$166,405	$175,676	$144,033
Total Fund Balance, Budget Basis	$222,611	$324,724	$478,001	$563,435	$461,193
Budget Basis to GAAP Basis Reconciliation					
Total Fund Balance - Budget Basis	$222,611	$324,724	$478,001	$563,435	$461,193
Unrealized gain on investments	277	224	(562)	(376)	(2,629)
Reserved for Assets Not Available for Appropriation	7,142	9,031	10,710	12,665	11,358
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(19,882)	(24,419)	(23,806)	(30,940)	(34,629)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	-	-	-	-	(26,071)
Deferred Charges and Other Redevelopment Agency Repayments	287	(1,880)	(3,067)	(3,323)	(3,587)
Total Fund Balance, GAAP Basis	$210,435	$307,680	$461,276	$541,461	$405,635

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

Table A-4, entitled "Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent years. Audited financials for the fiscal year ended June 30, 2008 are included herein as Appendix C—"COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2008." Prior years' audited financial statements can be obtained from the City Controller's website. 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 operations of the City, each of which prepares separate audited financial statements.

TABLE A-4

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

	2004	2005	2006	2007	2008
Revenues:					
Property Taxes	$547,819	$705,949	$783,303	$887,690	$939,812
Business Taxes	264,351	292,172	322,407	336,757	394,267
Other Local Taxes	403,549	428,244	480,501	540,695	519,867
Licenses, Permits and Franchises	17,501	19,427	20,825	19,639	23,212
Fines, Forfeitures and Penalties	22,158	9,536	10,195	4,720	8,398
Interest and Investment Income	3,222	8,374	22,496	30,089	15,779
Rents and Concessions	17,497	20,468	20,007	18,449	19,490
Intergovernmental	660,243	604,535	672,635	663,321	649,923
Charges for Services	95,951	115,812	126,433	125,682	135,473
Other	29,564	12,277	15,037	21,697	17,948
Total Revenues	$2,061,855	$2,216,794	$2,473,839	$2,648,739	$2,724,169
Expenditures:					
Public Protection	$670,729	$697,450	$739,470	$800,383	$874,881
Public Works, Transportation & Commerce	58,711	60,628	46,448	65,184	79,187
Human Welfare and Neighborhood Development	488,853	503,874	524,516	568,241	613,135
Community Health	413,725	413,110	377,226	410,169	454,935
Culture and Recreation	92,978	87,023	80,516	93,992	105,036
General Administration & Finance	128,135	120,400	146,567	166,673	193,315
General City Responsibilities	74,631	62,185	53,065	56,834	71,885
Total Expenditures	$1,927,762	$1,944,670	$1,967,808	$2,161,476	$2,392,374
Excess of Revenues over Expenditures	$134,093	$272,124	$506,031	$487,263	$331,795
Other Financing Sources (Uses):					
Transfers In	$121,491	$152,288	$62,431	$71,277	$70,969
Transfers Out	(277,464)	(330,230)	(420,086)	(486,600)	(543,640)
Other Financing Sources	36,003	3,063	5,220	8,245	5,050
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	($119,970)	($174,879)	($352,435)	($407,078)	($467,621)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$14,123	$97,245	$153,596	$80,185	($135,826)
Total Fund Balance at Beginning of Year	$196,312	$210,435	$307,680	$461,276	$541,461
Total Fund Balance at End of Year -- GAAP Basis [1]	$210,435	$307,680	$461,276	$541,461	$405,635
Unreserved & Undesignated Balance, Year End					
-- GAAP Basis	$63,657	$134,199	$138,971	$141,037	$77,117
-- Budget Basis	$55,006	$137,179	$145,582	$131,882	$105,064

[1] Fund Balances include amounts reserved for Rainy Day (Economic Stabilization and One-time Spending accounts), encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved designated and undesignated available fund balances (which amounts constitute unrestricted General Fund balances).

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

Adopted Fiscal Year 2008-09 Budget; Recent Changes in City Fiscal Outlook

Section 9.102 of the City's Charter requires the Controller to provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates in the Mayor's Proposed Budget. On June 2, 2008, Mayor Gavin Newsom issued his fiscal year 2008-09 Proposed Budget to the Board of Supervisors. On June 13, 2008, the City Controller published his discussion of the Proposed Budget (known as the Controller's "Revenue Letter"), which found the Proposed Budget to be reasonable given current trends, including continued growth in key revenue sources. The Original Budget was approved by the Board of Supervisors on July 29, 2008 and signed by the Mayor on July 30, 2008. Total budgeted fiscal year 2008-09 General Fund sources are $3.05 billion, an increase of $132.4 million or 4.5% from the fiscal year 2007-08 budget.

The Controller's Revenue Letter and Annual Appropriation Ordinance can be viewed online at www.sfgov.org/controller. (The Revenue Letter and Annual Appropriation Ordinance are not incorporated by reference herein.)

Given the sudden change in economic conditions after the adoption of the fiscal year 2008-09 Original Budget, the Controller published a brief unscheduled update on key General Fund tax revenues on October 31, 2008 that projected a shortfall in the current fiscal year of $90 million to $125 million versus the Original Budget. The range of projected losses depended on assumptions of the severity of the economic downturn in San Francisco. The largest projected losses were in real property transfer tax (up to $49 million) and sales tax-related revenues (up to $43 million) related to the credit crunch, rising unemployment, and the housing market downturn. Property tax revenues were projected to remain relatively stable. This revenue update was provided to the Mayor and the Board of Supervisors, and in November the Mayor issued mid-year reduction instructions to City departments so that the City could take prompt action to reduce expenditures in fiscal year 2008-09. The Mayor's Office projected that after actions are taken to cut $118 million in costs in fiscal year 2008-09, primarily through a series of staff layoffs, there would remain a budget deficit projected for fiscal year 2009-10 of approximately $460 million and that further actions will be required to address both revenue and expenditure items to bring the 2009-10 budget into balance.

City Budget Updates for Fiscal Year 2008-09

As required by Charter Section 3.105, the City Controller released his fiscal year 2008-09 Six-Month Budget Status Report (the "Six-Month Report") on February 10, 2009 and released his fiscal year 2008-09 Nine-Month Budget Status Report (the "Nine-Month Report") on May 5, 2009. The Nine-Month Report supersedes the Six-Month Report. The Six-Month Report is a detailed review of fiscal year-to-date revenue and expenditure progress against the fiscal year 2008-09 Original Budget. Excluding prior-year fund balances, transfers and reserves, the Original Budget for the General Fund assumed revenues of $2.89 billion, expenses of $2.50 billion, and a fiscal year-end balance of $20.1 million. In the Six-Month Report, the Controller projected current-year General Fund revenues of $2.77 billion—a reduction of $126.4 million or 4.4% from the fiscal year 2008-09 Original Budget. The Controller projected mid-year spending reductions implemented by the Mayor's Office and reductions in City Charter-mandated General Fund baseline funding, among other expenditure adjustments, would be sufficient to offset revenue weaknesses in the current fiscal year 2008-09.

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

As required by Charter Section 3.105, the City Controller released his fiscal year 2008-09 Nine-Month Budget Status Report (the "Nine-Month Report") on May 5, 2009. The Nine-Month Report provides expenditure and revenue information and projections as of March 31, 2009 and updates the Controller's projections provided in the Six-Month Report. In the Nine-Month Report, the Controller projects current-year General Fund revenues of $2.78 billion excluding transfers into the General Fund—a reduction of $122.6 million or 3.9% from the fiscal year 2008-09 Original Budget. The Controller projects mid-year adjustments will be available to offset revenue shortfalls in the current fiscal year.

Revenue Adjustments

- Current year revenues continue to weaken versus those assumed in the Original Budget. The Controller projects a revenue shortfall of $137.7 million in the current year excluding federal stimulus funds. After including General Fund federal stimulus funds and transfers into the General Fund, the revenue shortfall is projected to be $117.1 million.

Expenditure Adjustments and Baseline Funding Adjustments

- Departmental expenditure reductions implemented by the Mayor's Office beginning in December and February and other additional departmental savings are projected to yield approximately $100.3 million in savings. Departmental expenditure reductions include: reductions in salary and fringe benefits; administrative reductions such as reduced purchases of equipment, materials and supplies; community-based contract savings; and capital reductions. Major contributors to the projected expenditure reductions include the Department of Human Services ($21.9 million), Department of Public Health ($10.4 million) and Police, City Administrator, Fire, and Public Works (combined expenditure reductions of $29.1 million).
- The City Charter establishes baseline funding levels for a number of City services. These baselines are indexed to overall growth or reduction in aggregate General Fund discretionary revenues. The Controller's Office updated the formula used to calculate aggregate discretionary revenue to ensure consistent year-over-year exclusion of non-discretionary fee revenues. The combined effect of the formula update and the revenue shortfalls discussed above results in a projected $25.1 million decrease in required revenue-driven transfers.

Reserve Adjustments

- The Nine-Month Report projects certain uses and deposits into various reserves during the current fiscal year. The net effect of these actions is a projected deposit of $21.8 million from the General Fund.
- The Rainy Day Economic Stabilization account began the year with $117.6 million. In the current fiscal year, $19.3 million from the Rainy Day Economic Stabilization account has been allocated to the San Francisco Unified School District to offset the impact of declining State aid to SFUSD, resulting in a balance of $98.3 million. See "—*Budget Process*." Due to the expected receipt of formula-based federal stimulus funds earned in the current year, the City does not expect to make any further withdrawals from the Economic Stabilization account.

The audited General Fund balance at the end of fiscal year 2007-08 was $105.1 million. The fiscal year 2008-09 Original Budget assumed and appropriated $81.7 million of this balance, leaving a surplus of $23.4 million available for use in the current fiscal year. Combined with a budgeted General Fund Reserve of $20.1 million in the fiscal year 2008-09 Original Budget, the starting balance available for appropriation in fiscal year 2008-09 was $43.5 million.

Given the revenue and spending projections outlined above and detailed in the Nine-Month Report, the Controller projects an ending General Fund balance for fiscal year 2008-09 of $20.1 million – a decrease of $85.0 million or 80.9% from the audited fiscal year 2007-08 balance.

The following table summarizes the variances in projected revenues, expenditures, and fund balances from the Original Budget to the Six-Month Report and Nine-Month Report.

	Six-Month	Nine-Month	Variance
A. Starting Balance	$ 23.4	$ 23.4	$ -
Better than anticipated starting balance	20.1	20.1	-
Budgeted General Fund reserve	43.5	43.5	-
B. Revenues			
Citywide Revenues excluding Federal Stimulus Package	(116.8)	(124.6)	(7.8)
Departmental Revenues	(10.1)	(13.1)	(3.0)
	(126.9)	(137.7)	(10.8)
C. Federal Stimulus Package			
Federal Stimulus Funds allocated to General Fund	-	20.6	20.6
Federal Stimulus Funds allocated to GF Supported Departments	-	15.2	15.2
	-	35.8	35.8
D. Expenditures			
Mid-year reductions	84.4	88.2	3.8
Other net departmental operating savings / (shortfalls)	(12.2)	(13.0)	(0.8)
Reduced Baseline Contributions & Parking Tax Set-Aside	22.5	25.1	2.6
	94.7	100.3	5.6
E. Use of Reserves			
Uses of General Fund Reserve	(0.5)	(1.4)	(0.9)
Rainy Day Reserve Withdrawal	6.3	-	(6.3)
Budget Savings Incentive Reserve Net Withdrawal / (Deposit)	3.0	(20.3)	(23.3)
	8.8	(21.8)	(30.6)
F. Ending Balance	**$ 20.1**	**$ 20.1**	**$ -**

Further detail on key budgetary variances between the Original Budget and the Nine-Month Report are provided under the caption "Other City Tax Revenues" below. The Nine-Month Report cautions that volatility in tax revenues continues to create uncertainty in revenue projections for the final three months of the fiscal year. The City's Nine-Month Report is posted on the City Controller's website at www.sfgov.org/controller. (The Nine-Month Report is not incorporated by reference herein.)

Additional Actions Taken by Mayor and Board of Supervisors

The Board of Supervisors is considering legislation that, if approved, would allow the City to call a special election prior to August 31, 2009, at which revenue raising measures could be proposed to the City's voters. Several tax and fee measures have been introduced to the Board of Supervisors, but no measures have yet been proposed to the voters, nor a specific election date established.

On February 11, 2009, Mayor Newsom announced a plan for stimulating the local economy. Proposed "local economic stimulus" measures include: (i) accelerating approved capital spending projects, including amending the City's Public Works Code to make bidding on City construction jobs easier; (ii) investing in local businesses, including through no-interest loans and outreach to businesses, consumers and tourists; (iii) reducing burdens of local government on local businesses, including tax credit programs for new job creation and local equipment purchases; (iv) supporting the local workforce through tax credits, financial literacy programs and employment assistance fairs and centers; and (v) attracting more foreign investment. The Board of Supervisors has not taken action yet to approve the Mayor's stimulus measures.

Three-Year Budget Projection Report

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

The most recent Joint Report was published on March 31, 2009 and covered the projection period of fiscal years 2009-10 through 2011-12. The Joint Report projected a shortfall of $438 million for fiscal year 2009-10, followed by a shortfall of $615 million for fiscal year 2010-11, and a shortfall of $746 million for fiscal year 2011-12. Unlike previous versions of this report where shortfalls were assumed to be bridged using ongoing solutions, projections in this Joint Report assume prior year shortfalls are bridged with one-time solutions. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

The projected shortfall of $438 million in fiscal year 2009-10 is primarily due to four factors: 1) the loss of $61 million in fund balances and prior year reserves as a funding source, 2) the loss of $269 million in local and State revenue sources, offset by $46 million in additional federal stimulus funding for the Federal Medical Assistance Percentage (FMAP), 3) an increase of $164 million in personnel-related costs related to negotiated wage increases, employee and retiree benefit cost increases, and the annualization of positions added in the fiscal year 2008-09 budget, and 4) a net decrease of $9 million in Citywide and departmental costs, due to increases in facilities maintenance and inflationary increases assumed for supplies and contracts, offset by annualization of fiscal year 2008-09 mid-year budget reductions.

Joint Reports for fiscal years 2003-04 through 2007-08 all included projections of shortfalls. In each of those years, the City adopted a balanced budget as required by law.

The City's Budget for fiscal year 2009-10 is in preparation by the Mayor and is under consideration by the Board of Supervisors, but no definitive actions have yet been taken.

The City's latest Joint Report contains a number of economic, political and other assumptions which, if not realized, would affect the actual budgetary shortfalls for the three-fiscal year projection period. The latest Joint Report is posted on the City Controller's website at www.sfgov.org/controller. (The Joint Report is not incorporated by reference herein.)

Impact of Federal Stimulus Bill on City Budget

The Nine-Month Report described above updated the fiscal year 2008-09 Six-Month Report ending fund balance to show the effects of increased Federal Medical Assistance Percentage funding in the federal stimulus bill (the "American Recovery and Reinvestment Act of 2009"), enacted on February 17, 2009. The Department of Public Health projects $21.9 million in additional revenue, of which $10.3 million is projected for San Francisco General Hospital, $8.4 million is for the General Fund, and $3.1 million is for Laguna Honda Hospital. The Human Services Agency projects $12.2 million in additional revenue from the increase of the Federal Medical Assistance Percentage. Additionally, the Department of Public Health projects $1.7 million in additional Medi-Cal Intergovernmental Transfer as part of the federal stimulus package.

Much of the American Recovery and Reinvestment Act of 2009 funds will be for non-General Fund infrastructure projects at the Municipal Transportation Agency, Housing Authority, Airport, and Public Utilities Commission. City departments are also applying for competitive grants. As details are still pending regarding the amount of funds that will be available to San Francisco, aside from the Federal Medical Assistance Percentage formula change discussed above, the Nine-Month Report made no other assumptions regarding additional federal stimulus-related General Fund revenues or expenditures.

Impact of State Budget

Revenues from the State represented 16.2% of the fiscal year 2008-09 General Fund Original Budget, and thus changes in the State Budget may have a significant impact on the City's finances. In crafting its own budget, the City must look to preliminary indications of what the State's Budget is likely to contain. 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.

The State Budget has had structural deficits for several years. In addressing these shortfalls in the recent past, the State has reduced transfers of State general fund money to local governments, including the City. It is not possible to predict how future State Budgets and mid-year changes to the current budget may adversely affect the City.

The State adopted its fiscal year 2008-09 Budget on September 23, 2008. The City originally estimated the effect of the State Budget on the City's budget to be a General Fund loss of $41.1 million compared to the fiscal year 2008-09 Original Budget, due largely to cuts in health and human services programs as well as delays in reimbursements for State-mandated programs.

Although the State Constitution requires the Legislature to adopt a budget by June 14 of each year, in recent years the State's practice has been to adopt the budget several months later than this deadline. By the time the Governor signed the 2008 Budget Act on September 23, 2008, the revenue projections were already known to be overstated. The Governor convened several concurrent special sessions of the Legislature in November to address the effect of deteriorating economic conditions on the State's Budget.

State Budget Update

On February 20, 2009, the Governor signed the budget package for fiscal year 2009-10 consisting of a series of budget bills adopted by the State Legislature on February 19, 2009. The State budget package closes a projected \$42 billion deficit through fiscal year-end 2009-10. The package consists of \$15 billion in expenditure reductions, \$11.4 billion in borrowing, \$12.8 billion in taxes and \$2 billion in federal moneys. Some of these reductions directly affect the City's current-fiscal year 2008-09 budget. The adopted State Budget includes reductions in State funding for county public hospitals and social services programs including CalWORKs, Supplemental Security Income/State Supplementary Payment, Medi-Cal, In-Home Supportive Services, and other social service programs. Balance in the adopted State Budget depends on voter approval of a proposition to establish a new State spending cap together with other political and budgetary measures, to appear on the May 19, 2009 statewide special election ballot. These measures will require a majority vote for passage. In March 2009, the State's Legislative Analyst's Office issued a report indicating that further deterioration in projected State revenues has caused an additional \$8 billion shortfall for fiscal year 2009-10, and that failure of the May 19 ballot measures would cause an additional \$6 billion shortfall. Balancing the State Budget if the May 19th measures fail would likely require significant cutbacks in state funded programs including some of which could be solved by budgetary solutions affecting funding to local governments such as the City. The City can make no prediction regarding the likely outcome of the May 19 election on the various budget-related propositions, nor can the City predict the final impact of the State Budget on City revenues and expenditures in fiscal year 2009-10 or beyond.

Assessed Valuations, Tax Rates and Tax Delinquencies

The single greatest source of the City General Fund revenues is the county-wide property tax levied against all taxable property in the City. Table A-5 provides a six-year history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion permitted by Article XIIIA of the State Constitution, 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 the San Francisco Unified School District, the San Francisco Community College District, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit (BART) District, all of which are separate legal entities from the City. See also Table A-13 "—Statement of Direct and Overlapping Debt and Long-Term Obligations" below. Additionally, a portion of property taxes collected within the City is allocated to the San Francisco Redevelopment Agency, an independent local agency.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2003-04 through 2008-09
($000s)

Fiscal Year		Real Property	Personal Property	Total Assessed Valuation	% Change from Prior Year	Exemptions[1]	Total Tax Rate per $100	Total Tax Levy (000s)[2]	Delinquency Rate June 30	
2003-04		99,878,960	3,848,851	103,727,811	5.7%	8,288,058	1.107	1,100,951	1.96%	
2004-05		106,805,910	3,736,998	110,542,908	6.6%	9,895,028	1.144	1,208,044	2.32%	
2005-06		114,767,252	3,465,752	118,233,004	7.0%	11,357,245	1.140	1,291,491	2.18%	
2006-07		126,074,101	3,524,897	129,598,998	9.6%	12,608,911	1.135	1,411,316	2.77%	
2007-08		136,887,654	3,807,362	140,695,016	8.6%	16,473,923	1.141	1,530,484	2.79%	
2008-09	[3]	147,603,291	3,980,660	151,583,951	7.7%	15,159,677	1.163	1,641,030	n/a	[4]

[1] Exemptions include non-reimbursable and homeowner exemptions and redevelopment tax increments.
Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.
[2] The total tax levy is based on year-end actual assessed values.
[3] Based on Certificate of Assessed Valuation.
[4] Delinquency rates through FY 2007-08 are audited. FY 2008-09 delinquency rate will be available after fiscal year end.

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

For fiscal year 2008-09, total assessed valuation of taxable property within the City was $151.6 billion. After deducting exemptions, net assessed valuation was $136.4 billion. (See below for a discussion of secured and unsecured property valuations within this total.) Total property tax revenues for all taxing entities were budgeted to be $1.6 billion before reflecting delinquencies. A portion of property tax revenues is applied to pay debt service for general obligation bonds issued by the City, the San Francisco Unified School District, the San Francisco Community College District, and the Bay Area Rapid Transit District. The City's General Fund is allocated about 50% of total property tax revenue before adjusting for the State's Triple Flip (where Proposition 57 dedicated one quarter of one percent of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts. After adjusting for these State-mandated shifts, General Fund property tax revenues of $943.5 million were realized in fiscal year 2007-08, and are budgeted to be $1,018.9 million in fiscal year 2008-09.

The Nine-Month Report projects fiscal year 2008-09 property tax revenues to be $1,014.8 million – a decrease of $4.1 million or 0.4% from the fiscal year 2008-09 Original Budget. The Controller considers significant additional assessment appeals possible, particularly from owners of commercial properties whose values fluctuate with business activity. Foreclosures increased 205% from fiscal year 2006-07 to 2007-08, and are assumed to increase another 50% in 2008-09; however the Controller notes that the absolute number of foreclosures (494 in fiscal year 2007-08) is still relatively small, and that these have not yet had a significant impact on property valuation.

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. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments. As in every year, some appeals are multiple-year or retroactive in nature. With respect to the fiscal year 2007-08 levy, property owners representing approximately 8.5% of the total assessed valuation in the City filed appeals for a partial reduction of their assessed value. This reflects a decrease in the amount appealed from the prior fiscal year 2006-07, where property owners representing approximately 13.2% of total assessed valuation filed for a partial reduction of their assessed value. In the first half of fiscal year 2008-09, property owners filed 2,070 new applications for assessment appeal, representing approximately 16.0% of the total assessed valuation. These property owners requested reductions representing 6.5% of total assessed valuation. Most of the appeals involve large commercial properties, including offices.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases as the economy rebounds. Historically during severe economic downturns, partial reductions of up to approximately 20% to 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. For example, if appeals totaling 8.5% of assessed valuation pertaining to the fiscal year 2007-08 levy were to be granted, and an average reduction of 25% is assumed, the taxing entities would expect to issue refunds equal to 2.1% of total property tax revenue. Other taxing agencies such as the San Francisco Unified School District, San Francisco Community College District and Bay Area Rapid Transit District 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.

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

Property subject to *ad valorem* taxes is entered on separate parts of the assessment roll maintained by the 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 & 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. This reserve has been funded at $8.9 million as of June 30, 2004, $10.1 million as of June 30, 2005, $10.1 million as of June 30, 2006, $13.2 million as of June 30, 2007, and $14.3 million as of June 30, 2008.

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 2008-09 valuation of property assessed by the State Board of Equalization is $2.1 billion, as recorded on the most recent certificate of assessed valuation. The fiscal year 2007-08 general fund tax revenues from State-assessed property was $16.9 million.

Assessed valuations ("AV") of the aggregate taxable property holdings of the ten largest assessees in the City for the fiscal year ended June 30, 2008 are shown in Table A-6.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO Top 10 Principal Property Assessees Fiscal Year Ended June 30, 2008			
Assessee	Type of Business	Assessed Value ($000s) [1]	% of Total Assessed Value
HWA 555 Owners LLC	Office, Commercial	$ 885,380	0.71%
PPF OFF One Market Plaza Owner LLC	Office, Commercial	442,169	0.36%
Marriott Hotel	Hotel	413,653	0.33%
SFHR LLC	Office, Commercial	373,417	0.30%
Post-Montgomery Associates	Office, Commercial	363,063	0.29%
TST Mission Street LLC	Office, Commercial	331,047	0.27%
One Embarcadero Center Venture	Office, Commercial	322,275	0.26%
Broadway Partners	Office, Commercial	306,000	0.25%
Three Embarcadero Center Venture	Office, Commercial	303,171	0.24%
Embarcadero Center Associates	Office, Commercial	301,796	0.24%
Ten Largest Assessees		$ 4,041,971	3.25%

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

[1] Represents the Assessed Valuation as of the Basis of Levy, which excludes assessments processed during the fiscal year.

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" in the front of this Official Statement.

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. The City also levies a registration tax on businesses which varies from $25 to $500 per year per subject business based on the prior year computed payroll tax liability.

The fiscal year 2008-09 Original Budget included $10.0 million in business registration revenues and $384.6 million in payroll tax revenues accruing to the General Fund. This compares to fiscal year 2007-08 actual amounts of $9.1 million in business registration tax revenues and $385.2 million in payroll tax revenues. The Nine-Month Report projects payroll tax revenues to be $388.8 million and business registration tax revenues to be $8.6 million – an increase of $4.1

million and decrease of $1.3 million, respectively, from the fiscal year 2008-09 Original Budget. This increase in payroll tax revenues is due to moderate overall job growth in the first three quarters of calendar year 2008, offset by job losses in the fourth quarter. These local job losses in calendar year 2009 will continue to affect payroll tax collections in fiscal year 2009-10.

On November 4, 2008, voters approved Proposition Q, which will increase the annual payroll threshold for the small business exemption from $167,000 to $250,000 and require partnerships to pay payroll tax on profits paid to partners. The net effect of these provisions is estimated to be approximately $10.50 million in new revenues and will largely be realized beginning fiscal year 2009-10.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Receipts ($000's)
Fiscal Years 2003-04 through 2007-08
All Funds[1]

Fiscal Year	Revenue	Change	
2003-04	$ 264,832	$ (11,819)	-4.3%
2004-05	292,762	27,930	10.5%
2005-06	323,152	30,390	10.4%
2006-07	337,592	14,440	4.5%
2007-08	396,025	58,433	17.3%

[1] Figures are audited actuals. Includes both Payroll Tax and Business Registration Tax. Includes portion allocated to special revenue funds.

Sales and Use Tax

The State collects the City's local sales tax on retail transactions (currently 1.0% less the 0.25% shifted by the State pursuant to the Triple Flip) along with State and special district sales taxes, and then remits the local sales tax collections to the City. The 0.25% reduction of the local sales tax allocation is wholly backfilled by increased property tax allocations to the City from the State. The local sales tax is deposited in the City's General Fund. The fiscal year 2008-09 Original Budget included sales and use tax revenues of $119.3 million. This compares to fiscal year 2007-08 collections of $111.4 million. The Nine-Month Report projects local sales and use tax revenues to be $104.5 million, a decrease of $14.8 million or 12.4% from the fiscal year 2008-09 Original Budget.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and jobs. This revenue is significantly impacted by changes in the economy. Table A-8 reflects the City's actual sales and use tax receipts for fiscal years 2003-04 through 2007-08. The impact attributed to the Triple Flip backfill payments is also shown in Table A-8.

TABLE A-8

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

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2003-04	8.50%	1.00%	$ 120,642	$ 5,064	4.4%
2004-05	8.50%	0.75%	94,689	(25,953)	-21.5%
2004-05 adj.*	8.50%	1.00%	118,287	(2,355)	-2.0%
2005-06	8.50%	0.75%	103,074	8,385	8.9%
2005-06 adj.*	8.50%	1.00%	136,840	18,553	15.7%
2006-07	8.50%	0.75%	107,813	4,739	4.6%
2006-07 adj.*	8.50%	1.00%	143,453	6,613	4.8%
2007-08	8.50%	0.75%	111,410	3,597	3.3%
2007-08 adj.*	8.50%	1.00%	148,729	5,276	3.7%

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

Revenues reflect underlying sales activity by fiscal year. Figures are audited actuals.

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

Transient Occupancy Tax

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2008-09, underlying growth in average daily rates, room supply, and occupancy was budgeted to be 7.2% over fiscal year 2007-08 collections. Much of the growth in transient occupancy tax revenue was allocated to the General Fund, such that the General Fund increase over fiscal year 2007-08 budgeted levels is 26.8%. Budgeted revenue across all funds for fiscal year 2008-09 is $241.5 million, including $188.7 million allocated to the City's General Fund. The Nine-Month Report projects hotel room tax revenues to be $145.2 million – a decrease of $43.5 million or 23.1% from the fiscal year 2008-09 Original Budget. Table A-9 sets forth a history of transient occupancy tax receipts for fiscal year 2003-04 through 2007-08.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO Transient Occupancy Tax Receipts ($000's) Fiscal Years 2003-04 through 2007-08 All Funds				
Fiscal Year	**Tax Rate**	**Revenue**	**Change**	
2003-04	14.00%	$ 148,231	$ 19,641	15.3%
2004-05	14.00%	157,945	9,713	6.6%
2005-06	14.00%	179,471	21,527	13.6%
2006-07	14.00%	199,768	20,297	11.3%
2007-08	14.00%	224,814	25,046	12.5%

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

Figures are audited actuals.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less; $6.80 per $1,000 for properties valued more than $250,000 and less than $999,999; and $7.50 per $1,000 for properties valued at $1.0 million or more. Budgeted revenue from the real property transfer tax for fiscal year 2008-09 is $94.3 million, which assumed a 3.0% increase from fiscal year 2007-08 collections of $86.2 million. The Nine-Month Report projects property transfer tax revenue to be $43.1 million – a decrease of $51.2 million or 54.3% from the fiscal year 2008-09 Original Budget. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources.

On November 4, 2008, voters approved Proposition N, which increases the transfer tax rate for properties valued at $5.0 million or more from $7.50 per $1,000 to $15.00 per $1,000, provides partial transfer tax exemptions to property sellers who implement solar or seismic improvements, and requires transfer taxes to be paid on properties involved in stock swaps. These changes are estimated to increase fiscal year 2008-09 revenues by approximately $1.0 million to $3.5 million, depending on the volume and value of transactions at the new tax rate.

TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts ($000's)
Fiscal Years 2003-04 through 2007-08

Fiscal Year	Revenue	Change	
2003-04	$ 78,845	$ 27,370	53.2%
2004-05	116,797	37,952	48.1%
2005-06	131,279	14,482	12.4%
2006-07	143,976	12,697	9.7%
2007-08	86,219	(57,757)	-40.1%

Figures are audited actuals.

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

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for billing addresses in the City. Budgeted revenue from the utility users tax for fiscal year 2008-09 is $82.8 million, 3.0% above the fiscal year 2007-08 Original Budget and 4.8% below the fiscal year 2007-08 actual numbers. Of the total $82.8 million, $40.6 million is related to energy, $40.4 million is related to telephone usage, and $1.8 million is related to water usage. The Nine-Month Report projects utility users tax revenue to be $87.8 million – an increase of $5.1 million or 6.0% from the fiscal year 2008-09 Original Budget.

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

The City proposed to voters, and on November 4, 2008, the voters approved, Proposition O ("Prop O"), which modernized the Telephone Users Tax ("TUT"). Prop O updates the definition of “telephone communications services” to apply to all current and future technologies used for telephone communications services, including voice over internet protocol (VoIP) service. Prop O maintains the prior ordinance's exemptions, including the exemption for wireline residential telephone communications service. Prop O removes the prior ordinance's reference to the Federal Excise Tax ("FET"), but recites and continues the exemptions that had been incorporated from the FET. In addition, Prop O ratifies and approves the City’s collection of the TUT to date. Suppliers of telephone communications services were required to begin implementing the updated TUT April 1, 2009.

With respect to the prior ordinance, in August 2006, the Board of Supervisors amended the City's Business and Tax Regulations Code to address a change in the IRS interpretation of the FET. The 2006 amendment clarified that the City levies its TUT under the City's inherent powers as a charter city and that federal law is not the basis or authority for the City's imposition of the TUT. The amendment also provided that the City would continue to apply its TUT to all types of telephone communication services, including toll service. Telephone communication service providers have continued to collect and remit the TUT as they did prior to the change in interpretation of the federal law in 2006. In Los Angeles, lawsuits have been filed challenging the city's authority to impose similar taxes on cell phone usage and seeking refunds.

Emergency Response Fee; Access Line Tax

As of December 1993, the City required every person who subscribes to local telephone service within the City to pay an emergency response fee (the "Fee") to help the City recover the cost of operating its 911 emergency response system. Telephone service providers collected the Fee from their subscribers and remitted the revenues to the City. In April 2008, in *Bay Area Cellular Telephone Company v. City of Union City*, the California Court of Appeal, First District, upheld a trial court decision invalidating an emergency response fee that Union City had imposed to fund its 911 emergency communication response system, concluding that the fee was a special tax adopted without the approval of two-thirds of the voters as required by Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIIIC and XIIID of the California Constitution" for information on Proposition 218. The California Supreme Court has declined to review this Court of Appeal decision.

On November 4, 2008, voters approved Prop O which repeals the Fee and replaces it with a general tax (the "ALT") of an equivalent amount, as of April 1, 2009. Like the Fee, the ALT applies to each telephone line in the City and will be collected from telephone communications service subscribers by the telephone service supplier. The same exemptions that applied to the Fee will apply to the ALT. The ALT monthly rates will be the same as those that previously applied to the Fee. Beginning December 31, 2009, the rates may be increased annually by the increase in the consumer price index for the San Francisco area. Prop O ratified and approved the City's collection of the Fee to date.

There are no pending claims or litigation against the City challenging the validity of the Fee. The City assumed fee revenue collections of $42.2 million in fiscal year 2008-09. Although the Fee has been repealed and its past collection has been ratified by the voters, there is a risk that the Fee could be challenged under Proposition 218 or otherwise and, if a challenge succeeded, the City could be required to make refunds. The Controller has allocated $15.0 million of the General Reserve as a reserve against potential losses in fee revenue.

Parking Tax

A 25.0% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities. The City's budgeted General Fund revenue from the parking tax is $65.4 million in fiscal year 2008-09, 0.8% above fiscal year 2007-08 levels and 2.8% less than fiscal year 2007-08 levels. The Nine-Month Report projects parking tax revenue to be $64.1 million – a decrease of $1.2 million or 2.0% from the fiscal year 2008-09 Original Budget.

Intergovernmental Revenues, Grants and Subventions

For fiscal year 2008-09, the City budgeted General Fund intergovernmental revenues, grants and subventions of $693.8 million, including $206.3 million from the federal government and $487.4 million from the State government. The Nine-Month Report projects federal and State revenues to be $691.1 million – a decrease of $2.8 million or 0.4% below the fiscal year 2008-09 Original Budget. See "*Impact of State Budget*." The major categories of such funds are set forth in further detail below. Actual State revenues will vary from the City budget based on the solutions to the State's fiscal challenges that are ultimately adopted by the Governor and the Legislature.

Health and Welfare Realignment

In fiscal year 1991-92, the State transferred to counties responsibility for determining service levels and administering most mental health, public health and some social service programs, thereby reducing the State's obligations. The State also increased its share of certain welfare costs formerly borne by counties. In order to meet these obligations, counties receive the proceeds of a 0.5% statewide sales tax and a portion of vehicle license fees ("VLF"). These sources are budgeted to provide $231.2 million to the City's General Fund and its two General Fund-supported county hospitals for fiscal year 2008-09, which constitutes no increase over the fiscal year 2007-08 Original Budget and 2.1% over fiscal year 2007-08 actual levels. The Nine-Month Report projects health and welfare realignment revenues to be $203.1 million--a decrease of $28.1 million from the fiscal year 2008-09 Original Budget.

Motor Vehicle License Fees

The City's budget reflects the permanent roll-back of the VLF revenues, along with the associated backfill shift made by the State, which partially reduced the amount of property taxes shifted from the City to the ERAF to make up the difference. After factoring in State shifts, the fiscal year 2008-09 Original Budget for vehicle license fee revenues is $5.0 million, 6.3% below the fiscal year 2007-08 Original Budget. The Nine-Month Report projects vehicle license fee revenue to be $1.4 million – a decrease of $3.5 million from the fiscal year 2008-09 Original Budget.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source is $73.8 million for fiscal year 2008-09, 0.7% greater than the fiscal year 2007-08 Original Budget and 5.9% above fiscal year 2007-08 actuals. This revenue is a function of the City's proportionate share of statewide sales activity. The Nine-Month Report projects this revenue to be $65.1 million – a decrease of $8.7 million from the fiscal year 2008-09 Original Budget.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds in fiscal year 2008-09, the City budgeted approximately $1.1 billion in subventions from the State and federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services, transportation and other projects. Health and welfare subventions are often based on State and federal funding formulas, which currently reimburse counties according to actual spending on these services.

Charges for Services

Charges for services are budgeted at $147.7 million for fiscal year 2008-09 in the General Fund, which is 7.7% greater than the fiscal year 2007-08 Original Budget and 9% over fiscal year 2007-08 actuals. This includes $35.71 million of general government service charges (including, City planning fees), $26.8 million of public safety service charges (including, boarding of prisoners and safety inspection fees), $7.4 million of recreation charges, $53.0 million of MediCal, MediCare and health service charges, $11.9 million of other miscellaneous service charges, and $12.8 million of internal service cost recoveries. The Nine-Month Report projects charges for services revenues to be $142.1 million – a decrease of $5.6 million from the fiscal year 2008-09 Original Budget.

Investment Policy

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

The investment portfolio is structured with the objective of enabling the City to meet all disbursement requirements that are anticipated from any fund during the subsequent six months. As of April 30, 2009, the City's surplus investment fund consisted of the investments classified in Table A-11, and had the investment maturity distribution presented in Table A-12.

The City Treasurer's investment policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. See "APPENDIX H – City and County of San Francisco Office of the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy dated March 2009.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO Investment Portfolio Pooled Funds As of April 30, 2009			
Type of Investment	Par Value	Book Value	Market Value
Agency	$ 2,022,945,000	$ 2,041,802,411	$ 2,045,175,401
TLGP	702,450,000	706,935,078	705,403,025
Treasury	620,100,000	623,726,013	624,022,999
Collateral C D	525,000,000	525,000,000	525,000,000
Public Time Deposit	15,200,000	15,200,000	15,200,000
Commercial Paper	-	-	-
Total	$ 3,885,695,000	$ 3,912,663,502	$ 3,914,801,425

April 2009 Earnings Yield 2.128%

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

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO Investment Maturity Distribution Pooled Funds As of April 30, 2009		
Maturity In Months	Book Value	Percentage
0 to 2	$ 240,113,703	8.30%
2 to 3	10,265,543	3.20%
3 to 4	202,999,794	0.30%
4 to 5	93,537,476	8.70%
5 to 6	199,264,111	3.00%
6 to 12	845,689,069	30.30%
12 to 18	177,935,494	5.70%
18 to 24	641,564,448	4.50%
24 to 36	950,891,787	26.70%
36 to 48	203,044,821	2.40%
48 to 60	347,357,256	6.90%
	$ 3,912,663,502	100%

Weighted Average Maturity: 650 Days

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

Statement of Direct and Overlapping Bonded Debt and Long Term Obligations

The pro forma statement of direct and overlapping bonded debt and long-term obligations (the "Debt Report"), presented in Table A-13 has been compiled by the City's Office of Public Finance.

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO

Statement of Direct and Overlapping Debt and Long-Term Obligations

2008-2009 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 141,274,628,320	
	Outstanding	
DIRECT GENERAL OBLIGATION BOND DEBT	**5/1/2009**	
General City Purposes Carried on the Tax Roll	$1,272,512,731	
GROSS DIRECT DEBT	$1,272,512,731	
DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS		
San Francisco COPs, Series 1997 (2789 25th Street Property)	$5,940,000	
San Francisco COPs, Series 1999 (555-7th Street Property)	6,480,000	
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	6,495,000	
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	125,885,000	
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	9,295,000	
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1	13,890,000	
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	32,410,000	
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	38,675,000	
San Francisco Finance Corporation, Equipment LRBs Series 2003A, 2004A, 2005A, 2006A, 2007A, 2008A	21,395,000	
San Francisco Finance Corporation Emergency Communication Series, 1997, 1998, 1998-1, 1999-1	29,730,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	141,600,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	67,320,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	34,265,000	
San Francisco Redevelopment Agency Moscone Convention Center 1992	18,349,818	[1]
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	66,205,000	
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004	32,050,000	
San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project)	31,065,000	
San Francisco COPs, Series 2007A and Taxable Series 2007B (City Office Buildings - Multiple Properties)	152,120,000	
LONG-TERM OBLIGATIONS	$833,169,818	
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	$2,105,682,549	
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		
Bayshore Hester Assessment District	$790,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	119,085,000	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	110,546,550	
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	365,990,000	
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	17,985,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	4,840,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	52,240,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	574,527,610	
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006	651,275,000	
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	7,502,682	
San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999	13,870,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$1,918,651,842	
GROSS COMBINED TOTAL OBLIGATIONS	$4,024,334,391	[2]

Ratios to Assessed Valuation:	**Actual Ratio**	**Charter Req.**	
Gross Direct Debt (General Obligation Bonds)	0.90%	< 3.00%	[3]
Gross Direct Debt & Long-Term Obligations	1.49%	n/a	
Gross Combined Total Obligations	2.85%	n/a	

[1] The accreted value as of July 1, 2008 is $71,584,497

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

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

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, 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 May 1, 2009, the City had $1.27 billion aggregate principal amount of general obligation bonds outstanding.

Table A-14 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Direct Tax-Supported Debt Service
As of May 1, 2009[1] [2]

Fiscal Year	Principal	Interest	Annual Debt Service
2009	$107,372,143	$25,784,221	$133,156,364
2010	117,686,160	55,034,040	172,720,200
2011	98,315,240	48,068,103	146,383,343
2012	86,975,350	43,605,255	130,580,605
2013	77,171,548	40,184,804	117,356,352
2014	72,003,892	36,559,358	108,563,250
2015	65,232,445	33,298,258	98,530,703
2016	68,177,271	30,301,791	98,479,062
2017	58,253,442	27,276,915	85,530,357
2018	57,061,030	24,613,117	81,674,147
2019	53,630,113	22,068,985	75,699,098
2020	48,965,771	19,660,526	68,626,297
2021	42,248,092	17,452,047	59,700,139
2022	45,417,166	15,527,980	60,945,146
2023	45,433,088	13,383,961	58,817,049
2024	43,975,960	11,180,982	55,156,942
2025	40,245,889	9,054,504	49,300,393
2026	30,512,986	7,074,026	37,587,012
2027	31,857,364	5,581,447	37,438,811
2028	32,797,781	4,011,998	36,809,779
2029	28,690,000	2,399,638	31,089,638
2030	20,490,000	965,137	21,455,137
TOTAL[3]	$1,272,512,731	$493,087,093	$1,765,599,824

[1] The City's only outstanding direct tax-supported debt is general obligation bonded indebtedness. This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.
[2] Totals reflect rounding to nearest dollar.
[3] Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency agency indebtedness.

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

General Obligation Bonds Authorized but Unissued

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

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

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

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.

Table A-15 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 May 1, 2009, the City had authorized and unissued general obligation bond authority of $1,202 million.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO General Obligation Bonds (as of May 1, 2009)				
Description of Issue (Date of Authorization)	Series	Issued	Outstanding [1]	Authorized & Unissued
Golden Gate Park Improvements (6/2/92)	2001A	$17,060,000	$2,310,000	
Seismic Safety Loan Program (11/3/92)	2007A	10,995,228	10,657,731	$304,004,772 [2]
Steinhart Aquarium Improvement (11/7/95)	2005F	29,245,000	26,140,000	
Affordable Housing Bonds (11/5/96)	2001C	17,000,000	1,510,000	
	2001D	23,000,000	6,420,000	
Educational Facilities - Unified School District (6/3/97)	2003B	29,480,000	23,760,000	
Zoo Facilities Bonds (6/3/97)	2002A	6,210,000	4,775,000	
	2005H	7,505,000	6,705,000	
Laguna Honda Hospital (11/2/99)	2005A	110,000,000	103,785,000	
	2005I	69,000,000	67,220,000	
Neighborhood Recreation and Park (3/7/00)	2001B	14,060,000	1,905,000	
	2003A	20,960,000	16,895,000	
	2004A	68,800,000	59,175,000	
California Academy of Sciences Improvement (3/7/00)	2004B	8,075,000	6,945,000	
	2005E	79,370,000	70,950,000	
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	1,575,000	
	2002B	23,135,000	17,790,000	
	2005G	34,000,000	30,400,000	
	2008A	31,065,000	31,065,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	42,520,000	142,480,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	131,650,000	755,750,000
SUB TOTALS		**$659,145,228**	**$664,152,731**	**1,202,234,772**
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$70,640,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		$21,930,000	$3,795,000	
General Obligation Refunding Bonds Series 2006-R1 issued 10/31/06		$90,690,000	$86,440,000	
General Obligation Refunding Bonds Series 2006-R2 issued 12/18/06		$66,565,000	$57,960,000	
General Obligation Refunding Bonds Series 2008-R1 issued 5/29/08		$232,075,000	$232,075,000	
General Obligation Refunding Bonds Series 2008-R2 issued 5/29/08		$39,320,000	$39,320,000	
General Obligation Refunding Bonds Series 2008-R3 issued 7/30/08		$118,130,000	$118,130,000	
TOTALS		**$1,346,800,228**	**$1,272,512,731**	**$1,202,234,772**

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

[2] Of the $35,000,000 authorized by the Board of Supervisors in February 2007, $10,995,228 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds Authorized but Unissued."

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

Refunding General Obligation Bonds

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed $800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. The City has issued six series of refunding bonds under the Resolution:

City and County of San Francisco

General Obligation Refunding Bonds

Series Name	Date Issued	Principal Amount (Millions)
2004-R1	June 2004	$21.93
2006-R1	October 2006	90.69
2006-R2	December 2006	66.57
2008-R1	May 2008	232.07
2008-R2	May 2008	39.32
2008-R3	August 2008	118.13

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-16 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 May 1, 2009. Note that the annual payment obligations reflected in Table A-16 include the fully accreted value of any capital appreciation obligations that will accrue as of the final payment dates.

TABLE A-16

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds, Certificates of Participation,
and San Francisco Redevelopment Agency Bonds
As of May 1, 2009

Fiscal Year	Principal	Interest	Annual Payment Obligation
2009	$3,720,000	$10,257,997	$13,977,997
2010	45,757,024	45,887,199	91,644,223
2011	47,243,573	44,461,155	91,704,728
2012	48,335,763	42,930,965	91,266,728
2013	50,176,157	41,269,222	91,445,379
2014	58,451,550	39,503,156	97,954,706
2015	41,720,751	32,616,407	74,337,158
2016	39,110,000	25,439,792	64,549,792
2017	36,235,000	23,643,672	59,878,672
2018	36,695,000	21,891,725	58,586,725
2019	20,895,000	20,091,715	40,986,715
2020	21,620,000	19,074,901	40,694,901
2021	21,780,000	18,024,095	39,804,095
2022	21,880,000	16,961,110	38,841,110
2023	22,285,000	15,882,050	38,167,050
2024	22,740,000	14,787,336	37,527,336
2025	19,345,000	13,660,286	33,005,286
2026	25,080,000	12,664,743	37,744,743
2027	29,645,000	11,407,944	41,052,944
2028	29,255,000	9,967,382	39,222,382
2029	30,605,000	8,549,472	39,154,472
2030	29,185,000	7,090,024	36,275,024
2031	19,455,000	5,854,446	25,309,446
2032	20,365,000	4,942,086	25,307,086
2033	18,945,000	3,993,354	22,938,354
2034	19,915,000	3,011,340	22,926,340
2035	6,575,000	2,224,913	8,799,913
2036	6,870,000	1,922,400	8,792,400
2037	7,180,000	1,606,275	8,786,275
2038	7,505,000	1,275,863	8,780,863
2039	7,840,000	930,600	8,770,600
2040	8,195,000	569,813	8,764,813
2041	8,565,000	192,708	8,757,708
TOTAL [1]	$833,169,818	$522,586,146 [2]	$1,355,755,964

[1] Totals reflect rounding to nearest dollar.

[2] For purposes of this table, the interest payments on the Lease Revenue Bonds, Series 2008-1, and 2008-2 (Moscone Center Expansion Project) are assumed to be 3.8%. 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 $8.19 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 May 1, 2009, the total authorized amount for such financings was $48.13 million. The total principal amount outstanding as of May 1, 2009 was $19.95 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to $60.00 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued $22.64 million and $23.30 million of Proposition B lease revenue bonds, respectively, leaving $14.00 million in remaining authorization. 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 $27.00 million and $42.43 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.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on February 26, 2008 and the Mayor approved on February 29, 2008 the issuance of not to exceed $167,700,000 of City and County of San Francisco Certificates of Participation, Series 2008 to finance the demolition, improvement, installation, equipping, rehabilitation, and/or construction of the new administration building for the San Francisco Public Utilities Commission to be located at 525 Golden Gate Avenue. The City anticipates issuing these Certificates in the Fall of 2009.

The Board of Supervisors authorized on December 16, 2008 and the Mayor approved on December 19, 2008, the issuance of not to exceed $45,000,000 of City and County of San Francisco Certificates of Participation (Moscone Center Improvement Project), Series 2009B to finance improvements to the Moscone Convention Center. The proceeds from the sale of the Certificates will be used to provide funding for various improvements to the City's convention facilities known as Moscone South, Moscone North, and Moscone West. The City anticipates issuing the Certificates in the Summer of 2009.

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed $150.00 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. The City anticipates issuing the first series of CP Notes in the Summer of 2009.

On May 5, 2009, the Board authorized the issuance of not to exceed $42,000,000 par amount of City and County of San Francisco Certificates of Participation (Multiple Capital Improvement Projects), Series 2009B to finance improvements to the City's curb ramps, sidewalks, street structures and street surfaces. The City anticipates issuing the 2009B Certificates in August 2009.

Overlapping Debt

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued $58.0 million of such authorization in October 2004, $130.0 million in October 2005 and $92.0 million in October 2006, leaving $15.0 million authorized but unissued.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco Bay Area Rapid Transit District ("BART") to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed $980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City. 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. BART issued $100.0 million in May 2005 and $400.0 million of such authorization 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 San Francisco Community College District ("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 has announced plans to issue the remaining authorization in the fall of 2009 in the aggregate principal amount of $46.3 million.

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.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management. With certain exceptions, it is the general policy of the City to first evaluate self-insurance for the risks of losses to which it is exposed. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e, "self-insurance"). The City obtains commercial insurance when it makes economic sense and 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 self-supporting enterprise departments. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, typically for more limited-scope projects, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the City's risk exposure. The vast majority of the City's traditional insurance program is purchased for enterprise departments and other similar revenue-generating departments (San Francisco International Airport, Municipal Railway, Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the insured program is made up of insurance for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials.

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

The City actuarially determines and allocates workers' compensation costs to departments according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the

Workers' Compensation Division of the City's Department of Human Resources. Statewide workers' compensation reforms have resulted in City budgetary savings in recent years. The City continues to develop and implement improved programs, such as return-to-work programs, to lower or mitigate workers' compensation costs. Various programs focus on accident prevention, investigation and duty modification of injured employees with medical restrictions so the injured employees can return to work as early as possible.

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

Labor Relations

The City's fiscal year 2008-09 Original Budget includes approximately 31,000 full-time personnel, excluding employees in the San Francisco Unified School District, San Francisco Community College District, and San Francisco Superior Court. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021; International Federation of Professional and Technical Engineers (Local 21); and unions representing police, fire, deputy sheriffs and transit workers.

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

The City currently has closed contracts with all of the labor unions covered under Charter Section A8.409-1. These contracts, which the City negotiated in 2006, have three-year terms, from July 1, 2006 through June 30, 2009. In general, employees agreed to pay their employee contribution to either the San Francisco Employees Retirement System ("SFERS" or the "Retirement System") (7.5%) or the California Public Employees Retirement System ("CalPERS") (either 7% or 9%, depending on the plan) retirement plans for all three years. In exchange for employees' agreement to continue payment of their retirement contribution, the City will increase employees' base pay by a cost-equivalent post-tax amount. Additionally, employees will receive some general wage increases in each year of the contract. A few unions opted to have the City continue paying the employee contribution and therefore did not receive the additional cost–equivalent post-tax increase. For a further discussion of the Retirement System, see "Retirement System." In 2008, the City and the following labor organizations covered under Charter Section A8.409 agreed to extend the term of their contracts through June 30, 2010: Service Employees International Union (SEIU), Local 1021; International Alliance of Theatrical Stage Employees (IFPTE), Local 21; Automotive Machinists, Local 1414; Municipal Executives' Association (MEA); Municipal Attorneys' Association (MAA); Operating Engineers, Local 3; Plumbers, Local 38; Teamsters Locals 350 and 856; and the Union of American Physicians and Dentists (UAPD).

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

Of the unions covered under Charter Section A8.590-1, the City negotiated four-year contracts (July 1, 2007 through June 30, 2011) with the Police and Fire (non-management and management staff) and Fire Rescue Paramedics. In each year of these contracts, represented employees will receive market-based wage increases. In addition, the contract covering the Deputy Sheriffs expires on June 30, 2009. The City will begin negotiations for a successor agreement in Spring 2009 with the Deputy Sheriffs and all other unions with contract expiration dates of June 20, 2009, as listed on table A-17.

To help address the City's projected budget shortfall for fiscal years 2008-09 and 2009-10, UAPD, MEA, MAA, Laborers and Firefighters agreed in June 2008 to amend their contracts to make certain economic concessions for those fiscal years. In February 2009, the Supervising Nurses, represented by Teamsters Local 856, agreed to amend its contract to make certain economic concessions for fiscal years 2008-09, 2009-10 and 2010-11. In late April 2009, the City also reached a tentative agreement with SEIU Local 1021 regarding economic concessions in fiscal year 2009-09 and 2009-10. The SEIU tentative agreement is subject to a ratification vote in early May 2009. The City continues concession discussions with all other employee unions.

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 parties agreed to extend the term of the existing contract covering transit operators to June 30, 2011.

In addition, the City adopts an annual "Unrepresented Employees' Ordinance" for employees who are not represented by a union. The Ordinance for fiscal year 2008-09 provides for no wage increases for these employees and additional floating holidays in fiscal year 2008-09 for non-mayoral staff employees.

Table A-17 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

TABLE A-17

CITY AND COUNTY OF SAN FRANCISCO (All Funds) Employee Organizations as of July 1, 2008		
Organization	**Budgeted Positions**	**Expiration Date of MOU**
Automotive Machinists, Local 1414	414	June 30, 2010
Bricklayers, Local 3/Hod Carriers, Local 36	19	June 30, 2009
Building Inspectors Association	82	June 30, 2009
Carpenters, Local 22	109	June 30, 2009
Carpet, Linoleum & Soft Tile	1	June 30, 2009
CIR (Interns & Residents)	211	June 30, 2009
Cement Masons, Local 580	31	June 30, 2009
Deputy Sheriffs Association	947	June 30, 2009
District Attorney Investigators Association	46	June 30, 2009
Electrical Workers, Local 6	827	June 30, 2009
Glaziers, Local 718	14	June 30, 2009
International Alliance of Theatrical Stage Employees, Local 16	16	June 30, 2009
Ironworkers, Local 377	17	June 30, 2009
Laborers International Union, Local 261	1,140	June 30, 2009
Municipal Attorneys' Association	432	June 30, 2010
Municipal Executives Association	1,117	June 30, 2010
MEA - Police Management	3	June 30, 2011
MEA - Fire Management	9	June 30, 2011
Operating Engineers, Local 3	62	June 30, 2010
Painters, Local 1176	125	June 30, 2009
Pile Drivers, Local 34	17	June 30, 2009
Plumbers, Local 38	348	June 30, 2010
Probation Officers Association	150	June 30, 2009
Professional & Technical Engineers, Local 21	4,545	June 30, 2010
Roofers, Local 40	11	June 30, 2009
S.F. Institutional Police Officers Association	4	June 30, 2009
S.F. Firefighters, Local 798	1,731	June 30, 2011
S.F. Police Officers Association	2,829	June 30, 2011
SEIU, Local 1021	10,858	June 30, 2010
SEIU, Local 1021 Staff & Per Diem Nurses	1,554	June 30, 2010
SEIU, Local 1021 H-1 Rescue Paramedics	12	June 30, 2011
Sheet Metal Workers, Local 104	48	June 30, 2009
Stationary Engineers, Local 39	683	June 30, 2009
Supervising Probation Officers, Operating Engineers, Local 3	21	June 30, 2009
Teamsters, Local 350	2	June 30, 2010
Teamsters, Local 853	169	June 30, 2009
Teamsters, Local 856 (Multi-Unit)	109	June 30, 2010
Teamsters, Local 856 (Supervising Nurses)	126	June 30, 2011
TWU, Local 200 (SEAM multi-unit & claims)	341	June 30, 2009
TWU, Local 250-A Auto Service Workers	226	June 30, 2010
TWU-250-A Miscellaneous	94	June 30, 2010
TWU-250-A Transit Operators	2,039	June 30, 2011
Union of American Physicians & Dentists	185	June 30, 2010
Unrepresented Employees	150	June 30, 2009
	31,724 (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.

Retirement System

History and Administration

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

The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors.

To aid in the administration of the Retirement System, the Retirement Board appoints an actuary and an Executive Director. The Executive Director's responsibility extends to all divisions of the system consisting of Administration, Investment, Retirement Services/Accounting, and Deferred Compensation. The actuary's responsibilities include the production of data and a summary of plan provisions for the independent consulting actuary retained by the Retirement Board to produce a valuation report and other analyses as described below. The independent consulting actuary is Cheiron, a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

Membership

The Retirement System's membership includes City employees who are not members of CalPERS, non-credentialed SFUSD and SFCCD employees who are not members of the State Teachers Retirement System, and San Francisco Trial Court employees other than judges.

The Retirement System estimates that the total active membership as of June 30, 2008 was 35,396, including 3,877 vested members and 869 reciprocal members, compared to 34,060 members a year earlier. With respect to City employees, vested members are members who (i) have worked for the City for five or more years, (ii) have separated from City Service and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are members who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. The total new enrollees in the Retirement System for fiscal year 2007-08 were approximately 3,044. Checks are mailed to approximately 21,514 benefit recipients monthly. Benefit recipients include retired members and qualified survivors.

Table A-18 shows total Retirement System membership for fiscal years 2002-03 through 2007-08.

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO Employees' Retirement System Fiscal Years 2003 - 04 through 2007 - 08						
Fiscal Year	Active Members	Vested Members	Reciprocal Members	**Total Non-retired**	Retirees/ Continuants	Active to Retiree Ratio
2004	31,651	996	728	33,375	19,081	1.749
2005	29,164	2,833	763	32,760	20,093	1.630
2006	29,426	2,901	734	33,061	20,489	1.614
2007	30,190	3,096	774	34,060	21,116	1.613
2008	30,650	3,877	869	35,396	21,514	1.645

Sources: SFERS' Actuarial Valuation reports as of July 1, 2008, July 1, 2007, July 1, 2006, July 1, 2005, and July 1, 2004.

Funding Practices

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an independent consulting actuarial firm employed under contract by the Retirement Board. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions based on the experience of the plan. These economic assumptions include a long-term investment earnings assumption, a long-term wage/inflation assumption and a long-term consumer price index assumption. At its November 2008 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board reduced the plan's long-term investment earnings assumption from 8.00% to 7.75%. The Retirement Board did not change the other two long-term economic assumptions, leaving the long-term wage/inflation assumption at 4.50% per annum and the consumer price index assumption at 3.25% per anum. These economic assumptions along with periodic demographic studies are utilized to prepare the valuation of the plan each year. The latest report as of June 30, 2008 was issued in January 2009. Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board as to the Retirement Board's acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as detailed in the report.

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

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

Second, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial value of Retirement System liabilities exceeds the actuarial value of

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

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. As for calculating the pension benefit liability, certain assumptions must be made about future costs of pension benefits to generate an overall liability amount. If the Retirement System's results are better or worse than the estimated UAAL, the result is called an actuarial gain or loss, respectively, and under the Retirement Board's Actuarial Methods Policy any such gain or loss is amortized over a 15-year period. Similarly, if the estimated liabilities change due to changes in the aforementioned assumptions, the effect of such changes is also amortized over a 15-year period.

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

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

Recent Voter Approved Changes to the Retirement Plan

The City's retirement benefits are established under the Charter and approved directly by the voters, rather than through the regular collective bargaining process; most changes to retirement benefits require a voter-approved Charter amendment. On June 3, 2008, the voters of San Francisco approved Proposition B, which increases the service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, establishes a separate Retiree Health Care Trust Fund to fund retiree health costs, and increases retirement benefits and retirement cost-of-living adjustments for "miscellaneous" employees (i.e., those covered under Charter Section A8.409). The cost of Proposition B is incorporated in the actuarial valuation as of July 1, 2008.

The voters of San Francisco have recently approved two other retirement plan amendments:

- The enactment of a Deferred Retirement Option Plan available to certain police members effective July 1, 2008, authorized by the February 2008 election by initiative proposition; and
- A limited cost transfer of Airport police officers' historical service from CalPERS to SFERS that is currently pending as the costing and individual elections have not yet occurred, authorized by the November 2007 election.

Recent Funding Performance

From fiscal year 1996-97 through fiscal year 2003-04, the City's contribution to the Retirement System decreased to zero due to lowered funding requirements as determined by the consulting actuary of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period were due primarily to higher-than-projected investment earnings and lower-than-projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuary in the manner described above in "Funding Practices." In fiscal year 2007-08, total employer contributions to the Retirement System were $124.80 million, which was 5.91% of that portion of a member's earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount includes $54.90 million from the General Fund. For the fiscal year 2008-09, total employer contributions to the Retirement System were budgeted at $108.40 million, which was 4.99% of Pensionable Salary. This amount included $49.60 million from the General Fund. The contribution rate effective July 1, 2009 is 9.49% of Pensionable Salary.

Table A-19 shows Retirement System actual contributions for fiscal years 2003-04 through 2007-08. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. The "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2003-04 through 2007-08.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System (in $000s)
Fiscal Years 2003-04 through 2007-08

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]	Employer Contribution Rates
2004	11,907,358	11,299,997	10,885,455	104.0	170,550	0.00%
2005	13,135,263	12,659,698	11,765,737	108.0	248,029	4.48%
2006	14,497,022	13,597,646	12,515,463	109.0	289,226	6.58%
2007	16,952,044	14,929,287	13,541,388	110.0	308,348	6.24%
2008	15,832,521	15,941,390	15,358,824	103.8	319,183	5.91%
2009						4.99%
2010						9.49%

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

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2008, 2007, 2006, 2005, and 2004.
SFERS' Actuarial Valuation report as of July 1, 2008, July 1, 2007, July 1, 2006, July 1, 2005, and July 1, 2004.

Asset Management and Actuarial Valuation

The assets of the Retirement System are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the system 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 p. 68 of the CAFR attached hereto as Appendix C for a breakdown of the asset allocation as of June 30, 2008. The investments are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System 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) 487-7000. (The Annual Report of the Retirement System is not incorporated by reference herein.)

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

As shown in Table A-19, the market value of the Retirement System was approximately $15.8 billion as of June 30, 2008. Since mid-2008, global capital markets have experienced unprecedented adverse events, including severe credit and liquidity contractions, and continue to suffer extreme price volatility. The overall economic climate has had an adverse impact on the Retirement System's portfolio.

As of April 30, 2009, the Retirement System estimated that the market value of its assets was $11.7 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 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. The $4.1 billion difference between the approximately $15.8 billion market value as June 30, 2008 and the approximately $11.7 billion market value as of April 30, 2009 reflects, among other things, participant and employer contributions, benefit payments and a decline on a time-weighted basis of approximately 23.6% in the market value of assets held by the Retirement System from June 30, 2008. The estimated market value of $11.7 billion has not been subject to an independent audit. The City cannot predict when financial markets will stabilize or improve, nor can the City give any assurance that the Retirement System will not sustain further declines in asset value.

The Retirement System investment portfolio is structured to focus on long-term performance, and the Retirement System actively manages its investment portfolio, including periodic review of its investment policy and asset allocation strategy. Subsequent to June 30, 2008, the Retirement System has reviewed its 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. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses, if any, that the Retirement System will recognize in its future actuarial valuation cannot be determined. Market fluctuations are an expected investment risk for a pension fund and the value of the Retirement System investment portfolio changes periodically.

A decline in the actuarial value of assets over time, without a commensurate decline in the actuarial value of liabilities, will result in an increase in the contribution rate for the City. The City's contribution rate effective July 1, 2009 is 9.49% of pensionable salary. No assurance can be provided by the City that contribution rates will not increase.

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members; such payment from the General Fund equaled $15.4 million in fiscal year 2007-08. For fiscal year 2008-09, the City budgeted $17.8 million in payments from the General Fund. These contributions are summarized in Note 9 to the City's CAFR, as of June 30, 2008 attached hereto as Appendix C. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45*."

Medical Benefits

Administration through Health Service System; Audited System Financial Statements

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

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

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

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727. The report is also posted in the Health Service System website: myhss.org.

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

Determination of Employer and Employee Contributions for Medical Benefits

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

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

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

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

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

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

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

- After application of the calculations described above, the City contributes 50% of City retirees' remaining monthly contributions.

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

Fiscal Year 2007-08 Employer Contributions for Health Service System Benefits

For fiscal year 2007-08, the Health Service System received approximately $558.4 million from participating employers for Health Service System benefit costs. Of this total, the City General Fund contributed approximately $402.4 million for Health Service System benefit costs. For the City, approximately $114.6 million ($51.3 million from the General Fund) of this amount was for health care benefits for approximately 18,100 retired City employees and their eligible dependents and approximately $282.2 million ($121.5 million from the General Fund) was for benefits for approximately 29,000 active City employees and their eligible dependents. For fiscal year 2008-09, the City budgeted $120.7 million ($56.1 million from the General Fund) for health care benefits for retirees and eligible dependents and $312.6 million ($140.8 million from the General Fund) for health benefits active employees and eligible dependents. Further information on Health Service System funding can be found in the Health Plan's audited financial statements, which are available through fiscal year 2007-08. (The Health Plan's audited financial statements are not incorporated by reference herein.)

Post-Employment Health Care Benefits and GASB 45

Eligibility of former City employees for retiree health care benefits is governed by the Charter, as amended by Proposition B, passed by voters on June 3, 2008. Employees and a spouse or dependent are potentially eligible for health benefits following retirement after age 50 and completing five years of City service, subject to other eligibility requirements.

The City was required to begin reporting the liability and related information for unfunded post-retirement medical benefits in the City's financial statements for the fiscal year ending June 30, 2008. This new reporting requirement is defined under the 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 it requires that government agencies start to record and report a portion of the liability in each year if they do not fund it. GASB 45 requires that non-pension benefits for retirees, such as retiree health care, be shown as an accrued liability on the City's financial statements starting in fiscal year 2007-08.

To help plan for the implementation of GASB 45, the City engaged an actuary to prepare a preliminary actuarial valuation of this liability. In its November 1, 2007 report on GASB 45 Valuation Results and Plan Design, Mercer Consulting estimated that if the City were to have a Funded Plan to cover post-employment medical benefits, the projected liability would be $4.04 billion and have an annual required contribution for fiscal year 2007-08 of $409.1 million, assuming a 4.5 percent return on investments, while covering all City operations, including those that are General Fund supported. In fiscal year 2006-07, the City's expenditures included $102.6 million for retiree health subsidies, which represented only the amount needed to pay for current costs due during the fiscal year. See Note 9 (c) and (d) to the City's CAFR, as of June 30, 2008 attached hereto as Appendix C. The additional potential liability to the City would, therefore, be the difference between the Mercer estimate and the fiscal year 2006-07 expenditures. The calculations in the Mercer Report are sensitive to a number of critical assumptions, including but not limited to the projected rate of increases in health plan costs.

Proposition B, passed by San Francisco voters on June 3, 2008, tightens post-retirement health benefit eligibility rules for employees hired after January 10, 2009, and requires payments by the City and these employees equal to 3 percent of salary into a new retiree health trust fund. The City's actuarial analysis shows that by 2031, this 3 percent funding will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. The projected liability of $4.04 billion below is somewhat reduced by the passage of Proposition B which addresses future hires. See Retirement System –Recent Voter Approved Changes to the Retirement Plan above.

Total City Fringe Benefits Costs

The City continued to budget for currently due benefits costs using a "pay-as-you-go" approach in the fiscal year 2008-09 Original Budget. Additionally, to begin to address the issue of accrued liabilities for future retiree health costs, the City created a new Post Employment Benefits Fund and budgeted an initial $500,000 contribution in the fiscal year 2007-08 Original Budget. The fiscal year 2008-09 Original Budget allocated an additional $500,000. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Below in Table A-20, a five-year history is provided for all fringe benefits costs paid including pension, health, dental and other miscellaneous fringes. For all years shown, a "pay-as-you-go" approach was used by the City.

TABLE A-20

CITY AND COUNTY OF SAN FRANCISCO Total Fringe Benefit Costs Fiscal Years 2003-04 through 2007-08 Actuals, GAAP Basis	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Retirement	$ 31,864,833	$ 114,137,336	$ 174,738,472	$ 202,607,710	$ 206,317,989
Social Security & Medicare	118,167,491	116,589,364	121,589,065	136,241,775	143,781,950
Health - Medical	176,118,127	185,840,015	194,950,403	220,483,696	246,439,434
Health - Retiree Medical	72,152,041	86,529,571	96,286,433	102,062,188	110,634,136
Health - Dental	31,460,055	33,628,822	34,225,398	36,141,082	35,734,275
Other Fringes	9,215,906	16,063,001	19,315,549	36,057,549	28,816,300
Total Fringe Costs	**$ 438,978,453**	**$ 552,788,109**	**$ 641,105,320**	**$ 733,594,000**	**$ 771,724,080**

Figures are audited actuals.

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

Litigation

There are a number of lawsuits and claims pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2008, attached as Appendix C to this Official Statement, as well as those described in this Appendix A under "Business Taxes" above. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims 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.

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APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO
ECONOMY AND GENERAL INFORMATION

This Appendix contains information that is current as of May 5, 2009

This Appendix provides general economic and demographic information about the City and County of San Francisco (the "City") and the Bay Area (defined below). The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City takes no responsibility for the contents of such materials prepared by persons other than the City.

Area and Economy

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

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

Population and Income

The City had a population estimated at 773,674 as of fiscal year 2008. The table below reflects the population and per capita personal income of the City, as estimated by the Controller's Office. For additional demographic information for the City, see Appendix C – "Statistical Section – Demographic and Economic Statistics."

TABLE B-1

POPULATION AND INCOME
2004-2008

Year	Population	Per Capita Personal Income
2004	743,852	58,244
2005	741,025	62,614
2006	744,041	71,101
2007	764,976	72,918
2008	773,674	74,515

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

Conventions and Tourism

According to the San Francisco Convention & Visitors Bureau (the "Convention & Visitors Bureau"), a non profit membership organization, during the calendar year 2007 approximately 16.1 million people (124,628 average per day) visited the City, generating approximately $8.2 billion for local businesses. On average, these visitors spent about $244 per visitor per day and stayed three to four nights in the City.

Also, as reported by PKF Consulting, hotel occupancy rates in the City averaged 77.9% for calendar year 2007, an increase of 3% over the previous year. Average daily room rates in the City during 2007 increased about 7.1% compared to the prior year's average of $182.

Although only 35% of all out-of-town visitors stayed in City hotels, the Convention & Visitors Bureau estimates that such visitors generated 65% of total spending by out-of-town visitors. An estimated 40% of City visitors are on vacation, 35% are convention and trade show attendees, 22% are individual business travelers and the remaining 3% are en route elsewhere. Approximately 25% to 35% of overnight hotel visitors are international visitors. The federal government estimates that the majority of international visitors to the City in 2007 were from the United Kingdom, Japan, France, Germany, and Australia. In 2006, the City was ranked third in market share for international visitors to the U.S. behind New York and Los Angeles. The City was ranked even with Orlando, and ahead of Miami, Honolulu, and Las Vegas. The following table illustrates hotel occupancy and related spending from calendar years 2003 through 2007.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO
San Francisco Overnight Hotel Guests

Calendar Year	Annual Average Hotel Occupancy (%)	Visitors Staying in Hotels or Motels (000s)	Estimated Hotel Visitor Spending $(000s)
2003	68.1	3,860	3,680,000
2004	73.4	4,200	4,070,000
2005	75.7	4,500	4,500,000
2006	76.4	4,500	4,780,000
2007	77.9	4,590	5,060,000

Most recent annual data available.

Source: San Francisco Convention & Visitors Bureau.

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

Data for full years after 2007 are not available from the Convention & Visitors Bureau at this time. However, it is likely that the more recent hotel occupancy trend is negative. See "Transient Occupancy Tax" in Appendix A of this Official Statement.

Employment

The City benefits from a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. See Table B-4 below for more information on the top employment sectors in the Metropolitan Statistical Area ("MSA") consisting of San Francisco, Marin and San Mateo counties. Industry employment data are only available for the MSA, not the City.

According to the California Employment Development Department, the unemployment rate for the City was 9.0% for March 2009 compared with an unadjusted unemployment rate of 11.5% for the State. See Table B-3 below for more information on the civilian labor of employment and unemployment in the MSA.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO
Civilian Labor Force, Employment, and Unemployment [1][2]
March 2008 and March 2009 [3]

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
Mar 2009				
San Francisco	455,000	414,200	40,800	9.0%
State	18,580,900	16,449,700	2,131,200	11.5%
Mar 2008				
San Francisco	450,400	426,700	23,700	5.3%
State	18,391,800	17,059,600	1,332,300	7.2%

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

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

[3] Data not seasonally adjusted.

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

TABLE B-4

CITY AND COUNTY OF SAN FRANCISCO					
Estimated Average Annual Employment by Sector in 2003-2007[1]					
	2003	2004	2005	2006	2007
Professional and Business Services	103,400	100,400	105,000	111,000	117,300
Government	83,700	81,700	82,600	83,800	89,200
Leisure and Hospitality	69,600	70,700	72,100	74,000	76,400
Trade, Transportation and Utilities	71,200	70,000	69,600	69,700	69,200
Financial, Insurance & Real Estate	59,100	57,000	57,300	58,000	58,900
Educational and Health Services	53,200	54,400	55,100	56,000	57,500
Other Services	21,700	21,100	21,300	21,400	21,900
Information	20,500	19,100	17,300	18,100	19,400
Natural Resources, Mining & Construction	17,300	16,000	16,600	17,500	18,300
Manufacturing	13,100	12,300	11,400	11,100	11,100
Total	512,800	502,700	508,300	520,600	539,200

[1] San Francisco is a multi-county Metropolitan Statistical Area (MSA) or Metropolitan Division (MD). Most recent annual data available.

Source: California Employment Development Department.

Table B-5 below lists the 10 largest employers in the City as of December 2008. More recently, many Bay Area employers have recently announced layoffs, some significant, possibly including some of the employers listed on Table B-5.

TABLE B-5

CITY AND COUNTY OF SAN FRANCISCO
Largest Employers in San Francisco
As of December 30, 2008

Employer	Number of Employees in SF	Nature of Business
City and County of San Francisco	26,657	City government
University of California, San Francisco	13,237	Education
Wells Fargo & Co.	9,269	Financial services
California Pacific Medical Center	6,782	Health care
State of California	5,768	State government
San Francisco Unified School District	5,313	Education
United States Postal Service	4,633	Postal service
PG&E Corp.	4,394	Utility
Charles Schwab & Co. Inc.	4,100	Financial services
Gap Inc.	3,930	Specialty retailer

Source: San Francisco Business Times, Book of Lists 2008.

Taxable Sales

The following table provides information on taxable sales for the City for calendar years 2003 through 2007. Total retail sales increased in calendar year 2007 by approximately $274.0 million compared to calendar year 2006.

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO
Taxable Sales - Calendar Year 2003-2007
($000s)

	2003	2004	2005	2006	2007[1]
Apparel	$760,715	$826,686	$880,718	$941,299	$1,028,602
General Merchandise	1,065,160	1,143,657	1,199,308	1,280,908	1,349,158
Food Stores	405,673	419,286	439,472	454,970	480,587
Eating/Drinking	1,879,879	2,067,418	2,237,384	2,367,548	2,589,892
Household	484,455	527,519	575,985	598,279	608,766
Building Materials	320,316	353,002	397,218	428,795	459,332
Automotive	804,964	850,984	956,031	1,031,786	1,068,661
Other Retail Stores	135,582	141,906	151,142	162,146	2,421,574
Retail Stores Total	$5,856,744	$6,330,458	$6,837,258	$7,265,731	$10,006,572
Business and Personal Services	$945,689	$937,411	$939,108	$999,112	$1,001,472
All Other Outlets	2,784,369	2,855,315	3,037,078	3,304,556	3,606,692
Total All Outlets	$9,586,802	$10,123,184	$10,813,444	$11,569,399	$14,614,736

[1] Most recent annual data available.

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

Data for full years after 2007 are not available from the California State Board of Equalization at this time. However, it is likely that the more recent sales tax trend is negative. See "Sales and Use Tax" in Appendix A of this Official Statement.

Building Activity

Table B-7 provides a summary of building activity in the City for fiscal years 2002-03 through 2006-07. According to the City's Department of Building Inspection, the total value of building permits was $861.0 million in fiscal year 2006-07.

TABLE B-7

CITY AND COUNTY OF SAN FRANCISCO
Building Activity 2003-2007 ($000s)

Fiscal Year Ended June 30	Authorized New Dwelling Units	Value of Building Permits: Residential	Non-Residential	Total
2003	1,279	$214,244	$57,455	$271,699
2004	1,726	307,603	122,377	429,980
2005	1,961	362,760	71,251	434,011
2006	1,756	1,218,804	115,603	1,334,407
2007	2,085	471,206	389,774	860,980

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

Banking and Finance

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

Commercial Real Estate

According to the 1st Quarter 2009 Report from CB Richard Ellis ("CBRE"), the Citywide vacancy rate for commercial real estate increased 100 basis points from the 4th Quarter 2008 to 13.6%**.** According to the report, the City posted approximately 914 Thousand square feet of negative absorption in the 1st Quarter of 2009. Asking Rent for the Class A commercial property Citywide averages $39.41 per square foot according to the 1st Quarter 2009 Report, which is a decrease from $43.03 per square foot described in the 4th quarter 2008 Report. Average Asking Rent for the Class A commercial property in the Civic Center also fell to $32.00 per square foot according to CBRE.

Major Real Estate Development Projects

Major privately financed and owned projects currently under development include:

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

Transbay - In May 2008, the Transbay Joint Powers Authority selected the team of Pelli Clarke Pelli Architects and Hines to enter into exclusive negotiations. Hines offered $350 million for the right to build a tower and transit hub at Mission and First Streets. Under the current proposal the tower will have approximately 1.6 million square feet.

Hunters Point Shipyard Phase 1 **-** Lennar/BVHP completed mass grading and has started infrastructure construction for the first phase of development on Parcel A, which will include 1,500 units (about 30% set aside as affordable), approximately 1.5 acres of improved land dedicated to community facilities, approximately 34 acres of improved open space, and numerous community benefits, including an estimated $18 million Legacy Fund. Lennar is investing $90 million in infrastructure; environmental remediation and grading for phase one. The first finished lots were delivered to homebuilders in 2008, with finished units on the first blocks available by late 2009.

Hunters Point Shipyard/Candlestick Point Phase 2 **-** There has been progress on efforts to redevelop Phase 2 of the Hunters Point Shipyard, expanding the development project area to include Candlestick Point. In mid-2007, the City's Redevelopment Agency Commission and the Board of Supervisors endorsed the conceptual framework to guide the City, the Redevelopment Agency, and Lennar Communities in planning an integrated, mixed-use project at the Candlestick Point Area of the Bayview Hunters Point ("BVHP") and the Hunters Point Shipyard Redevelopment Project Areas. The combined project includes 8,500 housing units, approximately 2.0 million square feet of Research & Development uses geared toward digital arts, green technology and biotechnology, 500,000-700,000 square feet of retail, approximately 350 acres of open space, and the rehabilitation and rebuild of public housing projects. $82 million has been federally appropriated for Navy cleanup at Hunters Point Shipyard - a $20 million increase over what the government has committed annually over the past several years. In addition, on June 3, 2008, City voters approved Proposition G which allows the replacing and updating of the 1997 bond authorization that approved $100 million in public financing and land use rule changes to allow a new stadium for the 49ers, a professional football team, and shopping mall at Candlestick Park.

Treasure Island - Progress has been made at Treasure Island, including Board of Supervisors endorsement of the Term Sheet for the overall project in 2007. At the present stage of design and negotiation, the proposed conceptual development program consists of approximately 300 acres of parks and open space slated for water-oriented, recreational, and natural and passive uses. Approximately 5,500 residential units are part of the proposed plan, 30 percent of which are below market rates and more than 400 of which are allotted for homeless San Franciscans – an effort coordinated in partnership with the Treasure Island Homeless Development Initiative. The development is clustered around a new ferry terminal, and is designed to prioritize walking, biking and transit. The proposed development includes a system of storm-water treatment wetlands, rigorous "green" building standards and maximization of renewable energy. The development plan for Treasure Island includes a mixed-use commercial district, including hotel accommodations, retail stores, entertainment venues and cultural exhibitions.

Mint Plaza - Adjacent to the Old Mint, opened in late 2007. The approximately 18,000 square foot portion of Jessie Street extending between 5th Street and Mint Street, now closed to automobile traffic, was redesigned to accommodate a wide range of uses, including art, theatre, live music, cafés, and street fairs. The museum is expected to reopen in late 2011.

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO"), which is owned and operated by the City, is the principal commercial service airport for the Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2007 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers. SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. In fiscal year 2007-08, SFO served approximately 36.7 million passengers and handled 550,547 metric tons of cargo.

During fiscal year 2007-08, 59 airlines reported air traffic at SFO. Domestic air carriers provided scheduled non-stop and one-stop passenger service to over 100 destinations in the United States. Twentynine airlines provided nonstop and one-stop scheduled passenger service to over 50 international destinations.

United Airlines operates one of its three major U.S. hubs at SFO. During fiscal year 2007-08, United Airlines (including Ted, their low cost carrier operation (which has discontinued operations), and Skywest that operates as United Express) handled approximately 43.7% of the total enplaned passengers at SFO and accounted for approximately 21% of SFO's total revenues.

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

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

Table B-8 presents SFO passenger, cargo and mail data for the last five fiscal years.

TABLE B-8

SAN FRANCISCO INTERNATIONAL AIRPORT
Passenger, Cargo and Mail Data for
Fiscal Years ending June 30, 2004 through 2008

	Passengers		Cargo Traffic	
Fiscal year Ended 30-Jun	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
2004	30,771,464	5.50%	472,964	79,154
2005	32,648,635	6.00%	512,800	74,717
2006	32,987,672	1.00%	524,856	68,715
2007	33,855,382	2.60%	513,726	58,599
2008	36,709,405	8.40%	488,475	62,072

Source: San Francisco Airport Commission.

Port of San Francisco

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

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

The Port posted an operating loss of ($2.3) million for fiscal year 2007-08, as a direct result of a $2.8 million charge for retiree medical benefits in accordance with an accounting requirement that became effective June 30, 2008. Net assets increased $0.4 million for the year.

Port properties generated $64.5 million in operating revenue for the fiscal year ended June 30, 2008, as shown in the table below.

TABLE B-9

PORT OF SAN FRANCISCO
FISCAL YEARS 2007 AND 2008 OPERATING REVENUES
($000s)

Years Ended June 30, Business Line	2007 Revenue	Percentage of 2007 Revenue	2008 Revenue	Percentage of 2008 Revenue
Commercial & Industrial Rent	$36,496	59.6%	$40,149	62.2%
Parking	10,514	17.2%	10,891	16.9%
Cargo	4,152	6.7%	4,383	6.8%
Fishing	1,760	3.0%	1,854	2.9%
Ship Repair	1,332	2.2%	884	1.4%
Harbor Services	887	1.4%	901	1.4%
Cruise	1,763	2.9%	1,296	2.0%
Other Maritime	1,391	2.3%	1,717	2.7%
Other	2,898	4.7%	2,423	3.7%
TOTALS	$61,193	100.0%	$64,498	100.0%

Source: Port of San Francisco Audited Financial Statements.

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

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

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

Major development projects currently in negotiation and/or construction include a mixed use recreation and historic preservation project at Piers 27-31, and the development of an interactive science museum at Piers 15/17.

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

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

Education

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

Colleges and Universities

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

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

APPENDIX C

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2008*

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

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CITY AND COUNTY OF
SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2008

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, 2008

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- City and County of San Francisco Organization Chart
- List of Principal Officials

January 30, 2009

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the fiscal year ended June 30, 2008 (FY 2007-2008), with the independent auditor's report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

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

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

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

Key CAFR Sections

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

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

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

Supplemental combining statements and schedules for non-major governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

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

Profile of San Francisco's Government

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

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

San Francisco's Budgetary Process

The City adopts annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The budget is adopted at the character level of expenditure within each department, and the department level 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.

San Francisco's Economy: Outperforming the State

San Francisco's economy outperformed most other jurisdictions in California, and the State itself, during fiscal year 2007-2008. Since June 30, 2008, the rate of economic growth has slowed, and in several sectors actual losses versus the prior year have appeared. While unemployment remains well below that of the State, it increased to 6.6% by December 2008. Housing prices have also shown more significant declines, and after a strong first quarter of fiscal year 2008-2009, hotel room and occupancy rates decreased in November 2008.

To place San Francisco's economic performance in context, the State of California has seen a progressive deterioration in its economic performance since 2006. The clearest indication of this distress is the state's employment situation. During FY 2007-2008, California's unemployment rate rose by over one and one-half percentage points, from 5.3 percent (June 2007) to 7.0 percent (June 2008)[1]. By December 2008, it has risen to 9.3 percent.

The fundamental cause of the recession in California, as well as several other states in the United States, has been the downturn in the housing market. Housing prices in California have rapidly declined after more than a decade of double-digit annual appreciation.

Outside of San Francisco, this appreciation in housing prices was largely driven more by low-cost and widely-available home mortgages, than by a growth in incomes or any other fundamental indicator of housing demand. In particular, the proliferation of so-called sub-prime mortgages led to a great expansion in speculative home-building, and home-buying, in some areas of the state. Rising home prices also led to an expansion in home equity lines of credit, which also stimulated consumer spending and the retail sector in these areas.

Although San Francisco also experienced high levels of housing price appreciation for most of the past decade, there was a fundamental difference in the City's housing market and those in the fast-growing suburban areas of the state. Consequently, San Francisco's economy experienced a downtown much later than other parts of the state. While low mortgage rates certainly contributed to rising housing prices in San Francisco during the early years of the decade, the City has relatively few sub-prime mortgages, and its default rate on those mortgages has been far below the state average. During FY 2007-2008, San Francisco recorded 1,424 Notices of Default, which was only 0.4 percent of the state total of 389,138[2]. By contrast, San Francisco has approximately 2 percent of the state's population, suggesting a per capita default rate that was only one-fifth of the state average.

Furthermore, San Francisco's affluent population has been much less dependent on home equity lines of credit to supplement consumer spending, and the overall quality of consumer debt in San Francisco remains relatively strong. Finally, as a developed urban area, home building in San Francisco is a fairly expensive and time consuming process compared to suburban areas. Consequently, the City's rate of home construction has been comparatively low, and supply has arguably not kept pace with demand.

For these reasons, while San Francisco's housing prices have fallen, the rate of decline has been lower than the state average. Between June 2007 and June 2008, housing prices in California have fallen by an average of 16.2 percent, whereas in the San Francisco metropolitan division, they fell by only 5.9 percent during the same period[3]. Since June 30, 2008, housing price declines have accelerated in both the state and the City, but the drops have remained lower in San Francisco.

At the time of writing, the sub-prime mortgage crisis has evolved into a broader credit crisis with economy-wide impacts far beyond the housing industry. Nevertheless, the historic resiliency of San Francisco's economy is likely to continue, suggesting a milder downturn locally than that experienced by either the state or nation. San Francisco's tax and fee revenues are similarly likely to be more stable than those of other jurisdictions.

It is, nevertheless, important to emphasize that San Francisco's strong economic performance during FY 2007-2008 is highly unlikely to continue throughout FY 2008-09. The credit crisis will likely affect the city's financial services and construction industries, in particular. Tourism has been a major source of strength, but a rising U.S. dollar and a global recession will lead to cutbacks in discretionary spending, including on tourism.

San Francisco's long-term economic fundamentals—the quality of its workforce, environment, technological base, and cultural amenities—are among the strongest of any city in the United States. These competitive advantages are likely to secure the City's continued prosperity during and after the economic recovery. Commercial property investors and developers agree; according to a recent report from the Urban Land Institute and PriceWaterhouseCoopers, San Francisco is the second best multifamily and office investment market in the country, ahead of New York, Washington D.C., San Jose, and Los Angeles[4]. According to the same report, San Francisco leads the nation in residential and commercial development potential.

Key Economic Outcomes

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

<u>Population: Continuing Recovery Since 2005</u>

Since 2000, the California Department of Finance and the U.S. Census Bureau have released significantly different estimates of San Francisco's population. In 2007, for the first time since 2000, both sources indicated a rise in San Francisco's population over 2006 levels. The California Department of Finance reported the City's population at 824,525 as of January 1, 2008, a 1.5 percent increase over

2007. (U.S. Census figures for 2008 were not yet available at the time of publication, but the 2007 estimate of 764,976 was 2.8% higher than 2006).

Employment: Job Growth Rate Through March 2008 the 16th Highest in the U.S.

The wage and salaried employment base of San Francisco grew by 17,500 jobs between March 2007 and March 2008, the latest data available[5]. This 2.9 percent growth is the fastest rate of job increase since 1999-2000, and ranked San Francisco 16th in job growth among over 3,000 U.S. counties.[5] San Francisco's recent job growth rate surpassed every other major county in the Bay Area.

Unemployment: Rising, but Far Below State Levels

San Francisco's average monthly unemployment rate for FY 2007-2008 rose to 4.6 percent, though the City remained far below the state's average monthly rate of 6.0 percent. Annual job growth remained positive in the San Francisco metropolitan division until December 2008, indicating that the rising unemployment could be partly caused by an in-migration of unemployed from nearby areas that have been harder-hit by the recession.

Bond Ratings: Moody's Upgrades San Francisco's General Obligation Bond Rating

The City's fiscal health remains strong, as reflected in investment grade bond ratings on the City's municipal debt. In August 2008, Moody's upgraded the City's general obligation bond rating to Aa2 and the rating outlook to Stable. Standard & Poor's and Fitch affirmed the City's general obligation bond ratings of AA and AA-, respectively. According to Moody's, "Among San Francisco's strengths were an above-average resident socioeconomic profile, a highly diverse and robust revenue base, an exceptionally strong balance sheet at close of fiscal year 2006-2007, and a moderate debt burden with relatively rapid, direct debt retirement."

San Francisco's Major Industries

San Francisco's economy is dependent on the global competitiveness of two sets of industry clusters: knowledge-based businesses centered around professional, financial, and information services, and experience-based businesses centered on tourism. San Francisco's continuing economic strength has been due to the competitiveness of these key elements of its economy, particularly in the tourism industry. In addition, a new set of emerging technology-based industries are diversifying the City's economy.

Financial, Professional, and Business Services: Local Growth in the Face of National Declines

The core of San Francisco's knowledge-based economy is its large downtown concentration of corporate headquarters, banks and financial services companies, and professional services such as law firms and consultants. The extraordinary strength of these industries is a significant source of San Francisco's current prosperity.

San Francisco's job growth rate is more than twice the national average
In March 2008, San Francisco held 188,084 jobs in financial activities and business and professional services[6]. As a group, employment in these industries grew at a 3.4 percent rate in San Francisco between March 2007 and March 2008, adding close to 6,000 jobs. Nationally, the same industries declined by a 0.2 percent rate during the same period. Later monthly data for San Francisco County is not available, but it is likely that that growth rates have significantly slowed since then.

Tourism and Hospitality: Hotel and Airport Data Remain Strong

The other major segment of San Francisco's economic base is the tourism and hospitality industry. Like the downtown office services, tourism has experienced a very strong recovery since the recession of the early 2000s. Even as tourism and associated retail spending has declined across the state and country,

San Francisco continued to see growth in its airport enplanements, hotel occupancy and daily rates, visitor spending and sales tax up until November, 2008.

Employment growth far outpacing the national average
There were 76,400 people working in arts, recreation, cultural services, accommodation, and food services in San Francisco at the end of 2007. This represents an increase of 2,600 jobs over CY 2006, for a 3.5 percent increase.[1] San Francisco's growth rate outpaced the national growth rate of 2.2 percent during that time.[5]

Visitor spending rose 5.7 percent in the past year
After a 0.4 percent increase in visitors between 2005 and 2006, the San Francisco Convention and Visitors Bureau (SFCVB) reported a 1.9 percent increase in San Francisco visitors between 2006 and 2007, with a total of 16.1 million visitors in 2007[7]. These visitors spent an estimated $8.2 billion in the City in 2007, a 5.7 percent increase in spending compared to 2006.

Hotel sector outperforming other areas
In line with the increasing number of visitors, the hotel sector continued its recovery, with both occupancy and average daily rate (ADR) increasing in FY 2007-2008, compared to the previous fiscal year. Hotels city-wide reported an ADR of $192 in FY 2007-2008, an 8.7 percent increase from the prior fiscal year. During this same period, occupancy rates increased 2 percentage points, to 79 percent[8]. The hotel sector continued its strong performance until November 2008, at which point both occupancy and average daily rates began to show annual declines.

San Francisco International Airport: lower fees, more carriers and connections
San Francisco International Airport (SFO) also continued to experience rising usage during the past year. From July 2007 to June 2008, the airport served 36.7 million passengers, up 8.6 percent from the previous fiscal year. International passengers increased 5.9 percent over the prior year, emphasizing San Francisco's established role as an international business and leisure destination, as well as an expanding array of direct international connections. Domestic traffic increased nearly 10 percent over last fiscal year, largely due to three new low-cost carriers starting up SFO service in the past year (JetBlue, Virgin America and Southwest Airlines). In the early months of fiscal year 2008-2009, passenger growth has slowed and begun to show annual declines. International capacity should increase with the expansion of several international airline routes, including Aer Lingus' nonstop service between Dublin and SFO, Cathay Pacific Airways expansion of its SFO-Hong Kong route, several Indian airlines gearing up for service, including Kingfisher, and Dubai-based Emirates Airlines, which began non-stop daily service from Dubai to SFO on the new Airbus A380 in December 2008.

Port of San Francisco: complementing the City's tourism industry
The Port of San Francisco is a major west coast cruise ship destination. Passenger boardings, which increased significantly in recent years (nearly doubling between 2003 and 2006 to 223,605 passengers), saw a decline to about 185,000 passengers in 2007.

Retail sales growth outperforms the state
Retail sales are closely tied to the visitor industry in San Francisco. Sales growth was a strong 3.2 percent in FY 2007-2008, evidence of the strong tourism sector and overall economy during the fiscal year. San Francisco's positive gains are running counter to the State and most other Bay Area cities, which experienced flat or negative year-over-year growth. San Francisco's status as a destination city and a strong tourism sector contributed to this retail attraction.

Emerging Technology Industries

Information and digital media
Since the mid-1990s, the Information sector[9]—consisting of software products, traditional and internet-based media publishing, film, music, digital media, and television—has emerged as an important component of San Francisco's economic base. The sector has fully recovered from the recession, posting

a 0.7 percent growth rate between March 2007 and March 2008. In March 2008, San Francisco had 19,322 jobs in the information sector, according to the U.S. Bureau of Labor Statistics.

Many information and digital media businesses have moved or expanded in San Francisco in the past year, including: LinkedIn, the social networking site, which opened a satellite office in the financial district in July; Meraki, a wireless networking firm, moved its headquarters from Mountain View bringing about 30 workers; and, Zinio Systems, which provides digital versions of magazines on the web, expanded its San Francisco footprint by 50%. Finally, in late 2007, Microsoft expanded its San Francisco presence when it relocated into 92,000 square feet in the Mid-Market area.

Clean Technology
Several early-stage clean technology firms have located in San Francisco in the past year, including: Potenco, a clean energy firm which hopes to bring clean and cheap energy to Third World countries with its people-powered "pull-cord generators"; Trina Solar, a leading Chinese manufacturer of solar photovoltaic products; Kaco Solar, a German-based company which makes inverters for solar power systems, expanded in the Presidio, and Suntech America, the China-based solar manufacturer which chose San Francisco for its North American headquarters in late 2007, expanded its workforce in 2008.

Biotechnology
Recombinant genetic engineering, the central innovation that created the biotechnology industry, was co-invented by a researcher at the University of California, San Francisco in the 1970s. Between UCSF, Stanford University, the University of California at Berkeley, and other local research institutions, the Bay Area is the leading biomedical research region in the world. The region is also home to many of the world's largest biotechnology companies, and also leads the world in venture capital investment in biotech.

Until recently, however, few biotechnology companies were located in San Francisco itself. This has begun to change with the growth of the Mission Bay redevelopment area. Mission Bay now houses a new UCSF campus, and growing amounts of lab and incubator space for researchers and start-up companies.

Significant activity by businesses in this sector include Sirna Therapeutics, which expanded into 40,000 square feet at 1700 Owens Street, a speculative building in Mission Bay that is now fully leased. Merck Pharmaceuticals bought Sirna for $1.1 billion in 2006, bringing a global player into the heart of the City's biotech cluster. The world's largest drugmaker, Pfizer Inc. made its first play in Mission Bay in mid-2008 with an equity investment and drug-discovery deal with Five Prime Therapeutics Inc., which relocated its headquarters from South San Francisco in late 2004. Pfizer then announced it will move about 100 employees, including the headquarters of its new Biotherapeutics and Bioinnovation Center (or BBC), into a new structure in Mission Bay in 2010. FibroGen will relocate its corporate headquarters from South San Francisco to a new 450,000 square foot laboratory building in Mission Bay, bringing 250 employees by year-end, making it the largest biotech company to date to commit to the City.

As Mission Bay continues to develop, it is expected that San Francisco's biotechnology industry will continue to grow.

Key Economic Foundations and Government Initiatives

San Francisco's industry competitiveness and overall prosperity are underpinned by a number of local economic foundations that benefit City businesses, ranging from its real estate and transportation infrastructure, to its quality of life and business climate. In many different areas, the City government is taking steps to strengthen these advantages, and thereby helping to secure the City's continued prosperity. Some important initiatives are described in the sections that follow.

Housing and Commercial Development

San Francisco continued to make significant progress in developing new residential, commercial, and transportation infrastructure in FY 2007-2008.

Housing: continuing investment, and planning for future growth
The Mayor's 15/5 initiative (15,000 new units in five years) is addressing San Francisco's chronic housing shortage. In calendar year (CY) 2007, 2,567 housing units were constructed, indicating the continuing strength of San Francisco's housing market in the face of the national downturn. Another 1,969 units have been constructed in the first half of 2008, with 1,412 units authorized for construction. This totals 12,600 units authorized for construction and 8,300 completed in the past 31/2 years, making the Mayor's 15/5 goal well within reach.

Also in CY 2007, the Planning Department entitled 2,612 new residential units, down from previous years. These entitlements are laying the groundwork for strong housing production in the next few years. In total, there are about 54,000 residential units in various stages of planning, including the redevelopment of the former Naval Shipyard at Hunters Point, and the former Naval Station at Treasure Island.

Office and Retail: declining vacancy, rising rents, more green buildings
The office market also continued its recovery in FY 2007-2008, with the vacancy rate declining from 11.4 percent in the third quarter of 2007 to 10.2 percent in the second quarter of 2008. During the same period, office rental rates increased 6.5 percent to $50.98 as of the second quarter of 2008. In addition, the market experienced about 750,000 square feet of net absorption during this time period. Office developers took advantage of this strong market: in FY 2007-2008 there was 1.4 million square feet of commercial space under construction, including a 33-story office tower at 555 Mission Street, the first high-rise office completed in San Francisco in five years.

Real estate investors have confidence in the City as well: more than half of downtown's office inventory traded hands in 2006 and 2007. However, the transaction pace has slowed dramatically: as of June 2008, there had been about $1.5 billion in sales, compared to $6.1 billion in sales in 2007. The slowing pace is due to tightening credit markets and the fact that much of the City's office inventory recently sold.

Treasure Island: a pioneering model for urban sustainable development
Over the last year, a forward-thinking plan for Treasure Island has emerged. By leveraging private capital and the City's entitlement power, the City will transform a closed military base into one of the greenest, most sustainable development projects in U.S. history, elements of which include a system of storm-water treatment wetlands, rigorous "green" building standards and maximization of renewable energy. The Treasure Island Plan will add 6,000 new residential units, including 1,800 at below market rate. In addition, without using any General Fund monies, a vibrant mixed-use commercial district, including 250,000 square feet of retail and commercial space, 450 hotel rooms, entertainment venues and cultural exhibitions, and a 300-acre park in the middle of San Francisco Bay will be created.

Bayview and Hunters Point: environmental restoration and economic development
A similar opportunity exists along San Francisco's southern waterfront, at Candlestick Point and the Hunters Point Shipyard. Current plans include up to 10,000 housing units, permanent artist studios, over 2,000,000 square feet of research and development space targeted to digital arts, green technology and biotech, and over 350 acres of open space and waterfront park land. A new 49ers stadium could be an element of that revitalization effort; plans are proceeding with, and without, a stadium alternative. Revitalizing these unique waterfront sites will create badly-needed jobs, affordable housing and parks and open space for the Hunters Point community, and the broader region.

On June 3, 2008 City voters overwhelmingly approved Proposition G, supporting the combined Hunters Point Shipyard Candlestick Point redevelopment project, affirming the actions of both the Redevelopment Agency Commission and the Board of Supervisors, who in mid-2007 endorsed the conceptual framework to plan for an integrated, mixed-use project in the southeast corner of the City. In addition, the Navy's cleanup and transfer of the Shipyard parcels to the City are speeding up: the latest federal appropriation contained $82 million for Navy cleanup at Hunters Point Shipyard - a 33% increase over what the government has committed annually over the past several years.

Transportation Infrastructure

San Francisco's ongoing growth and economic development is raising demand for transportation and creating a need for new investment. This growth is being experienced across all modes, including bus, rail, air, and water. Nevertheless, San Francisco is actually experiencing improving surface transportation performance, despite its growing population and strong economy.

The Transbay Transit Center: a Grand Central Station of the West
In 2006, the Transbay Transit Center project obtained Federal and State environmental approvals. The Center will initially feature an expanded terminal for buses to and from surrounding counties, and is planned to include a terminal for commuter rail from San Mateo County, high speed rail from Southern California, and pedestrian connections to the City's MUNI Metro, and Bay Area Rapid Transit (BART) subways.

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

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

San Francisco International Airport: planned capital improvements
Anticipating a rise in air travel, San Francisco airport commissioners gave the green light to reopening the airport's former international wing, Terminal 2. SFO expect to spend $383 million renovating the terminal thereby expanding the gate capacity for domestic airlines by 25 percent. Terminal 2, has been closed since 2000 when SFO finished construction of its $2.85 billion international terminal. Plans to reopen Terminal 2 as a domestic facility were grounded when air travel slowed following the 2001 terrorist attacks and a softening economy. Virgin America already confirmed as the first tenant of Terminal 2.

Quality of Life

In recent years the City has added a number of new attractions that are largely supported by out-of-town visitors, but give residents a wealth of recreational and cultural opportunities they would not have elsewhere. The quality of life generated by these opportunities, in turn is vital to developing the highly-skilled creative talent pool that fuels the City's knowledge sector. Thus a high quality of life is not simply an indicator of successful economic development in San Francisco—it is a prerequisite for continuing economic development.

New museums broaden San Francisco's tourism appeal and improve the quality of life
Several museums recently opened or are currently in the works, broadening the base of cultural amenities for both visitors and residents alike. Chief among them is the new California Academy of Sciences in Golden Gate Park. Renzo Piano's 410,000-square foot facility, across from the de Young Museum, has an undulating living roof covered with plants; this and other green building features earned the museum LEED platinum status when it opened in September 2008. In June 2008, the Contemporary

Jewish Museum opened its new 63,000-square-foot Daniel Libeskind-designed facility in the heart of downtown San Francisco's Yerba Buena cultural district.

Designs for the San Francisco Museum and Historical Society's development of the historic Old Mint building are nearing completion; a third of the $90 million fundraising goal has been met. Doris and Donald Fisher, co-founders of The Gap, plan to build a 100,000-square-foot Contemporary Art Museum of the Presidio to display their collection of contemporary art. Construction of the Walt Disney Family Museum and Library on the Presidio's Main Post started in September 2007 and is expected to open to visitors in September 2009. Finally, the renowned science museum The Exploratorium has started an environmental impact review for its anticipated move from the Palace of Fine Arts to Piers 15-17, a move that would allow the museum to double its footprint to 200,000 square feet.

Building a greener and more livable city
Several initiatives were started or expanded this year to provide for a cleaner and greener San Francisco to enhance both the visitor and resident experiences. The Livable City Initiative was expanded in order to green City streets and help define the unique characteristics of each neighborhood. The City has secured $8 million dollars in federal and local funds to begin major streetscape improvements, including planting trees, improving median strips, repairing sidewalks, replacing street lamps. In addition to these streetscape improvements, 5,000 trees were planted in 2006, and another 5,000 are planned for the next 12 months.

Another successful tool to improve the City's neighborhood commercial corridors is the creation of more Community Benefit Districts (CBDs). Neighborhood groups and merchant associations now have the ability to form these CBDs to expand daily street cleaning, plant new trees, sponsor neighborhood festivals, provide new signage, and make other improvements.

Governance: Expanding the City's Enterprise Zone

In 2007, San Francisco expanded its enterprise zone along the eastern edge of the City, allowing potentially thousands more businesses to apply for millions of dollars in state tax breaks, including hiring tax credits, tax credits for purchasing machinery, and the ability to carry over operating losses from previous tax years. In 2008, the City strengthened its Enterprise Zone program to increase its utilization by (1) removing the requirement that a new job be created and, (2) expanding the list of qualifications to remove more barriers to employment.

Award

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. This was the twenty-sixth consecutive year (fiscal years ended June 30, 1982 – 2007) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

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

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1 Source: California Employment Development Department, Labor Market
2 Source: DataQuick.
3 Source: Office of Federal Housing Enterprise Oversight Housing Price Index. The San Francisco Metropolitan Division includes San Francisco, San Mateo, and Marin counties.
4 *Emerging Trends in Real Estate 2009*, Urban Land Institute and PriceWaterhouseCoopers
5 Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.
6 Including NAICS codes 52, 53, 54, 55, and 56. Source: Bureau of Labor Statistics.
7 Source: San Francisco Convention and Visitor Bureau, *Visitor Industry Economic Impacts, 2007.*
8 Source: PKF Consulting.
9 NAICS 51.

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, 2007

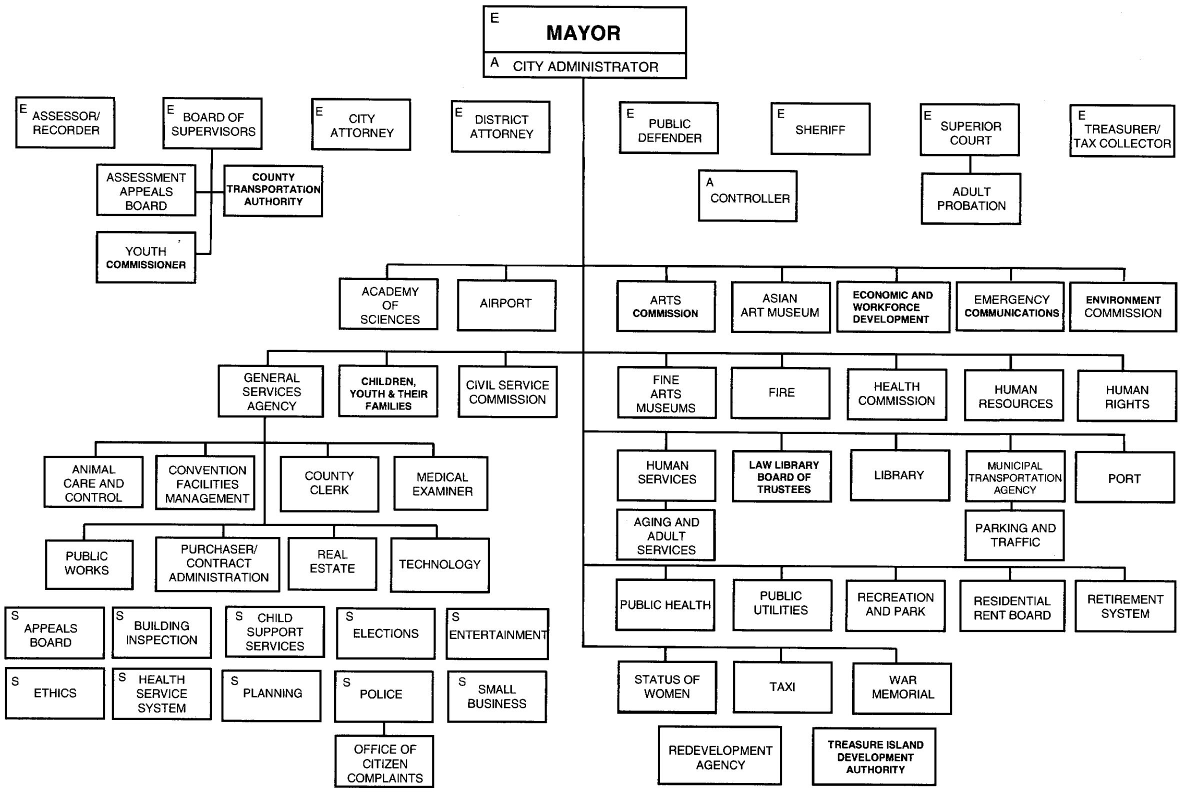
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

City and County of San Francisco Organization Chart

(As of June 30, 2008)



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

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List of Principal Officials
As of June 30, 2008

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Administrator	Edwin M. Lee
Controller	Benjamin Rosenfield

DEPARTMENT DIRECTORS/ADMINISTRATORS

Airport	John L. Martin
Appeals Board	Victor Pacheco (acting)
Arts Commission	Luis Cancel
Asian Art Museum	Jay Xu
Board of Supervisors	Angela Calvillo
Assessment Appeals Board	Dawn Duran
County Transportation Authority	José Luis Moscovich
Building Inspection	Isam Hasenin
California Academy of Sciences	Gregory C. Farrington, Ph.D.
Child Support Services	Karen M. Roye
Children, Youth and Their Families	Margaret Brodkin
Civil Service	Anita Sanchez
Economic and Workforce Development	Michael Cohen
Elections	John Arntz
Emergency Management	Vicki Hennessy (acting)

DEPARTMENT DIRECTORS/ADMINISTRATORS *(Continued)*

Entertainment	Robert Davis
Environment	Jared Blumenfeld
Ethics	John St. Croix
Fine Arts Museums	John E. Buchanan, Jr.
Fire	Joanne Hayes-White
General Services Agency	
Animal Care and Control	Carl Friedman
Convention Facilities Management	John Noguchi
County Clerk	Karen Hong Yee
Medical Examiner	Amy P. Hart, M.D.
Public Works	Ed Reiskin
Purchaser/Contract Administration	Naomi Kelly
Real Estate	Amy L. Brown
Department of Technology	Chris Vein
Health Service System	Bart Duncan
Human Resources	Micki Callahan
Human Rights	Chris Iglesias
Human Services	Trent Rohrer
Aging and Adult Services	Anne Hinton
Juvenile Probation	William P. Siffermann
Law Library Board of Trustees	Marcia Bell
Library	Luis Herrera
Municipal Transportation Agency	Nathaniel P. Ford, Sr.
Parking and Traffic	Bond M. Yee
Planning	John Rahaim
Police	Heather Fong
Office of Citizen Complaints	Joyce M. Hicks
Port	Monique Moyer
Public Health	Mitchell H. Katz, M.D.
Public Utilities	Edward Harrington
Recreation and Park	Yomi Agunbiade
Residential Rent Board	Delene Wolf
Retirement System	Clare M. Murphy
Small Business	Brajah Norris
Status of Women	Emily Murase
Superior Court	Gordon Park-Li
Adult Probation	Patrick Boyd
Taxi	Jordanna Thigpen (acting)
War Memorial	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNITS

Redevelopment Agency	Fred Blackwell
Treasure Island Development Authority	Mirian Saez

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Financial Section

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

MACIAS GINI & O'CONNELL LLP
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The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2008, 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 Railway, the Parking Garage Corporations, San Francisco Wastewater Enterprise, Port of San Francisco, San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues/additions as of and for the year ended June 30, 2008.

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues/ Additions
Governmental activities	2%	12%	0%
Business-type activities	94%	91%	69%
Discretely presented component units	100%	97%	95%
Municipal Transportation Agency enterprise fund	97%	100%	71%
Aggregate remaining fund information	91%	94%	4%

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 2007 basic financial statements and, in our report dated December 21, 2007, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(q) to the basic financial statements, effective July 1, 2007, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27.*

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2007, from which such partial or summarized information was derived.

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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
January 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2006-2007 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2007-2008 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately $6.43 billion (net assets). Of this amount, $229.5 million is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The government's total net assets decreased by $148.9 million or 2.3 percent over the previous fiscal year. Within this, the government's total capital assets net of related debt and restricted assets increased by a total of $174.2 million, offset by a $323.1 million decrease in unrestricted net assets. A significant portion of this, $285.2 million, is due to recognition of other postemployment benefit expense in excess of the amount the City funded this year in both governmental and business-type activities.

The City's governmental funds reported total revenues of $3.67 billion; an $88.5 million or 2.5 percent increase over the prior year. This improvement was due largely to growth in property and business tax revenues offset partially by declines in interest and investment income, property transfer tax revenues, and revenues from grants and capital contributions. Governmental funds expenditures totaled $3.54 billion for this period, a 5.2 percent increase, reflecting increases in cost of living in this area and growth in demand for government services.

At the end of the fiscal year, the City's General Fund had an unreserved fund balance of $77.1 million, representing 3.2 percent of total General Fund expenditures of $2.39 billion. The General Fund's unreserved fund balance decreased by approximately 45.3 percent from the prior year amount of $141.0 million. Factors contributing to this decline include declines in federal revenues, investment earnings, local tax revenues, particularly property transfer tax, increases in demand for services and the City's related use of fund balance.

The City's total long-term debt, including all bonds, loans, commercial paper and capital leases decreased by $127.0 million during this fiscal year. The City issued a total of $1.64 billion in debt. Of this amount, $31.1 million was for general obligation bonds for public library capital projects, and $7.7 million was for general obligation bonds for seismic retrofitting of masonry buildings and $42.4 million was for lease revenue bonds for various park improvements. In addition, the City issued $271.4 million in general obligation refunding bonds and the Airport issued $1.24 billion in revenue refunding bonds and $28 million in commercial paper. This was more than offset by the repayment of debt in the amount of $1.77 billion. Of this amount, the largest repayment was to refund the Airport's debt in the amount of $1.26 billion. The Airport also repaid $10 million in commercial paper.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2008 (in thousands)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	$ 1,905,426	$ 2,034,379	$ 2,109,649	$ 2,098,272	$ 4,015,075	$ 4,132,651
Capital assets	2,931,077	2,900,769	9,148,394	8,867,534	12,079,471	11,768,303
Total assets	4,836,503	4,935,148	11,258,043	10,965,806	16,094,546	15,900,954
Liabilities:						
Noncurrent liabilities outstanding	2,324,641	2,201,025	5,558,339	5,529,934	7,882,980	7,730,959
Other liabilities	926,806	863,112	851,355	724,608	1,778,161	1,587,720
Total liabilities	3,251,447	3,064,137	6,409,694	6,254,542	9,661,141	9,318,679
Net assets:						
Invested in capital assets, net of related debt	1,436,842	1,454,614	3,935,008	3,795,006	5,371,850	5,249,620
Restricted	410,111	430,843	421,904	349,136	832,015	779,979
Unrestricted (deficit)	(261,897)	(14,446)	491,437	567,122	229,540	552,676
Total net assets	$ 1,585,056	$ 1,871,011	$ 4,848,349	$ 4,711,264	$ 6,433,405	$ 6,582,275

Analysis of Net Assets

Net assets may serve as a useful indicator of the government's financial position. At the end of fiscal year 2007-2008, the City's total net assets exceeded liabilities by $6.43 billion.

The largest portion of the net assets reflects the City's $5.37 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 83.5 percent of the City's total net assets, a 2.3 percent increase over the prior year, and is largely due to growth in net capital assets at the MTA, Water, Wastewater, Laguna Honda Hospital, and General Hospital, which are business-type activities of the City. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the debt related to these assets must come from other sources since the capital assets themselves cannot be liquated to pay that liability.

Another portion of the City's net assets, $832.0 million (12.9 percent) represents restricted resources that are subject to external limitations regarding their use. The remaining balance of $229.5 (3.6 percent) reflects unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors. Combined, these two components of net assets totaled 16.5 percent at the end of the current fiscal year, or 20.3 percent less than the prior year. This change is due to increases in capital assets and expenses.

The government as a whole, and the business-type activities reported positive balances in all categories of net assets at the end of this fiscal year. For governmental activities, the balance of unrestricted net assets has a $261.9 deficit, due in large part to recognition of other postemployment benefit expense, in conformance and compliance with GASB Statement Number 45 requirements. For a fuller discussion, see Footnote 9(d).

Changes in Net Assets
Year Ended June 30, 2008 (in thousands)

	Governmental activities 2008	Governmental activities 2007	Business-type activities 2008	Business-type activities 2007	Total 2008	Total 2007
Revenues						
Program revenues:						
Charges for services	$ 461,625	$ 382,489	$ 1,973,961	$ 1,822,047	$ 2,435,586	$ 2,204,536
Operating grants and contributions	926,089	927,256	181,725	183,301	1,107,814	1,110,557
Capital grants and contributions	36,079	50,479	152,511	150,080	188,590	200,559
General revenues:						
Property taxes	1,189,511	1,126,992	-	-	1,189,511	1,126,992
Business taxes	396,025	337,592	-	-	396,025	337,592
Other local taxes	652,971	668,824	-	-	652,971	668,824
Interest and investment income	57,929	86,233	67,217	85,692	125,146	171,925
Other	25,939	33,046	233,244	218,184	259,183	251,230
Total revenues	3,746,168	3,612,911	2,608,658	2,459,304	6,354,826	6,072,215
Expenses						
Public protection	1,020,457	861,689	-	-	1,020,457	861,689
Public works, transportation and commerce	342,411	309,095	-	-	342,411	309,095
Human welfare and neighborhood development	848,195	751,034	-	-	848,195	751,034
Community health	567,410	516,321	-	-	567,410	516,321
Culture and recreation	347,433	290,547	-	-	347,433	290,547
General administration and finance	250,295	194,653	-	-	250,295	194,653
General City responsibilities	80,887	67,948	-	-	80,887	67,948
Unallocated Interest on long-term debt	97,694	94,060	-	-	97,694	94,060
Airport	-	-	651,581	624,832	651,581	624,832
Transportation	-	-	830,411	726,053	830,411	726,053
Port	-	-	67,495	61,937	67,495	61,937
Water	-	-	252,802	236,824	252,802	236,824
Power	-	-	109,436	95,020	109,436	95,020
Hospitals	-	-	812,399	714,349	812,399	714,349
Sewer	-	-	182,712	168,954	182,712	168,954
Market	-	-	1,052	1,061	1,052	1,061
Total expenses	3,554,782	3,085,347	2,907,888	2,629,030	6,462,670	5,714,377
Increase/(decrease) in net assets before special items and transfers	191,386	527,564	(299,230)	(169,726)	(107,844)	357,838
Special items	-	-	(41,026)	17,386	(41,026)	17,386
Transfers	(477,341)	(451,171)	477,341	451,171	-	-
Change in net assets	(285,955)	76,393	137,085	298,831	(148,870)	375,224
Net assets at beginning of year	1,871,011	1,794,618	4,711,264	4,412,433	6,582,275	6,207,051
Net assets at end of year	$ 1,585,056	$ 1,871,011	$ 4,848,349	$ 4,711,264	$ 6,433,405	$ 6,582,275

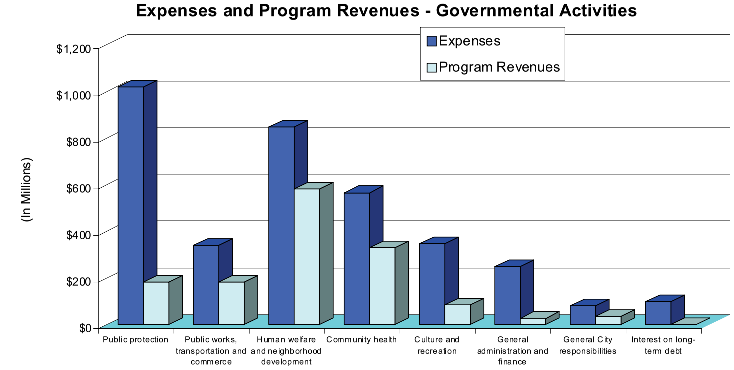
Analysis of Changes in Net Assets

The City's total net assets decreased by a total of $148.9 million during fiscal year 2007-2008. The business-type activities realized net asset growth of $137.1 million while the City's governmental-activities reported a decrease of $286.0 million. Six of the City's enterprises, including Laguna Honda Hospital, Water, Wastewater and MTA reported a combined total increase of $173.1 million which was offset by decreases totaling $36.0 million at the other business-type activities.

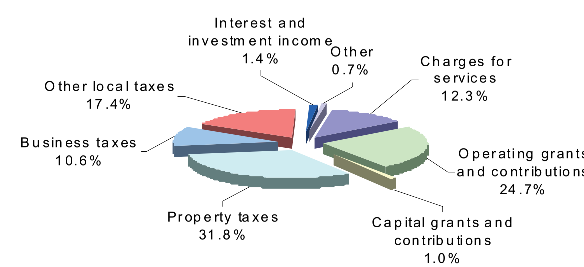
The City's governmental-type activities realized overall a 3.69 percent growth in total revenues with the more significant growth in revenues from property taxes, business taxes and charges for services offsetting declines from other sources. The City's governmental-type expenses also increased 15.2 percent this fiscal year. As noted above, an important component of this increase is the City's recognition this year of other postemployment benefit expense. In addition, growth in demand for the governmental services, personnel, labor and administrative costs was seen across functions. 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 decreased the City's total net assets by approximately $286 million. Key factors contributing to this year's change are discussed below.

Overall, total revenues from governmental activities were $3.75 billion, a $133.3 million or 3.7 percent increase over the prior year. For the same period, expenses totaled $3.55 billion before transfers of $477.3 million, resulting in a total net asset decrease of $286.0 million by June 30, 2008.

Revenues from property taxes grew $62.5 million or 5.6 percent this year. This was primarily due to a 8.5 percent growth in assessed valuation in fiscal year 2007-2008 compared to fiscal year 2006-2007.

Business tax revenues also grew this year, realizing a $58.4 million or 17.3 percent increase. Of this, $11.7 million was due to increased collections of previously unidentified payroll taxes stemming from operational improvements in that function. The remaining increase, $46.7 million was related to moderate employment and wage growth in the sectors paying this tax. Notably, job growth in the professional and business services sectors was 4.5 percent in calendar 2007 compared to 2.3 percent overall.

Total revenues from hotel, sales, parking and utility users taxes totaled approximately $566.8 million, a $41.9 million increase over the prior year. Of this, hotel tax revenue rose $24.8 million or 12.8 percent due primarily to an increase in hotel occupancy rates and a robust 8.7 percent average daily room rate increase. Sales taxes rose 3.3 percent or $6.2 million and parking taxes improved by $2.5 million, or 3.9 percent. In addition, an $8.2 million increase in utility users tax stemmed from increases in natural gas prices and electricity rates, and growth in cellular phone use. During this same period, property transfer tax totaled $86.2 million, a decline of $57.8 million or 40.1 percent in real property transfer tax, a historically volatile revenue stream. This decrease was due to fewer large dollar commercial property sales as compared to the prior year when the City saw an unusual spike in those sales.

Total charges for services revenues reported significant increases this year, rising $79.1 million, or 20.7 percent. The City's development impact fees contributed $43.5 million or 55.0 percent to this growth due to an increase in construction of residential and commercial properties. Another $6.7 million was due to improved estimates of uncollectible ambulance billings. The remaining $28.9 million reflects growth in a range of governmental fee-based services including building permits, safety charges, inspection fees and others.

Interest and investment income revenue was down by $28.3 million, 32.8 percent, due to decline in interest rates on the City's pooled investments from an average of 5.2 to 4.3 percent and lower daily cash balances during the fiscal year. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with the interest rate cuts made by the Federal Reserve. The Federal Funds rate was cut seven times during fiscal year 2007-2008, from 5.25 to 2.00 percent. At the end of the fiscal year, deposits and investments for governmental activities with the City Treasury were $1.16 billion, a 13.9 percent decrease over the prior year.

Revenues from capital grants and contributions totaled $36.1 million this year compared to $50.5 million last year. This $14.4 million, 28.5 percent decrease was due largely to a $21.1 million decline in state grants for streets, roads and park projects offset in part by $2.6 million increase in earthquake safety grants and $3.9 million for library capital program.

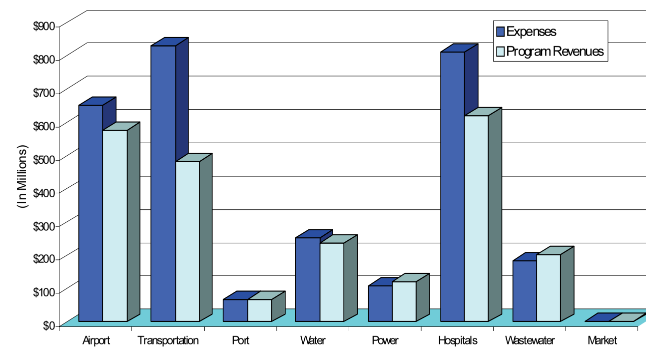
Net transfers to business-type activities were $477.3 million, a 5.8 percent or $26.2 million increase over the prior fiscal year. This includes an additional $25.4 million to Laguna Honda Hospital, and $4.8 million to San Francisco General Hospital associated with increased General Fund support; and a net decrease of $11.2 million to MTA largely due to reduced capital and operation transfers from the San Francisco County Transportation Authority. In addition, the Airport's net transfers increased by $2.5 and in the prior fiscal year (2006-2007) there was a one-time $9.8 million net transfer from Water to governmental activities for a land sale. There was no such transfer in the current year.

The increase in total governmental expenses of $469.4 million included an estimated $164.8 million related to other postemployment benefit expenses. The City recorded this liability for the first time in fiscal year 2007-2008 to be in compliance with GASB Statement Number 45 which requires recognition of these liabilities. The remaining increase of $304.6 million represents continued growth in demand for the government's services and the cost of living increase in the San Francisco Bay Area. Major components include $74.0 million increases in police, fire and sheriff staffing levels and labor costs; an additional $44.9 million in the human welfare and neighborhood services functions due to growth in medical and professional service contracts and a rise in labor and other administrative expenses; an $11.0 million increase in cultural and recreational program expenses; an

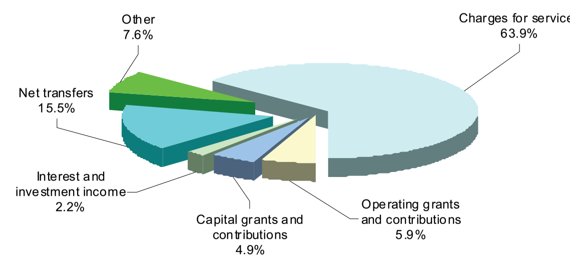
$11.6 million increase is related to an increased number of elections this year and new voting system expenses. In addition, $26.4 million represents an increase of the City' Public Education Enrichment Fund expenses. This fund was established after San Francisco voters approved Proposition H in 2004, a local measure which increased the City's funding for certain public school programs for eleven years.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As seen, public protection is the largest function (28.7 percent), followed by human welfare and neighborhood development (23.9 percent), community health (16.0 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 (31.8 percent) as the single largest funding source, followed by operating grants and contributions (24.7 percent), other local taxes (17.4 percent), charges for services (12.3 percent), and business taxes (10.6 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences. The largest change, for example, was in charges for services which accounted for 10.6 percent of funds last year compared to 12.3 percent this year.

Expenses and Program Revenues - Business-type Activities



Revenues By Source and Net Transfers
Business-type Activities



Business-type activities increased the City's net assets by $137.1 million. Key factors contributing to this improvement are:

- The Municipal Transportation Agency (MTA) had net assets of $1.90 billion at the end of this fiscal year, a $10.1 million increase for the period. The City's municipal railway, MUNI, accounts for 97.5 percent or $1.86 billion of this. The remainder represents the combined net assets of the Department of Parking and Traffic and the Parking Authority. MUNI's net assets increased $14.3 million, the result of $717.8 million in total revenues and net transfers versus $703.5 million in total expenses. Operating revenues from passenger fares grew by $8.4 million due to increased ridership and revenues from advertising increased by $7.1 million due to an improved transit shelter ad contract that began in December 2007. Federal and state capital contributions declined by a total of $7.6 million; and net transfers rose $9.9 million. Expenses increased by $87.7 million, 14.2 percent over the prior year and approximately $31.8 million of this increase represents MUNI's other postemployment benefit expense, recognized, in accordance with GASB Statement Number 45 as required, this year for the first time. Other personnel cost increases account for $28.5 million. The remaining reflects increases in fuel costs, general administrative and depreciation expenses. This year, the City's General Fund total subsidy to MTA was $204.1 million which consisted of $154.6 million for MUNI and $49.5 million for the Department of Parking and Traffic. This was a $4.8 million and $2.2 million increase, respectively, for each entity over the prior year.

- Laguna Honda Hospital, the City's skilled nursing care hospital, increased net assets by $113.9 million or 42.3 percent this year, reflecting continued progress on construction of major new hospital complex. This increase is primarily related to a $106.3 million transfer from the non-major governmental fund for the hospitals operating and capital activities. Laguna Honda Hospital also received a $54.6 million subsidy transfer and a $2.8 operating transfer offset by $49.8 million in losses this year as compared to a $26.6 million operating loss in the prior year.

- Hetch Hetchy operates San Francisco's water storage and power generating facilities in the Sierra Nevada Mountains and had total net assets of $421.2 million at year's end, $14.7 million or a 3.4 percent decrease over the prior year. The major factors for this slight decline are an increase in net operating income of $27.0 million offset by the write-down of $41.2 million of combustion turbine assets to reflect the agency's decision to end that project. On the operating side, total revenues were $136.4 million, an increase of $17.6 million due primarily to a $11.6 million increase in electricity sales to the Modesto and Turlock Irrigation Districts and sales to other governments and City departments, plus a $6.0 million increase in non-operating revenue. Total operating expenses were $109.4 million, a $14.4 million or 15.2 percent increase over the prior year. Increases in general, administrative and other operating expenses account for about $9.3 million of this while the remainder is due to the net increase in power purchase costs of $1.5 million and an increase of $2.7 million in other postemployment benefit expenses.

- The City's Water Enterprise reported net assets of $461.3 million, a $22.8 million or 5.2 percent increase over the prior year. Since 2003, the enterprise has been engaged in a massive, multi-billion dollar, ten-year program to rebuild the City's water system. This year's $193.8 million increase in net capital assets and the related use of $181.5 of current assets, primarily cash restricted for this effort, reflects continued progress on this critical project, reported as a $12.3 million growth in total assets. During this year, there was also a $10.5 million net reduction in liabilities due largely to repayment of $19.2 million in bond principal offset by the recognition of a $15.0 million liability for other postemployment benefit expenses, consistent with the City's implementation of GASB Statement Number 45 this year.

- The City's Wastewater Enterprise had net assets of $983.9 million at the end of this fiscal year, a $24.7 million or 2.6 percent increase for the period. Total revenues for the year were $207.5 million, a $5.4 million or 2.7 percent increase over fiscal 2006-2007. This revenue growth included approximately $11.5 million associated with an 8.0 percent rate increase, offset by a

decline of $6.1 million in non operating, interest on investments, and other revenues. Total expenses increased by $13.6 million due to personnel cost increases including $5.7 million to reflect GASB Statement Number 45 other postemployment benefit expenses.

- The Airport's net assets were $313.4 million at the end of fiscal year 2007-2008, representing only a small decrease, slightly more than one percent, over the prior year. This year, operating revenues totaled $535.8 million, a $31.8 million growth driven largely by a 8.4 percent growth in passenger enplanements. Aviation revenue increased $9.9 million, concession revenues increased $8.0 million and parking, transportation and net sales and service grew by a total of $13.8 million. Total expenses increased by a net $20.2 million due to personnel costs, repairs and maintenance and materials and supplies. As in all other City entities, the Airport's personnel related expenses included other postemployment benefits this year. The transfer from the Airport to the City's General Fund was $25.9 million this year, a $2.5 million growth over fiscal year 2006-2007.

As shown in the previous charts, the City's largest business-type activities, the MTA and the Airport, had total expenses of over $800 million and $600 million respectively, accounting for slightly more than 50 percent of all business-type activities. San Francisco's long term and acute care hospitals together also had total expenses over $800 million. Together, these four enterprises make up 78.9 percent of total expense for business-type activities. As in the past, revenues from charges for services account for the largest share of funding for these activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City reported combined ending governmental fund balances of $971.7 million, a decrease of $280.3 million over the prior year. While the City realized a growth in total governmental funds revenues, including growth in property and business tax revenues, the City also reported a decline in federal and state revenue and a decline in interest and investment income as discussed earlier. These factors, along with expenditures increasing at a faster rate than the net revenue gain contributed to the reduction in governmental funds combined ending fund balance.

Approximately $55.0 million of the governmental funds balance represents unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, a measure of the fund resources already committed and not available for new spending. These commitments include support for (1) a General Fund "rainy day" reserve ($117.8 million), (2) encumbrances for existing contracts and purchase orders ($256.5 million), (3) funds continued for programs or projects in future fiscal years ($463.9 million), and (4) assets not available for appropriation ($31.2 million).

The General Fund is the chief operating fund of the City and had an unreserved fund balance of $77.1 million and a total fund balance of $405.6 million at the end of the fiscal year. For the year, the General Fund's total revenues exceeded expenditures by $331.8 million, before transfers and other items of $467.6 million. In the aggregate, the resulting total fund balance decreased by $135.8 million for the fiscal year ended June 30, 2008. Overall, this was due to smaller than expected increase in revenues, particularly in real estate property transfer tax, grants and subventions, and an increased rate of expenditure growth due to growth in demand for services and personnel costs across City functions. These factors were partly offset by management controls on the General Fund expenditures put in place during the middle of this fiscal year.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For this fiscal year, the unreserved fund balance of $77.1 represents 3.2 percent of total General Fund expenditures of $2.39 billion, and the total fund balance of $405.6 million represents essentially 17.0 percent of that amount. At the end of the prior fiscal year, the General Fund's unreserved fund balance of $141.0 million was 6.5 percent of total expenditures of $2.16 billion, and the total fund balance represented approximately 25.1 percent of expenditure. This change also reflects the City's relatively higher use of budgetary use of balances and reserves in fiscal 2007-2008.

Proprietary Funds

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

At the end of the current fiscal year, the unrestricted net assets for the Airport were $253.0 million, the Water Enterprise $109.8 million, the Hetch Hetchy Water and Project were $161.8 million, the Wastewater Program were $42.0 million, and the Port were $60.1 million. In addition, the MTA, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of $88.8 million, $22.3 million and $29.0 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 $137.1 million. 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 Special Items, and Others	Interfund Transfers	Change In Net Assets
Airport	$ 535,771	$ 451,258	$ 84,513	$ (102,978)	$ 41,060	$ (25,942)	(3,347)
Water	234,216	223,052	11,164	11,595	-	-	22,759
Hetch Hetchy	119,855	109,436	10,419	16,566	(41,224)	(450)	(14,689)
Municipal Transportation Agency	257,341	827,183	(569,842)	235,654	107,509	236,744	10,065
General Hospital	419,405	603,350	(183,945)	62,698	-	103,261	(17,986)
Wastewater Enterprise	202,549	165,245	37,304	(12,641)	-	-	24,663
Port	64,498	66,813	(2,315)	(836)	4,140	-	989
Laguna Honda Hospital	138,762	208,268	(69,506)	19,695	-	163,728	113,917
Market Corporation	1,564	1,052	512	202	-	-	714
Total	$ 1,973,961	$ 2,655,657	$ (681,696)	$ 229,955	$ 111,485	$ 477,341	$ 137,085

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employee's Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public service employees. At the end of the current fiscal year, the net assets of the Retirement System and Health Services System combined totaled $15.9 billion, representing a $1.14 billion decrease over the prior year, a 6.7 percent change. This decrease is essentially due to a decrease in the fair value of the Retirement System's investments. The Investment Trust Fund's net assets were $538.4 million at year's end, compared to $646.2 million at the end of the previous fiscal year. This 16.7 percent decrease represents an increase in withdrawals or distributions to external participants of the fund over additions in the current year.

General Fund Budgetary Highlights

The City's revised budget of $3.4 billion includes $422.5 million of budgetary revisions above the $3.0 billion original budget. These revisions were made up of $466.9 million in carry-forward appropriations for various programs and projects, $16.6 million in supplemental appropriations approved during the fiscal year, offset by $61.0 million in deappropriations of projects and reserves.

During the year, actual revenues and other resources were $12.4 million less than budgeted. The City realized $70.0 million more revenue than budgeted for property taxes, business taxes, other local taxes (excluding property transfer tax), licenses permits and franchises, fines forfeitures and penalties, rents and concessions, charges for services, and other resources. Those surpluses were more than offset by a $37.3 million shortfall in real property transfer tax, $38.0 million shortfall in federal, state and other grants and subventions (linked to expenditure savings noted below), a $4.3 million shortfall in interest and investment income, a $1.6 million shortfall in charges for services, and a $1.3 million shortfall in other financing sources, primarily proceeds from issuance of bonds and loans.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $84.1 million in expenditure savings. Major factors include:

- $43.3 million savings in the Human Services Agency, due largely to lower than budgeted client assistance costs and grants to community-based service organizations. These savings are partially offset by reductions in Human Service federal and state subvention revenues.

- $15.2 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2007-2008.

- $12.6 million in savings on general administration and finance and other general city responsibilities.

An additional net $33.3 million addition to budgetary reserves was provided by deappropriations of project carryforward budgets and unneeded reserves.

The net effect of expenditure savings and deappropriations of reserves and project expenditures exceeding revenue shortfalls was a positive unreserved budgetary fund balance available for subsequent year appropriation of $105.1 million at the end of fiscal year 2007-2008. The City's fiscal year 2008-2009 Adopted Original Budget assumed an available balance of $81.7 million, so an additional $23.4 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details.)

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2008, increased by $311.2 million, 2.6 percent, to $12.1 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. Governmental activities contributed $30.3 million or 0.2 percent to this total while $280.9 million or 2.4 percent was from business-type activities. Details are shown in the table below.

Capital Assets, Net of Accumulated Depreciation
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 151,917	$ 151,917	$ 196,264	$ 195,722	$ 348,181	$ 347,639
Facilities and Improvement	2,188,543	2,108,299	6,114,993	6,042,922	8,303,536	8,151,221
Machinery and equipment	60,701	53,546	780,793	773,585	841,494	827,131
Infrastructure	281,329	261,179	794,180	725,729	1,075,509	986,908
Property held under lease	-	-	2,464	2,484	2,464	2,484
Easements	-	-	65,448	72,403	65,448	72,403
Construction in progress	248,587	325,828	1,194,252	1,054,689	1,442,839	1,380,517
Total	$ 2,931,077	$ 2,900,769	$ 9,148,394	$ 8,867,534	$ 12,079,471	$ 11,768,303

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

- Under governmental activities, net capital assets increased by $30.3 million mainly due to the increase in construction-in-progress work at various park and recreational sites such as Academy of Science and Upper Noe Recreation Center, branch libraries, various street improvement and traffic signal upgrades. About $173.4 million worth of construction-in-progress work was substantially completed and capitalized as facilities and improvement and infrastructure as appropriate. Of the completed projects, $61.6 million is for the Juvenile Hall and approximately $63.3 million for various Recreation Centers such as Ocean View, Joseph Lee and Moscone and various park improvement projects including the Golden Gate Park. The remaining completed projects includes public works and traffic signal projects.

- The Water Enterprise's net capital assets increased by $193.7 million. Close to 57.8 percent, or $112.0 million, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year water system improvement project. This change includes a $242.9 million increase in construction projects offset by $121.3 million in transfers to facilities and improvements, $1.7 million transfers to equipment, and $7.9 million expensed for projects not continued. The increase included Sunset Reservoir North Basin and Standford Heights Reservoir Rehabilitation and Upgrade, East/West Transmission Main and others Water System Improvement Program. The remaining net increase of $81.8 million reflects the increase to facilities, improvements and equipment less increase to depreciation. Water had $5.4 million in development costs and $9.9 million in site acquisition as of June 30, 2008 for an office building located at 525 Golden Gate Avenue. The project was placed on hold in July 2008 to allow management to evaluate construction cost estimates and alternative course of action given current market conditions.

- MTA's net capital assets increased by $31.3 million, was largely due MUNI's purchase and modification of the passenger coaches, and completion of capital improvements at maintenance and other facilities. This totaled approximately $38.3 million and was offset by an approximately $7.0 million growth in deprecation expense for capital assets under Parking and Traffic and the Parking Garages.

- Laguna Honda Hospital's net capital assets increased by $74.4 million due almost entirely to construction-in-progress on the capital project to rebuild the hospital. This work is principally funded by the Laguna Honda General Obligation Bonds.

- General Hospital's net capital assets increased by $13.1 million, primarily due to the design and rebuild costs for the hospital in the amount of $9.9 million, and for seismic retrofitting of $3.3

million. General Hospital is beginning to rebuild its facilities and in November 2008, the voters approved a bond measure to fund the $887.4 million project.

- The Wastewater Enterprise reported an a net increase of $25.4 million due to completion of the Mission/Mount Vernon Sewer Improvements, Oceanside Pump Station/Westside Bar Screens, and other capital projects throughout the system.

- Hetch Hetchy net capital assets decreased by a total of $19.4 million due largely to the net effect of a $14.8 million increase in structures, buildings and equipment offset by a $34.6 net decrease to construction projects. The latter included the write-off of combustion turbines as that project was discontinued.

- The Airport's net capital assets decreased $40.3 million or 1.1 percent largely due to the depreciation against completed projects of the Near Term Master Plan for the Airport in recent years. Major capital additions this fiscal year included Runway Overlay and Reconstruction, Boarding Area Gate Activation, Terminal Remodeling and Boarding Area Renovation.

At the end of the year, the City's business-type activities had approximately $321.6 million in commitments for various capital projects. Of this, Water Enterprise had an estimated $134.7 million, MTA had $46.7 million, Wastewater had $33.9 million, Airport had $30.1 million, Hetch Hetchy had $20.3 million, Port had $5.4 million, Laguna Honda had $50.5 million. In addition, there was approximately $97.2 million reserved for encumbrances in capital project funds for the general government.

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

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

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

Debt Administration

At the end of the current fiscal year, the City had total long-term and commercial paper debt outstanding of $7.7 billion. Of this amount, $1.1 billion is general obligation bonds backed by the full faith and credit of the City and $6.6 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial papers and capital leases decreased by $127.0 million during fiscal year 2007-2008, primarily due to maturities of existing debt exceeded the issuance of new debt in the governmental and business-type activities. Additional obligations, interest accretion and net increases in governmental activities were $378.6 million. For the business type activities the additional obligations were $1.26 billion which is the composed primarily of $1.24 billion of revenue refunding bonds and $28 million of commercial paper issued by the Airport. For governmental activities, maturities, retirements and net decreases for general obligation bonds, lease revenue bonds, certificates of participation, settlement obligation bonds were $404.7 million and $17.7 million for loans and capital leases. For business type activities, current maturities and net decreases for revenue bonds, lease revenue bonds and accreted interest were $1.34 billion, and repaid $10 million in commercial paper.

The City issued $1.5 billion in refunding bonds. Of this amount, the City issued a total amount of $271.4 million in general obligation refunding bonds to take advantage of the favorable interest rates to reduce debt payments. The Airport issued $1.26 billion, of which $291.3 million was refunded for savings and the $963.9 million was refunded to stabilize rates. This was necessitated by the downgrade of various insurance companies by credit agencies in January 2008. In addition, the City issued $31.1 million in general obligation bonds for the improvement of public libraries and made the second and third borrowing in the amount of $7.7 million on the Seismic Safety Loan Program general obligation bonds under the Board of Supervisors Resolution No. 65-07 for loans to finance the seismic retrofitting of masonry buildings within the City. The City also issued, through the San Francisco Finance Corporation, $11.9 million in lease revenue bonds to finance equipment and $42.4 million to finance the design, construction and renovation of various parks located within the City. In addition, the City entered into a contract with the Department of Housing and Urban Development for a loan of $1.8 million to finance the rehabilitation of the Hunter's Point Clubhouse Community Center. The Airport issued commercial papers in the amount of $28 million and repaid $10 million.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City - approximately $135 billion in value as of the close of the fiscal year. As of June 30, 2008, the City had $1.1 billion in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.78 percent of gross (0.81 percent of net) taxable assessed value of property. As of June 30, 2008, there were an additional $490.3 million in bonds that were authorized but un-issued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.13 percent of gross (1.18 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2008 were:

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

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

The City's enterprise activities maintained their underlying debt ratings this fiscal year. SFO's underlying debt ratings were upheld by Moody's Investors Services, Standard & Poor's, and Fitch Ratings at "A1", "A", and "A", respectively, with a stable rating outlook.

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

- By the end of fiscal year 2007-2008, San Francisco's economy had slowed, but was outperforming other Bay Area cities, and regions throughout the State. The fundamental cause of the recession in California, as well as several other states in the United States, has been the downturn in the housing market. Housing prices across California have rapidly declined after more than a decade of double-digit annual appreciation. Housing prices have declined by a much lower level in San Francisco.

- This slowing economic activity has resulted in projected General Fund tax revenue losses in the current fiscal year 2008-2009 of between $90 and $125 million, primarily due to slower than budgeted growth rates in hotel and sales taxes and real losses in property transfer tax. The Mayor, per Charter authorization to reduce spending in cases of revenue weakness, has adopted targeted spending cuts, slowed capital spending, and instituted other measures to close this current year revenue shortfall. Considerable uncertainty exists regarding the severity or duration of this downturn and its corresponding effect on the fiscal year 2009-2010 budget.

- The wage and salary employment base of San Francisco grew by 17,500 jobs between March 2007 and March 2008, the latest data available[1]. This 2.9 percent growth is the fastest rate of job increase since 1999-2000, and ranked San Francisco 16th in job growth among over 3,000 U.S. counties during that time. San Francisco's recent job growth rate surpassed every other major county in the Bay Area. However, since the end of fiscal year 2007-2008, annual job declines have been registered in the San Francisco metropolitan division, particularly at the end of calendar year 2008.

- Unemployment in San Francisco rose during fiscal year 2007-08 to an annual average of 4.6 percent, up from 4.1 percent in 2006-07. Nevertheless, this rate was far below the state average of 6.0 percent during that time, and further confirms the relative strength of the City's economy compared to the State. San Francisco's June 2008 unemployment rate of 5.4 percent was the 6th lowest among California's 58 counties.[2] It has risen to 6.6% by December, 2008, but was still the 4th lowest among California counties.

- The office market also remained healthy in fiscal year 2007-2008, with the vacancy rate declining from 11.4 percent in the third quarter of 2007 to 10.2 percent in the second quarter of 2008. During the same period, office rental rates increased 6.5 percent to $50.98 as of the second quarter of 2008.[3] In addition, the market experienced about 750,000 square feet of net absorption during this time period. Since the end of fiscal year 2007-2008, commercial rents have declined, and there has been a slight increase in vacancy rates, particularly in the fourth quarter of calendar year 2008.

- San Francisco's long-term economic fundamentals—the quality of its workforce, environment, technological base, and cultural amenities—are among the strongest of any city in the United States. These competitive advantages are likely to secure the City's continued prosperity during and after the economic recovery. Commercial property investors and developers agree; according to a recent report from the Urban Land Institute and PriceWaterhouseCoopers, San Francisco is the second best multifamily and office investment market in the country, ahead of New York, Washington D.C., San Jose, and Los Angeles[4]. According to the same report, San Francisco leads the nation in residential and commercial development potential.

[1] Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.
[2] Source: State of California Employment Development Department (EDD).
[3] Source: Grubb & Ellis.
[4] Source: *Emerging Trends in Real Estate 2009*, Urban Land Institute and PriceWaterhouseCoopers

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

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

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

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

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

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

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

Component Unit Financial Statement

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

Blended Component Units Financial Statements

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

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

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CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets
June 30, 2008
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury	$ 1,162,391	$ 991,537	$ 2,153,928	$ -	$ 3,551
Deposits and investments outside City Treasury	49,076	9,109	58,185	270,247	-
Receivables (net of allowance for uncollectible amounts of $72,381 for the primary government):					
Property taxes and penalties	57,175	-	57,175	20,297	-
Other local taxes	197,381	-	197,381	-	-
Federal and state grants and subventions	156,543	36,623	193,166	-	-
Charges for services	54,854	206,507	261,361	-	-
Interest and other	20,816	43,107	63,923	5,215	15
Loans receivable	-	134	134	-	-
Capital lease receivable from primary government	-	-	-	14,840	
Due from component unit	2,700	-	2,700	-	-
Inventories	-	56,248	56,248	-	-
Deferred charges and other assets	11,966	6,918	18,884	662	-
Restricted assets:					
Deposits and investments with City Treasury	-	129,421	129,421	-	-
Deposits and investments outside City Treasury	-	47,388	47,388	91,833	-
Grants and other receivables	-	342	342	1,191	-
Total current assets	1,712,902	1,527,334	3,240,236	404,285	3,566
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $453,577 and $211,187 for the primary government and component unit, respectively)	67,335	188	67,523	10,746	-
Advance to component units	6,460	2,599	9,059	-	-
Capital lease receivable from primary government	-	-	-	157,136	-
Deferred charges and other assets	23,002	60,413	83,415	13,560	-
Restricted assets:					
Deposits and investments with City Treasury	-	191,989	191,989	-	-
Deposits and investments outside City Treasury	95,727	301,500	397,227	30,652	-
Grants and other receivables	-	25,626	25,626	-	-
Property held for resale	-	-	-	15,821	-
Capital assets:					
Land and other assets not being depreciated	400,504	1,390,516	1,791,020	132,249	-
Facilities, infrastructure, and equipment, net of depreciation	2,530,573	7,757,878	10,288,451	141,193	-
Total capital assets	2,931,077	9,148,394	12,079,471	273,442	-
Total noncurrent assets	3,123,601	9,730,709	12,854,310	501,357	-
Total assets	$ 4,836,503	$ 11,258,043	$ 16,094,546	$ 905,642	$ 3,566

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets *(Continued)*

June 30, 2008

(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable	$ 240,585	$ 155,329	$ 395,914	$ 9,702	$ 2,809
Accrued payroll	82,870	62,271	145,141	48	-
Accrued vacation and sick leave pay	73,440	49,114	122,554	1,011	-
Accrued workers' compensation	37,685	26,573	64,258	-	-
Estimated claims payable	41,249	27,215	68,464	-	-
Bonds, loans, capital leases, and other payables	299,066	207,029	506,095	36,684	-
Capital lease payable to component unit	14,840	-	14,840	-	-
Accrued interest payable	11,569	13,426	24,995	30,963	-
Unearned grant and subvention revenues	15,494	-	15,494	-	-
Due to primary government	-	-	-	2,700	-
Internal balances	6,802	(6,802)	-	-	-
Deferred credits and other liabilities	103,206	197,963	301,169	3,643	403
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	37,119	37,119	-	-
Accrued interest payable	-	27,448	27,448	-	-
Other	-	54,670	54,670	-	-
Total current liabilities	926,806	851,355	1,778,161	84,751	3,212
Noncurrent liabilities:					
Accrued vacation and sick leave pay	64,763	37,499	102,262	1,066	-
Accrued workers' compensation	166,645	120,703	287,348	-	-
Other postemployment benefits obligation	164,786	120,383	285,169	493	-
Estimated claims payable	72,955	65,523	138,478	-	-
Bonds, loans, capital leases, and other payables	1,698,356	5,169,576	6,867,932	825,563	-
Advance from primary government	-	-	-	6,460	2,599
Capital lease payable to component unit	157,136	-	157,136	-	-
Accrued interest payable	-	-	-	57,910	-
Deferred credits and other liabilities	-	44,655	44,655	3,406	-
Total noncurrent liabilities	2,324,641	5,558,339	7,882,980	894,898	2,599
Total liabilities	3,251,447	6,409,694	9,661,141	979,649	5,811
NET ASSETS					
Invested in capital assets, net of related debt	1,436,842	3,935,008	5,371,850	66,728	-
Restricted for:					
Reserve for rainy day	117,792	-	117,792	-	-
Debt service	23,130	282,187	305,317	-	-
Capital projects	-	111,463	111,463	-	-
Community development	95,136	-	95,136	-	-
Transportation Authority activities	1,693	-	1,693	-	-
Grants and other purposes	172,360	28,254	200,614	-	-
Unrestricted (deficit)	(261,897)	491,437	229,540	(140,735)	(2,245)
Total net assets (deficit)	$ 1,585,056	$ 4,848,349	$ 6,433,405	$ (74,007)	$ (2,245)

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, 2008

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Govern-mental Activities	Business-Type Activities	Total	San Francisco Redevelop-ment Agency	Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$1,020,457	$ 66,343	$ 116,042	$ -	$ (838,072)	$ -	$ (838,072)	$ -	$ -
Public works, transportation and commerce	342,411	115,939	42,779	23,941	(159,752)	-	(159,752)	-	-
Human welfare and neighborhood development	848,195	108,956	472,846	570	(265,823)	-	(265,823)	-	-
Community health	567,410	52,455	277,142	1,389	(236,424)	-	(236,424)	-	-
Culture and recreation	347,433	70,576	2,970	10,179	(263,708)	-	(263,708)	-	-
General administration and finance	250,295	20,376	6,526	-	(223,393)	-	(223,393)	-	-
General City responsibilities	80,887	26,980	7,784	-	(46,123)	-	(46,123)	-	-
Unallocated interest on long-term debt	97,694	-	-	-	(97,694)	-	(97,694)	-	-
Total governmental activities	3,554,782	461,625	926,089	36,079	(2,130,989)	-	(2,130,989)	-	-
Business-type activities:									
Airport	651,581	535,771	-	41,060	-	(74,750)	(74,750)	-	-
Transportation	830,411	257,341	118,522	107,509	-	(347,039)	(347,039)	-	-
Port	67,495	64,498	-	3,942	-	945	945	-	-
Water	252,802	234,216	1,958	-	-	(16,628)	(16,628)	-	-
Power	109,436	119,855	52	-	-	10,471	10,471	-	-
Hospitals	812,399	558,167	61,193	-	-	(193,039)	(193,039)	-	-
Sewer	182,712	202,549	-	-	-	19,837	19,837	-	-
Market	1,052	1,564	-	-	-	512	512	-	-
Total business-type activities	2,907,888	1,973,961	181,725	152,511	-	(599,691)	(599,691)	-	-
Total primary government	$6,462,670	$2,435,586	$ 1,107,814	$ 188,590	(2,130,989)	(599,691)	(2,730,680)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 185,575	$ 22,189	$ 13,949	$ -				(149,437)	-
Treasure Island Development Authority	7,881	7,955	-	-				-	74
Total component units	$ 193,456	$ 30,144	$ 13,949	$ -				(149,437)	74
General Revenues:									
Taxes:									
Property taxes					1,189,511	-	1,189,511	102,559	-
Business taxes					396,025	-	396,025	-	-
Other local taxes					652,971	-	652,971	5,393	-
Interest and investment income					57,929	67,217	125,146	16,451	93
Other					25,939	233,244	259,183	8,570	1,742
Special item					-	(41,026)	(41,026)	-	-
Transfers - internal activities of primary government					(477,341)	477,341	-	-	-
Total general revenues, special item and transfers					1,845,034	736,776	2,581,810	132,973	1,835
Change in net assets					(285,955)	137,085	(148,870)	(16,464)	1,909
Net assets (deficit) - beginning					1,871,011	4,711,264	6,582,275	(57,543)	(4,154)
Net assets (deficit) - ending					$ 1,585,056	$ 4,848,349	$ 6,433,405	$ (74,007)	$ (2,245)

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, 2008
(with comparative financial information as of June 30, 2007)

(In Thousands)

	General Fund 2008	General Fund 2007	Other Governmental Funds 2008	Other Governmental Funds 2007	Total Governmental Funds 2008	Total Governmental Funds 2007
ASSETS						
Deposits and investments with City Treasury	$ 400,328	$ 489,610	$ 750,431	$ 849,221	$ 1,150,759	$ 1,338,831
Deposits and investments outside City Treasury	242	225	48,834	51,518	49,076	51,743
Receivables:						
Property taxes and penalties	47,312	48,348	9,863	11,330	57,175	59,678
Other local taxes	182,112	171,134	15,269	15,049	197,381	186,183
Federal and state grants and subventions	57,531	84,416	99,012	77,251	156,543	161,667
Charges for services	43,152	22,239	11,556	8,357	54,708	30,596
Interest and other	13,145	15,346	6,323	15,041	19,468	30,387
Due from other funds	16,890	30,115	11,578	16,644	28,468	46,759
Due from component unit	6,581	5,707	2,579	958	9,160	6,665
Loans receivable (net of allowance for uncollectible amounts of $453,577 in 2008; $414,545 in 2007)	10	-	67,325	64,504	67,335	64,504
Deferred charges and other assets	6,486	7,823	3,819	1,789	10,305	9,612
Total assets	$ 773,789	$ 874,963	$ 1,026,589	$ 1,111,662	$ 1,800,378	$ 1,986,625
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 118,109	$ 99,151	$ 114,889	$ 82,424	$ 232,998	$ 181,575
Accrued payroll	65,640	56,494	15,279	12,628	80,919	69,122
Deferred tax, grant and subvention revenues	83,973	44,122	59,457	22,899	143,430	67,021
Due to other funds	1,501	1,272	22,575	49,963	24,076	51,235
Deferred credits and other liabilities	98,931	132,463	98,355	83,270	197,286	215,733
Bonds, loans, capital leases, and other payables	-	-	150,000	150,000	150,000	150,000
Total liabilities	368,154	333,502	460,555	401,184	828,709	734,686
Fund balances:						
Reserved for rainy day	117,792	133,622	-	-	117,792	133,622
Reserved for assets not available for appropriation	11,358	12,665	19,814	19,413	31,172	32,078
Reserved for debt service	-	-	47,334	51,299	47,334	51,299
Reserved for encumbrances	63,068	60,948	193,461	288,948	256,529	349,896
Reserved for appropriation carryforward	99,959	161,127	314,051	292,234	414,010	453,361
Reserved for subsequent years' budgets	36,341	32,062	13,504	8,004	49,845	40,066
Unreserved (deficit), reported in:						
General fund	77,117	141,037	-	-	77,117	141,037
Special revenue funds	-	-	(27,758)	47,445	(27,758)	47,445
Capital project funds	-	-	2,126	(373)	2,126	(373)
Permanent fund	-	-	3,502	3,508	3,502	3,508
Total fund balances	405,635	541,461	566,034	710,478	971,669	1,251,939
Total liabilities and fund balances	$ 773,789	$ 874,963	$ 1,026,589	$ 1,111,662	$ 1,800,378	$ 1,986,625

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, 2008

(In Thousands)

Fund balances - total governmental funds	$ 971,669
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,926,092
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	16,473
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,350,679)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(8,865)
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.	226,288
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.	(195,922)
Net assets of governmental activities	$ 1,585,056

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, 2008
(with comparative financial information for year ended June 30, 2007)

(In Thousands)

	General Fund 2008	General Fund 2007	Other Governmental Funds 2008	Other Governmental Funds 2007	Total Governmental Funds 2008	Total Governmental Funds 2007
Revenues:						
Property taxes	$ 939,812	$ 887,690	$ 239,876	$ 220,174	$ 1,179,688	$ 1,107,864
Business taxes	394,267	336,757	1,758	835	396,025	337,592
Other local taxes	519,867	540,695	133,104	128,129	652,971	668,824
Licenses, permits and franchises	23,212	19,639	7,731	7,789	30,943	27,428
Fines, forfeitures and penalties	8,398	4,720	4,819	4,151	13,217	8,871
Interest and investment income	15,779	30,089	38,477	53,757	54,256	83,846
Rents and concessions	19,490	18,449	50,670	34,044	70,160	52,493
Intergovernmental:						
Federal	173,059	183,573	155,256	198,115	328,315	381,688
State	476,864	479,748	84,231	102,918	561,095	582,666
Other	-	-	15,907	15,689	15,907	15,689
Charges for services	135,473	125,682	153,216	147,375	288,689	273,057
Other	17,948	21,697	63,373	22,387	81,321	44,084
Total revenues	2,724,169	2,648,739	948,418	935,363	3,672,587	3,584,102
Expenditures:						
Current:						
Public protection	874,881	800,383	52,317	56,481	927,198	856,864
Public works, transportation and commerce	79,187	65,184	252,984	215,723	332,171	280,907
Human welfare and neighborhood development	613,135	568,241	215,768	171,930	828,903	740,171
Community health	454,935	410,169	88,111	99,675	543,046	509,844
Culture and recreation	105,036	93,992	204,576	192,143	309,612	286,135
General administration and finance	193,315	166,673	17,151	9,524	210,466	176,197
General City responsibilities	70,874	56,834	331	698	71,205	57,532
Debt service:						
Principal retirement	864	-	105,716	98,169	106,580	98,169
Interest and fiscal charges	147	-	75,697	71,266	75,844	71,266
Bond issuance costs	-	-	1,090	3,683	1,090	3,683
Capital outlay	-	-	133,155	283,370	133,155	283,370
Total expenditures	2,392,374	2,161,476	1,146,896	1,202,662	3,539,270	3,364,138
Excess (deficiency) of revenues over expenditures	331,795	487,263	(198,478)	(267,299)	133,317	219,964
Other financing sources (uses):						
Transfers in	70,969	71,277	173,801	146,021	244,770	217,298
Transfers out	(543,640)	(486,600)	(180,532)	(182,247)	(724,172)	(668,847)
Issuance of bonds and loans						
Face value of bonds and refunding bonds issued	-	-	310,155	312,955	310,155	312,955
Face value of loans issued	-	-	1,829	141	1,829	141
Premium on issuance of bonds	-	-	13,071	3,521	13,071	3,521
Discount on issuance of bonds	-	-	-	(1,856)	-	(1,856)
Payment to refunded bond escrow agent	-	-	(283,494)	(159,610)	(283,494)	(159,610)
Other financing sources-capital leases	5,050	8,245	19,204	4,544	24,254	12,789
Total other financing sources (uses)	(467,621)	(407,078)	54,034	123,469	(413,587)	(283,609)
Net change in fund balances	(135,826)	80,185	(144,444)	(143,830)	(280,270)	(63,645)
Fund balances at beginning of year	541,461	461,276	710,478	854,308	1,251,939	1,315,584
Fund balances at end of year	$ 405,635	$ 541,461	$ 566,034	$ 710,478	$ 971,669	$ 1,251,939

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, 2008

(In Thousands)

Net change in fund balances - total governmental funds	$ (280,270)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period plus assets donated to the City and acquired by funding from other revenues.	30,859
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the decrease in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	(173,573)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,823
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.	60,415
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.	(2,153)
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	19,338
Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	117
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 principal retirement exceeded bond and other debt proceeds in the current period.	78,090
Bond premiums and discounts 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.	(13,071)
Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities.	(10,632)
The net revenues of certain activities of internal service funds is reported with governmental activities.	(4,898)
Change in net assets of governmental activities	$ (285,955)

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, 2008

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 142,392	$ 563,435	$ 563,435	$ -
Resources (Inflows):				
Property taxes	934,720	934,720	943,500	8,780
Business taxes	359,718	359,718	394,268	34,550
Other local taxes:				
Sales tax	111,546	111,546	111,410	(136)
Hotel room tax	148,868	151,368	165,541	14,173
Utility users tax	80,208	80,208	86,964	6,756
Parking tax	64,820	64,820	67,285	2,465
Real property transfer tax	123,520	123,520	86,219	(37,301)
Stadium admission tax	2,958	2,958	2,447	(511)
Licenses, permits, and franchises:				
Licenses and permits	7,278	7,278	7,512	234
Franchise tax	14,799	14,798	15,701	903
Fines, forfeitures, and penalties	3,899	6,496	8,398	1,902
Interest and investment income	35,481	35,519	31,173	(4,346)
Rents and concessions:				
Garages - Recreation and Park	9,649	9,649	10,059	410
Rents and concessions - Recreation and Park	8,438	8,438	7,919	(519)
Other rents and concessions	1,718	1,718	2,101	383
Intergovernmental:				
Federal grants & subventions	214,140	217,034	182,149	(34,885)
State subventions:				
Social service subventions	101,039	101,248	107,848	6,600
Health / mental health subventions	114,686	115,237	111,802	(3,435)
Health and welfare realignment	170,166	170,166	166,624	(3,542)
Public safety sales tax	73,270	73,270	69,687	(3,583)
Motor vehicle in-lieu - county	5,294	5,294	3,529	(1,765)
Other grants and subventions	29,719	31,045	33,697	2,652
Charges for services:				
General government service charges	40,665	41,054	39,757	(1,297)
Public safety service charges	27,000	27,000	24,860	(2,140)
Recreation charges - Recreation and Park	7,456	7,456	8,054	598
MediCal, MediCare and health service charges	62,046	61,593	62,869	1,276
Other financing sources:				
Transfers from other funds	62,308	68,847	68,865	18
Proceeds from issuance of bonds and loans	1,278	1,278	-	(1,278)
Other resources (inflows)	14,932	9,306	9,922	616
Total amounts available for appropriation	2,974,011	3,406,017	3,393,595	(12,422)

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2008

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 12,307	$ 12,203	$ 11,293	$ 910
District Attorney	33,137	33,186	32,436	750
Emergency Communications	3,574	6,453	6,128	325
Fire Department	234,113	239,892	238,878	1,014
Juvenile Probation	38,431	36,937	35,753	1,184
Police Department	341,241	347,973	347,972	1
Public Defender	23,371	23,577	23,559	18
Sheriff	146,930	149,540	149,538	2
Trial Courts	31,797	33,778	33,740	38
Subtotal - Public Protection	864,901	883,539	879,297	4,242
Public Works, Transportation and Commerce				
Board of Appeals	620	624	529	95
Business and Economic Development	5,132	5,022	4,636	386
General Services Agency - Public Works	49,779	65,771	63,787	1,984
Parking and Traffic Commission	-	585	571	14
Public Utilities Commission	-	9	1	8
Water Department	-	22	22	-
Subtotal - Public Works, Transportation and Commerce	55,531	72,033	69,546	2,487
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	29,672	31,842	30,018	1,824
Commission on the Status of Women	3,332	3,368	3,182	186
County Education Office	76	76	76	-
Environment	1,467	1,094	986	108
Human Rights Commission	1,060	1,077	823	254
Human Services	598,421	610,330	567,039	43,291
Subtotal - Human Welfare and Neighborhood Development	634,028	647,787	602,124	45,663
Community Health				
Public Health	468,612	458,462	454,935	3,527
Culture and Recreation				
Academy of Sciences	3,955	3,955	3,918	37
Art Commission	8,990	9,319	9,214	105
Asian Art Museum	6,757	7,067	7,060	7
Fine Arts Museum	10,805	10,850	10,619	231
Law Library	595	617	611	6
Recreation and Park Commission	70,754	70,446	70,446	-
Subtotal - Culture and Recreation	101,856	102,254	101,868	386

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, 2008
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 12,475	$ 12,160	$ 11,646	$ 514
Board of Supervisors	10,573	10,377	10,210	167
City Attorney	11,867	12,381	12,369	12
City Planning	22,380	21,946	21,095	851
Civil Service	579	571	568	3
Controller	15,295	15,869	15,020	849
Elections	19,199	21,701	21,480	221
Ethics Commission	3,592	2,545	2,494	51
General Services Agency - Administrative Services	66,612	53,202	51,184	2,018
General Services Agency - Telecomm. and Info. Services	3,976	3,351	3,115	236
Health Service System	-	27	27	-
Human Resources	11,100	20,407	20,300	107
Mayor	20,411	17,186	17,032	154
Mayor- Deappropriation of Housing Carryforward	(33,050)	-	-	-
Retirement Services	506	414	414	-
Treasurer/Tax Collector	21,025	21,296	20,709	587
Subtotal - General Administration and Finance	186,540	213,433	207,663	5,770
General City Responsibilities				
General City Responsibilities	75,518	76,161	69,287	6,874
Other financing uses:				
Debt Service	1,011	1,011	1,011	-
Transfers to other funds	529,904	541,853	541,853	-
Budgetary reserves and designations	56,110	15,195	-	15,195
Total charges to appropriations	2,974,011	3,011,728	2,927,584	84,144
Total Sources less Current Year Uses	-	394,289	466,011	71,722
Budgetary Reserves Carried Forward into Subsequent Year		(38,160)	(4,818)	33,342
Budgetary Fund Balance, June 30		$ 356,129	$ 461,193	$ 105,064

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$3,393,595
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	(563,435)
Property tax revenue - Teeter Plan	(3,688)
Grants, subventions and other receivables received after 120-day recognition period	(26,071)
Unrealized gain/(loss) on investment	(2,254)
Interest earnings / charges from other funds are reclassified	(13,139)
Interest earnings from agency funds reclassified as other revenues	8,026
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(68,865)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$2,724,169
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$2,927,584
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation & Other Vendors	5,050
Recognition of expenditures for advances and imprest cash	2,045
Other budget to GAAP differences	11
Loans to Redevelopment Agency for Visitation Valley & Bay View Hunters Point	(463)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(541,853)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$2,392,374

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, 2008
(with comparative financial information as of June 30, 2007)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Other Fund: San Francisco Market Corporation	Total 2008	Total 2007	Governmental Activities-Internal Service Funds 2008	Governmental Activities-Internal Service Funds 2007
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 299,153	$ 138,654	$165,846	$ 197,677	$ 64,348	$ 44,361	$ 81,498	$ -	$ -	$ 991,537	$ 809,548	$ 11,632	$ 11,029
Deposits and investments outside City Treasury	10	36	10	3,977	10	-	5	1	5,060	9,109	11,351	-	-
Receivables (net of allowance for uncollectible amounts of $30,750 and $32,789 in 2008 and 2007, respectively):													
Federal and state grants and subventions	-	59	-	35,113	-	-	1,451	-	-	36,623	54,141	-	-
Charges for services	38,352	47,560	9,424	4,889	47,339	34,290	2,791	21,847	15	206,507	206,180	146	-
Interest and other	2,007	786	6,272	6,509	26,495	240	798	-	-	43,107	41,597	1,348	1,133
Loans receivable	-	-	134	-	-	-	-	-	-	134	562	26,999	23,332
Due from other funds	87	250	13,947	1,747	-	26	226	-	-	16,283	40,808	-	-
Inventories	73	1,872	296	46,697	5,077	-	1,034	1,199	-	56,248	51,147	-	-
Deferred charges and other assets	3,248	-	2,120	1,451	-	-	75	-	24	6,918	2,592	-	-
Restricted assets:													
Deposits and investments with City Treasury	27,522	-	-	-	-	-	6,192	95,707	-	129,421	63,845	-	-
Deposits and investments outside City Treasury	41,814	-	-	-	-	-	5,574	-	-	47,388	45,251	-	-
Grants and other receivables	311	-	-	-	-	-	31	-	-	342	774	-	-
Total current assets	412,577	189,217	198,049	298,060	143,269	78,917	99,675	118,754	5,099	1,543,617	1,327,796	40,125	35,494
Noncurrent assets:													
Deferred charges and other assets	45,700	7,164	-	1,460	-	2,735	3,354	-	-	60,413	65,154	4,347	3,388
Loans receivable	-	-	188	-	-	-	-	-	-	188	324	257,699	227,865
Due from component unit	-	-	2,599	-	-	-	-	-	-	2,599	2,599	-	-
Restricted assets:													
Deposits and investments with City Treasury	100,089	21,740	-	17,352	-	52,808	-	-	-	191,989	448,786	-	-
Deposits and investments outside City Treasury	220,554	41,051	-	36,804	18	27	2,176	870	-	301,500	252,888	95,727	58,127
Grants and other receivables	17,900	260	-	6,830	-	252	-	384	-	25,626	41,533	-	-
Capital assets:													
Land and other assets not being depreciated	57,937	440,949	29,111	289,876	22,212	84,762	154,218	311,448	3	1,390,516	1,250,411	-	-
Facilities, infrastructure, and equipment, net of depreciation	3,542,695	827,045	230,265	1,704,116	45,161	1,276,099	120,840	7,107	4,550	7,757,878	7,617,123	4,985	5,536
Total capital assets	3,600,632	1,267,994	259,376	1,993,992	67,373	1,360,861	275,058	318,555	4,553	9,148,394	8,867,534	4,985	5,536
Total noncurrent assets	3,984,875	1,338,209	262,163	2,056,438	67,391	1,416,683	280,588	319,809	4,553	9,730,709	9,678,818	362,758	294,916
Total assets	4,397,452	1,527,426	460,212	2,354,498	210,660	1,495,600	380,263	438,563	9,652	11,274,326	11,006,614	402,883	330,410

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2008
(with comparative financial information for year ended June 30, 2007)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds								Other Fund			Governmental Activities-Internal Service Funds	
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2008	Total 2007	2008	2007
Operating revenues:													
Aviation	$ 306,348	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 306,348	$ 296,368	$ -	$ -
Water and power service	-	216,819	119,630	-	-	-	-	-	-	336,449	310,796	-	-
Passenger fees	-	-	-	149,886	-	-	-	-	-	149,886	141,518	-	-
Net patient service revenue	-	-	-	-	406,003	-	-	137,991	-	543,994	505,054	-	-
Sewer service	-	-	-	-	-	187,810	-	-	-	187,810	176,344	-	-
Rents and concessions	96,268	9,645	225	49,532	2,635	-	51,184	-	-	209,489	180,748	14	19
Parking and transportation	76,679	-	-	42,468	-	-	10,891	-	-	130,038	118,412	-	-
Other charges for services	-	-	-	2,331	-	-	-	-	1,564	3,895	3,673	111,809	111,520
Other revenues	56,476	7,752	-	13,124	10,767	14,739	2,423	771	-	106,052	89,134	-	-
Total operating revenues	535,771	234,216	119,855	257,341	419,405	202,549	64,498	138,762	1,564	1,973,961	1,822,047	111,823	111,539
Operating expenses:													
Personal services	185,238	102,233	32,175	535,458	365,838	69,383	28,184	178,472	217	1,497,198	1,295,354	52,241	46,983
Contractual services	51,914	11,292	3,972	49,361	143,598	11,973	4,917	6,739	549	284,315	270,957	37,987	35,662
Light, heat and power	18,893	-	28,548	1,036	-	-	2,033	-	-	50,510	46,278	-	-
Materials and supplies	11,319	11,506	2,291	50,437	60,480	9,539	1,628	13,710	3	160,913	153,203	16,783	18,404
Depreciation and amortization	151,121	45,958	11,021	102,038	6,594	38,758	10,407	1,073	275	367,245	345,709	2,384	1,700
General and administrative	1,610	8,209	20,997	40,424	273	1,719	858	-	7	74,097	64,251	514	406
Services provided by other departments	10,863	34,698	3,701	44,055	26,444	26,021	12,069	8,274	-	166,125	153,054	5,889	5,072
Other	20,300	9,156	6,731	4,374	123	7,852	6,717	-	1	55,254	48,856	642	2,698
Total operating expenses	451,258	223,052	109,436	827,183	603,350	165,245	66,813	208,268	1,052	2,655,657	2,377,662	116,440	110,925
Operating income (loss)	84,513	11,164	10,419	(569,842)	(183,945)	37,304	(2,315)	(69,506)	512	(681,696)	(555,615)	(4,617)	614
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	1,958	52	6,446	-	-	-	653	-	9,109	9,007	-	-
State / other	-	-	-	112,076	60,540	-	-	-	-	172,616	174,294	-	-
Interest and investment income	29,368	12,456	6,420	7,080	2,335	4,099	3,613	1,644	202	67,217	85,692	11,183	9,362
Interest expense	(200,323)	(29,750)	-	(3,228)	(177)	(17,467)	(682)	(604)	-	(252,231)	(251,368)	(11,218)	(9,565)
Other, net	67,977	26,931	10,094	113,280	-	727	(3,767)	18,002	-	233,244	218,184	25	-
Total nonoperating revenues (expenses)	(102,978)	11,595	16,566	235,654	62,698	(12,641)	(836)	19,695	202	229,955	235,809	(10)	(203)
Income (loss) before capital contributions, transfers and special item	(18,465)	22,759	26,985	(334,188)	(121,247)	24,663	(3,151)	(49,811)	714	(451,741)	(319,806)	(4,627)	411
Capital contributions	41,060	-	-	107,509	-	-	3,942	-	-	152,511	150,080	-	-
Transfers in	-	-	-	248,823	142,690	-	-	163,728	-	555,241	524,786	2,061	550
Transfers out	(25,942)	-	(450)	(12,079)	(39,429)	-	-	-	-	(77,900)	(73,615)	-	-
Income (loss) before special item	(3,347)	22,759	26,535	10,065	(17,986)	24,663	791	113,917	714	178,111	281,445	(2,566)	961
Special item	-	-	(41,224)	-	-	-	198	-	-	(41,026)	17,386	-	-
Change in net assets	(3,347)	22,759	(14,689)	10,065	(17,986)	24,663	989	113,917	714	137,085	298,831	(2,566)	961
Net assets (deficit) at beginning of year	316,742	438,574	435,845	1,893,292	59,859	959,250	329,698	269,389	8,615	4,711,264	4,412,433	(275)	(1,236)
Net assets (deficit) at end of year	$ 313,395	$ 461,333	$ 421,156	$ 1,903,357	$ 41,873	$983,913	$ 330,687	$ 383,306	$ 9,329	$4,848,349	$4,711,264	$ (2,841)	$ (275)

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, 2008
(with comparative financial information as of June 30, 2007)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds								Other Fund			Governmental Activities-Internal Service Funds	
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2008	Total 2007	2008	2007
LIABILITIES													
Current liabilities:													
Accounts payable	$ 28,995	$ 8,394	$ 12,726	$ 63,318	$ 24,862	$ 7,096	$ 4,675	$ 5,106	$ 157	$ 155,329	$ 158,041	$ 7,587	$ 10,077
Accrued payroll	7,726	6,009	1,223	21,305	14,529	3,296	1,247	6,936	-	62,271	54,436	1,951	1,773
Accrued vacation and sick leave pay	6,930	5,738	1,330	15,935	9,894	2,680	1,082	5,525	-	49,114	47,728	2,097	1,974
Accrued workers' compensation	948	1,512	380	16,857	3,644	822	393	2,017	-	26,573	30,829	166	145
Estimated claims payable	15	3,011	4,157	16,222	-	2,989	821	-	-	27,215	21,486	-	-
Due to other funds	21	-	-	150	1,869	-	83	7,358	-	9,481	32,669	11,194	3,663
Deferred credits and other liabilities	65,555	9,496	2,283	62,263	55,195	-	2,339	666	166	197,963	108,521	89,354	58,535
Accrued interest payable	-	7,434	-	238	-	5,626	128	-	-	13,426	14,185	2,704	1,748
Bonds, loans, capital leases, and other payables	73,271	25,520	110	6,951	1,139	99,430	92	516	-	207,029	202,176	23,775	21,510
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	32,934	-	-	-	-	-	4,185	-	-	37,119	19,087	-	-
Accrued interest payable	27,301	-	-	-	-	-	147	-	-	27,448	25,411	-	-
Other	13,453	27,322	-	1,497	-	4,605	6,720	1,073	-	54,670	50,847	-	-
Total current liabilities	257,149	94,436	22,209	204,736	111,132	126,544	21,912	29,197	323	867,638	765,416	138,828	99,425
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,983	5,118	1,041	11,088	7,263	2,318	859	3,829	-	37,499	37,171	1,912	1,865
Accrued workers' compensation	3,888	6,623	1,767	75,259	18,272	3,853	2,150	8,891	-	120,703	115,610	888	609
Other postemployment benefits obligation	15,413	15,048	2,723	35,438	30,065	5,684	2,805	13,207	-	120,383	-	4,147	-
Estimated claims payable	22	8,243	11,144	39,759	-	6,055	300	-	-	65,523	57,023	-	-
Deferred credits and other liabilities	-	355	-	29,810	-	89	14,401	-	-	44,655	44,445	-	-
Bonds, loans, capital leases, and other payables	3,801,602	936,270	172	55,051	2,055	367,144	7,149	133	-	5,169,576	5,275,685	259,949	228,786
Total noncurrent liabilities	3,826,908	971,657	16,847	246,405	57,655	385,143	27,664	26,060	-	5,558,339	5,529,934	266,896	231,260
Total liabilities	4,084,057	1,066,093	39,056	451,141	168,787	511,687	49,576	55,257	323	6,425,977	6,295,350	405,724	330,685
NET ASSETS													
Invested in capital assets, net of related debt	(177,974)	324,091	259,376	1,932,340	64,178	940,602	269,936	317,906	4,553	3,935,008	3,795,006	4,730	5,335
Restricted:													
Debt service	220,132	27,434	-	33,305	-	1,316	-	-	-	282,187	249,656	-	-
Capital projects	18,212	-	-	-	-	-	617	92,634	-	111,463	75,771	-	-
Other purposes	-	-	-	26,494	-	-	-	1,760	-	28,254	23,709	-	-
Unrestricted (deficit)	253,025	109,808	161,780	(88,782)	(22,305)	41,995	60,134	(28,994)	4,776	491,437	567,122	(7,571)	(5,610)
Total net assets (deficit)	$ 313,395	$ 461,333	$ 421,156	$ 1,903,357	$ 41,873	$983,913	$330,687	$ 383,306	$ 9,329	$4,848,349	$4,711,264	$ (2,841)	$ (275)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2008
(with comparative financial information for year ended June 30, 2007)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Other Fund: San Francisco Market Corporation	Total 2008	Total 2007	Governmental Activities-Internal Service Funds 2008	Governmental Activities-Internal Service Funds 2007
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 568,026	$ 222,676	$ 125,541	$ 407,693	$ 425,789	$ 198,895	$ 8,109	$ 146,175	$ 1,571	$ 2,104,475	$ 1,808,195	$ 142,620	$ 140,277
Cash received from tenants for rent	-	9,749	225	3,185	2,635	-	55,247	-	-	71,041	66,758	-	-
Cash paid to employees for services	(168,587)	(85,633)	(28,647)	(498,723)	(330,407)	(61,696)	(25,200)	(164,111)	(218)	(1,363,222)	(1,293,729)	(47,444)	(47,253)
Cash paid to suppliers for goods and services	(129,054)	(71,369)	(57,163)	(215,020)	(233,440)	(51,723)	(25,207)	(26,647)	(525)	(810,148)	(712,721)	(82,303)	(65,264)
Cash paid for judgments and claims	-	(2,359)	(1,264)	(14,957)	-	(1,554)	-	-	-	(20,134)	(20,132)	-	-
Net cash provided by (used in) operating activities	270,385	73,064	38,692	(317,822)	(135,423)	83,922	12,949	(44,583)	828	(17,988)	(151,629)	12,873	27,760
Cash flows from noncapital financing activities:													
Operating grants	-	1,899	52	111,329	63,563	-	-	-	-	176,843	310,920	-	-
Transfers in	-	-	-	376,226	142,690	-	-	163,727	-	682,643	404,490	2,061	550
Transfers out	(25,942)	-	(450)	(154,445)	(39,428)	-	-	-	-	(220,265)	(78,246)	-	-
Transit Impact Development fees received	-	-	-	169	-	-	-	-	-	169	1,309	-	-
Claims settlement proceeds	-	-	-	-	-	-	-	-	-	-	2,293	-	-
Other noncapital financing increases	6,827	-	9,903	3,981	-	900	-	-	-	21,611	20,800	-	-
Other noncapital financing decreases	-	-	-	-	(216)	-	-	(9,447)	-	(9,663)	(3,329)	-	-
Net cash provided by (used in) noncapital financing activities	(19,115)	1,899	9,505	337,260	166,609	900	-	154,280	-	651,338	658,237	2,061	550
Cash flows from capital and related financing activities:													
Capital grants	52,176	-	-	181,465	-	-	4,034	18,002	-	255,677	218,282	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond sale proceeds and loans received	-	-	-	-	-	-	-	-	-	-	-	54,852	38,687
Proceeds from sale of capital assets	-	24,402	55	35	-	-	1	-	-	24,493	8,714	-	-
Proceeds from commercial paper borrowings	18,000	-	-	-	-	-	-	-	-	18,000	50,000	-	-
Proceeds from passenger facility charges	72,594	-	-	-	-	-	-	-	-	72,594	66,166	-	-
Acquisition of capital assets	(116,450)	(234,624)	(32,284)	(148,458)	(19,734)	(62,087)	(14,005)	(75,430)	(238)	(703,310)	(657,036)	(1,307)	(2,547)
Retirement of capital leases, bonds and loans	(75,510)	(19,170)	(108)	(19,165)	(169)	(47,837)	(4,158)	(468)	-	(166,585)	(193,491)	(21,567)	(20,533)
Bond issue costs paid	-	-	-	-	-	-	-	-	-	-	(881)	(1,426)	(504)
Interest paid on debt	(191,349)	(45,023)	-	(4,233)	(178)	(20,325)	(492)	(603)	-	(262,203)	(230,572)	(9,939)	(8,708)
Other capital financing increases	-	-	-	50,361	-	-	198	-	-	50,559	116,612	-	-
Other capital financing decreases	(37,571)	-	-	-	-	-	(1,123)	-	-	(38,694)	(9,198)	-	-
Net cash provided by (used in) capital and related financing activities	(278,110)	(274,415)	(32,337)	60,005	(20,081)	(130,249)	(15,545)	(58,499)	(238)	(749,469)	(631,404)	20,613	6,395
Cash flows from investing activities:													
Purchases of investments with trustees	(2,806,847)	(50,153)	-	(3,924)	-	-	-	-	(12,915)	(2,873,839)	(1,197,355)	(159,000)	(56,540)
Proceeds from sale of investments with trustees	2,821,703	65,317	-	-	-	-	-	-	12,034	2,899,054	1,237,651	130,765	21,473
Interest and investment income	35,152	16,600	3,814	7,676	2,334	5,396	4,634	1,643	198	77,447	79,575	2,978	1,791
Other investing activities	-	2,827	-	-	(1)	-	-	(91)	-	2,735	1,933	(322)	(416)
Net cash provided by (used in) investing activities	50,008	34,591	3,814	3,752	2,333	5,396	4,634	1,552	(683)	105,397	121,804	(25,579)	(33,692)
Net increase (decrease) in cash and cash equivalents	23,168	(164,861)	19,674	83,195	13,438	(40,031)	2,038	52,750	(93)	(10,722)	(2,992)	9,968	1,013
Cash and cash equivalents-beginning of year	403,606	325,291	146,182	167,598	50,920	137,227	91,145	42,958	554	1,365,481	1,368,473	34,089	33,076
Cash and cash equivalents-end of year	$ 426,774	$ 160,430	$ 165,856	$ 250,793	$ 64,358	$ 97,196	$ 93,183	$ 95,708	$ 461	$ 1,354,759	$ 1,365,481	$ 44,057	$ 34,089

(Continued)

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows *(Continued)*
Proprietary Funds

Year ended June 30, 2008
(with comparative financial information for year ended June 30, 2007)
(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Other Fund: San Francisco Market Corporation	Total 2008	Total 2007	Governmental Activities-Internal Service Funds 2008	Governmental Activities-Internal Service Funds 2007
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 84,513	$ 11,164	$ 10,419	$ (569,842)	$ (183,945)	$ 37,304	$ (2,315)	$ (69,506)	$ 512	$ (681,696)	$ (555,615)	$ (4,617)	$ 613
Adjustments for non-cash activities:													
Depreciation and amortization	151,122	45,958	11,021	102,038	6,594	38,758	10,407	1,072	275	367,245	345,708	2,384	1,700
Provision for uncollectibles	(1,038)	-	(2,193)	75	-	120	(1,111)	-	-	(4,147)	(2,512)	-	-
Write-off of capital assets	-	8,337	1,245	-	-	1,517	-	-	-	11,099	15,486	-	-
Other	6,591	(3,925)	(43)	110,324	-	-	(1,246)	-	-	111,701	1,878	26	-
Changes in assets/liabilities:													
Receivables, net	1,038	(762)	2,845	(3,040)	(10,574)	(3,775)	1,496	7,398	(3)	(5,377)	(8,074)	21,461	20,600
Due from other funds	-	-	1,150	-	-	-	-	-	-	1,150	(1,473)	(79)	-
Inventories	(13)	(308)	(26)	(3,813)	(1,131)	-	211	(20)	-	(5,100)	1,903	-	-
Deferred charges and other assets	(1,754)	-	(2,120)	(1)	-	-	1,916	-	-	(1,959)	3,215	(6)	150
Accounts payable	(3,510)	(884)	1,056	9,420	(1,391)	2,602	360	2,097	35	9,785	30,222	(2,012)	3,561
Accrued payroll	1,101	482	162	2,575	2,239	500	184	672	-	7,915	7,707	179	171
Accrued vacation and sick leave pay	77	(315)	56	513	972	268	3	140	-	1,714	1,523	171	(92)
Accrued workers' compensation	59	(210)	(39)	(1,794)	2,155	531	(204)	341	-	839	(11,190)	300	(351)
Other postemployment benefits obligation	15,413	15,048	2,723	35,438	30,065	5,684	2,805	13,207	-	120,383	-	4,147	-
Estimated claims payable	-	4,320	10,520	(961)	-	333	21	-	-	14,233	987	-	-
Due to other funds	-	(4,856)	-	-	19,593	-	83	-	-	14,820	10,245	(1)	(177)
Deferred credits and other liabilities	16,786	(985)	1,916	1,246	-	80	339	16	9	19,407	8,361	(9,080)	1,585
Total adjustments	185,872	61,900	28,273	252,020	48,522	46,618	15,264	24,923	316	663,708	403,986	17,490	27,147
Net cash provided by (used in) operating activities	$ 270,385	$ 73,064	$ 38,692	$ (317,822)	$ (135,423)	$ 83,922	$ 12,949	$ (44,583)	$ 828	$ (17,988)	$ (151,629)	$ 12,873	$ 27,760
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 299,153	$ 138,654	$ 165,846	$ 197,677	$ 64,348	$ 44,361	$ 81,498	$ -	$ -	$ 991,537	$ 809,548	$ 11,632	$ 11,029
Restricted	127,611	21,740	-	17,352	-	52,808	6,192	95,707	-	321,410	512,631	-	-
Deposits outside of City Treasury:													
Unrestricted	10	36	10	3,977	10	-	5	1	5,060	9,109	11,351	-	-
Restricted	262,368	41,051	-	36,804	18	27	7,750	870	-	348,888	298,139	95,727	58,127
Total deposits and investments	689,142	201,481	165,856	255,810	64,376	97,196	95,445	96,578	5,060	1,670,944	1,631,669	107,359	69,156
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	(262,368)	(41,051)	-	(5,017)	(18)	-	(2,262)	(870)	(4,599)	(316,185)	(266,188)	(63,302)	(35,067)
Cash and cash equivalents at end of year on statement of cash flows	$ 426,774	$ 160,430	$ 165,856	$ 250,793	$ 64,358	$ 97,196	$ 93,183	$ 95,708	$ 461	$ 1,354,759	$ 1,365,481	$ 44,057	$ 34,089

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, 2008
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 53,713	$ 540,972	$ 84,365
Deposits and investments outside City Treasury:			
Cash and deposits	77,419	105	44
Short term bills and notes	879,724	-	-
Debt securities	4,540,996	-	-
Equity securities	7,365,206	-	-
Real estate	1,788,561	-	-
Venture capital	1,686,927	-	-
Receivables:			
Employer and employee contributions	32,135	-	44,677
Brokers, general partners and others	330,883	-	-
Interest and other	62,910	3,988	143,894
Invested securities lending collateral	1,567,442	-	-
Deferred charges and other assets	-	-	8,899
Total assets	18,385,916	545,065	$ 281,879
LIABILITIES			
Accounts payable	32,267	6,706	$ 37,010
Estimated claims payable	10,916	-	-
Agency obligations	-	-	244,869
Obligations under fixed coupon dollar reverse repurchase agreements	322,063	-	-
Foreign currency contracts, net	504	-	-
Payable to brokers	561,394	-	-
Securities lending collateral	1,567,442	-	-
Deferred credits and other liabilities	35,252	-	-
Total liabilities	2,529,838	6,706	$ 281,879
NET ASSETS			
Held in trust for pension and other employee benefits and external pool participants	$ 15,856,078	$ 538,359	

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, 2008

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 258,381	$ -
Employer contributions	619,910	-
Contributions to pooled investments	-	2,410,676
Total contributions	878,291	2,410,676
Investment income:		
Interest	256,330	24,715
Dividends	183,940	-
Net decrease in fair value of investments	(1,104,080)	-
Securities lending income	54,550	-
Fixed coupon dollar reverse repurchase agreement income	8,638	-
Total investment income	(600,622)	24,715
Less investment expenses:		
Securities lending borrower rebates and expenses	(69,352)	-
Fixed coupon dollar reverse repurchase finance charges and expenses	(12,972)	-
Other expenses	(51,079)	-
Total investment expenses	(133,403)	-
Total additions, net	144,266	2,435,391
Deductions:		
Benefit payments	1,263,088	-
Refunds of contributions	8,449	-
Distribution from pooled investments	-	2,543,215
Administrative expenses	12,594	-
Total deductions	1,284,131	2,543,215
Change in net assets	(1,139,865)	(107,824)
Net assets at beginning of year	16,995,943	646,183
Net assets at end of year	$ 15,856,078	$ 538,359

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

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

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

San Francisco City and County Finance Corporation (The Finance Corporation) - The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase $20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

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

Discretely Presented Component Units

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

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

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

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's finance department at 1 South Van Ness Avenue, San Francisco, CA 94103.

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

The TIDA's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from their administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

Non-Disclosed Organizations

There are other governmental agencies that provide services within the City. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District and the Bay Area Air Quality Management District, of which both are also excluded from the City's reporting entity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

(c) Budgetary Data

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

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

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

Original Budget

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

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

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

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

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

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

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

Final Budget

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

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

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

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

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

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

(d) Deposits and Investments

Investment in the Treasurer's Pool

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

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

The San Francisco Unified School District (school district), San Francisco Community College District (community college district), and the City are involuntary participants in the City's investment pool. As of June 30, 2008, involuntary participants accounted for approximately 95% of the pool. Voluntary participants accounted for 5% of the pool. Further, the school district, community college district, and the Trial Courts of the State of California are external participants of the City's pool. At June 30, 2008, $538.4 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these three external participants is 17%. Internal participants accounted for 83% of the pool.

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

Investment Valuation

Treasurer's Pool - All investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund.

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

The fair values of venture capital investments are estimated based primarily on audited financial statements provided to the individual fund managers. Such fair value estimates involve subjective judgments, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The City Charter and Retirement System Board policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The collateral may consist of cash or noncash; noncash collateral is generally U.S. treasuries or other U.S. government obligations. The Retirement System's securities custodians are agents in lending the Plan's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans at June 30, 2008 is ninety-six days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of fifty-one days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of forty-two days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan. Cash received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Retirement System Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. This credit exposure at June 30, 2008 was approximately $1.7 million.

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

Component Unit – San Francisco Redevelopment Agency (The Agency) – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2008. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity of less than one year at the date of purchase are valued at the amortized cost, which approximates fair value as of June 30, 2008.

Investment Income

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

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

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

(e) Loans Receivable

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issues loans to qualified applicants. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2008, it was determined that $453.6 million of the $520.3 million loan portfolio is not expected to be ultimately collected.

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account. For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. The governmental fund types also use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

(g) Redevelopment Agency Property Held for Resale

Property held for resale are both residential and commercial and are recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use. Property held for sale may, during the period it is held by the Agency, generate rental income, which is recognized as it becomes due and is considered collectible.

(h) Capital Assets

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

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

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

(i) Accrued Vacation and Sick Leave Pay

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

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 and begins to sunset by June 30, 2010.

This Program provides:

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

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

(j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. San Francisco International Airport's bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The remaining bond premiums, discounts, and issuance costs are calculated using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

(k) Fund Equity

Reservations of Fund Equity

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

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

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

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

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

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

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

Restricted Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008, the government-wide statement of net assets reported restricted assets of $410.1 million in governmental activities and $421.9 million in business-type activities. For governmental activities, $1.7 million is restricted by enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2008.

Designation for litigation and contingencies **-** This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year. At June 30, 2008, $39.0 million was designated for litigation and contingencies which is included in the unreserved general fund balance.

Deficit Net Assets/Fund Balances

The Environmental Protection Fund, Public Protection Fund and Senior Citizens' Program Fund had deficits of $0.3 million, $1.7 million and $1.0 million, respectively as of June 30, 2008. 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 2008.

The San Francisco County Transportation Authority Fund had a $3 million deficit as of June 30, 2008. The deficit relates to the Authority's capital projects which are scheduled to be implemented over the course of several fiscal periods and are funded with non-current revenues.

The Moscone Convention Center Fund had a $3.9 million deficit as of June 30, 2008. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Fund and Telecommunications and Information Internal Service Fund had deficits in total net assets of $0.05 million and $3.6 million, respectively as of June 30, 2008. The deficits of total net assets relate to the implementation of GASB Statement No. 45 related to other postemployment benefits in the fiscal year 2008. This deficit is expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

(l) Interfund Transfers

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

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

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

(m) Refunding of Debt

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

(n) Cash Flows

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

(o) Estimates

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

(p) Reclassifications

Certain amounts presented as 2006-2007 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2007-2008 basic financial statements.

(q) Effects of New Pronouncements

During fiscal year 2008, the City implemented the following accounting standards:

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The City elected to report a zero net OPEB obligation at the beginning of the transition year, July 1, 2007, with the unfunded actuarial liability amortized over future periods. The City has adopted the maximum acceptable amortization period of thirty years. The disclosures required by GASB Statement No. 45 are provided in Note 9(c) and (d).

The City adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues.* This statement establishes criteria that governments will use to determine whether the proceeds received from either exchanging an interest in the future cash flows from collecting specific receivables or exchanging specific future revenues for immediate cash payments should be reported as revenue or as a borrowing with a related liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues. For the year ended June 30, 2008, the City did not enter into any transactions in which it would receive, or would be entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Furthermore, the City did not pledge or commit future cash flows generated by collecting specific future revenues for the year ended June 30, 2008.

The City implemented the provisions of GASB Statement No. 50, *Pension Disclosure – an Amendment of GASB Statements No. 25 and No. 27.* This statement more closely aligns the financial reporting requirements for pensions with those of other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement amends GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform to requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The disclosures required by GASB Statement No. 50 are provided in Note 9(a).

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

In December 2006, GASB issued Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement issued a standard that will require state and local governments to provide the public with better information about the financial impact of environmental cleanups. This statement is effective for the City's fiscal year ending June 30, 2009.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

(r) Restricted Assets

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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

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

Total fund balances of the City's governmental funds, $971,669, differ from net assets of governmental activities, $1,585,056, 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 and the consolidation of the internal service funds.

Balance Sheet/Statement of Net Assets (in thousands)

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 1,150,759	$ -	$ 11,632	$ -	$ 1,162,391
Deposits and investments outside City Treasury	49,076	-	95,727	-	144,803
Receivables, net:					
Property taxes and penalties	57,175	-	-	-	57,175
Other local taxes	197,381	-	-	-	197,381
Federal and state grants and subventions	156,543	-	-	-	156,543
Charges for services	54,708	-	146	-	54,854
Interest and other	19,468	-	1,348	-	20,816
Due from other funds	28,468	-	-	(28,468)	-
Due from component unit	9,160	-	-	-	9,160
Loans receivable, net	67,335	-	-	-	67,335
Capital assets, net	-	2,926,092	4,985	-	2,931,077
Deferred charges and other assets	10,305	16,473	8,190	-	34,968
Total assets	$ 1,800,378	$ 2,942,565	$ 122,028	$ (28,468)	$ 4,836,503
Liabilities					
Accounts payable	$ 232,998	$ -	$ 7,587	$ -	$ 240,585
Accrued payroll	80,919	-	1,951	-	82,870
Accrued vacation and sick leave pay	-	134,194	4,009	-	138,203
Accrued workers' compensation	-	203,276	1,054	-	204,330
Other postemployment benefits obligation	-	160,639	4,147	-	164,786
Estimated claims payable	-	114,204	-	-	114,204
Accrued interest payable	-	8,865	2,704	-	11,569
Deferred tax, grant and subvention revenues	143,430	(127,936)	-	-	15,494
Due to other funds/internal balances	24,076	-	11,194	(28,468)	6,802
Deferred credits and other liabilities	197,286	(95,660)	1,580	-	103,206
Bonds, loans, capital leases, and other payables	150,000	1,735,674	283,724	-	2,169,398
Total liabilities	828,709	2,133,256	317,950	(28,468)	3,251,447
Fund balances/net assets					
Total fund balances/net assets	971,669	809,309	(195,922)	-	1,585,056
Total liabilities and fund balances/net assets	$ 1,800,378	$ 2,942,565	$ 122,028	$ (28,468)	$ 4,836,503

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

Cost of capital assets	$ 3,743,971
Accumulated depreciation	(817,879)
	$ 2,926,092

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.	$ 16,473

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	$ (134,194)
Accrued workers' compensation	(203,276)
Other postemployment benefits obligation	(160,639)
Estimated claims payable	(114,204)
Bonds, loans, capital leases, and other payables	(1,735,674)
Deferred credits and other liabilities	(2,692)
	$ (2,350,679)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid.	$ (8,865)

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

Deferred tax, grant and subvention revenue	$ 127,936
Deferred credits and other liabilities	98,352
	$ 226,288

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

Net deficit before adjustments	(2,841)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(284,698)
Deferred charges and other assets	3,843
Deferred credits and other liabilities	87,774
	$ (195,922)

In addition, intrafund receivables and payables among various internal service funds of $91 are eliminated.

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

The net change in fund balances for governmental funds, ($280,270), differs from the change in net assets for governmental activities ($285,955), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

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

	Total Governmental Funds	Long-term Revenues/ Expenses(3)	Capital-related Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,179,688	$ 9,823	$ -	$ -	$ -	$ 1,189,511
Business taxes	396,025	-	-	-	-	396,025
Other local taxes	652,971	-	-	-	-	652,971
Licenses, permits and franchises	30,943	(108)	-	-	-	30,835
Fines, forfeitures and penalties	13,217	-	-	-	-	13,217
Interest and investment income	54,256	330	-	3,343	-	57,929
Rents and concessions	70,160	264	-	-	-	70,424
Intergovernmental:						
Federal	328,315	31,502	-	-	-	359,817
State	561,095	27,083	-	-	-	588,178
Other	15,907	(131)	-	-	-	15,776
Charges for services	288,689	982	-	-	-	289,671
Other revenues	81,321	493	-	-	-	81,814
Total revenues	3,672,587	70,238	-	3,343	-	3,746,168
Expenditures/Expenses						
Expenditures:						
Public protection	927,198	77,476	19,513	(3,730)	-	1,020,457
Public works, transportation and commerce	332,171	12,035	8,840	(10,635)	-	342,411
Human welfare and neighborhood development	828,903	18,674	618	-	-	848,195
Community health	543,046	23,045	1,319	-	-	567,410
Culture and recreation	309,612	16,769	51,626	(11,236)	(19,338)	347,433
General administration and finance	210,466	23,036	20,380	(3,587)	-	250,295
General City responsibilities	71,205	4,691	-	4,018	973	80,887
Debt service:						
Principal retirement	106,580	-	-	-	(106,580)	-
Interest and fiscal charges	75,844	-	-	11,218	10,632	97,694
Bond issuance costs	1,090	-	-	-	(1,090)	-
Capital outlay	133,155	-	(133,155)	-	-	-
Total expenditures/expenses	3,539,270	175,726	(30,859)	(13,952)	(115,403)	3,554,782
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(479,402)	-	-	2,061	-	(477,341)
Issuance of bonds and loans:						
Face value of bonds issued	310,155	-	-	-	(310,155)	-
Face value of loans issued	1,829	-	-	-	(1,829)	-
Premium on issuance of bonds	13,071	-	-	-	(13,071)	-
Payment to escrow for refunded debt	(283,494)	-	-	-	283,494	-
Other financing sources - capital leases	24,254	-	-	(24,254)	-	-
Total other financing sources (uses)/changes in net assets	(413,587)	-	-	(22,193)	(41,561)	(477,341)
Net change for the year	$ (280,270)	$ (105,488)	$ 30,859	$ (4,898)	$ 73,842	$ (285,955)

(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. $ 9,823

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. 60,415

$ 70,238

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the decrease in long-term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources. $ (173,573)

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenditures are not reported in the statement of activities. (2,153)

$ (175,726)

(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, the loss on disposal of capital assets and capital asset acquired or funded by donation and other revenues.

Capital expenditures	$ 120,661
Depreciation expense	(74,238)
Loss on disposal of capital assets	(5,830)
Write off construction in progress	(9,734)
Difference	$ 30,859

(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. $ (4,898)

(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	$ 19,338

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

Bond issuance costs	$ 1,090
Amortization of bond issuance costs	(973)
Difference	$ 117

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period $ (13,071)

Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.

Principal payments made	$ 106,580
Payments to escrow for refunded debt	283,494
	390,074

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	(38,760)
Refunding general obligation bonds	(271,395)
Loans	(1,829)
	(311,984)
	$ 78,090

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses which are 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	$ (1,832)
Bond issue cost	(810)
Interest payment on capital lease obligations on the Moscone Convention Center	(8,561)
Amortization of bond premiums, discounts and refunding losses	1,389
Increase in arbitrage rebate liability	(818)
	$ (10,632)

(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. As shown below, $2.6 million in unrealized losses on investments are deducted from budgetary fund balance for GAAP reporting purposes. $34.6 million in property tax fine and penalty revenues accrued under the Teeter plan (see note 6) and $26.1 million in delayed health and human services payments due from the State of California, and other miscellaneous delayed accounts receivable have been deducted from budgetary fund balance for GAAP reporting purposes because they are anticipated to be received more than 120 days after the end of the fiscal period. These deductions are partially offset by $11.4 million in loans receivable, advances and other miscellaneous items considered assets for GAAP purposes, but not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2008 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund Balance - Budget Basis	$ 461,193
Unrealized Gains/(Losses) on Investments	(2,629)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(34,629)
Cumulative Excess Health, Human Service, Franchise Tax and Other Revenues Recognized on a Budget Basis	(26,071)
Deferred amounts on loan receivables	(3,587)
Reserved for Assets Not Available for Appropriation	11,358
Fund Balance - GAAP Basis	$ 405,635

General Fund Budget basis fund balance at June 30, 2008 is composed of the following (in thousands):

Reserved for Rainy Day - Economic Stabilization Reserve	$ 117,556	
Reserved for Rainy Day - One-Time Spending Account	236	
Reserved for Encumbrances	63,068	
Reserved for Appropriation Carryforward	99,959	
Reserved for Subsequent Years' Budgets:		
Baseline Appropriation Funding Mandates	1,491	
Budget Savings Incentive Program - Citywide	16,181	
Budget Savings Incentive Program - Recreation and Park	3,266	
Litigation	2,626	
Salaries and benefits costs (MOU)	12,777	
Total Reserved Fund Balance		$ 317,160
Designated for Litigation and Contingencies	38,969	
Unreserved, Undesignated Fund Balance - Available for Appropriation	105,064	
Total Unreserved Amounts		144,033
Fund Balance, June 30, 2008 - Budget basis		$ 461,193

Of the $105.1 million unreserved, undesignated fund balance – available for appropriation, $81.7 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2008-2009.

(5) DEPOSITS AND INVESTMENTS

(a) *Cash, Deposits and Investments Presentation*

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,162,391 [1]	$ 991,537	$ 679,050 [2]	$ 2,832,978	$ 3,551
Deposits and investments outside City Treasury	49,076 [3]	9,109	16,338,982	16,397,167	270,247
Restricted assets:					
Deposits and investments with City Treasury	-	321,410	-	321,410	-
Deposits and investments outside City Treasury	95,727 [3]	348,888	-	444,615	122,485
Invested securities lending collateral	-	-	1,567,442	1,567,442	-
Total deposits and investments	$ 1,307,194	$ 1,670,944	$ 18,585,474	$ 21,563,612	$ 396,283
Cash and deposits	$ 86,073	$ 104,462	$ 60,181	$ 250,716	$ 55,252
Investments	1,221,121	1,566,482	18,525,293	21,312,896	341,031
Total deposits and investments	$ 1,307,194	$ 1,670,944	$ 18,585,474	$ 21,563,612	$ 396,283

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,150,759) and internal service funds ($11,632).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($53,713), investment trust fund ($540,972), and agency funds ($84,365).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($49,076) and internal service funds ($95,727).

(b) *Cash and Deposits*

The City had cash and deposits at June 30, 2008, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 4,917	$ -	$ 662	$ -	$ 45	$ -	$ 1	$ -
Federally insured deposits	500	500	1,764	1,764	100	100	200	200
Collateralized deposits*	80,656	106,384	100,401	112,574	23,608	97,524	55,051	38,990
Uninsured and uncollateralized	-	-	1,635	1,635	36,428	36,428	-	-
	$ 86,073	$ 106,884	$ 104,462	$ 115,973	$ 60,181	$ 134,052	$ 55,252	$ 39,190

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2008, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks and other distribution accounts of approximately $111.5 million.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2008, $1.6 million and $36.4 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

(c) Investment Policies

Treasurer's Pool

The City's investment policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee), comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

Although the California Government Code and the City's investment policy do not limit the amount of City funds that may be invested in treasury bills and treasury notes, purchases of treasury bonds are restricted to a maximum of five percent of the total portfolio at the time of purchase. Further, the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments. However, the City's investment policy requires that investments in federal agencies should neither exceed sixty percent of the total portfolio at the time of purchase nor have a weighted average maturity in excess of 270 days. If it exceeds 270 days, the total should not exceed thirty percent of the total par value of the portfolio. The investment policy also limits each type of agency instrument.

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

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills	N/A	None	None
U.S. Treasury Notes	N/A	None	None
U.S. Treasury Bonds	N/A	5%	None
U.S. Agency Securities	N/A	60%	None
Commercial Paper	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Public Time Deposit	1 year	None	None
Public Demand Accounts	N/A	None	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	45 days	None	$75 million
Local Agency Investment Fund	N/A	Up to Current State limit ($40 million)	N/A

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

Other Funds

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

Employees' Retirement System

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; and alternative investments, which include investments in a variety of commingled partnership vehicles.

San Francisco Redevelopment Agency

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

Certain investments of the Agency are in the Local Agency Investment Fund (LAIF). LAIF is sponsored by the State Treasurer and prepares its market value report detailing the carrying cost and the estimated fair value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated fair values. In addition, the Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

(d) Investment Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2008 (in thousands). The Employees' Retirement System's interest rate risk information is discussed in section (f) of this note.

		Investment Maturities			
	Fair Value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Primary Government:					
Investments in City Treasury:					
U.S. Treasury Bills	$ 98,997	$ 98,997	$ -	$ -	$ -
U.S. Treasury Notes	619,774	273,914	345,860	-	-
U.S. Agencies - Coupon	814,318	295,330	518,988	-	-
U.S. Agencies - Discount	466,965	466,965	-	-	-
Commercial paper	647,179	647,179	-	-	-
Negotiable certificates of deposits	325,146	325,146	-	-	-
Public time deposits	24,943	24,943	-	-	-
Less: Treasure Island Development Authority Investments with City Treasury	(3,283)	(3,283)	-	-	-
Subtotal investments in City Treasury	2,994,039	$ 2,129,191	$ 864,848	$ -	$ -
Investments Outside City Treasury: (Governmental and Business-Type)					
U.S. Treasury Notes	11,758	$ 5,606	$ 6,152	$ -	$ -
U.S. Treasury Bills	19,554	19,554	-	-	-
U.S. Agencies - Coupon	75,223	40,226	34,997	-	-
U.S. Agencies - Discount	262,449	262,449	-	-	-
Money market mutual funds	103,557	103,557	-	-	-
Equity securities	770	770	-	-	-
Guaranteed investment contract	15,958	-	15,958	-	-
Commercial paper	732	732	-	-	-
Subtotal investments outside City Treasury	490,001	$ 432,894	$ 57,107	$ -	$ -
Employees' Retirement System investments	17,828,856				
Total Primary Government	21,312,896				
Component Units:					
Redevelopment Agency:					
U.S. Agencies - Coupon	58,354	$ 40,742	$ 17,612	$ -	$ -
U.S. Agencies - Discount	68,205	68,205	-	-	-
Bankers' acceptances	21,236	21,236	-	-	-
Commercial paper	19,509	19,509	-	-	-
State Local Agency Investment Fund	62,733	62,733	-	-	-
Money market mutual funds	69,536	69,536	-	-	-
Guaranteed investment contracts	38,176	3,342	19,958	-	14,876
Subtotal Redevelopment Agency	337,749	$ 285,303	$ 37,570	$ -	$ 14,876
Treasure Island Development Authority:					
Investments with City Treasury	3,283	$ 3,283	$ -	$ -	$ -
Subtotal Treasure Island Development Authority	3,283	$ 3,283	$ -	$ -	$ -
Total Component Units	341,032				
Total Investments	$ 21,653,928				

One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits investments to securities with short maturities, such as the following:

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

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

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2008 for each investment type in the City's Treasury.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Total Investment Portfolio
U.S. Treasury Bills	N/A	A-1	3%
U.S. Treasury Notes	N/A	AAA/A-1	21%
U.S. Agencies	N/A	AAA/A-1	43%
Commercial Paper	A-1	A-1	21%
Negotiable Certificates of Deposits	N/A	A-1	11%
Public Time Deposits	N/A	A-1	1%

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

Investment Type	Credit Ratings	Total Investment Portfolio
U.S. Agencies - Coupon	AAA	17%
U.S. Agencies - Discount	AAA	20%
Commercial paper	A-1/P-1	6%
State Local Agency Investment Fund	Not rated	19%
Money market mutual funds	AAAm	21%
Guaranteed investment contracts	A- or Higher	11%
Bankers acceptances	Not rated	6%

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

The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2008, $0.8 million of the Agency's investments are uninsured and unregistered.

Concentration of Credit Risk

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to single issuer limitation. As of end of June 30, 2008, the City Treasurer has investments in U.S. Agencies that represent 5% or more of the total Pool in the following: Federal Home Loan Bank, Federal Home Loan Bank Floater, Federal National Mortgage Association Notes, and Federal Home Loan Mortgage Corporation Notes. These investments represent 9%, 18%, 7%, and 7%, respectively. Investments in commercial paper are with Union Bank, ING Group, Bank of America, Nestle Corporation, Bank of Scotland, American International Group, Inc. (AIG), and International Lease Finance Corporation. Negotiable certificates of deposit are with Wells Fargo Bank, J.P. Morgan, Chase, and Bank of America.

In addition, 54.9% of Airport's investments with its trustees are held in Federal National Mortgage Association, 21.7% in Federal Home Loan Bank and 15.9% in Federal Home Loan Mortgage. The Finance Corporation's investments with its trustee are held in Federal Home Loan Bank for 44.3%, and Federal Farm Credit Bank for 12.8%. The Redevelopment Agency held investments with AIG Matched Funding Corporation, Federal Farm Credit Bank, Federal Home Loan Bank, and GE Capital representing 7.6%, 6.9%, 25.6% and 5.3%, respectively, of its investment portfolio.

(e) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2008 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants.........	$ 3,157,781
Equity of internal pool participants..........................	2,619,422
Equity of external pool participants.........................	538,359
Total equity...	$ 3,157,781
Statement of Changes in Net Assets	
Net assets at July 1, 2007....................................	$ 3,450,364
Net change in investments by pool participants........	(292,583)
Net assets at June 30, 2008............................	$ 3,157,781

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2008 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities...............	1.68% - 5.04%	07/31/08-03/31/13	$ 726,100	$ 718,771
Federal agencies............................	2.09% - 4.92%	07/21/08-01/28/13	1,286,778	1,281,283
Negotiable certificate of deposits........	1.85% - 4.60%	08/19/08-11/13/08	325,000	325,146
Commercial paper...........................	1.80% - 6.09%	07/22/08-12/09/08	655,000	647,179
Public time deposits........................	2.55% - 5.63%	07/16/08-01/18/09	25,200	24,943
			$ 3,018,078	2,997,322
Carrying amount of deposits in Treasurer's Pool...				160,459
Total cash and investments in Treasurer's Pool..				$ 3,157,781

(f) Retirement System Investments

The Retirement System's investments as of June 30, 2008 are summarized as follows (in thousands):

Fixed Income Investments:	
Short-term bills and notes	$ 879,724
Debt securities:	
U.S. Government and agencies	1,358,339
U.S. Corporate	2,907,858
International government	64,847
International corporate and others	209,952
Subtotal debt securities	4,540,996
Total fixed income investments	5,420,720
Equity securities:	
Domestic	4,138,513
International	3,226,693
Total equity securities	7,365,206
Real estate holdings	1,788,561
Venture capital	1,686,927
Investment in lending agent's short-term investment pool	1,567,442
Total Retirement System Investments	$ 17,828,856

Interest Rate Risk

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

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2008 (in thousands):

Investment Type	Fair Value	Less than 1 year	1-6 years	6-10 years	10+ years
Asset Backed Securities	$ 175,567	$ 1,273	$ 62,295	$ 15,291	$ 96,708
Commercial Mortgage-Backed Securities	744,787	-	107,374	133,777	503,636
Corporate Bonds	1,527,709	32,542	648,081	619,369	227,717
Corporate Convertible Bonds	170,505	2,910	47,400	7,791	112,404
Government Agencies	157,403	-	512	154,193	2,698
Government Bonds	276,575	3,516	34,456	144,012	94,591
Government Mortgage-Backed Securities	934,878	-	-	2,622	932,256
Index Linked Government Bonds	29,285	-	7,035	14,631	7,619
Loans	26,974	5,287	8,639	13,048	-
Mortgages	158	-	-	158	-
Municipal/Provincial Bonds	25,046	61	-	4,056	20,929
Non-Government Backed Collateralized Mortgage Obligations	316,775	919	1,785	8,630	305,441
Other Fixed Income	309,504	-	306,425	-	3,079
Short-term Bills and Notes	15,426	15,426	-	-	-
Total	$ 4,710,592	$ 61,934	$ 1,224,002	$ 1,117,578	$ 2,307,078

Credit Risk

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government as of June 30, 2008 (amounts in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	C	Not Rated
Asset Backed Securities	$ 175,567	$ 101,125	$ 4,193	$ 32,393	$ 25,671	$ 4,742	$ 2,922	$ 2,252	$ 2,269
Commercial Mortgage-Backed	744,788	325,364	17,335	22,674	73,762	44,786	24,983	6,574	229,310
Corporate Bonds	1,527,709	22,699	78,977	182,345	298,581	96,927	167,274	49,800	631,106
Corporate Convertible Bonds	170,505	-	9,741	46,631	44,377	24,809	15,800	2,995	26,152
Government Agencies	157,402	155,640	-	1,377	385	-	-	-	-
Government Bonds	53,506	-	936	3,047	14,097	10,283	8,573	1,830	14,740
Government Mortgage-Backed Securities	934,878	934,878	-	-	-	-	-	-	-
Index Linked Government Bonds	9,636	-	-	-	-	-	-	-	9,636
Mortgages	158	-	-	-	-	-	-	-	158
Municipal/Provincial Bonds	25,046	3,232	13,651	7,427	-	325	-	411	-
Bank Loans	26,973	-	-	-	-	-	-	-	26,973
Collateralized Bonds	3,058	-	427	1,685	946	-	-	-	-
Non-Government Backed-Collateralized Mortgage Obligations	316,774	267,146	3,790	14,296	4,981	4,557	7,697	1,949	12,358
Other Fixed Income - Commingled Funds	306,426	-	-	-	-	-	-	-	306,426
Short-term bills and notes	15,227	6,948	-	-	-	-	-	-	8,279
Total	$ 4,467,653	$ 1,817,032	$ 129,050	$ 311,875	$ 462,800	$ 186,429	$ 227,249	$ 65,811	$ 1,267,407

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

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2008, $9.0 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2008, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk for fiscal year ended June 30, 2008 is as follows (in thousands):

Currency	Cash	Equity	Fixed Income	Venture Capital	Real Estate	Swaps	Total
Argentine peso	$ 5,375	$ -	$ -	$ -	$ -	$ -	$ 5,375
Australian dollar	135,485	115,760	-	-	-	-	251,245
Brazilian real	3,805	39,062	17,424	-	-	12,961	73,252
British pound sterling	68,189	437,062	-	1,282	-	(269)	506,264
Canadian dollar	84,802	108,742	3,124	-	-	-	196,668
Chilean peso	2,922	-	-	-	-	-	2,922
Chinese yuan renminbi	92,728	-	-	-	-	-	92,728
Columbian peso	333	-	3,483	-	-	-	3,816
Czech koruna	9,584	10,962	-	-	-	-	20,546
Danish krone	(4,971)	36,756	-	-	-	-	31,785
Egyptian pound	2,863	15,868	2,674	-	-	-	21,405
Euro	(245,192)	831,880	1,347	207,884	-	(1,030)	794,889
Hong Kong dollar	(10,103)	108,138	-	-	-	-	98,035
Hungarian forint	7,108	14,129	2,082	-	-	-	23,319
Indian rupee	42,498	178	-	-	-	-	42,676
Indonesian rupiah	5,318	1,418	4,124	-	-	1,491	12,351
Japanese yen	32,314	531,759	-	-	46,355	-	610,428
Kenyan shilling	(1,001)	-	-	-	-	-	(1,001)
Kuwaiti dinar	1,193	-	-	-	-	-	1,193
Malaysian ringgit	14,909	12,094	2,113	-	-	-	29,116
Mexican peso	50,033	12,850	782	-	-	-	63,665
New Israeli shekel	6,131	4,698	3,557	-	-	-	14,386
New Taiwan dollar	25,351	5,183	936	-	-	-	31,470
New Zealand dollar	(83,749)	3,573	-	-	-	-	(80,176)
Nigerian naira	711	-	1,680	-	-	571	2,962
Norwegian krone	124,973	34,077	-	-	-	-	159,050
Peruvian nuevo sol	2,968	-	-	-	-	1,274	4,242
Philippine peso	4,122	-	836	-	-	-	4,958
Polish zloty	4,384	13,480	-	-	-	-	17,864
Russian ruble (new)	63,219	-	3,035	-	-	2,838	69,092
Singapore dollar	35,869	41,025	-	-	-	-	76,894
South African rand	7,103	22,459	-	-	-	-	29,562
South Korean won	4,259	67,689	-	-	-	-	71,948
Swedish krona	(6,137)	56,563	-	-	-	-	50,426
Swiss franc	(21,482)	176,753	-	-	-	14	155,285
Thai baht	3,767	11,382	-	-	-	-	15,149
Turkish lira	1,046	13,666	2,050	-	-	-	16,762
Vietnamese dong	1,798	-	-	-	-	-	1,798
United Arab dirham	3,970	794	6,002	-	-	-	10,766
Total	$ 476,495	$ 2,728,000	$ 55,249	$ 209,166	$ 46,355	$ 17,850	$ 3,533,115

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2008, the fair value of open contracts is summarized as follows (in thousands):

Purchase contracts	$ 5,828,832
Sales contracts	(5,829,336)
Net fair value	$ (504)

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

Contracts used to hedge or to settle trades, net	$ (1,321,906)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	1,321,402
Net fair value	$ (504)

Securities Lending

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

The Retirement System lent $1.95 billion in securities and received collateral of $0.45 billion and $1.57 billion in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2008, are summarized in the following table (in thousands):

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities Loaned for Cash Collateral:			
International Equities	$ 395,790	$ 416,023	$ -
International Corporate Fixed	1,536	1,592	-
International Government Fixed	10,197	10,684	-
U.S. Agencies	203,309	208,186	-
U.S. Corporate Fixed	183,061	188,052	-
U.S. Equities	502,300	516,671	-
U.S. Government Fixed	221,316	226,234	-
Securities Loaned with Non-Cash Collateral:			
International Equities	399,808	-	424,681
International Government Fixed	196	-	224
U.S. Equities	28,195	-	29,051
Total	$ 1,945,708	$ 1,567,442	$ 453,956

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2008, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

(g) Supplemental disclosure of non-cash investing, capital and financing activities

San Francisco International Airport

During fiscal year ended June 30, 2008, the San Francisco International Airport (Airport) issued Second Series Variable Rate Refunding Bonds Issue 34 A/B, 34C/D/E/F, 36A/B, 36C/D, 37A/B, 37C/D for a total of $1,255 million to refund certain revenue bonds previously issued.

Other Non-Cash Transactions

The following represents the other non-cash transactions as of June 30, 2008 (in thousands):

	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water & Power	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Internal Service Funds	Total
Acquisition of capital assets on accounts payable and capital leases	$ 16,437	$ 27,322	$ 6,895	$ 1,068	$ 4,605	$ 951	$ 11,326	$ 68,604
Loss on abandonment of property and equipment	-	-	41,224	-	-	3,733	-	44,957
Total	$ 16,437	$ 27,322	$ 48,119	$ 1,068	$ 4,605	$ 4,684	$ 11,326	$ 113,561

(6) PROPERTY TAXES

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are levied on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the dates of the underlying transaction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the adjusted 1975-1976 value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise or be adjusted at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $134 million for the year ended June 30, 2008.

Taxable valuation for the year ended June 30, 2008 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $124 billion, an increase of 6.2%. The secured tax rate was $1.141 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: $0.65 for general government, $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.141 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.44% and 4.33%, respectively, of the current year tax levy, for an average delinquency rate of 2.52% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2008 was $14.3 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 151,917	$ -	$ -	$ 151,917
Construction in progress	325,828	96,202	(173,443)	248,587
Total capital assets, not being depreciated	477,745	96,202	(173,443)	400,504
Capital assets, being depreciated:				
Facilities and improvements	2,632,750	135,195	(8,252)	2,759,693
Machinery and equipment	297,675	28,005	(10,082)	315,598
Infrastructure	282,801	27,755	-	310,556
Property held under lease	139	-	(139)	-
Total capital assets, being depreciated	3,213,365	190,955	(18,473)	3,385,847
Less accumulated depreciation for:				
Facilities and improvements	524,451	50,717	(4,018)	571,150
Machinery and equipment	244,129	18,013	(7,245)	254,897
Infrastructure	21,622	7,605	-	29,227
Property held under lease	139	-	(139)	-
Total accumulated depreciation	790,341	76,335	(11,402)	855,274
Total capital assets, being depreciated, net	2,423,024	114,620	(7,071)	2,530,573
Governmental activities capital assets, net	$ 2,900,769	$ 210,822	$ (180,514)	$ 2,931,077

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2008, was as follows (in thousands):

San Francisco International Airport

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 2,316	$ 471	$ -	$ 2,787
Construction in progress	68,615	117,084	(130,549)	55,150
Total capital assets, not being depreciated	70,931	117,555	(130,549)	57,937
Capital assets, being depreciated:				
Facilities and improvements	4,920,229	117,826	(140)	5,037,915
Machinery and equipment	63,239	5,981	(2,385)	66,835
Easements	139,367	-	-	139,367
Total capital assets, being depreciated	5,122,835	123,807	(2,525)	5,244,117
Less accumulated depreciation for:				
Facilities and improvements	1,430,895	142,180	(140)	1,572,935
Machinery and equipment	54,966	1,987	(2,385)	54,568
Easements	66,964	6,955	-	73,919
Total accumulated depreciation	1,552,825	151,122	(2,525)	1,701,422
Total capital assets, being depreciated, net	3,570,010	(27,315)	-	3,542,695
Capital assets, net	$ 3,640,941	$ 90,240	$ (130,549)	$ 3,600,632

San Francisco Water Enterprise

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 18,277	$ -	$ (391)	$ 17,886
Construction in progress	311,098	242,954	(130,989)	423,063
Total capital assets, not being depreciated	329,375	242,954	(131,380)	440,949
Capital assets, being depreciated:				
Facilities and improvements	1,166,073	121,331	-	1,287,404
Machinery and equipment	122,584	6,835	(661)	128,758
Total capital assets, being depreciated	1,288,657	128,166	(661)	1,416,162
Less accumulated depreciation for:				
Facilities and improvements	458,981	37,905	-	496,886
Machinery and equipment	84,796	8,053	(618)	92,231
Total accumulated depreciation	543,777	45,958	(618)	589,117
Total capital assets, being depreciated, net	744,880	82,208	(43)	827,045
Capital assets, net	$ 1,074,255	$ 325,162	$ (131,423)	$ 1,267,994

Hetch Hetchy Water and Power

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 4,215	$ 379	$ -	$ 4,594
Construction in progress	59,125	31,258	(65,866)	24,517
Total capital assets, not being depreciated	63,340	31,637	(65,866)	29,111
Capital assets, being depreciated:				
Facilities and improvements	464,657	19,910	-	484,567
Machinery and equipment	42,764	5,907	(170)	48,501
Total capital assets, being depreciated	507,421	25,817	(170)	533,068
Less accumulated depreciation for:				
Facilities and improvements	261,598	9,353	-	270,951
Machinery and equipment	30,343	1,668	(159)	31,852
Total accumulated depreciation	291,941	11,021	(159)	302,803
Total capital assets, being depreciated, net	215,480	14,796	(11)	230,265
Capital assets, net	$ 278,820	$ 46,433	$ (65,877)	$ 259,376

Municipal Transportation Agency

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	297,436	140,795	(174,600)	263,631
Total capital assets, not being depreciated	323,681	140,795	(174,600)	289,876
Capital assets, being depreciated:				
Facilities and improvements	405,816	10,102	(84)	415,834
Machinery and equipment	1,099,320	59,598	(18,617)	1,140,301
Infrastructure	1,003,194	98,663	-	1,101,857
Total capital assets, being depreciated	2,508,330	168,363	(18,701)	2,657,992
Less accumulated depreciation for:				
Facilities and improvements	170,686	9,245	(84)	179,847
Machinery and equipment	421,193	62,571	(17,412)	466,352
Infrastructure	277,465	30,212	-	307,677
Total accumulated depreciation	869,344	102,028	(17,496)	953,876
Total capital assets, being depreciated, net	1,638,986	66,335	(1,205)	1,704,116
Capital assets, net	$ 1,962,667	$ 207,130	$ (175,805)	$ 1,993,992

San Francisco General Hospital Medical Center

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	5,720	16,538	(588)	21,670
Total capital assets, not being depreciated	6,262	16,538	(588)	22,212
Capital assets, being depreciated:				
Facilities and improvements	134,159	1,072	-	135,231
Machinery and equipment	54,117	2,713	-	56,830
Total capital assets, being depreciated	188,276	3,785	-	192,061
Less accumulated depreciation for:				
Facilities and improvements	95,209	3,744	-	98,953
Machinery and equipment	45,097	2,850	-	47,947
Total accumulated depreciation	140,306	6,594	-	146,900
Total capital assets, being depreciated, net	47,970	(2,809)	-	45,161
Capital assets, net	$ 54,232	$ 13,729	$ (588)	$ 67,373

San Francisco Wastewater Enterprise

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ (381)	$ 21,787
Construction in progress	42,856	63,315	(43,196)	62,975
Total capital assets, not being depreciated	65,024	63,315	(43,577)	84,762
Capital assets, being depreciated:				
Facilities and improvements	2,018,942	38,683	-	2,057,625
Machinery and equipment	46,224	5,734	(375)	51,583
Total capital assets, being depreciated	2,065,166	44,417	(375)	2,109,208
Less accumulated depreciation for:				
Facilities and improvements	770,443	36,595	-	807,038
Machinery and equipment	24,277	2,163	(369)	26,071
Total accumulated depreciation	794,720	38,758	(369)	833,109
Total capital assets, being depreciated, net	1,270,446	5,659	(6)	1,276,099
Capital assets, net	$ 1,335,470	$ 68,974	$ (43,583)	$ 1,360,861

Port of San Francisco

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 121,045	$ 464	$ -	$ 121,509
Construction in progress	33,962	14,078	(15,331)	32,709
Total capital assets, not being depreciated	155,007	14,542	(15,331)	154,218
Capital assets, being depreciated:				
Facilities and improvements	295,610	12,123	-	307,733
Machinery and equipment	14,915	1,770	(137)	16,548
Total capital assets, being depreciated	310,525	13,893	(137)	324,281
Less accumulated depreciation for:				
Facilities and improvements	183,139	9,275	-	192,414
Machinery and equipment	10,031	1,133	(137)	11,027
Total accumulated depreciation	193,170	10,408	(137)	203,441
Total capital assets, being depreciated, net	117,355	3,485	-	120,840
Capital assets, net	$ 272,362	$ 18,027	$ (15,331)	$ 275,058

Laguna Honda Hospital

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	235,877	74,657	-	310,534
Total capital assets, not being depreciated	236,791	74,657	-	311,448
Capital assets, being depreciated:				
Facilities and improvements	28,107	21	-	28,128
Machinery and equipment	13,538	666	-	14,204
Property held under lease	2,845	86	-	2,931
Total capital assets, being depreciated	44,490	773	-	45,263
Less accumulated depreciation for:				
Facilities and improvements	24,277	668	-	24,945
Machinery and equipment	12,446	298	-	12,744
Property held under lease	361	106	-	467
Total accumulated depreciation	37,084	1,072	-	38,156
Total capital assets, being depreciated, net	7,406	(299)	-	7,107
Capital assets, net	$ 244,197	$ 74,358	$ -	$ 318,555

Other Fund – San Francisco Market Corporation

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 3	$ -	$ 3
Total capital assets, being depreciated	-	3	-	3
Capital assets, being depreciated:				
Facilities and improvements	9,638	234	-	9,872
Machinery and equipment	56	-	-	56
Total capital assets, being depreciated	9,694	234	-	9,928
Less accumulated depreciation for:				
Facilities and improvements	5,081	266	-	5,347
Machinery and equipment	23	8	-	31
Total accumulated depreciation	5,104	274	-	5,378
Total capital assets, being depreciated, net	4,590	(40)	-	4,550
Capital assets, net	$ 4,590	$ (37)	$ -	$ 4,553

Total Business-type Activities

	Balance July 1, 2007	Increases*	Decreases*	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	$ 195,722	$ 1,314	$ (772)	$ 196,264
Construction in progress	1,054,689	700,682	(561,119)	1,194,252
Total capital assets, not being depreciated	1,250,411	701,996	(561,891)	1,390,516
Capital assets, being depreciated:				
Facilities and improvements	9,443,231	321,302	(224)	9,764,309
Machinery and equipment	1,456,757	89,204	(22,345)	1,523,616
Infrastructure	1,003,194	98,663	-	1,101,857
Property held under lease	2,845	86	-	2,931
Easements	139,367	-	-	139,367
Total capital assets, being depreciated	12,045,394	509,255	(22,569)	12,532,080
Less accumulated depreciation for:				
Facilities and improvements	3,400,309	249,231	(224)	3,649,316
Machinery and equipment	683,172	80,731	(21,080)	742,823
Infrastructure	277,465	30,212	-	307,677
Property held under lease	361	106	-	467
Easements	66,964	6,955	-	73,919
Total accumulated depreciation	4,428,271	367,235	(21,304)	4,774,202
Total capital assets, being depreciated, net	7,617,123	142,020	(1,265)	7,757,878
Capital assets, net	$ 8,867,534	$ 844,016	$ (563,156)	$ 9,148,394

* 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 (in thousands):

Governmental activities	
Public protection	$ 12,660
Public works, transportation, and commerce	12,529
Human welfare and neighborhood development	515
Community health	1,116
Culture and recreation	30,274
General administration and finance	17,144
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis	2,097
Total depreciation expense - governmental activities	$ 76,335
Business-type activities:	
Airport	151,122
Water	45,958
Power	11,021
Transportation	102,028
Hospitals	7,666
Sewer	38,758
Port	10,408
Market	274
Total depreciation expense - business-type activities	$ 367,235

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled $1.6 billion as of June 30, 2008. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $4.5 million as of June 30, 2008.

During the fiscal year ended June 30, 2008, the City's enterprise funds incurred total interest expense and interest income of approximately $273.5 million and $67.2 million, respectively. Of these amounts, interest expense of approximately $21.2 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2008, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $7.9 million, $42.5 million, and $1.5 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 and as a special item in the accompanying financial statements.

Component Unit –Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2008 was as follows (in thousands):

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital assets, not being depreciated:				
Property held under lease	$ 111,472	$ 5,853	$ -	$ 117,325
Construction in progress	14,997	3,572	(3,645)	14,924
Total capital assets, not being depreciated/amortized	126,469	9,425	(3,645)	132,249
Capital assets, being depreciated:				
Facilities and improvements	172,934	3,721	-	176,655
Machinery and equipment	8,068	35	-	8,103
Leasehold improvements	22,202	-	-	22,202
Total capital assets, being depreciated	203,204	3,756	-	206,960
Less accumulated depreciation and amortization for:				
Facilities and improvements	44,394	4,415	-	48,809
Machinery and equipment	7,783	69	-	7,852
Leasehold improvements	8,662	444	-	9,106
Total accumulated depreciation and amortization	60,839	4,928	-	65,767
Total capital assets, being depreciated, net	142,365	(1,172)	-	141,193
Redevelopment Agency capital assets, net	$ 268,834	$ 8,253	$ (3,645)	$ 273,442

(8) BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES

Short-Term Obligations

The following is a summary of short-term obligations of the City as of June 30, 2008 (in thousands):

Type of Obligation	Final Maturity Date	Interest Rates	Amount
Governmental activities:			
Commercial paper	2008	1.3 to 1.6%	$ 150,000
Enterprise activities:			
Commercial paper			
San Francisco International Airport	2008	1.57%	$ 18,000
San Francisco Wastewater Enterprise	2008	1.05 to 2.2%	50,000
			$ 68,000

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2008, are as follows (in thousands):

	July 1, 2007	Additional Obligations	Current Maturities	June 30, 2008
Governmental activities:				
Commercial paper	$ 150,000	$ 150,000	$ (150,000)	$ 150,000
Governmental activities short-term obligations	$ 150,000	$ 150,000	$ (150,000)	$ 150,000
Enterprise activities:				
Commercial paper				
San Francisco International Airport	$ -	$ 28,000	$ (10,000)	$ 18,000
San Francisco Wastewater Enterprise	50,000	185,000	(185,000)	50,000
Business-type activities short-term obligations	$ 50,000	$ 213,000	$ (195,000)	$ 68,000

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority (the Authority) issued an initial tranche of $50 million, and in September 2004, the Authority issued the second tranche of $100 million of a programmed $200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide an interim source of financing for the Authority's Sales Tax Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million. On July 12, 2005, the expiration date of the irrevocable LOC was extended from April 14, 2007 to December 29, 2015 through Authority Board Resolution 06-01. The commercial paper notes are secured by a first lien gross pledge of the Authority's sales tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2008, $150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 1.3% to 1.6%.

San Francisco International Airport

On May 20, 1997, the Airport authorized the issuance of its subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400 million or the stated amount of the letter of credit. On May 9, 2006, the Airport obtained a letter of credit issued by State Street Bank and Trust Company, with a maximum principal amount of $200 million. Wells Fargo Bank, N.A. is the CP program's issuing and paying agent for fiscal year 2008.

As of June 30, 2008, the outstanding principal amount of CP was $18 million. The proceeds of the notes will be used by the Airport to pay capital costs, costs of CP issuance and other incidental costs, certain extraordinary expenditures for which Airport funds are not otherwise available and principal and interest on maturing CP. For fiscal year ended June 30, 2008, interest rates on the taxable CP ranged from 2.45% to 2.65%; interest rate on tax exempt, subject to Alternative Minimum Tax (AMT), CP was 1.57%.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $150 million in commercial paper under the voter-approved 2002 Proposition E for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. The commercial paper program is supported by a letter of credit issued by BNP Paribas and is dated as of February 2007 with the U.S. Bank Trust N.A., as agent bank. As of June 30, 2008, Wastewater had $50 million in commercial paper notes outstanding with interest rates ranging from 1.05% to 2.2%.

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2008 (in thousands):

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing	2014	4.0 to 6.75%	$ 7,930
California Academy of Sciences	2025	3.0 to 5.25%	77,895
Laguna Honda Hospital	2030	3.25 to 5.0%*	291,005
Branch Libraries	2028	2.75 to 5.0%	80,830
Parks and playgrounds	2024	2.4 to 5.25%	80,285
Schools	2023	2.4 to 5.0%	23,760
Seismic safety loan program	2027	5.09 to 5.83%	9,358
Steinhart Aquarium	2025	3.0 to 5.0%	26,140
Zoo facilities	2025	2.75 to 5.0%	11,480
Refunding	2021	2.85 to 5.0%	490,230
General obligation bonds - governmental activities			1,098,913
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b), (e) & (f)	2030	2.4 to 5.875%**	282,490
Lease revenue bonds - governmental activities			282,490
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2040	3.0 to 5.3%	412,200
Loans (c), (d) & (f)	2025	2.0 to 7.498%	12,495
Capital leases payable (c) & (f)	2025	2.5 to 7.05%	174,149
Settlement Obligation Bonds (d)	2011	2.4 to 3.05%	20,585
Accrued vacation and sick leave (d) & (f)			138,203
Accrued workers' compensation (d) & (f)			204,330
Estimated claims payable (d) & (f)			114,204
Other postemployment benefits obligation			164,786
Other long-term obligations - governmental activities			1,240,952
DEFERRED AMOUNTS:			
Bond issuance premiums			37,977
Bond issuance discounts			(3,967)
Bond refunding			(15,444)
Deferred amounts			18,566
Governmental activities total long-term obligations			$ 2,640,921

Debt service payments are made from the following sources:
(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Revenues recorded in the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Laguna Honda Hospital General Obligation Bonds Series 2005 A and Series 2005 I are fixed rate bonds. Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated above are for Series 2005 A and Series 2005 I. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2008 was 3.27%. The rate at June 30, 2008 was 6.41%. Series 2005 B, C and D were subsequently refunded by $118.1 million Government Obligation Bonds (Laguna Honda Hospital) Series 2008-R3 on July 30, 2008 with interest rates ranging from 4.625% to 5.0%

** Includes the Moscone Center West Expansion Project, which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2008 was 2.26%. The rate at June 30, 2008 was 6.42%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	3.0 to 6.75%*	$ 3,943,470
San Francisco Water Enterprise:			
Revenue bonds	2036	3.125 to 5.0%	946,910
Accreted interest	2019	7.0%	3,380
Hetch Hetchy Water and Power:			
Notes, loans, and other payables	2011	3.0%	282
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.20 to 5.0%	15,880
Lease revenue bonds	2022	4.0 to 5.5%	7,310
Notes, loans and other payables**	2010	3.0 to 5.25%	6,980
Downtown Parking - parking revenue refunding bonds	2018	4.0 to 5.375%	9,330
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	4,215
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	17,450
San Francisco General Hospital Medical Center:			
Capital leases	2013	2.4 to 4.0%	3,194
San Francisco Wastewater Enterprise:			
Revenue bonds	2026	3.0 to 5.25%	328,325
State of California - Revolving fund loans	2021	2.8 to 3.5%	89,101
Port of San Francisco:			
Revenue bonds	2010	2.5 to 4.0%	8,505
Notes, loans and other payables	2029	4.5%	3,107
Laguna Honda Hospital:			
Capital leases	2013	2.4 to 4.0%	649
Accrued vacation and sick leave			86,613
Accrued workers' compensation			147,276
Estimated claims payable			92,738
Other postemployment benefits obligation			120,383
Deferred Amounts:			
Bond issuance premiums			100,911
Bond issuance discounts			(8,428)
Bond refunding			(134,847)
Business-type activities total long-term obligations			$ 5,792,734

* Includes Second Series Revenue Bonds Issue 34 A / B, 36 A / B, 36 C / D, 37 A / B and 37 C / D, which were initially issued as variable rate bonds in a weekly mode. The average interest rate on the Issue 34 A and B was 1.473% and 1.579% respectively for the period April 2008 to June 2008; for Issue 36 A and B was 1.509% and 1.594% respectively for the period May 2008 through June 2008, for Issue 36 C and D was 1.651% and 1.521% respectively for the period May 2008 to June 2008, for Issue 37 A and B was 1.729% for the period May 2008 to June 2008 and for Issue 37 C and D was 1.594% and 1.330% respectively for the period May 2008 to June 2008.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective enterprise funds.

COMPONENT UNIT

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2025	2.6 to 7.05%	$ 121,955
Hotel Tax Revenue Bonds (b)	2026	4.5 to 6.75%	59,725
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2038	2.0 to 8.3%	663,396
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.57% at 6/30/08)	6,300
Less deferred amounts:			
Bond issuance premiums			10,527
Bond issuance discounts			(2,721)
Refunding loss			(4,927)
Sub-total			854,255
California Department of Boating and Waterways Loan (e)	2037	4.5%	7,992
Accreted interest payable			69,746
Accrued vacation and sick leave pay			2,077
Other postemployment benefits obligation			493
Component unit total long-term obligations			$ 934,563

Debt service payments are made from the following sources:

(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.

(b) Hotel taxes from hotels located in the Redevelopment Project Areas.

(c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.

(d) South Beach Harbor Project cash reserves, property tax increments and project revenues.

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, 2008, the City's debt limit (3% of valuation subject to taxation) was $4.1 billion. The total amount of debt applicable to the debt limit was $1.1 billion. The resulting legal debt margin was $3 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation and has recognized an arbitrage liability of $2.7 million as of June 30, 2008. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of $0.5 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2008. Each enterprise fund has performed a similar analysis of its debt, which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the enterprise funds has been recorded as a liability in the

respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued $1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2008, the aggregate outstanding obligation of such bonds was $104.1 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2008, are as follows (in thousands):

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,155,944	$ 310,155	$ (367,186)	$ 1,098,913	$ 106,162
Lease revenue bonds	249,550	54,320	(21,380)	282,490	23,645
Certificates of participation	420,620	-	(8,420)	412,200	10,330
Settlement obligation bonds	27,095	-	(6,510)	20,585	6,695
Less deferred amounts:					
For issuance premiums	26,997	13,602	(2,622)	37,977	-
For issuance discounts	(4,107)	-	140	(3,967)	-
On refunding	(10,321)	(6,406)	1,283	(15,444)	-
Total bonds payable	1,865,778	371,671	(404,695)	1,832,754	146,832
Loans	11,640	1,829	(974)	12,495	1,166
Capital leases	185,736	5,147	(16,734)	174,149	15,907
Accrued vacation and sick leave pay	134,213	91,665	(87,675)	138,203	73,510
Accrued workers' compensation	194,689	50,393	(40,752)	204,330	37,685
Estimated claims payable	114,431	23,239	(23,466)	114,204	41,249
Other postemployment benefits obligation	-	164,786	-	164,786	-
Governmental activities long-term obligations	$ 2,506,487	$ 708,730	$ (574,296)	$ 2,640,921	$ 316,349

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2008, $283.5 million of lease revenue bonds, $0.3 million of capital leases, $4.0 million of accrued vacation and sick leave pay, $1.1 million of accrued workers' compensation and $4.1 million of other postemployment benefits obligation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2008, are as follows (in thousands):

	2007	Net Increases	Net Decreases	2008	One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 3,952,300	$ 1,255,205	$ (1,264,035)	$ 3,943,470	$ 88,205
Less deferred amounts:					
For issuance premiums	49,129	10,998	(3,447)	56,680	-
For issuance discounts	(11,302)	-	2,874	(8,428)	-
On refunding	(80,435)	(30,821)	9,341	(101,915)	-
Total Bonds payable	3,909,692	1,235,382	(1,255,267)	3,889,807	88,205
Accrued vacation and sick leave pay	12,835	9,375	(9,297)	12,913	6,930
Accrued workers' compensation	4,777	2,358	(2,299)	4,836	948
Estimated claims payable	40	1,559	(1,562)	37	15
Other postemployment benefits obligation	-	15,413	-	15,413	-
Long-term obligations	$ 3,927,344	$ 1,264,087	$ (1,268,425)	$ 3,923,006	$ 96,098
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 966,080	$ -	$ (19,170)	$ 946,910	$ 25,520
Less deferred amounts:					
For issuance premiums	26,912	-	(960)	25,952	-
For issuance discounts	-	-	-	-	-
On refunding	(15,388)	(119)	1,055	(14,452)	-
Total bonds payable	977,604	(119)	(19,075)	958,410	25,520
Accreted interest payable	3,155	225	-	3,380	-
Accrued vacation and sick leave pay	11,171	7,500	(7,815)	10,856	5,738
Accrued workers' compensation	8,346	1,557	(1,768)	8,135	1,512
Estimated claims payable	6,934	13,104	(8,784)	11,254	3,011
Other postemployment benefits obligation	-	15,048	-	15,048	-
Long-term obligations	$ 1,007,210	$ 37,315	$ (37,442)	$ 1,007,083	$ 35,781
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ 390	$ -	$ (108)	$ 282	$ 110
Accrued vacation and sick leave pay	2,315	1,407	(1,351)	2,371	1,330
Accrued workers' compensation	2,186	587	(626)	2,147	380
Estimated claims payable	4,782	13,713	(3,194)	15,301	4,157
Other postemployment benefits obligation	-	2,723	-	2,723	-
Long-term obligations	$ 9,673	$ 18,430	$ (5,279)	$ 22,824	$ 5,977
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 51,535	$ -	$ (4,660)	$ 46,875	$ 1,515
Lease revenue bonds	8,405	-	(1,095)	7,310	1,145
Less deferred amounts:					
For issuance premiums	874	-	(37)	837	-
Total bonds payable	60,814	-	(5,792)	55,022	2,660
Notes, loans, and other payables	11,707	-	(4,727)	6,980 *	4,291
Capital leases	19	-	(19)	-	
Accrued vacation and sick leave pay	26,510	20,849	(20,336)	27,023	15,935
Accrued workers' compensation	93,911	13,322	(15,117)	92,116	16,857
Estimated claims payable	56,942	13,995	(14,956)	55,981	16,222
Other postemployment benefits obligation	-	35,438	-	35,438	-
Long-term obligations	$ 249,903	$ 83,604	$ (60,947)	$ 272,560	$ 55,965

* Includes an unamortized loan premium of $0.3 million for Parking and Traffic.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2008, are as follows (in thousands) - continued:

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
San Francisco General Hospital Medical Center					
Capital leases	$ 3,363	$ 1,058	$ (1,227)	$ 3,194	$ 1,139
Accrued vacation and sick leave pay	16,186	12,500	(11,529)	17,157	9,894
Accrued workers' compensation	19,760	9,428	(7,272)	21,916	3,644
Other postemployment benefits obligation	-	30,065	-	30,065	-
Long-term obligations	$ 39,309	$ 53,051	$ (20,028)	$ 72,332	$ 14,677
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 362,825	$ -	$ (34,500)	$ 328,325	$ 35,665
Less deferred amounts:					
For issuance premiums	18,370	-	(1,004)	17,366	-
On refunding	(19,944)	-	1,726	(18,218)	-
Total bonds payable	361,251	-	(33,778)	327,473	35,665
State of California - Revolving fund loans	102,438	-	(13,337)	89,101	13,765
Accrued vacation and sick leave pay	4,730	2,829	(2,561)	4,998	2,680
Accrued workers' compensation	4,144	1,236	(705)	4,675	822
Estimated claims payable	8,711	1,182	(849)	9,044	2,989
Other postemployment benefits obligation	-	5,684	-	5,684	-
Long-term obligations	$ 481,274	$ 10,931	$ (51,230)	$ 440,975	$ 55,921
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 12,575	$ -	$ (4,070)	$ 8,505	$ 4,185
Less deferred amounts:					
For issuance premiums	152	-	(76)	76	-
On refunding	(524)	262	-	(262)	-
Total bonds payable	12,203	262	(4,146)	8,319	4,185
Notes, loans, and other payables	3,195	-	(88)	3,107	92
Accrued vacation and sick leave pay	1,938	3	-	1,941	1,082
Accrued workers' compensation	2,747	507	(711)	2,543	393
Estimated claims payable	1,100	300	(279)	1,121	821
Other postemployment benefits obligation	-	2,805	-	2,805	-
Long-term obligations	$ 21,183	$ 3,877	$ (5,224)	$ 19,836	$ 6,573
Laguna Honda Hospital					
Capital leases	$ 1,117	$ -	$ (468)	$ 649	$ 516
Accrued vacation and sick leave pay	9,214	140	-	9,354	5,525
Accrued workers' compensation	10,568	3,059	(2,719)	10,908	2,017
Other postemployment benefits obligation	-	13,207	-	13,207	-
Long-term obligations	$ 20,899	$ 16,406	$ (3,187)	$ 34,118	$ 8,058

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2008, is as follows (in thousands):

	July 1, 2007	Accretion and Net Increases	Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 5,345,315	$ 1,255,205	$ (1,326,435)	$ 5,274,085	$ 155,090
Lease revenue bonds	8,405	-	(1,095)	7,310	1,145
Less deferred amounts:					
For issuance premiums	95,437	10,998	(5,524)	100,911	-
For issuance discounts	(11,302)	-	2,874	(8,428)	-
On refunding	(116,291)	(30,678)	12,122	(134,847)	-
Total bonds payable	5,321,564	1,235,525	(1,318,058)	5,239,031	156,235
Accreted interest payable	3,155	225	-	3,380	-
State of California - Revolving fund loans	102,438	-	(13,337)	89,101	13,765
Notes, loans, and other payables	15,292	-	(4,923)	10,369	4,493
Capital leases	4,499	1,058	(1,714)	3,843	1,655
Accrued vacation and sick leave pay	84,899	54,603	(52,889)	86,613	49,114
Accrued workers' compensation	146,439	32,054	(31,217)	147,276	26,573
Estimated claims payable	78,509	43,853	(29,624)	92,738	27,215
Other postemployment benefits obligation	-	120,383	-	120,383	-
Business-type activities long-term obligations	$ 5,756,795	$ 1,487,701	$ (1,451,762)	$ 5,792,734	$ 279,050

The changes in long term obligations for the component unit for the year ended June 30, 2008, are as follows (in thousands):

	July 1, 2007	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2008	Amounts Due Within One Year
Component Unit: San Francisco Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 765,793	$ 212,400	$ (133,117)	$ 845,076	$ 36,677
Refunding bonds	7,700	-	(1,400)	6,300	-
Less deferred amounts:					
For issuance premiums	7,908	3,533	(914)	10,527	-
For issuance discounts	(733)	(2,099)	111	(2,721)	-
On refunding	(3,729)	(1,586)	388	(4,927)	-
Total bonds payable	776,939	212,248	(134,932)	854,255	36,677
Accreted interest payable	70,041	9,441	(9,736)	69,746	11,836 [1]
Notes, loans, and other payables	7,999	-	(7)	7,992	7
Accrued vacation and sick leave pay	2,544	-	(467)	2,077	1,011
Other postemployment benefits obligation	-	493	-	493	-
Component unit - long-term obligations	$ 857,523	$ 222,182	$ (145,142)	$ 934,563	$ 49,531

[1] This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2008, for governmental activities are as follows (in thousands):

Governmental Activities (1) (2)

Fiscal Year Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009	$ 106,162	$ 52,573	$ 23,645	$ 15,362	$ 18,191	$ 20,239	$ 147,998	$ 88,174
2010	101,358	47,544	17,975	14,342	19,446	19,624	138,779	81,510
2011	92,295	42,664	16,495	13,532	20,176	18,886	128,966	75,082
2012	80,773	38,472	12,925	12,801	13,736	18,075	107,434	69,348
2013	71,243	35,298	11,560	12,179	13,353	17,494	96,156	64,971
2014-2018	286,924	131,786	50,325	52,351	69,731	77,877	406,980	262,014
2019-2023	196,964	75,954	57,820	37,388	63,697	61,851	318,481	175,193
2024-2028	124,694	31,907	65,645	19,505	71,535	45,337	261,874	96,749
2029-2033	38,500	3,647	26,100	2,316	85,105	26,661	149,705	32,624
2034-2038	-	-	-	-	45,710	9,901	45,710	9,901
2039-2043	-	-	-	-	24,600	1,693	24,600	1,693
Total	$ 1,098,913	$ 459,845	$ 282,490	$ 179,776	$ 445,280	$ 317,638	$ 1,826,683	$ 957,259

(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 following variable rate demand notes, the Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. The bonds bear interest at a weekly rate. The rate at June 30, 2008 was 6.42%, together with an ancillary fee of 0.242% and 6.41% and ancillary fee 0.255% for Moscone Lease Revenue Bonds and Laguna Honda General Obligation Bonds, respectively, was used to project the interest payment in this table.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009	$ 88,205	$ 185,543	$ -	$ -	$ 88,205	$ 185,543
2010	97,715	181,716	-	-	97,715	181,716
2011	133,655	177,194	-	-	133,655	177,194
2012	145,220	171,142	-	-	145,220	171,142
2013	145,315	164,303	-	-	145,315	164,303
2014-2018	900,490	707,685	-	-	900,490	707,685
2019-2023	1,134,005	468,759	-	-	1,134,005	468,759
2024-2028	1,013,310	206,153	-	-	1,013,310	206,153
2029-2033	285,555	24,825	-	-	285,555	24,825
Total	$ 3,943,470	$ 2,287,320	$ -	$ -	$ 3,943,470	$ 2,287,320

(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 annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Water Enterprise (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ 25,520	$ 44,065	$ -	$ -	$ 25,520	$ 44,065
2010............	26,605	42,991	-	-	26,605	42,991
2011............	27,795	41,784	-	-	27,795	41,784
2012............	29,190	40,401	-	-	29,190	40,401
2013............	30,610	38,984	-	-	30,610	38,984
2014-2018.....	159,260	171,728	-	-	159,260	171,728
2019-2023.....	152,595	135,624	-	-	152,595	135,624
2024-2028.....	179,985	95,631	-	-	179,985	95,631
2029-2033.....	199,000	50,041	-	-	199,000	50,041
2034-2038.....	116,350	11,308	-	-	116,350	11,308
Total............	$ 946,910	$ 672,557	$ -	$ -	$ 946,910	$ 672,557

Hetch Hetchy Water and Power (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ -	$ -	$ 110	$ 8	$ 110	$ 8
2010............	-	-	115	4	115	4
2011............	-	-	57	1	57	1
Total............	$ -	$ -	$ 282	$ 13	$ 282	$ 13

Municipal Transportation Agency (1) (2)

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds Principal	Revenue/Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ 2,660	$ 2,770	$ 4,291	$ 283	$ 6,951	$ 3,053
2010............	2,170	2,673	2,369	61	4,539	2,734
2011............	3,260	2,576	-	-	3,260	2,576
2012............	3,405	2,426	-	-	3,405	2,426
2013............	3,575	2,267	-	-	3,575	2,267
2014-2018.....	20,120	8,534	-	-	20,120	8,534
2019-2023.....	9,580	3,984	-	-	9,580	3,984
2024-2028.....	4,620	2,164	-	-	4,620	2,164
2029-2033.....	4,795	596	-	-	4,795	596
Total............	$ 54,185	$ 27,990	$ 6,660	$ 344	$ 60,845	$ 28,334

(1) The specific year for payment of accreted interest payable, estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.
(2) Unamortized loan premiums of $0.3 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Wastewater Enterprise (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ 35,665	$ 14,646	$ 13,765	$ 2,744	$ 49,430	$ 17,390
2010............	37,130	13,183	14,198	2,307	51,328	15,490
2011............	26,320	11,827	14,650	1,855	40,970	13,682
2012............	22,010	10,959	9,594	1,389	31,604	12,348
2013............	23,095	9,941	8,322	1,099	31,417	11,040
2014-2018.....	115,320	31,915	23,612	2,354	138,932	34,269
2019-2023.....	62,530	11,677	4,960	291	67,490	11,968
2024-2026.....	6,255	674	-	-	6,255	674
Total............	$ 328,325	$ 104,822	$ 89,101	$ 12,039	$ 417,426	$ 116,861

Port of San Francisco (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ 4,185	$ 222	$ 92	$ 140	$ 4,277	$ 362
2010............	4,320	75	96	136	4,416	211
2011............	-	-	100	131	100	131
2012............	-	-	105	127	105	127
2013............	-	-	110	122	110	122
2014-2018.....	-	-	627	532	627	532
2019-2023.....	-	-	781	377	781	377
2024-2028.....	-	-	974	185	974	185
2029-2033.....	-	-	222	10	222	10
Total............	$ 8,505	$ 297	$ 3,107	$ 1,760	$ 11,612	$ 2,057

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2008 for business-type activities is as follows (in thousands):

Total Business-type Activities (1) (2)

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds Principal	Revenue/Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2009............	$ 156,235	$ 247,246	$ 18,258	$ 3,175	$ 174,493	$ 250,421
2010............	167,940	240,638	16,778	2,508	184,718	243,146
2011............	191,030	233,381	14,807	1,987	205,837	235,368
2012............	199,825	224,928	9,699	1,516	209,524	226,444
2013............	202,595	215,495	8,432	1,221	211,027	216,716
2014-2018.....	1,195,190	919,862	24,239	2,886	1,219,429	922,748
2019-2023.....	1,358,710	620,044	5,741	668	1,364,451	620,712
2024-2028.....	1,204,170	304,622	974	185	1,205,144	304,807
2029-2033.....	489,350	75,462	222	10	489,572	75,472
2034-2038.....	116,350	11,308	-	-	116,350	11,308
Total............	$ 5,281,395	$ 3,092,986	$ 99,150	$ 14,156	$ 5,380,545	$ 3,107,142

(1) The specific year for payment of accreted interest payable, estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.
(2) Unamortized loan premiums of $0.3 million (MTA) are not included in principal payments.

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2008, for the component unit are as follows (in thousands):

Component Unit: San Francisco Redevelopment Agency (1)

Fiscal Year Ending	Lease Revenue Bonds		Tax Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009............	$ 5,350	$ 13,289	$ 28,682	$ 32,118	$ 2,652	$ 3,627	$ 36,684	$ 49,034
2010............	5,152	13,565	28,586	31,148	2,799	3,423	36,537	48,136
2011............	5,019	13,776	30,664	30,099	2,877	3,254	38,560	47,129
2012............	4,881	13,992	32,312	28,256	2,961	3,084	40,154	45,332
2013............	4,791	14,155	34,383	26,112	3,671	2,891	42,845	43,158
2014-2018......	62,142	32,762	202,776	96,736	22,070	11,835	286,988	141,333
2019-2023......	28,610	3,829	125,537	76,411	19,583	7,099	173,730	87,339
2024-2028......	6,010	309	55,658	78,550	14,063	2,148	75,731	81,007
2029-2033......	-	-	59,763	46,500	2,110	570	61,873	47,070
2034-2038......	-	-	65,035	27,373	1,231	101	66,266	27,474
Total............	$ 121,955	$ 105,677	$ 663,396	$ 473,303	$ 74,017	$ 38,032	$ 859,368	$ 617,012

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bons for the fiscal year ended June 30, 2008, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2007..	$ 344,065
Increase in authorization this fiscal year:	
2008 Clean and Safe Neighborhood Parks	185,000
Bonds issued:	
Seismic Safety Loan Program (second and third draw)...................................	(7,695)
Series 2008A, Branch Library Facilities Improvement Bonds..........................	(31,065)
Net authorized and unissued as of June 30, 2008..	$ 490,305

The increase in authorized amount of $185 million of General Obligation Bonds 2008 Clean and Safe Neighborhood Parks was approved by at least two-third votes voting on Proposition A at an election held on February 5, 2008, to provide funds to finance 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 cost necessary or convenient for these purposes.

In April 2008, the City issued General Obligation Bonds, Branch Library Facilities Improvement, Series 2008A in the amount of $31.1 million. Interest rates range from 4.0% to 4.5%. The bonds mature from June 2009 through June 2028. The bonds were issued to provide funds to finance the acquisition, renovation and construction of branch libraries and other library facilities other than the San Francisco Main Library and to pay certain cost related to the issuance of the Bonds.

Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992 which authorized the issuance of up to a total of $350 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007 the Board of Supervisors approved Resolution No. 65-07 which authorized the issuance of indebtedness under Proposition A in the amount not to exceed $35 million. Such issuance was achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. In March 2007, the City made the first borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of $2 million. The first borrowing bears an interest rate of 5.69% with principal amortizing from June 2007 through June 2026. Within the first loan account are two loan sub-accounts, the market loan account and the below market rate loan account.

In October 2007, the City made the second borrowing in the amount of $3.8 million which bears an interest rate of 5.83% with principal amortizing from June 2008 through June 2027. In January 2008, the City made the third borrowing in the amount of $3.9 million which bears an interest rate of 5.09% with principal amortizing from June 2008 through June 2027. The second and the third borrowings are for below market rate loan account.

Debt service payments of the Seismic Safety Loan Program Government Obligation Bonds are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Current Refundings

In May 2008, the City issued the General Obligation Refunding Bonds, Series 2008-R1 (Series 2008-R1 Bonds) in the amount of $232.1 million with interest rates ranging from 2.85% to 5.0% (maturing from June 2009 through June 2021) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds, Series R-1
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1997-1 General Obligation Refunding Bonds, 1997	$ 192,815	5.00% - 5.500%	101.0%	6/30/2008
Series 1999D - Asian Art Museum Relocation Project, 1994	1,605	4.75% - 4.875%	101.0%	6/30/2008
Series 2000D - Affordable Housing, 1996	2,790	4.50% - 4.625%	102.0%	6/30/2008
Series 2001A - Golden Gate Park Improvements, 1992	10,265	4.00% - 4.800%	102.0%	6/15/2009
Series 2001B - Neighborhood Recreation and Park Facilities Improvement Bonds, 2000	8,455	4.00% - 4.800%	102.0%	6/15/2009
Series 2001C - Affordable Housing, 1996	11,190	4.25% - 5.000%	102.0%	6/15/2009
Series 2001E - Branch Library Facilities Improvement Bonds, 2000	11,560	4.20% - 5.000%	102.0%	6/15/2009
Total	$ 238,680			

The net proceeds of $ 243.6 million (including original issue premium of $12 million, and after payment of $0.5 million in underwriting fees and other issuance costs) plus $5.0 million in available debt service funds were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. As the refunded bonds become due for interest payment and /or redemption, the escrow agents will transfer to the Treasurer of the City monies held in the escrow account to pay the principal, redemption premium, and interest due on the refunded bonds. The last of the refunded bonds will mature on June 15, 2009. The refunded bonds of $41.5 million are considered legally defeased where the debt is legally satisfied based on certain provisions of the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets.

Although the refunding resulted in the recognition of accounting loss of $5.2 million for the year ended June 30, 2008, the City in effect reduced its aggregate debt service payments by $16.4 million and obtained a net present value benefit of $14.6 million.

In May 2008, the City issued the General Obligation Refunding Bonds, Series 2008-R2 (Series 2008-R2) in the amount of $39.3 million with interest rates ranging from 4.75% to 5.0% (maturing from June 2009 through June 2018) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds, Series R-2
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1998A - Affordable Housing, 1996	$ 12,995	6.10% - 6.625%	100.0%	6/30/2008
Series 1999A - Affordable Housing, 1996	14,135	6.75% - 7.000%	101.0%	6/30/2008
Series 2001D - Affordable Housing, 1996	11,565	7.050%	102.0%	6/15/2009
Total	$ 38,695			

The net proceeds of $ 39.9 million (including original issue premium of $0.7 million, and after payment of $0.1 million in underwriting fees and other issuance costs) plus $1.1 million in available debt service funds were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. As the refunded bonds become due for interest and /or redemption, the escrow agent will transfer to the Treasurer of the City monies held in escrow account for payment of principal, interest and redemption premium on the refunded bonds. The last of the refunded bonds will mature on June 15, 2009. The refunded bonds of $11.6 million are considered legally defeased where the debt is legally satisfied based on certain provisions of the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statements of Net Assets.

The refunding resulted in the recognition of accounting loss of $1.2 million for the year ended June 30, 2008. However, the City in effect reduced its aggregate debt service payments by $6.4 million and obtained a net present value benefit of $4.3 million.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2008 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2007	$ 127,397
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	2,183
Current year maturities in Finance Corporation's equipment program	10,045
Bonds issued:	
Series 2008A, San Francisco Finance Corporation	(11,885)
Net authorized and unissued as of June 30, 2008	$ 127,740

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2008, the total authorized amount is $45.8 million. The total accumulated annual authorization since 1990 is $25.8 million of which $2.2 million is new annual authorization for the fiscal year ending June 30, 2008.

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 $147.3 million in equipment lease revenue bonds since 1991. As of June 30, 2008, $115.1 million has been repaid leaving $32.2 million in equipment lease revenue bonds outstanding and $13.6 million available for new issuance.

In April 2008, the Finance Corporation issued its sixteenth Series of equipment lease revenue bonds, Series 2008A in the amount of $11.9 million with interest rates ranging from 2.75% to 3.375%. The bonds mature from April 2009 to October 2014.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The

Finance Corporation issued two series in January 1998 and February 1999 for $31.3 million and $18.7 million, respectively. As of June 30, 2008, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in July 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2008, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds. As of end of June 30, 2008, the bonds bear interest at a weekly rate.

(d) Open Space Fund

In 2000, the voters of the City adopted Proposition C amending the Charter by repealing the then existing Park and Office Space Fund, authorizing the creation of a new Park, Recreation and Open Space Fund to purchase open space, acquire property for recreation facilities and develop, and maintain these facilities and authorizing the issuance of revenue bonds for such purpose. A set aside of 2.5% of the City's general 1% property tax is required by the Charter to be deposited in the Open Space Fund.

In November 2006, the Corporation issued Lease Revenue Bonds Series 2006 (Open Space Fund-Various Park Projects) in the amount of $27 million (the "Series 2006 Bonds"). The Series 2006 Bonds were issued to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.5%. The bonds mature from July 2007 through July 2027.

In October 2007, the Corporation issued Lease Revenue Bonds Series 2007 (Open Space Fund-Various Park Projects) in the amount of $42.4 million (the "Series 2007 Bonds"). The Series 2007 Bonds were issued to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.875%. The bonds mature from July 2008 through July 2029.

Hunter's Point Clubhouse Project

In February 2008, the City entered into a contract with the Department of Housing and Urban Development (HUD) for an approved Section 108 Loan in the maximum amount of $2.2 million. The funds were to finance the rehabilitation of the Hunter's Point Clubhouse Community Center. During the fiscal year 2007-2008, HUD loaned to the City a total of $1.8 million. In June 2008, the loan was converted into a fixed rate financing in an underwritten public offering. The new loan carries interest rates from 2.62% to 5.19% and matures from August 2009 through August 2023.

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

During the fiscal year 2008, the Airport completed 17 series of refunding through seven bond transactions totaling $1,255.2 million. However, only $291.3 million of the bonds was refunded for savings. Present value debt service savings for these refunded bonds was $4.6 million. The balance of the 2008 refunding bonds were issued in transactions to repair the Airport's outstanding Auction Rate Bonds and Variable Rate Demand Bonds with alternative structures that did not produce any savings.

These refundings were necessitated by the downgrade of various bond insurance companies by the credit rating agencies in January 2008. Specifically, the Airport's affected bonds all carried credit enhancement either XL Capital or Financial Guaranty Insurance Company (FGIC), which lost their AAA ratings from at least one of the three major rating agencies on January 24 and January 30, 2008 respectively. Once the bond insurers were downgraded, the Airport's floating interest rates increased dramatically above historical levels, exceeding levels at which the Airport had budgeted for variable rate debt service for the year. In order to stabilize rates, the Airport refunded the underlying bonds that allowed the Airport to terminate existing insurance policies and obtain high quality AAA insurance for the new refunded bonds.

Further descriptions are set forth below. A series of refunding bonds (the Issue 35 Bonds) are also expected to be issued in or about February 2010.

In March 2008, the Airport issued $476.4 million aggregate principal amount of Issue 34C/D/E/F Revenue Bonds, with interest rates ranging from 4.000% to 5.750%. A portion of the proceeds from the Issue 34C/D/E/F Bonds was deposited into an irrevocable trust with an escrow agent to refund certain of the Airport's Second Series Revenue Bonds as follows (in thousands):

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 10B	$ 1,450	5.125%	100%
Issue 15A	6,010	5.500%	100%
Issue 15B	14,690	4.600% - 4.700%	102%
Issue 16A	42,970	5.375% - 5.500%	100-101%
Issue 18A	23,085	5.250% - 6.250%	100-101%
Issue 18B	1,335	5.000% - 5.250%	101%
Issue 19	1,200	5.000% - 5.250%	101%
Issue 22	16,310	5.000% - 6.000%	100-101%
Issue 31A	54,950	auction rate	100%
Issue 31B	54,925	auction rate	100%
Issue 31C	60,225	auction rate	100%
Issue 31D	42,350	auction rate	100%
Issue 31E	17,875	auction rate	100%
Issue 33C	57,100	variable rate	100%
Issue 33I	27,800	variable rate	100%
Issue 33J	27,800	variable rate	100%
Total	$ 450,075		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2009 to May 1, 2026. The refunded bonds are considered legally defeased and are no longer considered outstanding under the 1991 Master Bond Resolution and the debt is considered legally satisfied based on certain provisions in the debt instrument even though most of the refunded bonds have not yet been redeemed. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The Issue 34C/D/E/F Bonds were issued as fixed rate bonds. The net proceeds of $458.02 million (after payments of $42.87 million in underwriting fees, insurance and surety bond premiums, costs of issuance, and deposits to the debt service reserve funds) plus bond premium and available debt service funds of $11 million were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until their respective redemption dates.

The 34C/D/E/F Bonds have final maturity dates between May 1, 2016 and May 1, 2026. Issues 34C and 34F are Non-Callable, while 34D and 34E will be Callable on May 1, 2018.

In April 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 34A/B in the amount of $175 million to refund certain Outstanding Issue 33 (B, H) variable rate demand bonds and other outstanding bonds, including portions of Issues 15A, 16A and 18A. The Issue 34A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 34A and 34B Bonds was 1.473% and 1.579% respectively. The final maturity of both issues is May 1, 2029.

The net proceeds of $161.36 million (after payment of $16.2 million in underwriting fees, insurance and surety bond premiums and deposit to the reserve fund) plus an additional $2.6 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the $157.4 million of refunded bonds until such bonds were called.

(in thousands)

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 15A	$ 13,075	4.500% - 5.500%	102%
Issue 16A	33,540	5.000%	101%
Issue 18A	33,510	5.000%	101%
Issue 33B	57,100	variable rate	100%
Issue 33H	20,200	variable rate	100%
Total	$ 157,425		

The refunded bonds were redeemed on May 1, 2008 (Issues 15A, 16A and 18A), May 9, 2008 (33B and 33H) and June 6, 2008 (33E). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 36A/B in the amount of $140.62 million to purchase and hold in trust for the benefit of the Airport certain Outstanding Issue 32A, 32B and 32C variable rate demand bonds. The Issue 36A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 36A and 36B Bonds through July 2, 2008 was 1.509% and 1.594%, respectively. The final maturity of both issues is May 1, 2026.

The net proceeds of $141.03 million (after payment of $1.07 million in underwriting fees, insurance, and costs of issuance), plus $1.48 million in available debt service funds were deposited in a trust account with a trustee to provide debt service and purchase price payments for the Issues 32A/B/C bonds until such bonds were purchased upon mandatory tender.

(in thousands)

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 32A	$ 69,150	auction rate	100%
Issue 32B	35,200	auction rate	100%
Issue 32C	35,200	auction rate	100%
Total	$ 139,550		

The bonds were purchased on May 23, 2008 (Issue 32A and 32B) and June 13, 2008 (Issue 32C). The Airport will make payments of principal and interest on the Issue 32A/B/C Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 32A/B/C Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 36C/D in the amount of $68.83 million to refund certain Outstanding Issue 15A fixed rate bonds and 32D and 32E auction rate securities. The Issue 36C/D Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 36C and 36D Bonds through July 2, 2008 was 1.651% and 1.521%, respectively. The final maturity of both issues is May 1, 2026.

The net proceeds of $61.23 million (after payment of $7.87 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service reserve fund) plus $0.18 million in available debt service funds were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 15A	$ 535	5.000%	102%
Issue 32D	31,200	auction rate	100%
Issue 32E	29,150	auction rate	100%
Total	$ 60,885		

The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 19, 2008 (Issue 15A), June 6, 2008 (32E) and June 20, 2008 (Issue 32D). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 37A/B in the amount of $284.82 million to refund certain Outstanding Issue 33A, 33D, 33E, 33F, 33G variable rate demand bonds. The Issue 37A/B Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue 37A and 37B Bonds through July 2, 2008 was 1.729%. The final maturity of the 37A is May 1, 2019 and for 37B is May 1, 2029.

The net proceeds of $279.74 million (after payment of $29.96 million in underwriting fees, insurance and surety bond premiums and deposits to the debt service fund) plus $24.88 million in available debt service funds were deposited in an irrevocable trust fund to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 33A	$ 64,000	variable rate	100%
Issue 33D	64,100	variable rate	100%
Issue 33E	57,000	variable rate	100%
Issue 33F	60,900	variable rate	100%
Issue 33G	31,000	variable rate	100%
Total	$ 277,000		

The refunded bonds were redeemed on June 6, 2008. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

In May 2008, the Airport issued its Second Series Variable Rate Refunding Bonds Issue 37C/D in the amount of $109.59 million to refund certain Outstanding Issue 15A, 15B and 16A fixed rate bonds. The Issue 37C/D Bonds were initially issued in a Weekly Mode, subject to conversion by the Airport to another mode. As of July 2, 2008, each series was in a weekly mode. The average interest rate on the Issue

37C and 37D Bonds through July 2, 2008 was 1.594% and 1.330% respectively. The final maturity of 37C is May 1, 2029 and for 37D is May 1, 2030.

The net proceeds of $105.95 million (after payment of $3.64 million in underwriting fees, insurance and surety bond premiums), were deposited in an irrevocable trust with an escrow agent to provide debt service and defeasance payments for the refunded bonds until such bonds were called.

(in thousands)

Second Series Revenue Bond Issue:	Amount Refunded	Interest Rate	Redemption Price
Issue 15A	$ 48,270	4.800% - 5.000%	102%
Issue 15B	18,360	4.250% - 5.000%	102%
Issue 16A	36,960	5.000% - 5.125%	101%
Total	$ 103,590		

The refunded bonds were redeemed on May 1, 2008, May 9, 2008 and June 16, 2008 (Issues 15A and 16A), and May 1, 2008 and June 19, 2008 (Issue 15B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

Certain of the Second Series Revenue Bonds are subject to optional and mandatory redemption under certain conditions. All Second Series Revenue Bonds are secured by a pledge of, lien on, and security interest in the net revenues of the Airport.

Under the terms of the1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the common 1991 Reserve Fund, the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the common 1991 Reserve Fund or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

In December 2004, the Airport entered into seven forward-starting interest rate swaps (the 2004 swaps) in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps (the 2007 swaps), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008, and its Variable Rate Revenue Refunding Bonds, Issue 35, on February 1, 2010. Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD-LIBOR-BBA, plus 0.29%, for the 2004 swaps and 61.85% of USD-LIBOR-BBA, plus 0.34% for the 2007 swaps, times the notional amount of the swap, which is intended to approximate the variable interest rates on the underlying bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. On May 20, 2008, the Airport completed refunding several issues of auction rate and variable rate obligations, including the Issue 32 and Issue 33 bonds. The swaps previously associated with the Issue 32 and 33 bonds now hedge the related San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 36 and 37A respectively.

For the fiscal year ended June 30, 2008, the Airport paid a total of $14.67 million in fixed rate payments to the swap counterparties and received $12.57 million in floating rate payments in return, resulting in total net swap payments of $2.10 million to the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of $17.18 million, resulting in the Airport paying

$4.61 million more in interest on the related variable rate bonds than swap receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.45% for the year ending June 30, 2008.

The four 2004 swaps now hedging the Issue 36 Bonds went into effect on February 10, 2005, the date of issuance of the refunded Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three 2004 swaps now hedging the Issue 37A Bonds went into effect on February 15, 2006, the date of issuance of the refunded Issue 33 Bonds, and the first payments commenced on March 1, 2006. The two 2007 swaps hedging the Issue 37B/C Bonds went into effect on May 15, 2008, the date of issuance of Issue 37B/C Bonds, and the first payments commenced on June 2, 2008. The two 2007 swaps relating to the Issue 35 Bonds are expected to go into effect on February 1, 2010, the anticipated date of issuance of the Issue 35 Bonds, and the first payments will commence on March 1, 2010. All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The swaps with counterparty Bear Stearns have been acquired by JP Morgan as part of the JP Morgan/Bear Stearns merger in 2008. The Bear Stearns swaps terms and conditions on the swap remain the same under JP Morgan.

The swaps relating to the Issue 35 Bonds terminate by their terms on May 1, 2030, the anticipated final maturity date of the Issue 35 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
Depfa Bank PLC, New York	$ 71,793	A+/Aa3	3.925%	$ (3,385)
Goldman Sachs Capital Markets	143,947	AA-/Aa3	3.925%	(6,768)
(Aggregate notional amount)	$ 215,740			$ (10,153)

The swaps hedging the Issue 36 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
J.P. Morgan Chase Bank, N.A.	$ 70,000	AA/Aaa	3.444%	$ (1,097)
Bear Sterns Capital Markets, Inc.	30,000	AA-/Baa1	3.444%	(470)
J.P. Morgan Chase Bank, N.A.	69,930	AA/Aaa	3.445%	(1,102)
Bear Sterns Capital Markets, Inc.	29,970	AA-/Baa1	3.445%	(472)
(Aggregate notional amount)	$ 199,900			$ (3,141)

The swaps hedging the Issue 37A Bonds terminate by their terms on May 1, 2019, the final maturity date for the Issue 37A Bonds. The following is additional information regarding each swap and counterparty as of June 30, 2008 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
Lehman Brothers Special Financial Inc.	$ 73,570	A/A1	3.393%	$ (1,341)
Bear Sterns Capital Markets, Inc.	31,530	AA-/Baa1	3.393%	(574)
Lehman Brothers Special Financial Inc.	100,000	A/A1	3.379%	(1,724)
(Aggregate notional amount)	$ 205,100			$ (3,639)

The swaps hedging the Issue 37B/C Bonds terminate by their terms on May 1, 2029, the final maturity date of the Issue 37B/C Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2008 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
Merrill Lynch Capital Services	$ 79,684	A/A1	3.898%	$ (5,432)
Bear Sterns Capital Markets, Inc.	89,856	AA-/Baa1	3.898%	(6,125)
(Aggregate notional amount)	$ 169,540			$ (11,557)

Risks Disclosure

The aggregate market value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Airport will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the market value of a swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. Although the Airport attempted to limit basis risk with respect to the interest rate swaps by choosing a variable rate index designed to closely approximate the variable rates payable on the related bonds, the chosen swap index and the actual variable rates on the related bonds diverged for a period of time during early 2008 due to the turmoil in the financial market. 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 the interest rate swaps from the following insurers:

Related Swap	Swap insurer	Insurer credit ratings S & P / Moody's
Issue 36	FGIC	BB/B1
Issue 36	FSA	AAA/Aaa
Issue 37A	FSA	AAA/Aaa
Issue 37 B / C	FSA	AAA/Aaa
Issue 35	FSA	AAA/Aaa

Additional termination events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional termination events under the swap documents in respect of a counterparty include a ratings downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Component Unit Debt – San Francisco Redevelopment Agency

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District, and San Francisco Trial Court employees other than judges. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), agent or cost-sharing multiple-employer, public employee pension plans which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2008 was approximately $2.16 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership - Membership of the Retirement System at July 1, 2007 the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits.......	2,114	1,962	17,040	21,116
Active members:				
Vested................................	1,881	1,318	19,786	22,985
Nonvested..........................	210	173	6,822	7,205
Subtotal.........................	2,091	1,491	26,608	30,190
Total.......................................	4,205	3,453	43,648	51,306

As of July 1, 2007 there were 3,096 terminated members entitled to, but not yet receiving benefits.

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Funding Policy - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2007-2008 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2006 actuarial report, the required employer contribution for fiscal year 2007-2008 was 5.91%. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary. For fiscal year ended June 30, 2008, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2006. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.0%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over an open 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 126,533	100%	$ -
6/30/2007	132,601	100%	-
6/30/2008	134,060	100%	-

Funded Status and Funding Progress – As of July 1, 2007, the most recent actuarial valuation date, the actuarial value of assets was $14.9 billion; the actuarial accrued liability was $13.5 billion; the total overfunded actuarial accrued liability was $1.4 billion; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 110.3%; the annual covered payroll was $2.4 billion; and the ratio of the overfunded actuarial liability to annual covered payroll was 58.4%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency and San Francisco County Transportation Authority employees are eligible to participate in PERS. Disclosures for the San Francisco County Transportation Authority and Redevelopment Agency are included in the separately issued financial statements.

Plan Description - The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 199 active members. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

Miscellaneous Plan

Funding Policy - Miscellaneous plan - Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2007-2008 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 2007-2008 was equal to the City's required and actual contributions which was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ -	N/A	$ -
6/30/2007	-	N/A	-
6/30/2008	-	N/A	-

Safety Plan

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 18.065% because the City is funded at 98.9%. 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 2007-2008 was equal to the City's required and actual contributions which was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2005 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 6% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	$ 6,736	100%	$ -
6/30/2007	15,977	100%	-
6/30/2008	15,982	100%	-

Funded Status and Funding Progress – As of June 30, 2007, the most recent actuarial valuation date, the actuarial value of assets was $622.9 million; the actuarial accrued liability was $627.7 million; the total unfunded actuarial accrued liability was $4.8 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 99.2%; the annual covered payroll was $85.5 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 5.6%. The actuarial assumptions used were the same as described in the Annual Pension Cost – Safety Plan section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $485.9 million in fiscal year 2007-2008. 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 $142.6 million to provide postemployment health care benefits for 22,135 retired participants, of which $114.6 million related to the City employees. The City's liability for both current employee and postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(d) Postemployment Health Care Benefits

City (excluding the San Francisco County Transportation Authority and the San Francisco Redevelopment Agency)

Plan Description – The City 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 four plan choices: City Health Plan, PacifiCare Plan, Kaiser, and Blue Shield.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you go basis. For fiscal year ended June 30, 2008, the City paid approximately $114.6 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 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 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 (dollar amount in thousands):

Annual required contribution	$ 409,080
Interest on Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	409,080
Contribution made	(114,640)
Increase in net OPEB obligation	294,440
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 294,440

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year are as follows (dollar amount in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 409,080	28.0%	$ 294,440

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over a thirty year period, beginning July 1, 2007. As of July 1, 2006, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0%. The actuarial accrued liability for benefits was $4 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4 billion. The covered payroll (annual payroll of active employees covered by the plan) was $2.1 billion and the ratio of the UAAL to the covered payroll was 195.3%.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2006, 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). The actuarial assumptions included a 4.5% investment rate of return on investment; an annual blended healthcare cost trend rate of 9% in the fiscal year ended June 30, 2007, reduced by 0.5% each year to an ultimate rate of 5% in the tenth year and beyond; annual vision cost trend rate of 3%; annual administrative cost trend rate of 4.5%; and a 4.5% annual increase in projected payroll.

San Francisco County Transportation Authority

The San Francisco County Transportation Authority (the Authority) maintains a separate OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2008. The Authority's most recent actuarial valuation was performed as of January 1, 2008, covering the fiscal year ended June 30, 2008. The Authority's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was $0.2 million. Details of the Authority's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2008. Financial Statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (the Agency) maintains a separate OPEB plan and reported a net OPEB obligation of $0.5 million as of June 30, 2008. The Agency's most recent actuarial valuation was performed as of June 30, 2007, covering the fiscal year ended June 30, 2008. The Agency's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was $13.8 million. Details of the Agency's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2008. Financial Statements for the Agency can be obtained from their finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

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. As of June 30, 2008, the Retiree Health Care Trust Fund had not been created. The City will establish it during the year ending June 30, 2009.

The trust fund will be 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. Elections are expected to take place during Spring 2009.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in November 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to administer the voter-approved county-wide transactions and use tax of one-half of one percent to fund essential transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan. The Authority's Expenditure Plan defines a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In November 1990, the Authority was designated under state laws as the Congestion Management Agency for San Francisco, and in that capacity prioritizes State and Federal transportation funds for San

Francisco while working with the Metropolitan Transportation Commission. Responsibilities also include preparing a county-wide transportation plan to guide the City's future transportation investments, monitoring traffic congestion levels, measuring transportation performance, and developing a travel demand forecasting model.

In June 2002, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the Transportation Fund for Clean Air Program (TFCA), which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

In November 2003, the City voters approved Proposition K by a 74.7% affirmative vote, amending the City Business and Tax Code to continue the existing county-wide one-half of one percent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Traffic Safety (including street resurfacing and bicycle and pedestrian improvements); Paratransit services for seniors and persons with disabilities; and Transportation System Management/Strategic Initiatives to fund neighborhood parking management, land use coordination, and beautification efforts. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive Replacement Project). The Authority may modify the Expenditure Plan with voter approval, and the county-wide one-half of one percent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to $485.2 million per year and issue up to $1.88 billion in bonds, to be repaid from the one-half of one percent sales tax.

The Authority and California Department of Transportation (Caltrans) are working in partnership to implement the Doyle Drive Replacement Project. In April 1988, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study. The Doyle Drive Draft Environmental Impact Statement/Report (DEIS/R) was completed and circulated for public comment in December 2005. On September 1, 2006, Caltrans gave the Authority an authorization to proceed with preliminary engineering for the Doyle Drive Replacement Project. On September 26, 2006, through Resolution 07-17, the Authority selected Alternative 5 (Presidio Parkway) with specified design options, as the Preferred Alternative to be identified in the Final Environmental Impact Statement/Report for the Doyle Drive Replacement Project. A Final Environmental Impact Statement/Report is expected to be circulated in late Fall of 2008. A federal Record of Decision and State Notice of Determination are expected by Winter 2008/09.

(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 2007 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (13th) and air cargo (13th). The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to the Airport creates a convenient connection between the Airport and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain, offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout the Airport is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

The Airport has developed a revised five-year Capital Plan that better fits the ongoing changes in the aviation industry. The revised Capital Plan was approved in May 2008 and included airfield and groundside improvements, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In addition to the long-term obligations discussed in Note 8, there was $105.8 million of Special Facilities Lease Revenue Bonds outstanding at June 30, 2008, 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 is required 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.

In July 2001, the Federal Aviation Administration (FAA) approved the Airport's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved the Airport's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex. In January 2004, the FAA approved the Airport's amendment to delete PFC#1 as a result of the suspension of the runway reconfiguration project; receipts from PFC#1 were applied to PFC#2. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the charge expiration date of PFC #2 will be recorded as of November 1, 2005.

In November 2003, the FAA approved the Airport's third PFC application (PFC#3) to impose and use a $4.50 PFC per enplaning passenger for approximately $539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million for a revised application of $609 million. In September 2006, the FAA notified the Airport that the revised date for the start of collections for PFC #3 is recorded as of November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

For the year ended June 30, 2008, the Airport reported approximately $69.5 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. The Airport designated $54.4 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2007-2008.

Purchase commitments for construction, material and services as of June 30, 2008 are as follows (in thousands):

Construction	$ 30,108
Operating	11,333
Total	$ 41,441

Due to the Airport's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

The Airport has entered into a Memorandum of Understanding and supplemental funding agreement with various surrounding communities to insulate residential and nonresidential structures such as schools, churches, and hospitals. This program was funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. In fiscal year 2008, this program was finalized and the Airport received a reimbursement of $385,000 from the County of San Mateo. In addition, the Airport made a final disbursement of $214,000 to close the last phase for the City of San Bruno. As of June 30, 2008, approximately $121.1 million has been disbursed under this program.

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, 2008 was $25.9 million. 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, 2008 was $92.7 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, 2008, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines	22.7%
New South Parking	6.3%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was owned and operated by the State of California. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. As of June 30, 2008, $16.7 million has been appropriated and $1.6 million has been expended for projects under the agreement. The $16.7 million appropriated includes $9.0 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. Residual receipts totaling $0.2 million were received during the fiscal year ended June 30, 2008 and recorded as a special item.

As of June 30, 2008, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $5.4 million for capital projects and $2.4 million for general operations.

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The recovered drydock is currently moored at a safer harbor location. The Port continues to evaluate options for the final disposition of this surplus vessel. Engineering consultants have assessed requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Based on its poor condition, the drydock is most likely only salvageable for scrap metal. Based on the information from various consultants and internal engineering estimates, $2.8 million was accrued in 2008 for the drydock's final disposition, including the remediation of identified hazardous materials.

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.

There is abandoned construction debris at two industrial sites in the Southern Waterfront, hindering re-leasing and use of the affected premises. A concrete batch plant ceased operations at a site north of Pier 80, abandoning approximately 17,000 cubic yards of concrete debris. The other site at Pier 94 contains approximately 100,000 tons of material, consisting primarily of concrete and asphalt debris, left behind by a bankrupt recycling operation. The Port has assessed various options for processing and removal of the construction debris. Estimated costs totaling $1.0 million for certain processing and removing have been accrued as of June 30, 2008.

The Port has been conducting a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. Environmental conditions likely 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. With assistance from a federal grant, the Port intends to proceed in fiscal 2008-2009 with a brownfields site investigation throughout the Pier 70 area and to complete a risk assessment and feasibility study. It is anticipated that the grant will also fund the removal or abatement of certain identified hazardous building materials (i.e. asbestos, lead-based paint). The amount of hazardous building materials abatement that can be accomplished will depend on the amount of funds available.

(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 90,566 million gallons annually, to a total population of approximately 2.5 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 Enterprise, and the San Francisco Wastewater Enterprise (Wastewater Enterprise). The Commission consists of five members appointed by

the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Enterprise purchases water from Hetch Hetchy Enterprise. This amount, totaling approximately $21 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2007-2008, water sales to suburban resale customers were $115.9 million. As of June 30, 2008, the suburban resale customers owed the Water Enterprise approximately $13.9 million under the Water Rate Agreement.

As of June 30, 2008, the Water Enterprise had outstanding commitments with third parties of $135 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Enterprise to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Enterprise. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2000-2001. As of June 30, 2008, the outstanding estimated liability is $2.7 million.

(d) Hetch Hetchy Water and Power Enterprise

Hetch Hetchy Water and Power Enterprise (Hetch Hetchy Enterprise) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy Enterprise 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 half of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco General Hospital, street lighting, Moscone Center, and the San Francisco Public Utilities Commission Water and Wastewater enterprises). Also 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 municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E.

Hetch Hetchy Enterprise 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 Enterprise 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 Enterprise serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2008 include $60.8 million in sales of power by Hetch Hetchy Enterprise to other City Departments. Income from Hetch Hetchy Enterprise is available for certain operations of the City.

As of June 30, 2008, Hetch Hetchy Enterprise had outstanding commitments with third parties of $20.3 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy Enterprise facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy Enterprise facilitates and coordinates the terms and payment for the service connections that are performed by PG&E. As of June 30, 2008, there were no outstanding amounts from City departments related to this work. However, Hetch Hetchy Enterprise may receive money from PG&E after project completion, which is then refunded back to City Departments.

Hetch Hetchy Enterprise receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

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 Enterprise's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy Enterprise. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy Enterprise and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2007-2008, Hetch Hetchy Enterprise purchased $13.6 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $4.4 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy Enterprise entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy Enterprise 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 agreement with MID was renegotiated and became effective January 1, 2008 which removed Hetch Hetchy Enterprise'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 Enterprise amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement between Hetch Hetchy Enterprise and TID restates and amends the power sales agreement and terminates Hetch Hetchy Enterprise's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. The Hetch Hetchy Enterprise will continue to comply with the Raker Act by making Hetch Hetchy 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 2007-2008, energy sales to the Districts totaled 386,568 MWhrs or $9.9 million.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received (i) four gas turbine generator sets valued at approximately $33 million for use at two power plants, one within the City and one at the San Francisco International Airport, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation

Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity.

During the fiscal year 2007-2008, the City selected a design-build contractor, negotiated the contract terms and conditions and was actively working with General Electric (GE) to get the turbines upgraded and shipped. GE was also being considered for the operations maintenance contract.

The California Department of Water Resources, Hetch Hetchy Enterprise and the Developers are proceeding to secure all agreements by the end of this year. The preliminary objective was to have the Power Plant constructed and operating by the end of 2009.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $10.8 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $17.9 million. As of June 30, 2008, the City has requested and received a total of $14.1 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred and limited to reimbursement schedule. As such, the corresponding revenue will be recognized as eligible costs are incurred. Hetch Hetchy Enterprise has recognized $4.9 million of revenue from the Fund as of June 30, 2008.

At the end of fiscal year 2007-2008, the San Francisco Public Utilities Commission made a decision to terminate the project, withdrawing project approval, and recommending sale of the combustion turbine generator sets.

On July 22, 2008, the San Francisco Public Utilities Commission rescinded project approval and recommended to the Mayor and the Board of Supervisors to cease development of the two power plants, in-City and at the San Francisco International Airport, and take any necessary steps to initiate the sales of the projects in accordance with the Implementation Agreement. Consequently, the project was written down by $41.2 million to its net realizable values of approximately $10 million as of June 30, 2008. The write down was recorded as a special item.

The City is investigating other reliability alternatives including retrofitting the Mirant-owned Potrero Power Plant to natural gas, and pursing transmission from Newark to San Francisco. The City's license with the California Energy Commission to build and operate the City power plant is valid through October 2011 if no other solution to the power reliability issue can be found. If the City determines that its still has the need for in-City generation later, it will require new authorization from the Commission. The State of California has been fully appraised of the current status.

Hetch Hetchy Enterprise 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 Enterprise. For this reason, the financial results of Hetch Hetchy Enterprise are sensitive to variability in watershed hydrology and market prices.

(e) Municipal Transportation Agency

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the

MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of eliminations for $0.3 million deferred charge and deferred credit, and revenues and expenses of $21.9 million and transfers of $142.4 million.

	MUNI	DPT	Parking Garages	Eliminations	Total
Assets					
Current assets	$ 251,518	$ 42,602	$ 3,940	$ -	$ 298,060
Noncurrent assets	1,928,621	26,050	102,041	(274)	2,056,438
Total assets	2,180,139	68,652	105,981	(274)	2,354,498
Liabilities					
Current liabilities	152,244	21,453	29,816	(274)	203,239
Current liabilities payable from restricted assets	1,497	-	-	-	1,497
Noncurrent liabilities	170,078	45,984	30,343	-	246,405
Total liabilities	323,819	67,437	60,159	(274)	451,141
Net assets					
Invested in capital assets, net of related debt	1,900,644	(4,053)	35,749	-	1,932,340
Restricted net assets	26,480	1,539	31,780	-	59,799
Unrestricted net assets (deficit)	(70,804)	3,729	(21,707)	-	(88,782)
Total net assets (deficit)	$ 1,856,320	$ 1,215	$ 45,822	$ -	$ 1,903,357

	MUNI	DPT	Parking Garages	Eliminations	Total
Operating revenues	$ 165,055	$ 68,599	$ 45,653	$ (21,966)	$ 257,341
Operating expenses	703,501	100,570	45,078	(21,966)	827,183
Net operating income (loss)	(538,446)	(31,971)	575	-	(569,842)
Nonoperating income (loss)	111,977	124,527	(850)	-	235,654
Capital contributions	107,509	-	-	-	107,509
Transfers in	337,461	53,726	-	(142,364)	248,823
Transfers out	(4,171)	(150,272)	-	142,364	(12,079)
Change in net assets	14,330	(3,990)	(275)	-	10,065
Net assets (deficit) at beginning of year	1,841,990	5,205	46,097	-	1,893,292
Net assets (deficit) at end of year	$ 1,856,320	$ 1,215	$ 45,822	$ -	$ 1,903,357

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $204 million ($155 million for MUNI and $49 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2008, MUNI had approved capital grants with unused balances amounting to $365 million. Capital grants receivable as of June 30, 2008 totaled $24.7 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2008, MUNI had various operating grants receivable of $10.9 million.

These capital grants and operating assistance include funds from the San Francisco County Transportation Authority (SFCTA). During the year ended June 30, 2008, the SFCTA approved $28.2 million in new capital grants and $13.7 million in new operating grants for MUNI. During the same period, MUNI received total payments of $48.6 million for capital grants and $15.6 million in operating grants from the Authority. As of June 30, 2008, MUNI had $1 million due from the SFCTA for capital grants and $0.4 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. MUNI received $50 million in FY2008 for eight 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. The State Office of Homeland Security also approved funding for MUNI transit security projects in the amount of $7 million under Prop 1B. The grant award letter is dated April 22, 2008 but the cash advance of $7 million was received in August 2008.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately $46.7 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $16.3 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.3 million.

Leveraged Lease-Leaseback of BREDA Vehicles

Tranches 1 and 2

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002 and in September 2003, following the approval of the Federal Transit Administration Transportation Agency and the City and County'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. Each sublease provides MUNI with an option to purchase the Tranche 1 and Tranche 2 Equipment in approximately 26 and 27 years, respectively, following the scheduled expiration dates of the subleases. During the terms of the subleases, MUNI maintains custody of the Tranche 1 and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of each sublease.

MUNI received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the head lessors in full prepayment of the head lease. MUNI deposited a portion of these head lease payments into an escrow and paid a portion to a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance (FSA), an "AAA/Aa3" rated bond insurance company. The terms of the SILO documents require the City to replace FSA as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1. FSA is currently rated AAA/Aa3 – which is rated above the applicable ratings trigger of FSA in its role as debt payment undertaker guarantor. In addition, FSA provided a surety policy with respect to each leveraged lease transaction 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 the City to replace FSA as surety provider if its ratings are downgraded below "AA-/Aa3." Although S&P has placed FSA on "credit watch with negative implications," and Moody's indicated that FSA's outlook is "developing," it is not known whether or to what level downgrades, if any, may occur. Failure of the City to replace FSA following a downgrade within a specified period of time could allow the equity investors, in effect, to issue a default notice to the City. Because replacement of FSA in either of its roles as a debt payment undertaker guarantor or surety will either be difficult or very expensive in the current economic climate, the City could be liable to pay a termination cost as provided in certain schedules of the transaction documents. These termination costs are in the nature of liquidated damages as a result of early termination. The scheduled net termination costs as of December 1, 2008, after giving effect to the market value of the securities in the escrow account, would approximate $86.1 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these transactions do not represent a legal defeasance of MUNI's obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2008.

As a result of the cash transactions above, MUNI recorded deferred revenue of $35.5 million and $4.4 million in fiscal years 2002 and 2003, respectively, for the difference between the amounts received of $388.2 million and $72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million and $0.2 million in fiscal years 2008.

As of June 30, 2008, the outstanding payments to be made on the subleases through fiscal years 2027 and 2030 are $105.3 million and $53.4 million, for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be $680.8 million and $154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2008 follows (in thousands), including advances of $0.3 million to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 16,525	$ 16,986	$ 2,848	$ 5,852	$ 3,442	$ 45,653
Depreciation	788	1,072	240	366	154	2,620
Operating income	261	(29)	59	234	50	575
Interest and other non-operating revenues (expenses)	(112)	(704)	-	(66)	32	(850)
Change in net assets	149	(733)	59	168	82	(275)
Capital assets, additions	152	168	508	5	55	888
Capital assets, deletions	(140)	-	-	-	(8)	(148)
Net working capital (deficit)	(12,294)	(12,536)	(175)	(2,200)	1,329	(25,876)
Total assets	33,441	51,595	2,820	14,742	3,383	105,981
Total liabilities	21,838	31,253	347	6,366	355	60,159
Net assets	11,603	20,342	2,473	8,376	3,028	45,822
Total debt outstanding	$ 9,504	$ 18,077	$ -	$ 4,220	$ -	$ 31,801

(f) Laguna Honda Hospital

General Fund Subsidy

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the fiscal year ended June 30, 2008, the subsidy for LHH was approximately $54.6 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 contractual allowances, allowances for bad debt, and administrative write-offs. These allowances are based on closed account history.

Third Party Payor Agreements

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2008, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 30,418	$ 2,757	$ 1,572	$ 34,747
Less:				
Provision for Contractual Allowances	(11,210)	(1,334)	(356)	(12,900)
Total, net	$ 19,208	$ 1,423	$ 1,216	$ 21,847

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross Revenue	$ 218,616	$ 14,931	$ 1,267	$ 234,814
Less:				
Provision for Contractual Allowances	(88,280)	(6,854)	(891)	(96,025)
Provision for Bad Debt			(798)	(798)
Total, net	$ 130,336	$ 8,077	$ (422)	$ 137,991

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. During fiscal year ended June 30, 2008, LHH accrued approximately $11 million revenue as a result of matching federal funds to local funds.

Deferred Credits and Other Liabilities

As of June 30, 2008, LHH recorded approximately $666,000 in deferred credits and other liabilities, which was comprised $652,000 in third party settlements payable and $14,000 in deferred revenue.

Replacement Project

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for some construction of the Replacement Project, as well as to offset the

cost to property owners of repaying the bonds. As of June 30, 2008, General Obligation Bonds in the amount of $299 million have been sold to fund the Replacement Project. During fiscal year ended June 30, 2008, LHH recognized $17.9 million in tobacco settlement revenues.

As of June 30, 2008, LHH has entered into various purchase contracts totaling approximately $50.5 million that are related to future construction for the Replacement Project.

(g) San Francisco General Hospital Medical Center

General Fund Subsidy

San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2008, the subsidy for SFGH was $135.1 million.

Net Patient Services Revenue

Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractual allowances, allowances for bad debt and administrative write-offs. These allowances are based on closed account history.

Third Party Payor Agreements

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-cal Hospital/Uninsured Care Demonstration Project and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2008, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 136,928	$ 44,289	$ 84,371	$ 265,588
Less:				
Provision for Contractual Allowances	(116,442)	(35,596)	(40,224)	(192,262)
Provision for Bad Debt	-	-	(25,987)	(25,987)
Total, net	$ 20,486	$ 8,693	$ 18,160	$ 47,339

Net Patient Service Revenue	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue	$ 606,234	$ 266,838	$ 598,231	$ 1,471,303
Less:				
Contractual Allowances	(497,501)	(152,892)	(347,781)	(998,174)
Bad Debt Allowance	-	-	(67,126)	(67,126)
Total, net	$ 108,733	$ 113,946	$ 183,324	$ 406,003

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is the current system used for paying selected hospitals for hospital care provided to Medi-cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services, and covers the period from July 1, 2005 to June 30, 2010. Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP). The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated $98.5 million for the fiscal year ended June 30, 2008. Beginning in fiscal year 2008, the State created the Health Care Coverage Initiative (HCCI), allowable under the Demonstration, to expand healthcare coverage for eligible low-income, uninsured individuals using an annual allotment of federal funds from the SNCP. On September 1, 2007, the City entered in to a contract with the State to participate in HCCI and was allocated $73.1 million over 3 years. As of June 30, 2008, SFGH has accrued and recognized $8.2 million. The HCCI covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements. Refer to the Healthy San Francisco Program footnote.

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, 2008, reimbursement under the Short-Doyle Program amounted to approximately $5.7 million and is included in other operating revenue.

Deferred Credits and Other Liabilities

As of June 30, 2008, SFGH recorded approximately $55.2 million in deferred credits and other liabilities, which was comprised of $41.7 million in deferred credits and $13.5 million in Third Party Settlements Payable.

Charity Care

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $211 million and estimated costs and expenses to provide charity care were $93 million in fiscal year 2007-2008.

Other Non-Operating Revenues

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $59.1 million as other non-operating revenue for the year ended June 30, 2008, for realignment funding.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2008, amounted to $1.3 million and is included in other non-operating revenue.

Contract with the University of California San Francisco

The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2008, was approximately $99.5 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 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. During the November 2008 election, Proposition A, which authorize the issuance of bonds for the rebuild of the hospital was approved by San Francisco voters.

HEALTHY SAN FRANCISCO Program

In July 2007, the City and County of San Francisco Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Persons between the ages of 18-64 are eligible and persons whose income is at or below 500% of the federal poverty level are eligible for a subsidy.

As of August 2008, approximately 27,000 participants have enrolled in the program, representing 46% of the estimated 60,000 potential population. Fifty-nine (59%) of the participants have selected a medical home within the Department of Public Health.

(h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater Enterprise), formerly known as the San Francisco Clean Water Program, was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater enterprise pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

Wastewater Enterprise's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

As of June 30, 2008, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling $33.9 million.

(i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

(12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment areas are now underway. In addition, the Agency has completed a feasibility study on the Mid Market Survey Area and the redevelopment plan has been submitted to the Board of Supervisors for review. A feasibility study is underway for the Visitation Valley and Bayview Hunters Point Survey Area designated by the Board of Supervisors.

The Agency acts as the lead Agency for the City in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is a program funded by a grant from the U.S. Department of Housing and Urban Development.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. In June 2005, the Board of Supervisors approved ordinance to adopt the Transbay project area as a new redevelopment area which consists of 40 acres and is located south of the San Francisco financial district. The project area is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. The future development of a new transit terminal and a concept plan which includes high-density, transit-oriented residential development are the highlights of this project.

In May 2006, the Board of Supervisors approved an amendment to the Hunters Point Redevelopment Project Area to include two distinct geographic areas: the existing Hunters Point Redevelopment Area and an additional 1361 acres. The new project name is now "Bayview Hunters Point Redevelopment Area". The Redevelopment Plan became effective September 2006.

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $102.6 million.

The Public Initiatives Development Corporation (PIDC) was formed in May of 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XL Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2008, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

On November 8, 2007, the Authority issued $118.3 million in Taxable Tax Allocation Revenue Bonds 2007 Series A (2007 Series A Bonds) and $94.1 million in Tax Allocation Refunding Revenue Bonds Series B (2007 Series B Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The 2007 Series A Bonds consist of $118.3 million in terms bonds that mature through August 1, 2037 with interest rates ranging from 5.50% to 5.75%. The net proceeds of $110.8 million from the 2007 Series A Bonds will be used for general redevelopment purposes, including financing the development, rehabilitation and preservation of low and moderate income housing.

The 2007 Series B Refunding Bonds net proceeds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1999 Series A in the amount of $43.8 million; and 1999 Series B in the amount of $13.6 million; and 2000 Series A in the amount of $9.7 million; and 2001 Series A in the amount of $29.4 million.

The net proceeds of $87.6 million from the 2007 Series B Refunding Bonds, together with transfers from existing reserve accounts in the amount of $10.6 million, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the debt service payments on the refunded bonds identified above on December 13, 2007. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. Although the advances refunding resulted in the recognition of a deferred accounting loss of $1.6 million, the Agency in effect reduced its aggregate debt service payments by approximately $4.3 million over the next 15 years and obtained an economic gain of $3.9 million. The 2007 Series B Refunding bonds mature through August 1, 2022 with interest rates ranging from 4% to 5%.

In order to facilitate construction and rehabilitation in the City, various construction loan notes, promissory notes, community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $628 million as of June 30, 2008 have been issued by the Agency on behalf of various developer and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Low and Moderate Income Housing Fund to account for this commitment and has budgeted $530.9 million for such expenditures since its inception. The Agency has expended $366 million for low- and moderate-income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $74.4 million as of June 30, 2008.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2002-2003, TIDA received Navy agreement to initiate the process of early transfer and entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base. TIDA completed an Environmental Impact Report (EIR) for the transfer in June 2006.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2008, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 9,229
	Internal Service Funds	303
	Laguna Honda Hospital	7,358
		16,890
Nonmajor Governmental Funds	Nonmajor Governmental Funds	682
	Internal Service Funds	10,891
	Municipal Transportation Agency	5
		11,578
San Francisco International Airport	Nonmajor Governmental Funds	87
		87
San Francisco Water Enterprise	Nonmajor Governmental Funds	105
	Municipal Transportation Agency	145
		250
Hetch Hetchy Water and Power Enterprise	General Fund	1,139
	Nonmajor Governmental Funds	10,835
	Port of San Francisco	83
	San Francisco International Airport	21
	General Hospital Medical Center	1,869
		13,947
Municipal Transportation Agency	General Fund	136
	Nonmajor Governmental Funds	1,611
		1,747
Port of San Francisco	General Fund	226
		226
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	26
		26
Total		$ 44,751

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component Unit - San Francisco Redevelopment Agency	$ 9,160
Hetch Hetchy Water and Power Enterprise	Component Unit - Treasure Island Development Authority	$ 2,599

Transfers In (in thousands):

Transfers Out: Funds	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Laguna Honda Hospital	Total
General Fund	$ -	$ 138,047	$ 2,061	$ 204,087	$ 142,240	$ 57,205	$ 543,640
Nonmajor governmental funds	5,773	23,675	-	44,736	-	106,348	180,532
San Francisco International Airport	25,942	-	-	-	-	-	25,942
Hetch Hetchy Water and Power Enterprise	-	-	-	-	450	-	450
Municipal Transportation Agency	-	12,079	-	-	-	-	12,079
San Francisco General Hospital Medical Center	39,254	-	-	-	-	175	39,429
Total transfers out	$ 70,969	$ 173,801	$ 2,061	$ 248,823	$ 142,690	$ 163,728	$ 802,072

The $543.6 million General Fund transfer out includes a total of $393.7 million in operating subsidies to the Municipal Transportation Agency, San Francisco General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $138.0 million from the General Fund to the nonmajor governmental funds are to provide support to various City programs such as the Public Library and the Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of $39.3 million from the San Francisco General Hospital Medical Center for the SB 855 matching program reimbursement (note 11(g)), and $25.9 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). The $44.7 million transferred to Municipal Transportation Agency from nonmajor governmental funds represented capital and operating transfers from the San Francisco County Transportation Authority. The $106.3 million transfer from nonmajor governmental funds to Laguna Honda Hospital is for capital transfers funded by the Laguna Honda Hospital General Obligation Bond in the City Facilities Improvement Fund.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2009	$ 19,857
2010	17,601
2011	12,720
2012	10,492
2013	4,854
2014-2018	2,296
Total	$ 67,820

Operating lease expense incurred for fiscal year 2007-2008 was approximately $20.9 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	San Francisco General Hospital Medical Center (SFGH)	Total Business-type Activities
2009	$ 4,702	$ 3,214	$ 7,484	$ 1,139	$ 16,539
2010	80	3,214	7,353	1,017	11,664
2011	75	3,214	6,434	662	10,385
2012	-	3,214	6,520	250	9,984
2013	-	3,214	6,668	126	10,008
2014-2018	-	15,685	35,717	-	51,402
2019-2023	-	15,273	40,598	-	55,871
2024-2028	-	15,273	46,733	-	62,006
2029-2033	-	15,274	54,383	-	69,657
2034-2038	-	15,273	-	-	15,273
2039-2043	-	15,273	-	-	15,273
2044-2048	-	15,274	-	-	15,274
2049-2053	-	3,309	-	-	3,309
Total	$ 4,857	$ 126,704	$ 211,890	$ 3,194	$ 346,645

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2007-2008 was $5.2 million, $3.1 million, $9.0 million, and $5.0 million, respectively.

Component Unit – San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (The Agency) has noncancelable operating leases for its office sites, which require the following minimum annual payments (in thousands):

Fiscal Years		
2009	$	1,793
2010		1,774
2011		1,775
2012		1,775
2013		1,775
2014-2018		8,321
2019-2023		4,119
2024-2028		4,119
2029-2033		4,119
2034-2038		4,119
2039-2043		4,119
2044-2048		4,119
2049-2050		1,853
Total	$	43,780

Rent payments totaling $1.3 million are included in the Agency's financial statements for the year ended June 30, 2008.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years		
2009	$	2,358
2010		2,057
2011		1,867
2012		1,679
2013		1,452
2014-2018		6,326
2019-2023		390
2024-2028		166
Total	$	16,295

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
2009	$ 72,148	$ 28,467	$ 1,666	$ 3,575	$ 884	$ 106,740
2010	55,706	24,863	1,716	3,131	825	86,241
2011	36,555	21,141	1,767	2,607	745	62,815
2012	18,930	19,733	1,820	2,326	754	43,563
2013	15,706	18,237	1,875	1,403	754	37,975
2014-2018	-	78,951	1,931	2,641	120	83,643
2019-2023	-	67,381	-	-	-	67,381
2024-2028	-	52,431	-	-	-	52,431
2029-2033	-	48,296	-	-	-	48,296
2034-2038	-	42,623	-	-	-	42,623
2039-2043	-	28,985	-	-	-	28,985
2044-2048	-	22,165	-	-	-	22,165
2049-2053	-	13,496	-	-	-	13,496
2054-2058	-	9,698	-	-	-	9,698
2059-2063	-	9,170	-	-	-	9,170
2064-2068	-	6,846	-	-	-	6,846
2069-2073	-	1,537	-	-	-	1,537
2074-2078	-	307	-	-	-	307
Total	$ 199,045	$ 494,327	$ 10,775	$ 15,683	$ 4,082	$ 723,912

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 $23.5 million and $11.7 million, respectively, in fiscal year 2007-2008.

Component Unit – San Francisco Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition, Hunters Point, South of market, and Mission Bay North areas. The minimum future rental income to be received on the leases (excluding variable rents calculated as a percentage of retail sales) (in thousands):

Fiscal Years	
2009	$ 4,607
2010	4,657
2011	4,686
2012	4,593
2013	4,525
2014-2018	22,781
2019-2023	21,759
2024-2028	22,236
2029-2033	24,051
2034-2038	21,950
2039-2043	21,329
2044-2048	15,889
2049-2053	2,065
2054-2058	735
2059-2063	513
2064-2068	364
2069-2073	250
2074-2078	198
2079-2083	150
2084-2088	150
2089-2093	150
2094-2098	128
Total	$ 177,766

For the year ended June 30, 2008, operating lease rental income for noncancelable operating leases was $11.2 million.

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $18.5 million per year through July 1, 2024. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. Together with financing from the City through appropriation of a portion of the hotel tax and through the issuance of lease revenue bonds by the Finance Corporation, the total cost of approximately $371.4 million was included in the City's asset class of facilities and improvements.

The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows (in thousands):

Fiscal Years	Moscone Convention Center	Other	Total
2009	$ 18,639	$ 1,151	$ 19,790
2010	18,717	1,078	19,795
2011	18,794	67	18,861
2012	18,873	-	18,873
2013	18,946	-	18,946
2014-2018	94,904	-	94,904
2019-2023	32,439	-	32,439
2024-2028	6,319	-	6,319
Total minimum lease payments	227,631	2,296	229,927
Less amounts representing interest	(55,655)	(123)	(55,778)
Present value of maximum lease payments	$ 171,976	$ 2,173	$ 174,149

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.3 billion at June 30, 2008.

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), which was formed in 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2008, the City contributed approximately $7.1 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

The San Francisco Redevelopment Agency (the Agency) provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $48.7 million. As of June 30, 2008, management has designated $4.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

(16) RISK MANAGEMENT

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for MUNI); 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 $750 million, subject to a deductible of $10,000 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 $0.5 million per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts naming the Airport as additional insured. The Airport does not carry insurance for losses due to land movement or seismic activity and losses for war, terrorism and hijacking. The Airport carries public official liability and employer's liability coverage of $5 million, subject to deductible of $100,000 per single occurrence for each wrongful act other than employment practices' violations, and $200,000 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 Port carries commercial insurance for all risks of loss except workers' compensation, property damage to Port-owned vehicles and employee health and accident. The Port's property insurance does not cover losses due to seismic events. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums. Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limits of $20 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported and related loss adjustment expenses. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

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, 2008 has been actuarially determined and includes an estimate of incurred but not reported losses and related loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2006, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2006-2007	$ 147,260	$ 84,049	$ (38,369)	$ 192,940
2007-2008	192,940	67,092	(53,090)	206,942

Breakdown of the estimated claims payable at June 30, 2008 is as follows (in thousands):

Governmental Activities:	
Current portion of estimated claims payables..........................	$ 41,249
Long-term portion of estimated claims payable........................	72,955
Business-type activities:	
Current portion of estimated claims payables..........................	27,215
Long-term portion of estimated claims payable........................	65,523
Total..	$ 206,942

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. In June 2007, a jury from San Mateo County Superior Court rendered a verdict finding the Airport in breach of covenant of good faith and fair dealing and awarded the plaintiffs $1.1 million in damages. In February 2008, the Court vacated the judgment against the Airport and ordered the judgment be entered in the Airport's favor. The ruling rendered the $1.1 million verdict against the Airport null and void. It also nullifies the Airport's liability for the $0.5 million in expenses and $5 million in attorneys' fees that plaintiffs were seeking. As the prevailing party, the Airport is entitled to recover its costs associated with the litigation. Those costs, excluding attorneys' fees, total $0.4 million. The Airport may also recover its attorneys' fees totaling $3.4 million. Plaintiffs are expected to appeal the Court's ruling in the Airport's favor.

In August of 2007 and May of 2008, two lawsuits were brought against the City of San Francisco Uptown Parking Corporation by physically-challenged individuals, who claimed that the Union Square Garage design discriminates against such individuals. These matters were referred to the Corporation's insurance carrier, who denied coverage. The Corporation then directed the lawsuits to their attorneys. At

this time, it is too early to assess the extent of liability for the Corporation, if any, or to forecast the possible extent of the damage.

During the year ended June 30, 2008, the Retirement System was involved in one class action type lawsuit filed by the Veteran Police Officers Association (VPOA). This lawsuit involves issues related to "final compensation" as defined by the Plan. The VPOA lawsuit alleges that the Retirement System should include Police Officer Standard Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending the VPOA lawsuit in the trial court and on appeal to the California Supreme Court. The California Supreme Court ruled on VPOA's Petition for Review and issued its denial during the year ended June 30, 2008.

During the year ended June 30, 2008, the Retirement System was a plaintiff in two securities fraud lawsuits. In the first lawsuit, the Retirement System joined a coalition of government pension funds in a securities fraud suit against various investment banks for losses relating to WorldCom bonds. The second lawsuit was an "opt out" case against Qwest Corporation. Both of these lawsuits, including recoveries, have been concluded during the year ended June 30, 2008.

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 and County's required annual contributions.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2008 has been actuarially determined and includes an estimate of incurred but not reported losses and related loss adjustment expenses. The total amount estimated to be payable for claims incurred as of June 30, 2008 was $351.6 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, 2006, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2006-2007	$ 364,135	$ 43,753	$ (66,760)	$ 341,128
2007-2008	341,128	82,447	(71,969)	351,606

Breakdown of the accrued workers' compensation liability at June 30, 2008 is as follows (in thousands):

Governmental Activities:	
Current portion of accrued workers' compensation liability.........	$ 37,685
Long-term portion of accrued workers' compensation liability.....	166,645
Business-type activities:	
Current portion of accrued workers' compensation liability.........	26,573
Long-term portion of accrued worker's compensation liability.....	120,703
Total..	$ 351,606

(17) SUBSEQUENT EVENTS

Long-term Debt

In July 2008, the City issued the General Obligation Refunding Bonds (Laguna Honda Hospital) Series 2008-R3 in the amount of $118.1 million. The proceeds of the bonds were used to refund all the outstanding general obligation bonds originally issued as variable rate demand obligations to finance improvements to Laguna Honda Hospital (the "Prior Laguna Honda Bonds"). A portion of the proceeds of the Refunding Bonds were also used to pay the costs incurred in connection with the issuance of the Refunding Bonds. The Prior Laguna Honda Bonds were approved by the voters of the City by passage of Proposition A at the election held on November 2, 1999, and issued in three series in 2005 as City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999), Series 2005B, 2005C and 2005D. The Series 2008-R3 were issued with interest rates ranging from 4.625% to 5% and mature from June 2022 through June 2030. Unamortized Prior Laguna Honda Bonds bond issuance costs were $1.8 million at the date of the refunding. The City estimates that aggregate debt service payment were reduced by approximately $15.5 million and that net present value present savings of approximately $11.5 million were obtained through the refunding. Debt service payments are funded through ad valorem taxes on property and other available funds of the City not restricted by law to specific uses.

In August 2008, the City issued the General Obligation Bonds (Clean and Safe Neighborhood Parks Bonds 2008) Series 2008B ("the Bonds") in the amount of $42.5 million to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and the Port Commission, and all other structures, improvements and related costs necessary or convenient for those purposes. The Bonds constitute the first series of bonds to be issued from an aggregate authorized amount of $185 million, duly approved by at least two-thirds of the voters voting on Proposition A at an election held on February 5, 2008. Interest rates range from 3% to 5% and mature from June 2009 through 2028. Debt service payments are funded through ad valorem taxes on property.

In September 2008, the City through the City and County of San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Project Expansion Project) Series 2008-1 and 2008-2 for $72.7 million and $72.7 million (the "Refunding Moscone Bonds") respectively to refund the Lease Revenue Bonds Series 2000-1, 2000-2 and 2000-3 (collectively the "Prior Moscone Bonds") with outstanding amount of $144.3 million to address the concerns regarding the credit enhancement provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost incurred in connection with issuance of the Refunding Bonds.

The Prior Moscone Bonds were insured by Ambac Assurance Corporation by a municipal bond insurance policy that insured the payment of principal and interest when due. Morgan Stanley Guaranty Trust Company of New York and State Street Bank and Trust Company (collectively the "Liquidity Provider") provided liquidity in connection with the exercise of put options by bond holders pursuant to standby bond purchase agreement among the Corporation and Liquidity Provider. The deteriorating credit quality of the insurer caused an increased in the resets of the Prior Moscone Bonds, increasing from an average of 3.46% in fiscal year 2006-2007 (peak of 3.78%) to an average of 3.65% in fiscal year 2007-2008 (peak of 6.42%).

The Refunding Moscone Bonds are secured by a direct-pay letter of credit provided by State Street Bank and Trust Company and Bank of America, N.A. (collectively the "Credit Provider") pursuant to a reimbursement agreement and purchase contract. By refunding the Prior Bonds, the City extinguished the bond insurance policy. Moody's, Standard & Poor's and Fitch Ratings have assigned long term ratings on the Refunding Bonds of Aaa/AAA/AA+ and short term ratings of VMIG 1/A-1+/F1+ respectively. The long term ratings are based on the rating agencies' analyses of the credit strength of both the Credit Provider and the City. The short term credit ratings are based on analyses of the credit strength of only the Credit Provider.

In September 2008, Assembly Bill (AB) 1389 of the California State Legislature was signed into law requiring redevelopment agencies statewide to shift a one-time $350 million of property tax increment to the State of California's (the State) Educational Revenue Augmentation Fund (ERAF) as a way to reduce

the State's $24.3 billion budget deficit for fiscal year 2008-2009. The ERAF money will then be paid to schools and community colleges, relieving the State of payments. The Redevelopment Agency of the City and County of San Francisco's share of this revenue shift is approximately $5.9 million and the payment is to be made by May 10, 2009.

In November 2008, the City made the fourth borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of $1.3 million. The fourth borrowing bears an interest rate of 4.35% with principal amortizing from June 2009 through June 2028. The fourth borrowing is for below market rate loan account.

The San Francisco Water Enterprise (Water Enterprise) is authorized to issue $250 million in commercial paper (CP), none of which was outstanding as of June 30, 2008. The Water Enterprise issued $150 million in July 2008. In October 2008, $59 million matured and reissue was delayed until November 2008 due to market conditions. The remaining outstanding balance of $91 million is currently being remarketed by JP Morgan.

In November 2008, Hetch Hetchy Water and Power Enterprise (Hetch Hetchy) issued $6.3 million in Clean Renewable Energy Bonds (CREBs) to finance the installation of solar energy equipment on selected City-owned facilities. Hetch Hetchy has not previously issued debt and has instead up to this point relied on revenue from ratepayers to fund renewable energy projects, CREBs provide the San Francisco Public Utilities Commission with low-cost access to capital to further its green power projects. Hetch Hetchy will begin making principal payments in the amount of $422 thousand in December 2008 and continuing annually for fifteen years until December 2022. Funding for these payments will be guaranteed by Hetch Hetchy net revenues. Interest payments will not be made, since interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

The San Francisco Wastewater Enterprise had $50 million in CP outstanding as of June 30, 2008, $14.5 million of which matured on various dates between September and October 2008. The reissue of the $14.5 million was delayed until November 25, 2008 due to market conditions.

Bond Rating Upgrade

In August 2008, Moody's Investors Services upgraded the City's government obligation bond rating to Aa2 from Aa3 and revised the rating outlook to stable from positive. They also upgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds.

Changes in Economic Environment and the Impact on the Retirement System

Subsequent to June 30, 2008, the global investment markets have been experiencing unprecedented, adverse events. The markets continue to suffer significant turmoil from a general uncertainty about how to best address the expanded global credit crisis and losses that financial institutions are facing.

As of December 31, 2008, the approximate, unaudited 20% decline in the fair value of the Retirement System portfolio since June 30, 2008 is consistent with overall financial market declines. However, the Retirement System portfolio is structured to focus on long-term performance and is designed to weather periods of market turbulence.

The Retirement System actively manages the investment portfolio, including periodic reviews of its investment policy and asset allocation strategy. Subsequent to June 30, 2008 as part of its regular operations, the Retirement System has reviewed its investment and asset allocation policies and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses that the Retirement System will recognize in its future financial statements, if any, cannot be determined. Market fluctuations are an expected investment risk for a pension fund and the value of the Retirement System investment portfolio changes periodically.

Extraordinary circumstances that occurred subsequent to June 30, 2008, but prior to the issuance of financial statements, are disclosed because they could have a material impact on the value of investments after the date of the financial statements. Negative returns on Retirement System assets will affect the funded status of the plan; however, the ultimate impact of the current market turmoil on the funded status of the Retirement System will be determined based on market conditions in effect when the actuarial annual valuation for the year ended June 30, 2009 is performed.

The Retirement System Received a New Valuation Report

On January 13, 2009, subsequent to the issuance of the Retirement System's audited financial statements, the Retirement System received the July 1, 2008 actuarial valuation report. This report showed an overfunded actuarial accrued liability (i.e., a funding excess) of $582.6 million, as compared to the July 1, 2007 overfunded actuarial accrued liability of $1.4 billion. This reflected a funding ratio of 103.8% compared to the 110.2% in July 2007. In addition, the new net employer contribution rate increased to 9.49%, effective July 1, 2009, from the 4.99% contribution rate in effect during the year ending June 30, 2009.

Elections

On November 4, 2008, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition A – San Francisco General Hospital and Trauma Center Earthquake Safety Bonds This ordinance authorizes the City to borrow $887.4 million by issuing general obligation bonds for building and/or rebuilding San Francisco General Hospital to improve earthquake safety. The bond proceeds will primarily fund the construction of a new building on the current SFGH site. The building, as described in the City's environmental impact report, will meet the state's new higher standards for seismic safety for acute care hospitals. It will provide 284 beds for acute care treatment and will house the SFGH emergency department, operating rooms, obstetrics, pediatrics and intensive care and nursing units. Construction will begin in 2010, and it is estimated that the new building will be complete in 2015. Patient treatment will continue during construction. Proposition A will require the Citizen's General Obligation Bond Oversight Committee to provide independent oversight of the spending of the funds. One tenth of one percent (0.1%) of the bond funds will pay for the Committee's audit and oversight functions. The principal and interest on general obligation bonds will be paid with property tax revenues.

Fiscal Impact: In fiscal year 2009-2010, following issuance of the first series of bonds, and the year with the lowest tax rate, the estimated annual costs of debt service will be $3.4 million and result in a property tax rate of $0.00251 per $100 ($2.51 per $100,000) of assessed value. In fiscal year 2013-2014, following the issuance of the last series of bonds, and the year with the highest tax rate, the estimated annual costs of debt service will be $78.5 million and result in a property tax rate of $0.05032 per $100 ($50.32 per $100,000) of assessed valuation. The best estimate of the average tax rate for these bonds from fiscal year 2009-2010 through 2033-2034 is $0.0337 per $100 ($33.70 per $100,000) of assessed valuation. Based on these estimates, the highest estimated annual property tax cost for the owner of a home with an assessed value of $400,000 will be approximately $197.77. Landlords will be allowed to pass through 50% of the annual property tax cost of the bond to tenants as permitted in the City Administrative Code. Based on these estimates, the highest estimated annual cost for a tenant in unit with an assessed value of approximately $131,000 will be $32.96.

Proposition D – Financing Pier 70 Waterfront District Development Plan upon Board of Supervisors' Approval This is a Charter Amendment that will provide City funds to develop Pier 70 if the Board of Supervisor approves a financial and land use plan for Pier 70 (Pier 70 Plan). The amendment allows for creation of a development district and plan at Pier 70, a 65-acre site on the southern waterfront.

Fiscal Impact: A Pier 70 development plan will require significant expenditures by the Port of San Francisco (Port), however, new and increased revenues resulting from the development, including property tax increment financing, lease revenues, and payroll and hotel tax increment financing will pay for these expenditures. The Port currently projects that expenditures for infrastructure such as roads, utilities and repair of historic structures for the Pier 70 project will total approximately $635 million in current dollars and will support approximately $2.0 billion of private investment over a 15-20 year period. The amendment provides that the Board of Supervisors can appropriate to the Port up to 75% of

increased payroll and hotel tax revenues that are attributable to the Pier 70 development for a 20-year period. The remaining 25% of the increased payroll and tax revenues, as well as other increased tax revenues resulting from the development, will remain available for public purpose. The Controller and the Tax Collector will determine the base tax revenue amounts and the projected incremental tax revenue amounts resulting from the development.

Proposition N – Changing Real Property Transfer Tax Rates This is an ordinance that will increase the transfer tax rate to 1.5% for the sale of real estate worth $5 million or more. The Board of Supervisors can exempt the sale of affordable housing projects from this increase. Proposition N will extend the transfer tax to real estate leases of 35 years or more. In addition, Proposition N will reduce the transfer tax for the sale of residential property by up to 1/3 if, after January 1, 2009, the person selling the real estate had either installed a solar energy system or made improvements to increase earthquake safety.

Fiscal Impact: The ordinance will change the property tax rate for properties with sale price of over $5 million from 0.75% to 1.5%. This will result in an estimated net annual tax revenue increase to the City of approximately $29 million.

Proposition O - Replacing the Emergency Response Fee with an Access Line Tax and Revising the Telephone Users Tax This ordinance will replace the Emergency Response Fee with a general tax (Access Line Tax) at the same rates and with the same exemptions. Revenue from this tax will go to the City's General Fund.

Fiscal Impact: The current 911 fee rate is $2.75 per month per phone line with higher rates on commercial lines and generates approximately $42 million annually. These revenues are budgeted for costs associated with the City's emergency response (911) service. The replacement tax will be at the same rates with the same exemptions and is projected to generate the same amount of revenue. These revenues will be available for any public purpose. The ordinance will also update and modernize the City's telephone users' tax which generates approximately $40 million annually. The proposal will modernize the tax to specifically apply to new and future technologies. The projected revenue amount will not significantly change over time because while emerging services would be subject to the tax, these services are likely to replace classic telephone services which are gradually decreasing.

Proposition Q - Modifying the Payroll Expense Tax This ordinance specifies that the City's 1.5% payroll expense tax applies to compensation paid to shareholders of professional corporations, members of limited liability companies, and owners of partnerships for their services. It will also expand the payroll tax exemption for small businesses. Beginning January 1, 2009, small businesses with annual payroll expenses of $250 thousand or less will not have to pay the City's payroll expense tax. Every two years, the City will adjust the $250 thousand ceiling to reflect inflation.

Fiscal Impact: The net annual revenue to the City is estimated to increase by approximately $10.5 million and change the number and type of businesses in the City that pay the payroll tax. The ordinance will require the payroll tax to be paid on all partner compensation, excluding returns on investment and will result in additional gross annual tax revenues of approximately $17 million. Currently, businesses with a payroll of up to $167 thousand do not have to pay the payroll tax. The ordinance will raise this limit to $250 thousand exempting additional businesses and resulting in decreased gross tax revenue of approximately $6.5 million.

Proposition S – Policy Regarding Budget Set-Asides and Identification of Replacement Funds
This is an ordinance that will make it a City policy that voters will only approve measures authorizing new set-asides or spending mandates if the measure also identifies a new source of funding.

Fiscal Impact: The impact on the cost of government is minimal. The policy will limit the annual growth of new set-asides to no more than 2% of the prior year's amount, and the duration of the approved set-asides to ten years after the effective date of their adoption. The ordinance will require the Controller to prepare a statement informing the voters of the new policy, funding sources identified for the new or expanded set-asides, and the impact of the set-asides on the City's budget and finances during its term.

Required Supplementary Information

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information - Schedules of Funding Progress (Unaudited)

Employees' Retirement System - Pension Plan
Historical trend information is presented.

Schedule of funding progress for the Employees' Retirement System (In thousands):

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over-funded AAL (OAAL)	Funded Ratio	Covered Payroll	OAAL as a % of Covered Payroll
7/1/2005	$ 12,659,698	$ 11,765,737	$ 893,961	107.6%	$ 2,052,862	43.5%
7/1/2006	13,597,646	12,515,463	1,082,183	108.7%	2,161,261	50.1%
7/1/2007	14,929,287	13,541,388	1,387,899	110.3%	2,376,221	58.4%

California Public Employees' Retirement System - Pension Plan
Historical trend information is presented.

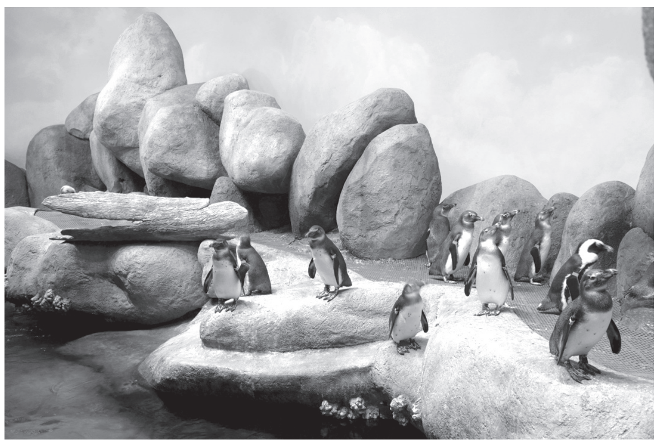
Schedule of funding progress for PERS Safety Plan (In thousands):

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
06/30/05	$ 520,005	$ 525,589	$ (5,584)	98.9%	78,297	-7.1%
06/30/06	568,027	565,483	2,544	100.5%	77,419	3.3%
06/30/07	622,866	627,675	(4,809)	99.2%	85,508	-5.6%

Other Postemployment Benefits for City Employees
Schedule of funding progress for OPEB (In thousands):

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
07/01/06	$ -	$ 4,036,324	$ (4,036,324)	0.0%	$ 2,066,866	-195.3%

Combining Financial Statements and Schedules



Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Building Inspection Fund -- Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings.

Children and Families Fund -- Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

Community/Neighborhood Development Fund -- Accounts for various grants primarily from the Department of Housing and Urban Development to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

Community Health Services Fund -- Accounts for state and federal grants used to promote public health and mental health programs.

Convention Facilities Fund -- Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

Court's Fund -- Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

Culture and Recreation Fund -- Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

Environmental Protection Fund – Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

(Continued)

SPECIAL REVENUE FUNDS *(Continued)*

Gasoline Tax Fund -- Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

General Services Fund -- Accounts for the activities of several non-grant activities, generally established by administrative action.

Gift Fund -- Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

Golf Fund -- Accounts for the revenue and expenditures related to the City's six golf courses.

Human Welfare Fund -- Accounts for state and federal grants used to promote education and discourage domestic violence.

Open Space and Park Fund -- Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

Public Library Fund -- Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

Public Protection Fund -- Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

Public Works, Transportation and Commerce Fund -- Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

Real Property Fund -- Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

(Continued)

SPECIAL REVENUE FUNDS (Continued)

San Francisco County Transportation Authority Fund -- Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

Senior Citizens' Program Fund -- Accounts for revenues from the allocation of one-fifth of the parking tax receipts and for grants from the state to be used to promote the well-being of San Francisco senior citizens.

War Memorial Fund -- Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.

General Obligation Bond Fund -- Accounts for property taxes and other revenues for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

Certificates of Participation (COP) Funds -- Accounts for transfers of Base Rental payments from the various COP Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

Other Bond Funds -- Accounts for funds and debt service of two nonprofit corporations (Social Services Corporation and San Francisco Stadium, Inc.) and business tax settlement bonds.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

City Facilities Improvement Fund -- Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

(Continued)

CAPITAL PROJECTS FUNDS *(Continued)*

Earthquake Safety Improvement Fund -- Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

Fire Protection Systems Improvement Fund -- Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

Moscone Convention Center Fund -- Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

Public Library Improvement Fund -- Accounts for bond proceeds and private gifts which are designated for construction of public library facilities including a new main library. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

Recreation and Park Projects Fund -- Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

Street Improvement Fund -- Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Bequest Fund -- Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.

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CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

(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	$ 507,165	$ 34,628	$ 201,050	$ 7,588	$ 750,431
Deposits and investments outside City Treasury	9,031	15,028	24,721	54	48,834
Receivables:					
Property taxes and penalties	3,696	6,167	-	-	9,863
Other local taxes	15,269	-	-	-	15,269
Federal and state grants and subventions	85,465	-	13,547	-	99,012
Charges for services	11,337	-	219	-	11,556
Interest and other	4,733	532	1,027	31	6,323
Due from other funds	611	-	10,967	-	11,578
Due from component unit	1,621	-	958	-	2,579
Loans receivable (net of allowance for uncollectibles)	67,325	-	-	-	67,325
Deferred charges and other assets	3,780	-	39	-	3,819
Total assets	$ 710,033	$ 56,355	$ 252,528	$ 7,673	$ 1,026,589
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 82,991	$ 321	$ 31,567	$ 10	$ 114,889
Accrued payroll	14,108	-	1,152	19	15,279
Deferred tax, grant and subvention revenues	45,763	6,069	7,575	50	59,457
Due to other funds	11,661	-	10,914	-	22,575
Deferred credits and other liabilities	75,092	3,019	19,570	674	98,355
Bonds, loans, capital leases and other payables	150,000	-	-	-	150,000
Total liabilities	379,615	9,409	70,778	753	460,555
Fund balances:					
Reserved for assets not available for appropriation	18,503	-	1,257	54	19,814
Reserved for debt service	388	46,946	-	-	47,334
Reserved for encumbrances	96,207	-	97,179	75	193,461
Reserved for appropriation carryforward	229,574	-	81,188	3,289	314,051
Reserved for subsequent years' budgets	13,504	-	-	-	13,504
Unreserved (deficit)	(27,758)	-	2,126	3,502	(22,130)
Total fund balances	330,418	46,946	181,750	6,920	566,034
Total liabilities and fund balances	$ 710,033	$ 56,355	$ 252,528	$ 7,673	$ 1,026,589

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2008

(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
Revenues:					
Property taxes	$ 105,523	$ 134,353	$ -	$ -	$ 239,876
Business taxes	1,758	-	-	-	1,758
Other local taxes	133,104	-	-	-	133,104
Licenses, permits and franchises	7,731	-	-	-	7,731
Fines, forfeitures and penalties	4,819	-	-	-	4,819
Interest and investment income	23,893	3,470	10,852	262	38,477
Rents and concessions	48,542	789	709	630	50,670
Intergovernmental:					
Federal	146,660	-	8,596	-	155,256
State	79,254	685	4,292	-	84,231
Other	2,031	-	13,876	-	15,907
Charges for services	153,216	-	-	-	153,216
Other	62,597	-	761	15	63,373
Total revenues	769,128	139,297	39,086	907	948,418
Expenditures:					
Current:					
Public protection	52,317	-	-	-	52,317
Public works, transportation and commerce	252,984	-	-	-	252,984
Human welfare and neighborhood development	215,650	-	-	118	215,768
Community health	88,111	-	-	-	88,111
Culture and recreation	204,147	-	-	429	204,576
General administration and finance	17,151	-	-	-	17,151
General City responsibilities	331	-	-	-	331
Debt service:					
Principal retirement	11	105,705	-	-	105,716
Interest and fiscal charges	4,072	71,619	6	-	75,697
Bond issuance costs	8	589	493	-	1,090
Capital outlay	-	-	133,155	-	133,155
Total expenditures	834,782	177,913	133,654	547	1,146,896
Excess (deficiency) of revenues over (under) expenditures	(65,654)	(38,616)	(94,568)	360	(198,478)
Other financing sources (uses):					
Transfers in	121,371	34,476	17,954	-	173,801
Transfers out	(73,522)	-	(106,974)	(36)	(180,532)
Issuance of bonds and loans					
Face value of bonds issued	7,695	271,395	31,065	-	310,155
Face value of loans issued	1,829	-	-	-	1,829
Premium on issuance of bonds	-	12,744	327		13,071
Payment to refunded bond escrow agent	-	(283,494)	-	-	(283,494)
Other financing sources-capital leases	4,261	-	14,943	-	19,204
Total other financing sources (uses)	61,634	35,121	(42,685)	(36)	54,034
Net change in fund balances	(4,020)	(3,495)	(137,253)	324	(144,444)
Fund balances at beginning of year	334,438	50,441	319,003	6,596	710,478
Fund balances at end of year	$ 330,418	$ 46,946	$ 181,750	$ 6,920	$ 566,034

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue

June 30, 2008

(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund	Cultural and Recreation Fund	Environmental Protection Fund
ASSETS								
Deposits and investments with City Treasury	$25,430	$66,898	$ 112,884	$ 9,689	$ 16,034	$ 2,044	$ 8,996	$ 35
Deposits and investments outside City Treasury	-	-	2,612	2	-	-	23	-
Receivables:								
Property taxes and penalties	-	1,386	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Federal and state grants and subventions	-	4,542	7,139	25,930	-	-	-	1,369
Charges for services	114	-	50	-	963	265	312	-
Interest and other	95	343	460	36	-	9	25	-
Due from other funds	-	-	-	-	-	-	5	173
Due from component unit	-	-	1,540	-	-	-	-	81
Loans receivable (net of allowance for uncollectibles)	302	-	67,023	-	-	-	-	-
Deferred charges and other assets	-	-	446	-	-	-	-	-
Total assets	$25,941	$73,169	$ 192,154	$ 35,657	$ 16,997	$ 2,318	$ 9,361	$ 1,658
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 740	$25,999	$ 4,801	$ 12,674	$ 1,833	$ -	$ 771	$ 883
Accrued payroll	1,356	695	489	1,175	18	1	132	37
Deferred tax, grant and subvention revenues	-	1,984	191	12,074	-	-	-	680
Due to other funds	-	-	-	-	-	-	-	300
Deferred credits and other liabilities	7,370	825	51,876	2,000	3,772	-	-	81
Bonds, loans, capital leases and other payables	-	-	-	-	-	-	-	-
Total liabilities	9,466	29,503	57,357	27,923	5,623	1	903	1,981
Fund balances:								
Reserved for assets not available for appropriation	-	-	17,769	-	-	-	-	-
Reserved for debt service	-	-	-	-	-	-	-	-
Reserved for encumbrances	1,611	8,430	21,048	14,399	3,183	7	537	1,122
Reserved for appropriation carryforward	8,811	21,762	96,360	10,253	4,966	635	4,973	-
Reserved for subsequent years' budgets	-	13,500	-	-	-	-	4	-
Unreserved (deficit)	6,053	(26)	(380)	(16,918)	3,225	1,675	2,944	(1,445)
Total fund balances	16,475	43,666	134,797	7,734	11,374	2,317	8,458	(323)
Total liabilities and fund balances	$25,941	$73,169	$ 192,154	$ 35,657	$ 16,997	$ 2,318	$ 9,361	$ 1,658

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue *(Continued)*

June 30, 2008

(In Thousands)

	Gasoline Tax Fund	General Services Fund	Gift Fund	Golf Fund	Human Welfare Fund	Open Space and Park Fund	Public Library Fund
ASSETS							
Deposits and investments with City Treasury	$ -	$ 7,950	$ 6,243	$ 2,120	$ 2,153	$ 28,077	$31,705
Deposits and investments outside City Treasury	40	-	469	-	-	-	-
Receivables:							
Property taxes and penalties	-	-	-	-	-	1,155	1,155
Other local taxes	-	-	-	-	-	-	-
Federal and state grants and subventions	6,964	1,725	2	-	2,954	-	-
Charges for services	429	1,866	-	448	-	-	-
Interest and other	4	411	6	8	5	133	141
Due from other funds	211	-	-	-	-	-	-
Due from component unit	-	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	-
Deferred charges and other assets	-	-	-	-	-	-	-
Total assets	$ 7,648	$ 11,952	$ 6,720	$ 2,576	$ 5,112	$ 29,365	$33,001
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 89	$ 5,049	$ 180	$ 544	$ 897	$ 275	$ 3,151
Accrued payroll	1,360	310	11	155	38	642	2,393
Deferred tax, grant and subvention revenues	-	-	326	-	654	1,133	1,174
Due to other funds	5,060	-	-	-	-	-	-
Deferred credits and other liabilities	-	125	-	114	-	692	692
Bonds, loans, capital leases and other payables	-	-	-	-	-	-	-
Total liabilities	6,509	5,484	517	813	1,589	2,742	7,410
Fund balances:							
Reserved for assets not available for appropriation	-	-	469	-	-	-	-
Reserved for debt service	-	-	-	-	-	-	-
Reserved for encumbrances	353	597	209	313	4,659	1,674	4,964
Reserved for appropriation carryforward	805	5,316	4,684	749	969	15,808	4,443
Reserved for subsequent years' budgets	-	-	-	-	-	-	-
Unreserved (deficit)	(19)	555	841	701	(2,105)	9,141	16,184
Total fund balances	1,139	6,468	6,203	1,763	3,523	26,623	25,591
Total liabilities and fund balances	$ 7,648	$ 11,952	$ 6,720	$ 2,576	$ 5,112	$ 29,365	$33,001

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue *(Continued)*
June 30, 2008
(In Thousands)

	Public Protection Fund	Public Works, Transportation and Commerce Fund	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
ASSETS							
Deposits and investments with City Treasury	$10,965	$ 23,437	$ 10,242	$130,614	$ 243	$11,406	$ 507,165
Deposits and investments outside City Treasury	42	-	347	5,496	-	-	9,031
Receivables:							
Property taxes and penalties	-	-	-	-	-	-	3,696
Other local taxes	838	-	-	14,431	-	-	15,269
Federal and state grants and subventions	27,678	570	-	5,560	1,032	-	85,465
Charges for services	2,147	4,742	1	-	-	-	11,337
Interest and other	363	-	-	2,694	-	-	4,733
Due from other funds	-	8	214	-	-	-	611
Due from component unit	-	-	-	-	-	-	1,621
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	67,325
Deferred charges and other assets	1	3,278	-	55	-	-	3,780
Total assets	$42,034	$ 32,035	$ 10,804	$158,850	$1,275	$11,406	$ 710,033
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$14,933	$ 1,806	$ 654	$ 7,086	$ 437	$ 189	$ 82,991
Accrued payroll	2,356	2,339	101	109	-	391	14,108
Deferred tax, grant and subvention revenues	26,494	44	-	-	1,009	-	45,763
Due to other funds	-	3,327	-	2,136	838	-	11,661
Deferred credits and other liabilities	-	4,995	-	2,531	-	19	75,092
Bonds, loans, capital leases and other payables	-	-	-	150,000	-	-	150,000
Total liabilities	43,783	12,511	755	161,862	2,284	599	379,615
Fund balances:							
Reserved for assets not available for appropriation	1	-	264	-	-	-	18,503
Reserved for debt service	-	-	-	388	-	-	388
Reserved for encumbrances	10,853	6,584	905	14,565	-	194	96,207
Reserved for appropriation carryforward	22,534	8,700	8,080	1,305	-	8,421	229,574
Reserved for subsequent years' budgets	-	-	-	-	-	-	13,504
Unreserved (deficit)	(35,137)	4,240	800	(19,270)	(1,009)	2,192	(27,758)
Total fund balances	(1,749)	19,524	10,049	(3,012)	(1,009)	10,807	330,418
Total liabilities and fund balances	$42,034	$ 32,035	$ 10,804	$158,850	$1,275	$11,406	$ 710,033

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue
Year ended June 30, 2008
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund	Culture and Recreation Fund	Environmental Protection Fund
Revenues:								
Property taxes	$ -	$39,458	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	1,758	-	-	-	-	-
Other local taxes	-	-	-	-	43,716	-	-	-
Licenses, permits and franchises	3,565	-	-	-	-	-	178	-
Fines, forfeitures and penalties	-	-	-	2,028	-	37	4	-
Interest and investment income	1,073	2,283	7,142	280	1,108	109	292	13
Rents and concessions	-	-	-	-	17,381	-	1,482	-
Intergovernmental:								
Federal	-	10,268	35,407	55,590	-	-	1	47
State	-	13,664	87	17,888	-	-	1,694	5,355
Other	-	-	-	-	-	-	-	244
Charges for services	39,308	2,246	5,566	2,651	3,950	3,896	6,885	-
Other	-	-	53,361	484	1,294	-	599	360
Total revenues	43,946	67,919	103,321	78,921	67,449	4,042	11,135	6,019
Expenditures:								
Current:								
Public protection	-	-	-	-	-	272	-	-
Public works, transportation and commerce	43,595	10	5,297	-	-	47	241	-
Human welfare and neighborhood development	-	102,873	72,996	-	5,394	-	-	6,036
Community health	-	-	-	86,515	-	-	-	-
Culture and recreation	-	-	30	-	70,012	-	6,997	-
General administration and finance	-	-	1,264	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement	-	-	-	-	-	-	11	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	8	-	-	-	-	-
Total expenditures	43,595	102,883	79,595	86,515	75,406	319	7,249	6,036
Excess (deficiency) of revenues over (under) expenditures	351	(34,964)	23,726	(7,594)	(7,957)	3,723	3,886	(17)
Other financing sources (uses):								
Transfers in	-	33,099	1,974	-	2,389	-	600	-
Transfers out	(1,089)	-	(2,589)	(18)	(1,108)	(4,177)	(1,034)	(410)
Issuance of bonds and loans								
Face value of bonds issued	-	-	7,695	-	-	-	-	-
Face value of loans issued	-	-	1,829	-	-	-	-	-
Other financing sources-capital leases	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(1,089)	33,099	8,909	(18)	1,281	(4,177)	(434)	(410)
Net change in fund balances	(738)	(1,865)	32,635	(7,612)	(6,676)	(454)	3,452	(427)
Fund balances at beginning of year	17,213	45,531	102,162	15,346	18,050	2,771	5,006	104
Fund balances at end of year	$ 16,475	$43,666	$ 134,797	$ 7,734	$11,374	$2,317	$ 8,458	$ (323)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Gasoline Tax Fund	General Services Fund	Gift Fund	Golf Fund	Human Welfare Fund	Open Space and Park Fund	Public Library Fund
Revenues:							
Property taxes	$ -	$ -	$ -	$ -	$ -	$ 33,176	$ 32,889
Business taxes	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-
Licenses, permits and franchises	-	1,827	-	-	283	-	-
Fines, forfeitures and penalties	-	145	-	-	3	-	-
Interest and investment income	204	76	286	80	72	815	1,110
Rents and concessions	-	737	-	3,286	-	-	37
Intergovernmental:							
Federal	-	5,494	-	-	11,775	-	7
State	17,644	-	-	-	61	165	621
Other	-	-	-	-	-	-	-
Charges for services	462	1,446	94	7,794	202	-	756
Other	633	-	4,304	-	317	-	6
Total revenues	18,943	9,725	4,684	11,160	12,713	34,156	35,426
Expenditures:							
Current:							
Public protection	-	289	101	-	-	-	-
Public works, transportation and commerce	41,190	1,400	265	-	-	881	3,879
Human welfare and neighborhood development	-	-	588	-	15,544	-	-
Community health	-	-	430	-	-	-	-
Culture and recreation	-	680	618	10,821	-	32,137	71,287
General administration and finance	-	7,102	153	-	-	-	-
General City responsibilities	-	331	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-
Total expenditures	41,190	9,802	2,155	10,821	15,544	33,018	75,166
Excess (deficiency) of revenues over (under) expenditures	(22,247)	(77)	2,529	339	(2,831)	1,138	(39,740)
Other financing sources (uses):							
Transfers in	11,423	1,240	200	1,294	3,295	1,417	40,861
Transfers out	(48)	-	(2,376)	(1,417)	(16)	(76)	(281)
Issuance of bonds and loans							
Face value of bonds issued	-	-	-	-	-	-	-
Face value of loans issued	-	-	-	-	-	-	-
Other financing sources-capital leases	4,261	-	-	-	-	-	-
Total other financing sources (uses)	15,636	1,240	(2,176)	(123)	3,279	1,341	40,580
Net change in fund balances	(6,611)	1,163	353	216	448	2,479	840
Fund balances at beginning of year	7,750	5,305	5,850	1,547	3,075	24,144	24,751
Fund balances at end of year	$ 1,139	$ 6,468	$ 6,203	$1,763	$ 3,523	$ 26,623	$ 25,591

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Public Protection Fund	Public Works, Transportation and Commerce Fund	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
Revenues:							
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ 105,523
Business taxes	-	-	-	-	-	-	1,758
Other local taxes	-	-	-	79,556	-	9,832	133,104
Licenses, permits and franchises	1,878	-	-	-	-	-	7,731
Fines, forfeitures and penalties	2,039	563	-	-	-	-	4,819
Interest and investment income	937	1,143	183	6,212	-	475	23,893
Rents and concessions	-	82	23,580	-	-	1,957	48,542
Intergovernmental:							
Federal	23,860	1,031	-	-	3,180	-	146,660
State	11,179	79	-	8,906	1,911	-	79,254
Other	3	1,784	-	-	-	-	2,031
Charges for services	57,777	19,780	76	-	-	327	153,216
Other	217	334	-	687	-	1	62,597
Total revenues	97,890	24,796	23,839	95,361	5,091	12,592	769,128
Expenditures:							
Current:							
Public protection	51,655	-	-	-	-	-	52,317
Public works, transportation and commerce	84,886	14,590	9	56,259	-	435	252,984
Human welfare and neighborhood development	77	6,019	-	-	6,123	-	215,650
Community health	1,166	-	-	-	-	-	88,111
Culture and recreation	-	32	-	-	-	11,533	204,147
General administration and finance	156	164	8,312	-	-	-	17,151
General City responsibilities	-	-	-	-	-	-	331
Debt service:							
Principal retirement	-	-	-	-	-	-	11
Interest and fiscal charges	-	-	-	4,072	-	-	4,072
Bond issuance costs	-	-	-	-	-	-	8
Total expenditures	137,940	20,805	8,321	60,331	6,123	11,968	834,782
Excess (deficiency) of revenues over (under) expenditures	(40,050)	3,991	15,518	35,030	(1,032)	624	(65,654)
Other financing sources (uses):							
Transfers in	22,491	1,065	-	-	23	-	121,371
Transfers out	(3,529)	(1,249)	(8,997)	(44,633)	-	(475)	(73,522)
Issuance of bonds and loans							
Face value of bonds issued	-	-	-	-	-	-	7,695
Face value of loans issued	-	-	-	-	-	-	1,829
Other financing sources-capital leases	-	-	-	-	-	-	4,261
Total other financing sources (uses)	18,962	(184)	(8,997)	(44,633)	23	(475)	61,634
Net change in fund balances	(21,088)	3,807	6,521	(9,603)	(1,009)	149	(4,020)
Fund balances at beginning of year	19,339	15,717	3,528	6,591	-	10,658	334,438
Fund balances at end of year	$ (1,749)	$ 19,524	$ 10,049	$ (3,012)	$ (1,009)	$ 10,807	$ 330,418

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis

Year ended June 30, 2008

(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	$ -	$ -	$ -	$ -	$ 39,951	$ 39,951	$ 39,458	$ (493)
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	4,000	4,000	3,565	(435)	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	800	800	800	-	748	893	2,532	1,639
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	9,723	10,345	10,268	(77)
State	-	-	-	-	14,680	14,319	14,289	(30)
Other	-	-	-	-	-	-	-	-
Charges for services	35,563	35,563	39,308	3,745	1,137	2,254	2,246	(8)
Other revenues	-	-	-	-	-	-	-	-
Total revenues	40,363	40,363	43,673	3,310	66,239	67,762	68,793	1,031
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	46,662	47,679	43,595	4,084	-	10	10	-
Human welfare and neighborhood development	-	-	-	-	102,701	103,027	102,853	174
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	46,662	47,679	43,595	4,084	102,701	103,037	102,863	174
Excess (deficiency) of revenues over (under) expenditures	(6,299)	(7,316)	78	7,394	(36,462)	(35,275)	(34,070)	1,205
Other financing sources (uses):								
Transfers in	-	-	-	-	33,077	33,077	33,077	-
Transfers out	(750)	(750)	(750)	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs		-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(750)	(750)	(750)	-	33,077	33,077	33,077	-
Net change in fund balances	(7,049)	(8,066)	(672)	7,394	(3,385)	(2,198)	(993)	1,205
Budgetary fund balance (deficit), July 1	7,049	17,227	17,227	-	3,385	45,560	45,560	-
Budgetary fund balance (deficit), June 30	$ -	$ 9,161	$ 16,555	$ 7,394	$ -	$ 43,362	$ 44,567	$ 1,205

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2008

(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	835	835	1,758	923	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	2,281	2,282	2,028	(254)
Interest and investment income	110	6,306	6,867	561	50	53	299	246
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	35,408	35,408	-	60,342	55,591	55,591	-
State	-	88	88	-	20,892	28,141	28,141	-
Other	-	-	-	-	-	-	-	-
Charges for services	4,948	5,675	5,566	(109)	193	2,669	2,651	(18)
Other revenues	-	53,815	53,362	(453)	265	484	484	-
Total revenues	5,893	102,127	103,049	922	84,023	89,220	89,194	(26)
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	5,297	5,297	-	-	-	-	-
Human welfare and neighborhood development	6,357	73,364	72,995	369	-	-	-	-
Community health	-	-	-	-	84,023	86,515	86,515	-
Culture and recreation	-	30	30	-	-	-	-	-
General administration and finance	1,759	1,264	1,264	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	8,116	79,955	79,586	369	84,023	86,515	86,515	-
Excess (deficiency) of revenues over (under) expenditures	(2,223)	22,172	23,463	1,291	-	2,705	2,679	(26)
Other financing sources (uses):								
Transfers in	-	1,974	1,974	-	-	-	-	-
Transfers out	-	(1,957)	(1,957)	-	-	-	-	-
Issuance of bonds	-	7,695	7,695	-	-	-	-	-
Issuance of loans	-	1,829	1,829	-	-	-	-	-
Bond issuance costs	-	(8)	(8)	-	-	-	-	-
Budget reserves and designations	(110)	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(110)	9,533	9,533	-	-	-	-	-
Net change in fund balances	(2,333)	31,705	32,996	1,291	-	2,705	2,679	(26)
Budgetary fund balance (deficit), July 1	2,333	92,128	92,128	-	-	15,351	15,351	-
Budgetary fund balance (deficit), June 30	$ -	$123,833	$ 125,124	$ 1,291	$ -	$ 18,056	$ 18,030	$ (26)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2008

(In Thousands)

	Convention Facilities Fund				Court's Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	46,216	43,716	43,716	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	25	25	37	12
Interest and investment income	-	-	-	-	63	63	116	53
Rents and concessions	23,312	23,312	17,380	(5,932)	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	536	536	3,950	3,414	3,743	3,743	3,902	159
Other revenues	-	1,294	1,294	-	-	-	-	-
Total revenues	70,064	68,858	66,340	(2,518)	3,831	3,831	4,055	224
Expenditures:								
Public protection	-	-	-	-	4,796	279	272	7
Public works, transportation and commerce	-	-	-	-	-	47	47	-
Human welfare and neighborhood development	5,900	5,394	5,394	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	72,213	72,049	70,012	2,037	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	78,113	77,443	75,406	2,037	4,796	326	319	7
Excess (deficiency) of revenues over (under) expenditures	(8,049)	(8,585)	(9,066)	(481)	(965)	3,505	3,736	231
Other financing sources (uses):								
Transfers in	2,389	2,389	2,389	-	-	-	-	-
Transfers out	-	-	-	-	-	(4,177)	(4,177)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,389	2,389	2,389	-	-	(4,177)	(4,177)	-
Net change in fund balances	(5,660)	(6,196)	(6,677)	(481)	(965)	(672)	(441)	231
Budgetary fund balance (deficit), July 1	5,660	22,309	22,309	-	965	2,773	2,773	-
Budgetary fund balance (deficit), June 30	$ -	$ 16,113	$ 15,632	$ (481)	$ -	$ 2,101	$ 2,332	$ 231

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2008

(In Thousands)

	Culture and Recreation Fund				Environmental Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	161	161	178	17	-	-	-	-
Fines, forfeitures, and penalties	-	-	4	4	-	-	-	-
Interest and investment income	46	46	176	130	-	-	-	-
Rents and concessions	1,505	1,505	1,482	(23)	-	-	-	-
Intergovernmental:								
Federal	-	1	1	-	13	47	47	-
State	-	1,694	1,694	-	6,193	5,521	5,521	-
Other	-	-	-	-	-	243	243	-
Charges for services	7,912	8,078	6,885	(1,193)	-	-	-	-
Other revenues	599	599	599	-	-	360	360	-
Total revenues	10,223	12,084	11,019	(1,065)	6,206	6,171	6,171	-
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	671	241	241	-	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	5,724	6,037	6,037	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	9,812	7,192	6,997	195	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	10,483	7,433	7,238	195	5,724	6,037	6,037	-
Excess (deficiency) of revenues over (under) expenditures	(260)	4,651	3,781	(870)	482	134	134	-
Other financing sources (uses):								
Transfers in	600	600	600	-	-	-	-	-
Transfers out	-	(898)	(898)	-	(482)	(396)	(396)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	(570)	(570)	-	570	-	-	-	-
Loan repayments and other financing sources (uses)	(12)	(12)	(12)	-	-	-	-	-
Total other financing sources (uses)	18	(880)	(310)	570	(482)	(396)	(396)	-
Net change in fund balances	(242)	3,771	3,471	(300)	-	(262)	(262)	-
Budgetary fund balance (deficit), July 1	242	9,890	9,890	-	-	103	103	-
Budgetary fund balance (deficit), June 30	$ -	$ 13,661	$ 13,361	$ (300)	$ -	$ (159)	$ (159)	$ -

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008

(In Thousands)

	Gasoline Tax Fund				General Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	2,385	2,385	1,827	(558)
Fines, forfeitures, and penalties	-	-	-	-	-	166	145	(21)
Interest and investment income	255	255	201	(54)	30	30	85	55
Rents and concessions	-	-	-	-	-	737	737	-
Intergovernmental:								
Federal	-	-	-	-	-	5,494	5,494	-
State	17,489	17,489	17,644	155	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	800	800	462	(338)	1,213	1,338	1,446	108
Other revenues	1,322	1,323	633	(690)	-	-	-	-
Total revenues	19,866	19,867	18,940	(927)	3,628	10,150	9,734	(416)
Expenditures:								
Public protection	-	-	-	-	280	289	289	-
Public works, transportation and commerce	30,525	37,796	36,929	867	2,415	1,400	1,400	-
Human welfare and neighborhood development	-	-	-	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	680	680	-
General administration and finance	-	-	-	-	2,526	7,348	7,102	246
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	30,525	37,796	36,929	867	5,221	9,717	9,471	246
Excess (deficiency) of revenues over (under) expenditures	(10,659)	(17,929)	(17,989)	(60)	(1,593)	433	263	(170)
Other financing sources (uses):								
Transfers in	10,659	11,423	11,423	-	1,593	909	909	-
Transfers out	-	(48)	(48)	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	10,659	11,375	11,375	-	1,593	909	909	-
Net change in fund balances	-	(6,554)	(6,614)	(60)	-	1,342	1,172	(170)
Budgetary fund balance (deficit), July 1	-	7,754	7,754	-	-	5,313	5,313	-
Budgetary fund balance (deficit), June 30	$ -	$ 1,200	$ 1,140	$ (60)	$ -	$ 6,655	$ 6,485	$ (170)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008

(In Thousands)

	Gift Fund				Golf Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	16	62	46	10	10	88	78
Rents and concessions	-	-	-	-	3,146	3,146	3,286	140
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	94	94	-	8,244	8,244	7,795	(449)
Other revenues	545	4,292	4,304	12	-	-	-	-
Total revenues	545	4,402	4,460	58	11,400	11,400	11,169	(231)
Expenditures:								
Public protection	-	101	101	-	-	-	-	-
Public works, transportation and commerce	-	265	265	-	-	-	-	-
Human welfare and neighborhood development	300	588	588	-	-	-	-	-
Community health	-	430	430	-	-	-	-	-
Culture and recreation	365	618	618	-	11,277	11,132	10,821	311
General administration and finance	80	153	153	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	745	2,155	2,155	-	11,277	11,132	10,821	311
Excess (deficiency) of revenues over (under) expenditures	(200)	2,247	2,305	58	123	268	348	80
Other financing sources (uses):								
Transfers in	200	200	200	-	1,294	1,294	1,294	-
Transfers out	-	(2,147)	(2,147)	-	(1,417)	(1,417)	(1,417)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	200	(1,947)	(1,947)	-	(123)	(123)	(123)	-
Net change in fund balances	-	300	358	58	-	145	225	80
Budgetary fund balance (deficit), July 1	-	5,840	5,840	-	-	1,548	1,548	-
Budgetary fund balance (deficit), June 30	$ -	$ 6,140	$ 6,198	$ 58	$ -	$ 1,693	$ 1,773	$ 80

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008

(In Thousands)

	Human Welfare Fund				Open Space and Park Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 33,395	$ 33,395	$ 33,175	$ (220)
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	210	210	283	73	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	-	85	85	400	400	917	517
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	22,775	12,019	12,019	-	-	-	-	-
State	11	61	61	-	152	152	165	13
Other	-	-	-	-	-	-	-	-
Charges for services	180	180	202	22	-	-	-	-
Other revenues	422	317	317	-	-	-	-	-
Total revenues	23,598	12,787	12,967	180	33,947	33,947	34,257	310
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	-	-	-	-	881	881	-
Human welfare and neighborhood development	26,723	15,373	15,373	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	34,054	33,425	32,137	1,288
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	26,723	15,373	15,373	-	34,054	34,306	33,018	1,288
Excess (deficiency) of revenues over (under) expenditures	(3,125)	(2,586)	(2,406)	180	(107)	(359)	1,239	1,598
Other financing sources (uses):								
Transfers in	3,125	3,125	3,125	-	1,417	1,417	1,417	-
Transfers out	-	(16)	(16)	-	-	(76)	(76)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	(4,000)	-	-	-
Total other financing sources (uses)	3,125	3,109	3,109	-	(2,583)	1,341	1,341	-
Net change in fund balances	-	523	703	180	(2,690)	982	2,580	1,598
Budgetary fund balance (deficit), July 1	-	3,076	3,076	-	2,690	24,154	24,154	-
Budgetary fund balance (deficit), June 30	$ -	$ 3,599	$ 3,779	$ 180	$ -	$ 25,136	$ 26,734	$ 1,598

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008

(In Thousands)

	Public Library Fund				Public Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ 33,395	$ 33,395	$ 32,889	$ (506)	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	2,035	2,035	1,878	(157)
Fines, forfeitures, and penalties	-	-	-	-	1,632	1,595	2,038	443
Interest and investment income	234	259	926	667	63	106	994	888
Rents and concessions	28	28	37	9	-	-	-	-
Intergovernmental:								
Federal	-	7	7	-	3,171	46,393	46,393	-
State	760	757	621	(136)	6,227	11,179	11,179	-
Other	-	-	-	-	-	3	3	-
Charges for services	763	808	756	(52)	46,579	58,848	57,777	(1,071)
Other revenues	-	6	6	-	-	217	217	-
Total revenues	35,180	35,260	35,242	(18)	59,707	120,376	120,479	103
Expenditures:								
Public protection	-	-	-	-	27,742	51,419	51,419	-
Public works, transportation and commerce	-	3,879	3,879	-	48,978	86,912	84,885	2,027
Human welfare and neighborhood development	-	-	-	-	-	77	77	-
Community health	-	-	-	-	-	1,166	1,166	-
Culture and recreation	75,767	72,177	71,287	890	-	-	-	-
General administration and finance	-	-	-	-	-	156	156	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	75,767	76,056	75,166	890	76,720	139,730	137,703	2,027
Excess (deficiency) of revenues over (under) expenditures	(40,587)	(40,796)	(39,924)	872	(17,013)	(19,354)	(17,224)	2,130
Other financing sources (uses):								
Transfers in	42,150	40,861	40,861	-	21,548	22,261	22,261	-
Transfers out	-	-	-	-	(2,505)	(3,529)	(3,529)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	(1,563)	(1,563)	-	1,563	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	(9,225)	-	-	-
Total other financing sources (uses)	40,587	39,298	40,861	1,563	9,818	18,732	18,732	-
Net change in fund balances	-	(1,498)	937	2,435	(7,195)	(622)	1,508	2,130
Budgetary fund balance (deficit), July 1	-	24,760	24,760	-	7,195	19,910	19,910	-
Budgetary fund balance (deficit), June 30	$ -	$ 23,262	$ 25,697	$ 2,435	$ -	$ 19,288	$ 21,418	$ 2,130

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Public Works, Transportation and Commerce Fund				Real Property Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	550	563	13	-	-	-	-
Interest and investment income	-	-	-	-	-	-	10	10
Rents and concessions	-	-	82	82	4,389	21,355	23,581	2,226
Intergovernmental:								
Federal	-	1,075	1,075	-	-	-	-	-
State	-	79	79	-	-	-	-	-
Other	780	1,784	1,784	-	-	-	-	-
Charges for services	9,223	23,615	20,723	(2,892)	-	-	76	76
Other revenues	-	469	334	(135)	-	-	-	-
Total revenues	10,003	27,572	24,640	(2,932)	4,389	21,355	23,667	2,312
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	2,683	15,681	14,444	1,237	-	9	9	-
Human welfare and neighborhood development	6,540	6,463	6,019	444	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	32	32	-	-	-	-	-
General administration and finance	780	164	164	-	4,389	8,312	8,312	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	10,003	22,340	20,659	1,681	4,389	8,321	8,321	-
Excess (deficiency) of revenues over (under) expenditures	-	5,232	3,981	(1,251)	-	13,034	15,346	2,312
Other financing sources (uses):								
Transfers in	-	918	918	-	-	-	-	-
Transfers out	-	(106)	(106)	-	-	(8,824)	(8,824)	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	812	812	-	-	(8,824)	(8,824)	-
Net change in fund balances	-	6,044	4,793	(1,251)	-	4,210	6,522	2,312
Budgetary fund balance (deficit), July 1	-	15,764	15,764	-	-	3,531	3,531	-
Budgetary fund balance (deficit), June 30	$ -	$ 21,808	$ 20,557	$ (1,251)	$ -	$ 7,741	$ 10,053	$ 2,312

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	San Francisco County Transportation Authority Fund				Senior Citizens' Program Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	79,715	79,715	79,556	(159)	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	4,014	4,014	6,212	2,198	-	-	-	-
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	4,105	4,189	4,189	-
State	20,926	24,253	8,905	(15,348)	1,895	1,911	1,911	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Other revenues	2,000	2,000	15,432	13,432	-	-	-	-
Total revenues	106,655	109,982	110,105	123	6,000	6,100	6,100	-
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	162,752	166,078	104,964	61,114	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	6,000	6,102	6,100	2
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	162,752	166,078	104,964	61,114	6,000	6,102	6,100	2
Excess (deficiency) of revenues over (under) expenditures	(56,097)	(56,096)	5,141	61,237	-	(2)	-	2
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Issuance of bonds	-	-	-	-	-	-	-	-
Issuance of loans	22,570	22,570	12,059	(10,511)	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources (uses)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	22,570	22,570	12,059	(10,511)	-	-	-	-
Net change in fund balances	(33,527)	(33,526)	17,200	50,726	-	(2)	-	2
Budgetary fund balance (deficit), July 1	33,527	141,391	141,391	-	-	2	2	-
Budgetary fund balance (deficit), June 30	$ -	$107,865	$158,591	$ 50,726	$ -	$ -	$ 2	$ 2

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	War Memorial Fund				TOTAL			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 106,741	$ 106,741	$ 105,522	$ (1,219)
Business taxes	-	-	-	-	835	835	1,758	923
Other local taxes	9,832	9,832	9,832	-	135,763	133,263	133,104	(159)
Licenses, permits, and franchises	-	-	-	-	8,791	8,791	7,731	(1,060)
Fines, forfeitures, and penalties	-	-	-	-	3,938	4,618	4,815	197
Interest and investment income	-	-	-	-	6,823	13,251	20,370	7,119
Rents and concessions	1,495	1,793	1,957	164	33,875	51,876	48,542	(3,334)
Intergovernmental:								
Federal	-	-	-	-	100,129	170,569	170,492	(77)
State	-	-	-	-	89,225	105,644	90,298	(15,346)
Other	-	-	-	-	780	2,030	2,030	-
Charges for services	227	276	327	51	121,261	152,721	154,166	1,445
Other revenues	-	-	-	-	5,153	65,176	77,342	12,166
Total revenues	11,554	11,901	12,116	215	613,314	815,515	816,170	655
Expenditures:								
Public protection	-	-	-	-	32,818	52,088	52,081	7
Public works, transportation and commerce	-	435	435	-	294,686	366,610	297,281	69,329
Human welfare and neighborhood development	-	-	-	-	160,245	216,425	215,436	989
Community health	-	-	-	-	84,023	88,111	88,111	-
Culture and recreation	11,554	12,193	11,533	660	215,042	209,528	204,147	5,381
General administration and finance	-	-		-	9,534	17,397	17,151	246
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	11,554	12,628	11,968	660	796,348	950,159	874,207	75,952
Excess (deficiency) of revenues over (under) expenditures	-	(727)	148	875	(183,034)	(134,644)	(58,037)	76,607
Other financing sources (uses):								
Transfers in	-	-	-	-	118,052	120,448	120,448	-
Transfers out	-	-	-	-	(5,154)	(24,341)	(24,341)	-
Issuance of bonds	-	-	-	-	-	7,695	7,695	-
Issuance of loans	-	-	-	-	22,570	24,399	13,888	(10,511)
Bond issuance costs	-	-	-	-	-	(8)	(8)	-
Budget reserves and designations	-	-	-	-	(2,243)	(2,133)	-	2,133
Loan repayments and other financing sources (uses)	-	-	-	-	(13,237)	(12)	(12)	-
Total other financing sources (uses)	-	-	-	-	119,988	126,048	117,670	(8,378)
Net change in fund balances	-	(727)	148	875	(63,046)	(8,596)	59,633	68,229
Budgetary fund balance (deficit), July 1	-	10,623	10,623	-	63,046	469,007	469,007	-
Budgetary fund balance (deficit), June 30	$ -	$ 9,896	$10,771	$ 875	$ -	$ 460,411	$ 528,640	$ 68,229

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department Budget and Actual - Budget Basis
Year ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
BUILDING INSPECTION FUND				
Public Works, Transportation and Commerce				
Building Inspection	$ 46,662	$ 47,496	$ 43,412	$ 4,084
Public Works	-	183	183	-
Total Building Inspection Fund	46,662	47,679	43,595	4,084
CHILDREN AND FAMILIES FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency	-	10	10	-
Human Welfare and Neighborhood Development				
Child Support Services	14,731	14,730	14,680	50
Children and Families Commission	20,966	18,221	18,221	-
Mayor's Office	67,004	70,076	69,952	124
	102,701	103,027	102,853	174
Total Children and Families Fund	102,701	103,037	102,863	174
COMMUNITY/NEIGHBORHOOD DEVELOPMENT FUND				
Public Works, Transportation and Commerce				
Business and Economic Development	-	5,144	5,144	-
Municipal Transportation Agency	-	3	3	-
Public Works	-	150	150	-
	-	5,297	5,297	-
Human Welfare and Neighborhood Development				
Mayor's Office	1,172	68,200	68,200	-
Rent Arbitration Board	5,184	5,164	4,795	369
	6,356	73,364	72,995	369
Culture and Recreation				
Recreation and Park Commission	-	30	30	-
General Administration and Finance				
Administrative Services	1,322	727	727	-
City Planning	438	537	537	-
	1,760	1,264	1,264	-
Total Community/Neighborhood Development Fund	8,116	79,955	79,586	369
COMMUNITY HEALTH SERVICES FUND				
Community Health				
Community Health Network	84,023	86,515	86,515	-
Total Community Health Services Fund	84,023	86,515	86,515	-
CONVENTION FACILITIES FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	5,900	5,394	5,394	-
Culture and Recreation				
Administrative Services - Convention Facilities	72,213	72,047	70,010	2,037
Arts Commission	-	2	2	-
	72,213	72,049	70,012	2,037
Total Convention Facilities Fund	78,113	77,443	75,406	2,037

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
COURT'S FUND				
Public Protection				
Trial Courts	4,796	279	272	7
Public Works, Transportation and Commerce				
Public Works	-	47	47	-
Total Court's Fund	4,796	326	319	7
CULTURE AND RECREATION FUND				
Public Works, Transportation and Commerce				
Mayor's Office	671	191	191	-
Public Works	-	50	50	-
	671	241	241	-
Culture and Recreation				
Arts Commission	1,040	1,383	1,383	-
Asian Art Museum	873	571	571	-
Fine Arts Museums	4,775	3,502	3,502	-
Recreation and Park Commission	3,124	1,736	1,541	195
	9,812	7,192	6,997	195
Total Culture and Recreation Fund	10,483	7,433	7,238	195
ENVIRONMENTAL PROTECTION FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	5,724	6,037	6,037	-
Total Environmental Protection Fund	5,724	6,037	6,037	-
GASOLINE TAX FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency	-	91	91	-
Public Works	30,525	37,705	36,838	867
Total Gasoline Tax Fund	30,525	37,796	36,929	867
GENERAL SERVICES FUND				
Public Protection				
Mayor's Office	-	10	10	-
Trial Courts	280	279	279	-
	280	289	289	-
Public Works, Transportation and Commerce				
Telecommunications and Information Services	2,415	1,400	1,400	-
Culture and Recreation				
Fine Arts Museum	-	680	680	-
General Administration and Finance				
Administrative Services	-	5,494	5,494	-
Assessor/Recorder	2,526	1,559	1,514	45
Board of Supervisors	-	94	94	-
Human Resources	-	201	-	201
	2,526	7,348	7,102	246
Total General Services Fund	5,221	9,717	9,471	246

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GIFT FUND				
Public Protection				
Police Department	-	10	10	-
Public Defender	-	91	91	-
	-	101	101	-
Public Works, Transportation and Commerce				
Building Inspection	-	1	1	-
Public Works	-	264	264	-
	-	265	265	-
Human Welfare and Neighborhood Development				
Mayor's Office	-	184	184	-
Social Services	300	404	404	-
	300	588	588	-
Community Health				
Community Health Network	-	430	430	-
Culture and Recreation				
Arts Commission	-	30	30	-
Fine Arts Museums	-	115	115	-
Mayor's Office	-	46	46	-
Public Library	85	338	338	-
Recreation and Park Commission	280	90	90	-
	365	619	619	-
General Administration and Finance				
Administrative Services	-	105	105	-
Mayor's Office	-	1	1	-
Treasurer/Tax Collector	80	46	46	-
	80	152	152	-
Total Gift Fund	745	2,155	2,155	-
GOLF FUND				
Culture and Recreation				
Recreation and Park Commission	11,277	11,132	10,821	311
Total Golf Fund	11,277	11,132	10,821	311
HUMAN WELFARE FUND				
Human Welfare and Neighborhood Development				
Commission on Status of Women	210	300	300	-
Social Services	26,513	15,073	15,073	-
	26,723	15,373	15,373	-
Total Human Welfare Fund	26,723	15,373	15,373	-

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OPEN SPACE AND PARK FUND				
Public Works, Transportation and Commerce				
Public Utilities Commission	-	24	24	-
Public Works	-	857	857	-
	-	881	881	-
Culture and Recreation				
Arts Commission	-	38	38	-
Recreation and Park Commission	34,054	33,387	32,099	1,288
	34,054	33,425	32,137	1,288
Total Open Space and Park Fund	34,054	34,306	33,018	1,288
PUBLIC LIBRARY FUND				
Public Works, Transportation and Commerce				
Public Works	-	3,806	3,806	-
Telecommunications and Information Services	-	73	73	-
	-	3,879	3,879	-
Culture and Recreation				
Public Library	75,767	72,177	71,287	890
Total Public Library Fund	75,767	76,056	75,166	890
PUBLIC PROTECTION FUND				
Public Protection				
District Attorney	5,411	5,835	5,835	-
Fire Department	-	1,944	1,944	-
Mayor's Office	943	5,570	5,570	-
Police Commission	18,107	30,881	30,881	-
Public Defender	100	100	100	-
Sheriff	2,880	6,546	6,546	-
Trial Courts	301	543	543	-
	27,742	51,419	51,419	-
Public Works, Transportation and Commerce				
Emergency Communications Department	48,978	86,912	84,885	2,027
Human Welfare and Neighborhood Development				
Commission on Status of Women	-	77	77	-
Community Health				
Community Health	-	1,166	1,166	-
General Administration and Finance				
City Attorney	-	156	156	-
Total Public Protection Fund	76,720	139,730	137,703	2,027

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND				
Public Works, Transportation and Commerce				
Public Works	2,683	15,681	14,444	1,237
Human Welfare and Neighborhood Development				
Mayor's Office	6,540	6,463	6,019	444
Culture and Recreation				
Arts Commission	-	32	32	-
General Administration and Finance				
City Planning	780	164	164	-
Total Public Works, Transportation and Commerce Fund	10,003	22,340	20,659	1,681
REAL PROPERTY FUND				
Public Works, Transportation and Commerce				
Public Works	-	9	9	-
General Administration and Finance				
Administrative Services	4,389	8,312	8,312	-
Total Real Property Fund	4,389	8,321	8,321	-
SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND				
Public Works, Transportation and Commerce				
Board of Supervisors	162,752	166,078	104,964	61,114
Total SF County Transportation Authority Fund	162,752	166,078	104,964	61,114
SENIOR CITIZENS' PROGRAM FUND				
Human Welfare and Neighborhood Development				
Social Services Department	6,000	6,102	6,100	2
Total Senior Citizens' Program Fund	6,000	6,102	6,100	2
WAR MEMORIAL FUND				
Public Works, Transportation and Commerce				
Public Works	-	435	435	-
Culture and Recreation				
War Memorial	11,554	12,193	11,533	660
Total War Memorial Fund	11,554	12,628	11,968	660
Total Special Revenue Funds With Legally Adopted Budgets	$ 796,348	$ 950,159	$ 874,207	$ 75,952

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Debt Service
June 30, 2008
(In Thousands)

	General Obligation Bond	Certificates of Participation	Other Bond Funds	Total
ASSETS				
Deposits and investments with City Treasury	$ 34,616	$ -	$ 12	$ 34,628
Deposits and investments outside City Treasury	-	15,028	-	15,028
Receivables:				
Property taxes and penalties	6,167	-	-	6,167
Interest and other	509	23	-	532
Total assets	$ 41,292	$ 15,051	$ 12	$ 56,355
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 321	$ -	$ -	$ 321
Deferred tax, grant and subvention revenues	6,069	-	-	6,069
Deferred credits and other liabilities	3,019	-	-	3,019
Total liabilities	9,409	-	-	9,409
Fund balances:				
Reserved for debt service	31,883	15,051	12	46,946
Total fund balances	31,883	15,051	12	46,946
Total liabilities and fund balances	$ 41,292	$ 15,051	$ 12	$ 56,355

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Debt Service
Year ended June 30, 2008
(In Thousands)

	General Obligation Bond	Certificates of Participation	Other Bond Funds	Total
Revenues:				
Property taxes	$ 134,353	$ -	$ -	$ 134,353
Interest and investment income	2,638	832	-	3,470
Rents and concessions	-	789	-	789
Intergovernmental:				
State	685	-	-	685
Total revenues	137,676	1,621	-	139,297
Expenditures:				
Current:				
Debt service:				
Principal retirement	89,812	8,420	7,473	105,705
Interest and fiscal charges	52,237	17,986	1,396	71,619
Bond issuance costs	589	-	-	589
Total expenditures	142,638	26,406	8,869	177,913
Excess (deficiency) of revenues over (under) expenditures	(4,962)	(24,785)	(8,869)	(38,616)
Other financing sources (uses):				
Transfers in	951	24,685	8,840	34,476
Issuance of bonds and loans				
Face value of bonds issued	271,395	-	-	271,395
Premium on issuance of bonds	12,744	-	-	12,744
Payment to refunded bond escrow agent	(283,494)	-	-	(283,494)
Total other financing sources, net	1,596	24,685	8,840	35,121
Net change in fund balances	(3,366)	(100)	(29)	(3,495)
Fund balances at beginning of year	35,249	15,151	41	50,441
Fund balances at end of year	$ 31,883	$ 15,051	$ 12	$ 46,946

CITY AND COUNTY OF SAN FRANCISCO
DEBT SERVICE FUNDS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis
Year ended June 30, 2008

(In Thousands)

	General Obligation Bond Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 144,506	$ 144,506	$ 134,353	$ (10,153)
Interest and investment income	-	-	2,760	2,760
Intergovernmental:				-
State	750	750	685	(65)
Total revenues	145,256	145,256	137,798	(7,458)
Expenditures:				
Debt service:				
Principal retirement	145,256	89,811	89,812	(1)
Interest and fiscal charges	-	53,355	52,237	1,118
Bond issuance costs	-	333	276	57
Total expenditures	145,256	143,499	142,325	1,174
Excess (deficiency) of revenues over (under) expenditures	-	1,757	(4,527)	(6,284)
Other financing sources (uses):				
Transfers in	-	951	951	-
Issuance of bonds and loans				
Face value of bonds issued	-	2,750	2,750	-
Loan repayments and other financing uses	-	(2,417)	(2,417)	-
Total other financing sources (uses)	-	1,284	1,284	-
Net change in fund balances	-	3,041	(3,243)	(6,284)
Budgetary fund balance, July 1	-	42,972	42,972	-
Budgetary fund balance, June 30	$ -	$ 46,013	$ 39,729	$ (6,284)

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CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Capital Projects

June 30, 2008

(In Thousands)

	City Facilities Improvement	Earthquake Safety Improvement	Fire Protection Systems Improvement	Moscone Convention Center
ASSETS				
Deposits and investments with City Treasury	$ 105,988	$ 1,021	$ 11,820	$ 6,750
Deposits and investments outside City Treasury	24,721	-	-	-
Receivables:				
Federal and state grants and subventions	-	-	-	-
Charges for services	106	-	-	-
Interest and other	598	4	57	57
Due from other funds	-	-	-	-
Due from component unit	-	-	-	-
Deferred charges and other assets	-	-	-	39
Total assets	$ 131,413	$ 1,025	$ 11,877	$ 6,846
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 19,512	$ 14	$ 24	$ -
Accrued payroll	108	16	2	-
Deferred tax, grant and subvention revenues	-	-	-	-
Due to other funds	214	-	-	10,700
Deferred credits and other liabilities	14	24	-	-
Total liabilities	19,848	54	26	10,700
Fund balances:				
Reserved for assets not available for appropriation	260	-	-	39
Reserved for encumbrances	52,085	11	56	93
Reserved for appropriation carryforward	24,275	6	1,883	18
Unreserved	34,945	954	9,912	(4,004)
Total fund balances	111,565	971	11,851	(3,854)
Total liabilities and fund balances	$ 131,413	$ 1,025	$ 11,877	$ 6,846

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Capital Projects *(Continued)*

June 30, 2008

(In Thousands)

	Public Library Improvement	Recreation and Park Projects	Street Improvement	Total
ASSETS				
Deposits and investments with City Treasury	$ 48,196	$ 4,462	$ 22,813	$ 201,050
Deposits and investments outside City Treasury	-	-	-	24,721
Receivables:				
Federal and state grants and subventions	3,193	4,968	5,386	13,547
Charges for services	-	-	113	219
Interest and other	194	46	71	1,027
Due from other funds	-	10,680	287	10,967
Due from component unit	-	-	958	958
Deferred charges and other assets	-	-	-	39
Total assets	$ 51,583	$ 20,156	$ 29,628	$ 252,528
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2,416	$ 5,237	$ 4,364	$ 31,567
Accrued payroll	242	191	593	1,152
Deferred tax, grant and subvention revenues	3,193	2,179	2,203	7,575
Due to other funds	-	-	-	10,914
Deferred credits and other liabilities	96	104	19,332	19,570
Total liabilities	5,947	7,711	26,492	70,778
Fund balances:				
Reserved for assets not available for appropriation	-	-	958	1,257
Reserved for encumbrances	11,979	22,815	10,140	97,179
Reserved for appropriation carryforward	39,014	-	15,992	81,188
Unreserved	(5,357)	(10,370)	(23,954)	2,126
Total fund balances	45,636	12,445	3,136	181,750
Total liabilities and fund balances	$ 51,583	$ 20,156	$ 29,628	$ 252,528

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Capital Projects
Year ended June 30, 2008
(In Thousands)

	City Facilities Improve-ment	Earthquake Safety Improve-ment	Fire Protection Systems Improve-ment	Moscone Convention Center
Revenues:				
Interest and investment income	$ 8,101	$ 38	$ 428	$ 436
Rents and concessions	-	-	-	-
Intergovernmental:				
Federal	24	443	-	-
State	-	-	-	-
Other	-	-	-	-
Charges for services	-	-	-	-
Other	-	-	-	-
Total revenues	8,125	481	428	436
Expenditures:				
Debt service:				
Interest and fiscal charges	6	-	-	-
Bond issuance costs	110	-	-	-
Capital outlay	32,750	1,341	118	-
Total expenditures	32,866	1,341	118	-
Excess (deficiency) of revenues over (under) expenditures	(24,741)	(860)	310	436
Other financing sources (uses):				
Transfers in	3,554	-	-	-
Transfers out	(106,647)	-	-	-
Issuance of bonds and loans				
Face value of bonds issued	-	-	-	-
Premium on issuance of bonds	-	-	-	-
Other financing sources-capital leases	-	-	-	-
Total other financing sources, net	(103,093)	-	-	-
Net change in fund balances	(127,834)	(860)	310	436
Fund balances at beginning of year	239,399	1,831	11,541	(4,290)
Fund balances at end of year	$ 111,565	$ 971	$ 11,851	$ (3,854)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Capital Projects *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Public Library Improvement	Recreation and Park Projects	Street Improvement	Total
Revenues:				
Interest and investment income	$ 986	$ 858	$ 5	$ 10,852
Rents and concessions	55	-	654	709
Intergovernmental:				
Federal	-	1,448	6,681	8,596
State	1,732	1,824	736	4,292
Other	-	-	13,876	13,876
Charges for services	-	-	-	-
Other	-	645	116	761
Total revenues	2,773	4,775	22,068	39,086
Expenditures:				
Debt service:				
Interest and fiscal charges	-	-	-	6
Bond issuance costs	383	-	-	493
Capital outlay	17,735	49,070	32,141	133,155
Total expenditures	18,118	49,070	32,141	133,654
Excess (deficiency) of revenues over (under) expenditures	(15,345)	(44,295)	(10,073)	(94,568)
Other financing sources (uses):				
Transfers in	-	3,106	11,294	17,954
Transfers out	(327)	-	-	(106,974)
Issuance of bonds and loans				
Face value of bonds issued	31,065	-	-	31,065
Premium on issuance of bonds	327	-	-	327
Other financing sources-capital leases	-	14,943	-	14,943
Total other financing sources, net	31,065	18,049	11,294	(42,685)
Net change in fund balances	15,720	(26,246)	1,221	(137,253)
Fund balances at beginning of year	29,916	38,691	1,915	319,003
Fund balances at end of year	$ 45,636	$ 12,445	$ 3,136	$ 181,750

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

Central Shops Fund -- Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

Finance Corporation -- Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

Reproduction Fund -- Accounts for printing, design and mail services required by various City departments and agencies.

Telecommunications and Information Fund -- Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city personnel. It also accounts for the related billings to various departments for specific services performed and operating support from the General Fund.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Net Assets
Internal Service Funds
June 30, 2008
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom-munications & Information Fund	Total
Assets					
Current assets:					
Deposits and investments with City Treasury	$ 2,613	$ 302	$ 1,105	$ 7,612	$ 11,632
Receivables:					
Charges for services	146	-	-	-	146
Interest and other	-	692	79	577	1,348
Due from other funds	-	91	-	-	91 (1)
Capital leases receivable	-	26,999	-	-	26,999
Total current assets	2,759	28,084	1,184	8,189	40,216
Noncurrent assets:					
Restricted assets:					
Deposits and investments outside City Treasury	-	95,727	-	-	95,727
Capital leases receivable	-	257,699	-	-	257,699
Capital assets:					
Facilities and equipment, net of depreciation	1,429	-	285	3,271	4,985
Deferred charges and other assets	-	4,341	-	6	4,347
Total noncurrent assets	1,429	262,040	285	3,277	267,031
Total assets	$ 4,188	$ 385,851	$ 1,469	$ 11,466	$ 402,974
Liabilities					
Current liabilities:					
Accounts payable	$ 2,197	$ 133	$ 353	$ 4,904	$ 7,587
Accrued payroll	422	-	94	1,435	1,951
Accrued vacation and sick leave pay	449	-	-	1,648	2,097
Accrued workers' compensation	-	-	-	166	166
Bonds, loans, capital leases, and other payables	-	23,645	59	71	23,775
Accrued interest payable	-	2,704	-	-	2,704
Due to other funds	91	11,194	-	-	11,285 (1)
Deferred credits and other liabilities	-	88,351	-	1,003	89,354
Total current liabilities	3,159	126,027	506	9,227	138,919
Noncurrent liabilities:					
Accrued vacation and sick leave pay	373	-	-	1,539	1,912
Accrued workers' compensation	-	-	-	888	888
Other postemployment benefits obligation	702	-	-	3,445	4,147
Bonds, loans, capital leases, and other payables	-	259,824	125	-	259,949
Total noncurrent liabilities	1,075	259,824	125	5,872	266,896
Total liabilities	4,234	385,851	631	15,099	405,815
Net Assets					
Invested in capital assets, net of related debt	1,429	-	101	3,200	4,730
Unrestricted (deficit)	(1,475)	-	737	(6,833)	(7,571)
Total net assets (deficit)	$ (46)	$ -	$ 838	$ (3,633)	$ (2,841)

Notes:

(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Assets - Proprietary Funds on page 34.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
Year ended June 30, 2008
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom-munications & Information Fund	Total
Operating revenues:					
Charges for services	$ 25,939	$ -	$ 7,364	$ 78,506	$ 111,809
Rent and concessions	-	-	-	14	14
Total operating revenues	25,939	-	7,364	78,520	111,823
Operating expenses:					
Personal services	11,562	-	2,248	38,431	52,241
Contractual services	2,495	-	3,870	31,622	37,987
Materials and supplies	10,312	-	426	6,045	16,783
Depreciation and amortization	596	287	59	1,442	2,384
General and administrative	88	-	12	414	514
Services provided by other departments	1,373	-	505	4,011	5,889
Other	-	-	197	445	642
Total operating expenses	26,426	287	7,317	82,410	116,440
Operating income (loss)	(487)	(287)	47	(3,890)	(4,617)
Nonoperating revenues (expenses):					
Interest and investment income	-	11,183	-	-	11,183
Interest expense	(139)	(10,896)	(42)	(141)	(11,218)
Other, net	-	-	-	25	25
Total nonoperating revenues (expenses)	(139)	287	(42)	(116)	(10)
Income (loss) before transfers	(626)	-	5	(4,006)	(4,627)
Transfers in	200	-	42	1,819	2,061
Change in net assets	(426)	-	47	(2,187)	(2,566)
Total net assets (deficit) - beginning	380	-	791	(1,446)	(275)
Total net assets (deficit) - ending	$ (46)	$ -	$ 838	$ (3,633)	$ (2,841)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Cash Flows
Internal Service Funds
Year ended June 30, 2008
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
Cash flows from operating activities:					
Cash received from customers	$ 25,793	$ 31,003	$ 7,264	$ 78,560	$ 142,620
Cash paid to employees for services	(10,850)	-	(2,239)	(34,355)	(47,444)
Cash paid to suppliers for goods and services	(13,102)	(18,475)	(5,023)	(45,703)	(82,303)
Net cash provided by (used in) operating activities	1,841	12,528	2	(1,498)	12,873
Cash flows from noncapital financing activities:					
Transfers in	200	-	42	1,819	2,061
Net cash provided by noncapital financing activities	200	-	42	1,819	2,061
Cash flows from capital and related financing activities:					
Bond sale proceeds	-	54,852	-	-	54,852
Acquisition of capital assets	(25)	-	-	(1,282)	(1,307)
Retirement of capital lease obligation	-	(21,380)	(57)	(130)	(21,567)
Bond issue costs paid	-	(1,426)	-	-	(1,426)
Interest paid on long term debt	-	(9,939)	-	-	(9,939)
Net cash provided by (used in) capital financing activities	(25)	22,107	(57)	(1,412)	20,613
Cash flows from investing activities:					
Purchases of investments with trustees	-	(159,000)	-	-	(159,000)
Proceeds from sale of investments with trustees	-	130,765	-	-	130,765
Interest income received	-	2,978	-	-	2,978
Other investing activities	(139)	-	(42)	(141)	(322)
Net cash used in investing activities	(139)	(25,257)	(42)	(141)	(25,579)
Increase (decrease) in cash and cash equivalents	1,877	9,378	(55)	(1,232)	9,968
Cash and cash equivalents - beginning of year	736	23,349	1,160	8,844	34,089
Cash and cash equivalents - end of year	$ 2,613	$ 32,727	$ 1,105	$ 7,612	$ 44,057
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (487)	$ (287)	$ 47	$ (3,890)	$ (4,617)
Adjustments for non-cash activities:					
Depreciation and amortization	596	287	59	1,442	2,384
Other	-	-	-	26	26
Changes in assets/liabilities:					
Receivables, net	(146)	21,380	-	227	21,461
Due from other funds	-	-	(79)	-	(79)
Deferred charges and other assets	-	-	-	(6)	(6)
Accounts payable	1,142	-	(12)	(3,142)	(2,012)
Accrued payroll	37	-	8	134	179
Accrued vacation and sick leave pay	(27)	-	-	198	171
Accrued workers' compensation	-	-	-	300	300
Other postemployment benefits obligation	702	-	-	3,445	4,147
Due to other funds	24	-	-	(25)	(1)
Deferred credits and other liabilities	-	(8,852)	(21)	(207)	(9,080)
Total adjustments	2,328	12,815	(45)	2,392	17,490
Net cash provided by (used in) operating activities	$ 1,841	$ 12,528	$ 2	$ (1,498)	$ 12,873
Reconciliation of cash and cash equivalents to the combining statement of net assets:					
Deposits and investments with City Treasury:					
Unrestricted	$ 2,613	$ 302	$ 1,105	$ 7,612	$ 11,632
Deposits and investments outside City Treasury:					
Restricted	-	95,727	-	-	95,727
Total deposits and investments	2,613	96,029	1,105	7,612	107,359
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	-	(63,302)	-	-	(63,302)
Cash and cash equivalents at end of year on combining statement of cash flows	$ 2,613	$ 32,727	$ 1,105	$ 7,612	$ 44,057

FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units.

Trust Funds

Employees' Retirement System -- Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

Health Service System -- Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Assistance Program Fund -- Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

Deposits Fund -- Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

Payroll Deduction Fund – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

State Revenue Collection Fund -- Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

Tax Collection Fund -- Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

Transit Fund -- Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

Other Agency Funds -- Accounts for monies held as agent for a variety of purposes.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Fiduciary Net Assets

Fiduciary Funds
Pension and Other Employee Benefit Trust Funds

June 30, 2008

(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	
	Employees' Retirement System	Health Service System	Total
ASSETS			
Deposits and investments with City Treasury	$ 135	$ 53,578	$ 53,713
Deposits and investments outside City Treasury:			
Cash and deposits	77,419	-	77,419
Short term bills and notes	879,724	-	879,724
Debt securities	4,540,996	-	4,540,996
Equity securities	7,365,206	-	7,365,206
Real estate	1,788,561	-	1,788,561
Venture capital	1,686,927	-	1,686,927
Receivables:			
Employer and employee contributions	13,461	18,674	32,135
Brokers, general partners and others	330,883	-	330,883
Interest and other	55,886	7,024	62,910
Invested securities lending collateral	1,567,442	-	1,567,442
Total assets	18,306,640	79,276	18,385,916
Liabilities			
Accounts payable	22,716	9,551	32,267
Estimated claims payable	-	10,916	10,916
Obligations under fixed coupon dollar reverse repurchase agreements	322,063	-	322,063
Foreign currency contracts, net	504	-	504
Payable to brokers	561,394	-	561,394
Securities lending collateral	1,567,442	-	1,567,442
Deferred credits and other liabilities	-	35,252	35,252
Total liabilities	2,474,119	55,719	2,529,838
Net Assets			
Held in trust for pension benefits and other purposes	$ 15,832,521	$ 23,557	$ 15,856,078

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, 2008

(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	
	Employees' Retirement System	Health Service System	Total
Additions:			
Employees' contributions	$ 185,123	$ 73,258	$ 258,381
Employer contributions	134,060	485,850	619,910
Total contributions	319,183	559,108	878,291
Investment income:			
Interest	254,737	1,593	256,330
Dividends	183,940	-	183,940
Net decrease in fair value of investments	(1,103,894)	(186)	(1,104,080)
Securities lending income	54,550	-	54,550
Fixed coupon dollar reverse repurchase agreement income	8,638	-	8,638
Total investment income	(602,029)	1,407	(600,622)
Less investment expenses:			
Securities lending borrower rebates and expenses	(69,352)	-	(69,352)
Fixed coupon dollar reverse repurchase finance charges and expenses	(12,972)	-	(12,972)
Other expenses	(51,079)	-	(51,079)
Total investment expenses	(133,403)	-	(133,403)
Total additions, net	(416,249)	560,515	144,266
Deductions:			
Benefit payments	682,230	580,858	1,263,088
Refunds of contributions	8,449	-	8,449
Administrative expenses	12,594	-	12,594
Total deductions	703,273	580,858	1,284,131
Change in net assets	(1,119,522)	(20,343)	(1,139,865)
Net assets at beginning of year	16,952,043	43,900	16,995,943
Net assets at end of year	$ 15,832,521	$ 23,557	$ 15,856,078

CITY AND COUNTY OF SAN FRANCISCO
FIDUCIARY FUNDS
Combining Statement of Changes in Assets and Liabilities - Agency Funds
Year ended June 30, 2008

(In Thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assistance Program Fund				
ASSETS				
Deposits and investments with City Treasury	$ 64	$ 7,338	$ 7,097	$ 305
Receivables:				
Interest and other	1	5	6	-
Total assets	$ 65	$ 7,343	$ 7,103	$ 305
LIABILITIES				
Accounts payable	$ 19	$ 678	$ 681	$ 16
Agency obligations	46	7,277	7,034	289
Total liabilities	$ 65	$ 7,955	$ 7,715	$ 305
Deposits Fund				
ASSETS				
Deposits and investments with City Treasury	$ 14,334	$ 44,812	$ 47,466	$ 11,680
Deposits and investments outside City Treasury	2	7	2	7
Receivables:				
Interest and other	41	51	58	34
Deferred charges and other assets	26,658	2,100	19,859	8,899
Total assets	$ 41,035	$ 46,970	$ 67,385	$ 20,620
LIABILITIES				
Accounts payable	$ 876	$ 9,632	$ 10,101	$ 407
Agency obligations	40,159	24,217	44,163	20,213
Total liabilities	$ 41,035	$ 33,849	$ 54,264	$ 20,620
Payroll Deduction Fund				
ASSETS				
Deposits and investments with City Treasury	$ 7,878	$ 682	$ -	$ 8,560
Receivables:				
Employer and employee contributions	40,602	4,075	-	44,677
Total assets	$ 48,480	$ 4,757	$ -	$ 53,237
LIABILITIES				
Accounts payable	$ 41,771	$ -	$ 29,034	$ 12,737
Agency obligations	6,709	34,104	313	40,500
Total liabilities	$ 48,480	$ 34,104	$ 29,347	$ 53,237

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
FIDUCIARY FUNDS
Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*
Year ended June 30, 2008

(In Thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
State Revenue Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 499	$ 2,335	$ 1,957	$ 877
Deposits and investments outside City Treasury	1	1	1	1
Total assets	$ 500	$ 2,336	$ 1,958	$ 878
LIABILITIES				
Accounts payable	$ 119	$ 2,161	$ 1,937	$ 343
Agency obligations	381	2,332	2,178	535
Total liabilities	$ 500	$ 4,493	$ 4,115	$ 878
Tax Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 13,403	$ 2,292,189	$ 2,280,760	$ 24,832
Deposits and investments outside City Treasury	-	24	-	24
Receivables:				
Interest and other	143,207	143,819	143,201	143,825
Total assets	$ 156,610	$ 2,436,032	$ 2,423,961	$ 168,681
LIABILITIES				
Accounts payable	$ 2,487	$ 45,510	$ 46,246	$ 1,751
Agency obligations	154,123	1,704,099	1,691,292	166,930
Total liabilities	$ 156,610	$ 1,749,609	$ 1,737,538	$ 168,681
Transit Fund				
ASSETS				
Deposits and investments with City Treasury	$ 1,673	$ 55,609	$ 55,215	$ 2,067
Receivables:				
Interest and other	31	151	171	11
Total assets	$ 1,704	$ 55,760	$ 55,386	$ 2,078
LIABILITIES				
Accounts payable	$ -	$ 18,963	$ 18,761	$ 202
Agency obligations	1,704	37,787	37,615	1,876
Total liabilities	$ 1,704	$ 56,750	$ 56,376	$ 2,078

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
FIDUCIARY FUNDS
Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*
Year ended June 30, 2008
(In Thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Other Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 23,043	$ 136,162	$ 123,161	$ 36,044
Deposits and investments outside City Treasury	11	12	11	12
Receivables:				
Interest and other	346	166	488	24
Total assets	$ 23,400	$ 136,340	$ 123,660	$ 36,080
LIABILITIES				
Accounts payable	$ 6,833	$ 127,204	$ 112,483	$ 21,554
Agency obligations	16,567	135,361	137,402	14,526
Total liabilities	$ 23,400	$ 262,565	$ 249,885	$ 36,080
Total Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 60,894	$ 2,539,127	$ 2,515,656	$ 84,365
Deposits and investments outside City Treasury	14	44	14	44
Receivables:				
Employer and employee contributions	40,602	4,075	-	44,677
Interest and other	143,626	144,192	143,924	143,894
Deferred charges and other assets	26,658	2,100	19,859	8,899
Total assets	$ 271,794	$ 2,689,538	$ 2,679,453	$ 281,879
LIABILITIES				
Accounts payable	$ 52,105	$ 204,148	$ 219,243	$ 37,010
Agency obligations	219,689	1,945,177	1,919,997	244,869
Total liabilities	$ 271,794	$ 2,149,325	$ 2,139,240	$ 281,879

Statistical Section

SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

CITY AND COUNTY OF SAN FRANCISCO

NET ASSETS BY COMPONENT

Last Eight Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year							
	2001 (1)	2002 (2)	2003 (3)	2004	2005	2006	2007	2008
Governmental activities								
Invested in capital assets, net of related debt	$ 779,698	$ 887,667	$ 983,834	$ 1,096,834	$ 1,159,696	$ 1,438,010	$ 1,454,614	$ 1,436,842
Restricted for:								
Cash and emergencies requirements by Charter (4)	97,491	93,293	59,337	55,139	-	-	-	-
Reserve for rainy day	-	-	-	-	48,139	121,976	133,622	117,792
Debt service	10,855	12,135	7,795	9,996	46,575	53,076	28,310	23,130
Capital projects	118,549	115,052	86,912	48,313	25,101	10,589	19,128	-
Community development	181,264	135,308	158,591	163,875	208,532	71,207	63,043	95,136
Transportation Authority activities	162,037	142,740	149,070	135,466	75,282	23,727	10,390	1,693
Other purposes	153,838	219,351	133,233	122,265	138,224	148,071	176,350	172,360
Unrestricted (deficit)	(45,402)	(130,525)	(265,950)	(325,147)	(200,467)	(72,038)	(14,446)	(261,897)
Total governmental activities net assets	$ 1,458,330	$ 1,475,021	$ 1,312,822	$ 1,306,741	$ 1,501,082	$ 1,794,618	$ 1,871,011	$ 1,585,056
Business-type activities								
Invested in capital assets, net of related debt	$ 2,970,198	$ 3,115,392	$ 3,273,449	$ 3,416,154	$ 3,391,450	$ 3,438,397	$ 3,795,006	$ 3,935,008
Restricted for:								
Debt service	276,392	334,747	273,242	242,537	202,006	256,055	249,656	282,187
Capital projects	189,103	141,154	147,693	128,387	161,231	148,957	75,771	111,463
Other purposes	112,335	70,118	61,616	61,241	66,753	32,354	23,709	28,254
Unrestricted	578,675	568,599	542,813	464,658	446,039	536,670	567,122	491,437
Total business-type activities net assets	$ 4,126,703	$ 4,230,010	$ 4,298,813	$ 4,312,977	$ 4,267,479	$ 4,412,433	$ 4,711,264	$ 4,848,349
Primary government								
Invested in capital assets, net of related debt	$ 3,749,896	$ 4,003,059	$ 4,257,283	$ 4,512,988	$ 4,551,146	$ 4,876,407	$ 5,249,620	$ 5,371,850
Restricted for:								
Cash and emergencies requirements by Charter	97,491	93,293	59,337	55,139	-	-	-	-
Reserve for rainy day	-	-	-	-	48,139	121,976	133,622	117,792
Debt service	287,247	346,882	281,037	252,533	248,581	309,131	277,966	305,317
Capital projects	307,652	256,206	234,605	176,700	186,332	159,546	94,899	111,463
Community development	181,264	135,308	158,591	163,875	208,532	71,207	63,043	95,136
Transportation Authority activities	162,037	142,740	149,070	135,466	75,282	23,727	10,390	1,693
Other purposes	266,173	289,469	194,849	183,506	204,977	180,425	200,059	200,614
Unrestricted	533,273	438,074	276,863	139,511	245,572	464,632	552,676	229,540
Total primary activities net assets	$ 5,585,033	$ 5,705,031	$ 5,611,635	$ 5,619,718	$ 5,768,561	$ 6,207,051	$ 6,582,275	$ 6,433,405

Notes:

(1) Trend data is only available for the last eight fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.

(4) The City's Charter was amended in November 2003 and replaced the reserve for cash and emergencies requirements by Charter with the reserve for rainy day.

Statistical Section

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources:
Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in 2001; schedules presenting government-wide data include information beginning in that year.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET ASSETS

Last Eight Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year							
	2001 (1)	2002 (2)	2003 (3)	2004	2005	2006	2007	2008
Expenses								
Governmental activities:								
Public protection	$ 699,472	$ 717,552	$ 778,710	$ 727,580	$ 738,688	$ 780,642	$ 861,689	$ 1,020,457
Public works, transportation and commerce	309,171	317,778	287,910	169,179	213,335	272,397	309,095	342,411
Human welfare and neighborhood development	523,827	586,188	626,306	651,250	619,753	858,396	751,034	848,195
Community health	457,500	493,856	542,480	517,066	503,259	478,844	516,321	567,410
Culture and recreation	229,721	246,620	242,398	232,187	256,336	244,423	290,547	347,433
General administration and finance	107,318	156,770	186,144	183,258	152,850	167,490	194,653	250,295
General City responsibilities	109,804	55,551	53,026	73,530	59,024	49,054	67,948	80,887
Unallocated Interest on long-term debt	73,588	77,335	77,827	86,131	89,690	94,923	94,060	97,694
Total governmental activities expenses	2,510,401	2,651,650	2,794,801	2,640,181	2,632,935	2,946,169	3,085,347	3,554,782
Business-type activities:								
Airport	529,002	599,335	641,036	618,301	628,445	633,102	624,832	651,581
Transportation	468,753	528,725	628,180	660,650	711,733	695,593	726,053	830,411
Port	47,587	58,694	61,074	61,185	54,897	55,329	61,937	67,495
Water	145,858	165,362	186,579	206,211	197,848	213,584	236,824	252,802
Power	107,000	113,754	95,427	121,629	116,683	119,146	95,020	109,436
Hospitals	513,486	525,045	561,673	562,188	598,160	646,149	714,349	812,399
Sewer	149,687	159,896	153,845	150,586	160,650	160,701	168,954	182,712
Garages	34,155	32,274	-	-	-	-	-	-
Market	-	-	894	949	1,055	1,035	1,061	1,052
Total business-type activities expenses	1,995,528	2,183,085	2,328,708	2,381,699	2,469,471	2,524,639	2,629,030	2,907,888
Total primary government expenses	$ 4,505,929	$ 4,834,735	$ 5,123,509	$ 5,021,880	$ 5,102,406	$ 5,470,808	$ 5,714,377	$ 6,462,670
Program Revenues								
Governmental activities:								
Charges for services:								
Public protection	$ 43,051	$ 42,254	$ 44,291	$ 40,349	$ 54,805	$ 51,874	$ 58,979	$ 66,343
Public works, transportation and commerce	97,432	102,576	84,057	83,176	95,081	113,861	111,364	115,939
Human welfare and neighborhood development	12,742	20,292	26,349	23,931	21,375	29,181	56,367	108,956
Community health	29,999	36,176	41,906	38,933	44,850	52,183	50,266	52,455
Culture and recreation	57,191	47,116	44,629	53,369	64,614	64,720	65,407	70,576
General administration and finance	49,977	53,434	36,525	43,585	41,348	55,799	10,502	20,376
General City responsibilities	54,329	47,050	41,123	59,609	28,956	31,647	29,604	26,980
Operating Grants and Contributions	763,863	781,767	809,670	823,784	834,607	859,919	927,256	926,089
Capital Grants and Contributions	22,619	58,394	46,029	39,209	55,435	248,329	50,479	36,079
Total Governmental activities program revenues	1,131,203	1,189,059	1,174,579	1,205,945	1,241,071	1,507,513	1,360,224	1,423,793
Business-type activities:								
Charges for services:								
Airport	414,880	465,176	500,116	486,132	477,314	455,342	503,914	535,771
Transportation	113,196	107,455	155,656	186,390	187,913	210,692	222,115	257,341
Port	50,345	50,494	54,467	56,702	57,519	58,588	61,193	64,498
Water	149,917	147,216	170,253	168,260	184,835	201,833	216,531	234,216
Power	101,963	125,777	132,190	124,474	132,303	149,500	108,224	119,855
Hospitals	398,461	412,874	429,128	453,607	493,596	472,327	515,092	558,167
Sewer	141,770	134,595	134,745	137,806	148,888	164,703	193,411	202,549
Garages	37,589	35,645	-	-	-	-	-	-
Market	-	-	1,296	1,413	1,462	1,503	1,567	1,564
Operating Grants and Contributions	260,520	282,059	164,257	169,767	180,807	188,672	183,301	181,725
Capital Grants and Contributions	335,520	251,747	204,751	94,818	93,724	110,403	150,080	152,511
Total business-type activities program revenues	2,004,161	2,013,038	1,946,859	1,879,369	1,958,361	2,013,563	2,155,428	2,308,197
Total primary government program revenues	$ 3,135,364	$ 3,202,097	$ 3,121,438	$ 3,085,314	$ 3,199,432	$ 3,521,076	$ 3,515,652	$ 3,731,990

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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									
	1999	2000 (1)	2001	2002 (2)	2003 (3)	2004 (4)	2005	2006	2007	2008 (5)
General Fund										
Reserved by charter for cash and emergency requirements	$ 80,076	$ 88,125	$ 97,491	$ 97,491	$ 59,337	$ -	$ -	$ -	$ -	$ -
Reserved for rainy day	-	-	-	-	-	55,139	48,139	121,976	133,622	117,792
Reserved for assets not available for appropriation	5,163	5,576	6,089	6,406	6,768	7,142	9,031	10,710	12,665	11,358
Reserved for encumbrances	43,602	32,808	37,743	52,735	43,195	42,501	57,762	38,159	60,948	63,068
Reserved for appropriation carryforward	50,284	74,051	77,060	61,716	26,880	35,754	36,198	124,009	161,127	99,959
Reserved for subsequent years' budgets	26,013	29,990	53,337	25,379	15,414	6,242	22,351	27,451	32,062	36,341
Unreserved	35,725	45,090	207,467	136,664	44,718	63,657	134,199	138,971	141,037	77,117
Total general fund	$ 240,863	$ 275,640	$ 479,187	$ 380,391	$ 196,312	$ 210,435	$ 307,680	$ 461,276	$ 541,461	$ 405,635
All other governmental funds										
Reserved for assets not available for appropriation	$ 54,054	$ 72,433	$ 51,548	$ 41,233	$ 25,906	$ 17,443	$ 17,683	$ 20,202	$ 19,413	$ 19,814
Reserved for debt service	34,785	27,694	63,308	36,548	33,866	18,800	45,540	57,429	51,299	47,334
Reserved for encumbrances	332,258	267,168	373,088	340,591	278,656	142,784	97,920	423,120	288,948	193,461
Reserved for appropriation carryforward	282,711	330,687	446,211	285,508	227,818	287,690	549,571	294,340	292,234	314,051
Reserved for subsequent years' budgets	1,660	3,520	9,664	18,604	8,004	8,005	8,004	8,004	8,004	13,504
Unreserved reported in:										
Special revenue funds	48,119	40,790	54,018	97,167	67,988	19,043	30,809	35,243	47,445	(27,758)
Capital projects funds	32,658	44,729	11,629	44,487	40,561	10,048	7,193	13,662	(373)	2,126
Permanent fund	-	-	4,064	4,433	4,227	3,326	3,856	2,308	3,508	3,502
Fiduciary funds	3,576	5,083	-	-	-	-	-	-	-	-
Total other governmental funds	$ 789,821	$ 792,104	$ 1,013,530	$ 868,571	$ 687,026	$ 507,139	$ 760,576	$ 854,308	$ 710,478	$ 566,034

Notes:

(1) Through fiscal year 1999-2000, Expendable Trust Funds were reported as part of Fiduciary Fund Types. Due to the implementation of GASB Statement 34 in fiscal year 2000-2001, Expendable Trust Funds were reported as Special Revenue and Permanent Fund Types.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.

(4) The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

(5) The change in reserved and unreserved fund balance in fiscal year 2007-2008 is explained in Management's Discussion and Analysis.

CITY AND COUNTY OF SAN FRANCISCO

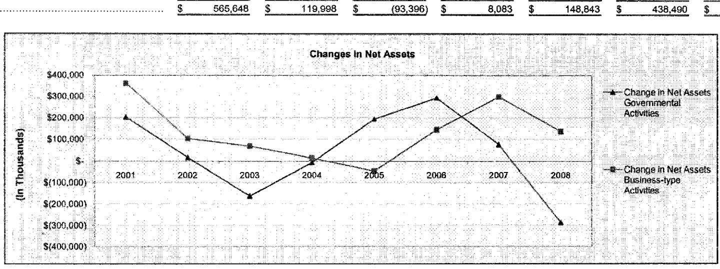
CHANGES IN NET ASSETS (Continued)

Last Eight Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year							
	2001 (1)	2002 (2)	2003 (3)	2004	2005	2006	2007	2008
Net (expenses)/revenue								
Governmental activities	$ (1,379,198)	$ (1,462,591)	$ (1,620,222)	$ (1,434,236)	$ (1,391,864)	$ (1,438,656)	$ (1,725,123)	$ (2,130,989)
Business-type activities	8,633	(170,047)	(381,849)	(502,330)	(511,110)	(511,076)	(473,602)	(599,691)
Total primary government net expenses	$ (1,370,565)	$ (1,632,638)	$ (2,002,071)	$ (1,936,566)	$ (1,902,974)	$ (1,949,732)	$ (2,198,725)	$ (2,730,680)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes								
Property taxes	$ 628,846	$ 697,703	$ 686,858	$ 723,786	$ 920,314	$ 1,016,220	$ 1,126,992	$ 1,189,511
Business taxes	277,822	274,848	276,651	264,832	292,763	323,153	337,592	396,025
Other local taxes	581,480	444,590	450,677	509,455	538,085	595,664	668,824	652,971
Interest and investment income	81,084	70,597	26,332	11,856	29,490	71,129	86,233	57,929
Other	115,695	115,943	196,496	170,163	47,153	56,022	33,046	25,939
Transfers - internal activities of primary government	(102,154)	(124,399)	(178,991)	(251,937)	(241,600)	(329,996)	(451,171)	(477,341)
Total governmental activities	1,582,773	1,479,282	1,458,023	1,428,155	1,586,205	1,732,192	1,801,516	1,845,034
Business-type activities:								
Interest and investment income	96,493	63,530	50,215	17,620	33,268	53,161	85,692	67,217
Other	28,779	85,425	188,446	237,692	237,102	272,873	218,184	233,244
Special item	126,014	-	33,000	9,245	(46,358)	-	17,386	(41,026)
Transfers - internal activities of primary government	102,154	124,399	178,991	251,937	241,600	329,996	451,171	477,341
Total business-type activities	353,440	273,354	450,652	516,494	465,612	656,030	772,433	736,776
Total primary government	$ 1,936,213	$ 1,752,636	$ 1,908,675	$ 1,944,649	$ 2,051,817	$ 2,388,222	$ 2,573,949	$ 2,581,810
Change in Net Assets								
Governmental activities	$ 203,575	$ 16,691	$ (162,199)	$ (6,081)	$ 194,341	$ 293,536	$ 76,393	$ (285,955)
Business-type activities	362,073	103,307	68,803	14,164	(45,498)	144,954	298,831	137,085
Total primary government	$ 565,648	$ 119,998	$ (93,396)	$ 8,083	$ 148,843	$ 438,490	$ 375,224	$ (148,870)



Notes:

(1) Trend data is only available for the last eight fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business-type activities.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(In Thousands)

	Fiscal Year									
	1999	2000 (1)	2001 (2)	2002 (3)	2003 (4)	2004	2005 (5)	2006	2007	2008
Revenues:										
Property taxes	$ 527,176	$ 544,210	$ 627,654	$ 687,150	$ 686,154	$ 721,437	$ 918,645	$ 1,008,151	$ 1,107,864	$ 1,179,688
Business taxes	229,905	267,918	277,822	274,848	276,651	264,832	292,763	323,153	337,592	396,025
Other local taxes	481,362	547,470	581,480	444,590	450,677	509,455	538,085	595,664	668,824	652,971
Licenses, permits and franchises	20,685	21,025	23,503	25,762	21,648	23,788	25,942	27,662	27,428	30,943
Fines, forfeitures and penalties	19,800	12,658	12,773	12,045	9,000	25,183	12,509	14,449	8,871	13,217
Interest and investment income	56,023	60,542	91,429	65,597	25,570	11,630	28,268	70,046	83,846	54,256
Rent and concessions	61,516	72,948	75,382	63,623	55,369	58,979	49,450	52,426	52,493	70,160
Intergovernmental:										
Federal	260,696	288,537	296,758	307,943	320,254	344,155	348,764	350,985	381,688	328,315
State	468,968	555,750	575,361	608,804	690,271	630,953	522,937	565,989	582,666	561,095
Other	2,562	4,695	6,245	33,924	24,623	18,259	25,783	23,500	15,689	15,907
Charges for services	161,689	186,733	215,412	225,547	221,883	217,647	241,750	263,994	273,057	288,689
Other	22,577	18,834	31,119	26,405	27,092	57,144	57,487	61,565	44,084	81,321
Total revenues	2,312,959	2,581,320	2,814,938	2,776,238	2,809,192	2,883,462	3,062,383	3,357,584	3,584,102	3,672,587
Expenditures										
Public protection	592,833	632,737	672,119	690,050	734,811	706,758	738,494	787,398	865,556	927,198
Public works, transportation and commerce	169,514	231,991	299,949	296,411	267,034	165,555	195,896	274,669	280,907	332,171
Human welfare and neighborhood development	522,487	515,007	557,242	613,133	670,670	662,948	644,899	697,102	740,171	828,903
Community health	455,162	434,386	454,975	484,826	524,771	512,914	501,050	471,741	509,844	543,046
Culture and recreation	266,879	204,081	233,863	238,326	252,477	273,163	239,022	256,979	286,135	309,612
General administration and finance	174,930	174,999	150,482	164,745	163,748	153,709	135,118	161,195	167,505	210,466
General City responsibilities	-	45,194	109,753	54,628	53,323	74,623	62,799	53,763	57,532	71,205
Debt service:										
Principal retirement	52,715	63,596	69,870	69,536	100,902	78,831	80,306	86,970	98,169	106,580
Interest and fiscal charges	56,823	60,650	68,367	68,111	64,243	61,886	61,524	75,975	71,266	75,844
Bond issuance costs	-	-	7,368	2,987	1,646	1,350	4,842	1,933	3,683	1,090
Capital outlay	244,070	188,793	170,472	276,662	248,928	165,872	130,224	153,493	283,370	133,155
Total expenditures	2,535,413	2,551,434	2,794,460	2,959,415	3,082,553	2,857,609	2,794,174	3,021,218	3,364,138	3,539,270
Excess (deficiency) of revenues over expenditures	(222,454)	29,886	20,478	(183,177)	(273,361)	25,853	268,209	336,366	219,964	133,317

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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	Assessed Value: Real Property	Assessed Value: Personal Property	Assessed Value: Total	Exemptions (2): Non-reim-bursable	Exemptions (2): Reim-bursable	Exemptions (2): Redevelopment Tax Increments	Total Taxable Assessed Value	Total Direct Tax Rate
1999 (4)....	$ 61,700,799	$ 4,010,092	$ 65,710,891	$ 2,663,293	$ 668,010	$ 2,672,017	$ 59,707,571	1.00%
2000 (4)....	66,859,683	4,384,155	71,243,838	2,783,904	666,747	2,844,489	64,948,698	1.00%
2001 (4)....	73,712,384	7,807,032	81,519,416	2,800,943	670,468	3,175,792	74,872,213	1.00%
2002 (4)....	88,866,299	4,686,951	93,553,250	3,129,961	665,145	5,291,437	84,466,707	1.00%
2003 (4)....	93,467,166	4,639,579	98,106,745	3,407,736	671,640	3,777,328	90,250,041	1.00%
2004 (4)....	99,878,960	3,848,851	103,727,811	3,706,357	689,558	3,892,143	95,439,753	1.00%
2005 (4)....	106,805,910	3,736,998	110,542,908	4,017,052	678,120	5,199,856	100,647,880	1.00%
2006 (4)....	114,767,252	3,465,752	118,233,004	4,246,112	657,834	6,453,299	106,875,759	1.00%
2007 (4)....	126,074,101	3,524,897	129,598,998	4,617,851	657,144	7,333,916	116,990,087	1.00%
2008 (4)....	136,887,654	3,807,362	140,695,016	5,687,576	652,034	10,134,313	124,221,093	1.00%

Source:
Controller, City and County of San Francisco

Notes:

(1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or $1/$100 of the assessed value, excluding the tax rate for debt service.

(2) Exemptions are summarized as follows:

(a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).

(b) Reimbursable exemptions arise from Article XII(25) which reimburses local governments for revenues lost through the homeowners' exemption in Article XIII(3) (k).

(c) Tax increments are allocations made to the San Francisco Redevelopment Agency under authority of California Constitution, Article XVI and Section 33675 of the California Health & Safety Code. Actual allocations are limited under an indebtedness agreement between the City and the Redevelopment Agency.

(3) Based on certified assessed values.

(4) Based on year end actual assessed values.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued)

Last Ten Fiscal Years

(modified accrual basis of accounting)

(In Thousands)

	Fiscal Year: 1999	2000 (1)	2001 (2)	2002 (3)	2003 (4)	2004	2005 (5)	2006	2007	2008
Other financing sources (uses):										
Transfer in....	275,205	340,880	261,957	267,107	226,520	204,660	271,553	224,523	217,298	244,770
Transfer out....	(290,639)	(428,615)	(365,178)	(536,680)	(423,936)	(456,852)	(513,423)	(555,155)	(668,847)	(724,172)
Issuance of bonds and loans:										
Face value of bonds issued....	200,450	94,909	394,040	249,995	71,310	116,645	346,225	219,120	312,955	310,155
Face value of loans issued....	-	-	803	3,095	323	2,156	500	5,359	141	1,829
Premium on issuance of bonds....	-	-	-	-	-	1,411	11,989	10,233	3,521	13,071
Discount on issuance of bonds....	-	-	(2,733)	(238)	-	-	-	-	(1,856)	-
Payment to refunded bond escrow agent....	(28,229)	-	-	(136,230)	-	(65,802)	(38,913)	-	(159,610)	(283,494)
Other financing sources - capital leases....	-	-	-	92,373	33,520	6,165	4,542	6,882	12,789	24,254
Total other financing sources (uses)....	156,787	7,174	288,889	(60,578)	(92,263)	(191,617)	82,473	(89,038)	(283,609)	(413,587)
Net change in fund balances....	$ (65,667)	$ 37,060	$ 309,367	$ (243,755)	$ (365,624)	$ (165,764)	$ 350,682	$ 247,328	$ (63,645)	$ (280,270)
Debt service as a percentage of noncapital expenditures....	4.78%	5.26%	5.55%	5.24%	5.89%	5.28%	5.51%	5.75%	5.62%	5.39%
Debt service as a percentage of total expenditures....	4.32%	4.87%	5.21%	4.75%	5.41%	4.97%	5.25%	5.46%	5.15%	5.19%

Notes:

(1) Through fiscal year 1999-2000, Expendable Trust Funds were reported as part of Fiduciary Fund Types. Due to the implementation of GASB Statement 34 in fiscal year 2000-2001, Expendable Trust Funds were reported as Special Revenue and Permanent Fund Types.

(2) Prior to fiscal year 2000-2001, bond issuance discounts and premiums were included in the face values of bonds issued.

(3) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(4) For General Obligation Bonds authorized and issued prior to the passage of Proposition 39 in 2003, transfer of the proceeds to San Francisco Community College District and San Francisco Unified School District was included as Human Welfare & Neighborhood Development expenditures.

(5) Prior to fiscal year 2004-2005, transfers of base rental payments from various Certificate of Participation Special Revenue Funds which provide for debt service payments were recorded as current expenditures in paying departments/funds and rental income in debt service funds. Beginning fiscal year 2004-2005, they were recorded as transfers.

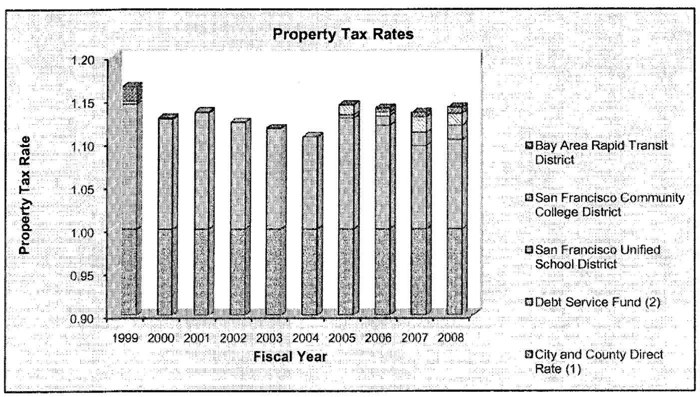
CITY AND COUNTY OF SAN FRANCISCO

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
1999	$ 1.00000000	$ 0.14493925	$ 0.00338075	$ -	$ 0.01668000	$1.1650
2000	1.00000000	0.12766122	0.00133878	-	-	1.1290
2001	1.00000000	0.13481356	0.00118644	-	-	1.1360
2002	1.00000000	0.12359506	0.00040494	-	-	1.1240
2003	1.00000000	0.11671113	0.00028887	-	-	1.1170
2004	1.00000000	0.10682335	0.00017665	-	-	1.1070
2005	1.00000000	0.12838968	0.00393518	0.01167514	-	1.1440
2006	1.00000000	0.12012547	0.01092226	0.00415227	0.00480000	1.1400
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



Notes:

(1) Proposition 13 allows each county to levy a maximum tax of $1 per $100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.

(2) On June 6, 1978, California voters approved a constitutional amendment to Article XIIIA of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIIIA (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.

CITY AND COUNTY OF SAN FRANCISCO

PRINCIPAL PROPERTY ASSESSEES

Current Fiscal Year and Nine Fiscal Years Ago

(In Thousands)

		Fiscal Year 2008			Fiscal Year 1999		
Assessee	Type of Business	Taxable Assessed Value (1)	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value (2)(3)
HWA 555 Owners LLC	Office, Commercial	$ 869,072	1	0.67%	$ -		-
EOP - One Market LLC	Office, Commercial	433,499	2	0.33	-		-
Marriott Hotel	Hotel	405,542	3	0.31	334,779	5	0.52
Four Embarcadero Center Venture	Office, Commercial	367,395	4	0.28	-		-
Post-Montgomery Associates	Office, Commercial	355,945	5	0.27	-		-
One Embarcadero Center Venture	Office, Commercial	316,673	6	0.24	-		-
Three Embarcadero Center Venture	Office, Commercial	298,160	7	0.23	-		-
Embarcadero Center Associates	Office, Commercial	297,006	8	0.23	692,329	3	1.07
Emporium Mall LLC	Shopping Center	293,703	9	0.22	-		-
101California Venture	Office, Commercial	293,475	10	0.22	238,680	8	0.37
Pacific Gas and Electric Company	Utilities				1,102,820	1	1.71
SBC California (Formerly Pacific Bell)	Utilities				759,974	2	1.18
555 California Street Partners	Office, Commercial				618,026	4	0.96
Knickerbocker Properties	Office				267,400	6	0.41
ZML One Market Ltd Partnership	Office, Commercial				239,844	7	0.37
San Francisco Hilton Joint Venture	Hotel				217,603	9	0.34
Westin St. Francis Ltd.	Hotel				217,355	10	0.34
Total		$ 3,930,470		3.00%	$4,688,810		7.27%

Source: Assessor, City and County of San Francisco

Notes:

(1) Data for fiscal year 2007-2008 updated as of July 1, 2007.

(2) Assessed values for fiscal years 2007-2008 and 1998-1999 are from the tax rolls of calendar years 2007 and 1998, respectively.

(3) Reflects revised calculations due to GASB 44 implementation.

CITY AND COUNTY OF SAN FRANCISCO

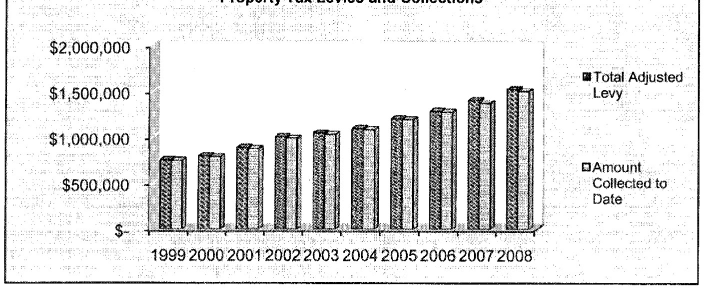
PROPERTY TAX LEVIES AND COLLECTIONS (1)(2)

Last Ten Fiscal Years

(In Thousands)

Fiscal Year	Total Adjusted Levy	Collected within the Fiscal Year of the Levy: Amount	Collected within the Fiscal Year of the Levy: Percentage of Original Levy	Collections in Subsequent Years (3)	Total Collections to Date: Amount	Total Collections to Date: Percentage of Adjusted Levy
1999	$ 757,899	$ 742,774	98.00%	$ 8,719	$ 751,493	99.15%
2000	799,385	784,984	98.20	6,153	791,137	98.97
2001	892,675	877,170	98.26	3,526	880,696	98.66
2002	1,010,960	985,838	97.52	7,366	993,204	98.24
2003	1,051,921	1,028,649	97.79	5,766	1,034,415	98.34
2004	1,100,951	1,079,354	98.04	9,092	1,088,446	98.86
2005	1,208,044	1,179,959	97.68	18,010	1,197,969	99.17
2006	1,291,491	1,263,396	97.82	17,524	1,280,920	99.18
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

Property Tax Levies and Collections



Source: Controller, City and County of San Francisco

Notes:

(1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District and San Francisco Redevelopment Agency.
(2) Does not include SB-813 supplemental property taxes.
(3) Collections in subsequent years reflect assessment appeals reduction.

CITY AND COUNTY OF SAN FRANCISCO

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

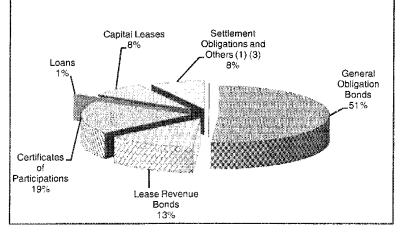
(In Thousands, except per capita amount)

Governmental Activities

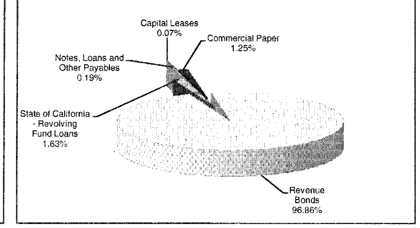
Fiscal Year	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participations	Loans	Capital Leases	Settlement Obligations and Others (1)(3)	Subtotal
1999......	$ 886,260	$ 157,585	$ 86,617	$ 9,385	$ 3,299	$ -	$ 1,143,146
2000......	911,625	151,165	91,926	17,313	2,507	-	1,174,536
2001......	953,535	302,405	225,707	15,816	232,485	-	1,729,948
2002......	917,220	293,810	259,360	13,007	226,541	54,820	1,764,758
2003......	859,625	252,035	296,135	9,278	212,649	49,470	1,679,192
2004......	844,350	245,680	290,635	9,515	194,815	94,275	1,679,270
2005......	1,086,355	230,620	283,320	7,961	198,703	188,670	1,995,629
2006......	1,232,205	231,265	276,160	12,377	190,279	182,955	2,125,241
2007......	1,155,944	249,550	420,620	11,640	185,736	177,095	2,200,585
2008......	1,098,913	282,490	412,200	12,495	174,149	170,585	2,150,832

Fiscal Year	Business-Type Activities (1)(2): Revenue Bonds	General Obligation Bonds	State of California - Revolving Fund Loans	Commercial Paper	Notes, Loans and Other Payables	Capital Leases	Subtotal	Total Primary Government: Total Primary Government	Percentage of Personal Income (4)	Per Capita (4)
1999.....	$ 4,116,131	$ 6,430	$ 167,730	$ 199,775	$ 11,492	$ 2,137	$ 4,503,695	$ 5,646,841	15.12%	$ 7,289
2000.....	4,316,452	4,400	180,295	271,650	10,628	1,888	4,785,313	5,959,849	13.77	7,671
2001.....	4,501,515	3,200	193,597	472,541	12,267	779	5,183,899	6,913,847	15.90	8,918
2002.....	5,177,760	2,000	179,591	90,000	4,076	1,342	5,454,769	7,219,527	17.40	9,457
2003.....	5,284,535	800	165,125	-	29,592	4,210	5,484,262	7,163,454	17.52	9,515
2004.....	5,167,405	400	150,196	25,000	27,280	4,891	5,375,172	7,054,442	16.28	9,484
2005.....	5,084,426	-	134,783	80,000	24,529	4,754	5,328,492	7,324,121	15.79	9,884
2006.....	5,506,030	-	118,868	-	20,017	5,522	5,650,437	7,775,678	14.70	10,451
2007.....	5,353,720	-	102,438	50,000	15,292	4,499	5,525,949	7,726,534	13.89	10,100
2008.....	5,281,395	-	89,101	68,000	10,369	3,843	5,452,708	7,603,540	13.19	9,828

Fiscal Year 2008 Governmental Outstanding Debt Percentage Breakdown



Fiscal Year 2008 Business-Type Outstanding Debt Percentage Breakdown



Notes:

(1) Through fiscal year 1999-2000, business-type revenue bonds were reported net of deferred amount on discount and unamortized bond premium. Upon the implementation of GASB 34 in fiscal year 2000-2001, business type revenue bonds excluded deferred amount on refunding and unamortized bond premium.
(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.
(3) Includes commercial paper issued by San Francisco County Transportation Authority.
(4) See Demographic and Economic Statistics, for personal income and population data.

CITY AND COUNTY OF SAN FRANCISCO

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(In Thousands, except per capita amount)

Fiscal Year	General Obligation Bonds [1]	Less: Amounts Restricted for Debt Service [1]	Total	Per Capita [2]	Percentage of Taxable Assessed Value [3]
1999	$ 886,260	$ 10,323	$ 875,937	$ 1,131	1.39%
2000	911,625	6,168	905,457	1,165	1.32
2001	953,535	14,809	938,726	1,211	1.19
2002	917,220	20,395	896,825	1,175	0.99
2003	859,625	13,304	846,321	1,124	0.89
2004	844,350	1,533	842,817	1,133	0.84
2005	1,086,355	33,774	1,052,581	1,420	0.99
2006	1,232,205	46,929	1,185,276	1,593	1.04
2007	1,155,944	35,249	1,120,695	1,465	0.90
2008	1,098,913	31,883	1,067,030	1,379	0.79

Notes:
(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.
(2) Population data can be found in Demographic and Economic Statistics.
(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)

	1999	2000	2001	2002	2003
Debt limit	$ 1,940,012	$ 2,053,798	$ 2,361,554	$ 2,712,699	$ 2,840,970
Total net debt applicable to limit	886,260	911,625	953,535	917,220	859,625
Legal debt margin	$ 1,053,752	$ 1,142,173	$ 1,408,019	$ 1,795,479	$ 1,981,345
Total net debt applicable to the limit as a percentage of debt limit	45.68%	44.39%	40.38%	33.81%	30.26%

	2004	2005	2006	2007	2008
Debt limit	$ 3,000,644	$ 3,195,776	$ 3,419,607	$ 3,749,434	$ 4,050,223
Total net debt applicable to limit	844,350	1,086,355	1,232,205	1,155,944	1,098,913
Legal debt margin	$ 2,156,294	$ 2,109,421	$ 2,187,402	$ 2,593,490	$ 2,951,310
Total net debt applicable to the limit as a percentage of debt limit	28.14%	33.99%	36.03%	30.83%	27.13%

Legal Debt Margin Calculation for Fiscal Year 2008

Total assessed value	$ 140,695,016
Less: non-reimbursable exemptions [1]	5,687,576
Assessed value [1]	$ 135,007,440
Debt limit (three percent of valuation subject to taxation [2])	$ 4,050,223
Debt applicable to limit:	
Less: general obligation bonds	1,098,913
Legal debt margin	$ 2,951,310

Source:
(1) Assessor, City and County of San Francisco

Note:
(2) City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.
"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

CITY AND COUNTY OF SAN FRANCISCO

DIRECT AND OVERLAPPING DEBT

June 30, 2008

District	Total General Debt Outstanding	Estimated Percentage Applicable to City and County [1]	Estimated Share of Overlapping Debt
Bay Area Rapid Transit District	$ 467,320,000	27.00%	$ 126,176,400
San Francisco Unified School District	351,275,000	100.00	351,275,000
San Francisco Community College District	365,990,000	100.00	365,990,000
Subtotal, overlapping debt			843,441,400
City and County of San Francisco direct debt			1,098,912,731
Total net direct and overlapping debt			$ 1,942,354,131
Population - 2008 [2]			773,674
Estimated overlapping debt per capita			$ 2,510.56

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
1999	$ 340,646	$ 189,017	$ 151,629	$ 18,250	$ 93,596	$ 111,846	1.36
2000	403,281	197,175	206,106	19,835	136,413	156,248	1.32
2001	463,488	261,061	202,427	21,215	177,800	199,015	1.02
2002	496,688	266,299	230,389	27,290	213,663	240,953	0.96
2003	533,253	295,672	237,581	52,260	224,364	276,624	0.86
2004	493,682	235,765	257,917	70,630	221,208	291,838	0.88
2005	496,485	253,931	242,554	78,555	207,430	285,985	0.85
2006	480,673	267,387	213,286	79,125	199,419	278,544	0.77
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

(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]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1999	$ 138,576	$ 105,494	$ 33,082	$ 6,440	$ 13,918	$ 20,358	1.63
2000	144,220	126,432	17,788	7,415	14,012	21,427	0.83
2001	149,917	127,707	22,210	6,956	14,411	21,367	1.04
2002	147,216	122,521	24,695	7,350	18,686	26,036	0.95
2003	170,253	136,093	34,160	11,789	21,655	33,444	1.02
2004	168,260	152,268	15,992	13,345	24,056	37,401	0.43
2005	184,835	136,341	48,494	14,055	23,658	37,713	1.29
2006	201,833	145,057	56,776	14,790 [7]	20,585	35,375	1.60
2007	216,531	153,663	62,868	16,160	48,955	65,115	0.97
2008	234,216	177,094	57,122	19,170	45,023	64,193	0.89

(4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(5) Gross revenue consists of charges for services, rental income and other income.
(6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest, depreciation and amandtization.
(7) Principal payment was restated to exclude principal refunding in FY 2006.

Municipal Transportation Agency

Fiscal Year	Base Rental Payment and Gross Meter Revenue Charges [8]	Less: Operating Expenses [9][10]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1999	$ 13,217	$ 3,131	$ 10,086	$ 505	$ 1,635	$ 2,140	4.71
2000	13,906	4,768	9,138	1,240	1,552	2,792	3.27
2001	13,759	4,642	9,117	1,390	1,459	2,849	3.20
2002	13,354	5,351	8,003	1,440	1,437	2,877	2.78
2003	15,633	6,227	9,406	3,274	2,312	5,586	1.68
2004	25,604	10,430	15,174	4,943	2,854	7,797	1.95
2005	25,623	14,071	11,552	5,193	2,582	7,775	1.49
2006	31,116	14,960	16,156	5,471	2,317	7,788	2.07
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

(8) 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.
(9) 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.
(10) 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 amandtization expenses.

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

PLEDGED-REVENUE COVERAGE (Continued)

Last Ten Fiscal Years

(In Thousands)

San Francisco Wastewater Enterprise (11)

Fiscal Year	Gross Revenues (12)	Less: Operating Expenses (13)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1999	$ 142,974	$ 71,985	$ 70,989	$ 33,864	$ 34,965	$ 68,829	1.03
2000	145,495	77,104	68,391	31,845	32,395	64,240	1.06
2001	141,770	79,902	61,868	35,270	31,109	66,379	0.93
2002	134,595	90,642	43,953	66,006	30,604	96,610	0.45
2003	134,745	90,808	43,937	69,871	15,820	85,691	0.51
2004	137,806	91,822	45,984	14,929	23,709	38,638	1.19
2005	148,888	101,490	47,398	15,413	21,937	37,350	1.27
2006	164,703	103,726	60,977	15,915	21,438	37,353	1.63
2007	193,411	114,917	78,494	49,875	20,419	70,294	1.12
2008	202,549	126,487	76,062	47,838	18,865	66,703	1.14

(11) 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.
(12) Gross revenue consists of charges for services, rental income and other income.
(13) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest, depreciation and amortization.

Port of San Francisco (14)

Fiscal Year	Total Operating Revenues (15)	Less: Operating Expenses (16)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1999	$ 45,428	$ 27,111	$ 18,317	$ 2,800	$ 2,614	$ 5,414	3.38
2000	49,127	29,052	20,075	2,930	2,472	5,402	3.72
2001	54,453	37,129	17,324	3,085	2,318	5,403	3.21
2002	53,740	47,759	5,981	3,235	2,156	5,391	1.11
2003	56,241	50,103	6,138	3,405	1,976	5,381	1.14
2004	57,782	49,707	8,075	3,595	1,719	5,314	1.52
2005	59,217	43,786	15,431	3,920	1,012	4,932	3.13
2006	61,581	44,893	16,688	3,390	554	3,944	4.23
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

(14) 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.
(15) Total revenues consist of operating revenues and interest and investment income.
(16) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indenture, also excludes amortized dredging costs. For fiscal year 1998-1999 operating expenses, as presented above, includes the debt service obligation of the State of California General Obligation Bonds of $291. The State General Obligation Bonds were fully paid in fiscal year 1998-1999.

Total Business-type Activities

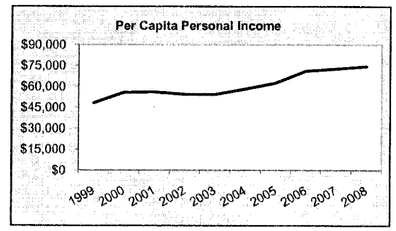
Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1999	$ 680,841	$ 396,738	$ 284,103	$ 61,859	$ 146,728	$ 208,587	1.36
2000	756,029	434,531	321,498	63,265	186,844	250,109	1.29
2001	823,387	510,441	312,946	67,916	227,097	295,013	1.06
2002	845,593	532,572	313,021	105,321	266,546	371,867	0.84
2003	910,125	578,903	331,222	140,599	266,127	406,726	0.81
2004	883,134	539,992	343,142	107,442	273,546	380,988	0.90
2005	915,048	549,619	365,429	117,136	256,619	373,755	0.98
2006	939,906	576,023	363,883	118,691	244,313	363,004	1.00
2007	1,047,345	621,066	426,279	155,159	264,562	419,721	1.02
2008	1,103,106	673,874	429,232	152,605	280,822	433,427	0.99

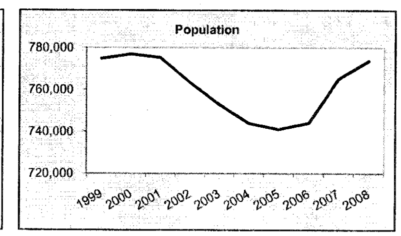
CITY AND COUNTY OF SAN FRANCISCO

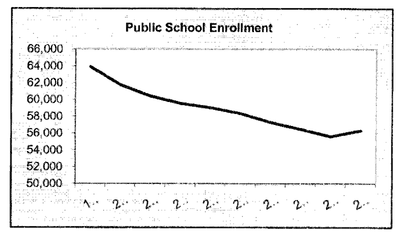
DEMOGRAPHIC AND ECONOMIC STATISTICS

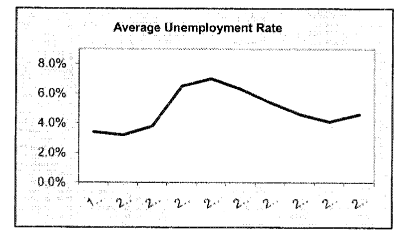
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (In Thousands) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	Average Unemployment Rate (6)
1999	774,716	$37,342,310	$48,201	38.7	63,895	3.4%
2000	776,885	43,283,782	55,715	39.1	61,766	3.2%
2001	775,257	43,480,208	56,085	37.3	60,421	3.8%
2002	763,400	41,493,071	54,353	38.3	59,521	6.5%
2003	752,853	40,885,951	54,308	38.3	59,015	7.0%
2004	743,852	43,325,147	58,244	39.2	58,323	6.3%
2005	741,025	46,398,387	62,614	39.4	57,276	5.4%
2006	744,041	52,902,542 (8)	71,101 (9)	39.4	56,459	4.6%
2007	764,976 (7)	55,627,416 (8)	72,718 (9)	40.0 (10)	55,590	4.1%
2008	773,674 (7)	57,650,453 (8)	74,515 (9)	39.7 (10)	56,315	4.6%









Sources:
(1) US Census Bureau.
(2) US Bureau of Economic Analysis.
(3) US Bureau of Economic Analysis.
(4) US Census Bureau.
(5) San Francisco Unified School District.
(6) California Employment Development Department.

Note:
(7) 2008 population was estimated by multiplying the 2007 population by the 2006-07 population growth rate. 2007 is updated from last year's CAFR with newly available data
(8) Personal income was estimated by assuming that its percentage of state personal income in 2007 and 2008 remained at the 2006 level of 3.66 percent. 2006 is updated from last year's CAFR with newly available data.
(9) Per capita personal income for 2007 and 2008 was estimated by dividing the estimated personal income for 2007 and 2008 by the reported and estimated population in 2007 and 2008, respectively. 2006 is updated from last year's CAFR with newly available data.
(10) Median age in 2008 was estimated by averaging the median age in 2006 and 2007. 2007 is updated from last year's CAFR with newly available data.

CITY AND COUNTY OF SAN FRANCISCO

PRINCIPAL EMPLOYERS

Current Year and Six Years Ago

Employer	Year 2007 [1] Employees	Year 2007 [1] Rank	Year 2007 [1] Percentage of Total City Employment	Year 2001 Employees	Year 2001 Rank	Year 2001 Percentage of Total City Employment
City and County of San Francisco	26,665	1	6.43%	29,610	1	5.85%
University of California, San Francisco	17,500	2	4.22	13,835	2	2.95
Wells Fargo & Co.	8,139	3	1.96	6,366	5	1.36
State of California	6,226	4	1.50	11,296	3	2.41
California Pacific Medical Center	5,569	5	1.34	-	-	-
San Francisco Unified School District	5,557	6	1.34	5,579	6	1.19
United States Postal Service	4,935	7	1.19	4,500	10	0.96
PG&E Corporation	4,800	8	1.16	5,000	8	1.07
Gap, Inc.	4,075	9	0.98	-	-	-
Kaiser Permanente	3,918	10	0.95	-	-	-
AT&T	-	-		5,200	7	1.11
Pacific Bell/SBC Communications	-	-		4,600	9	0.98
Charles Schwab & Co. Inc.	-	-		9,873	4	2.10
Total	87,384		21.07%	95,859		19.98%

Source: Total City and County of San Francisco employee count is obtained from the California Employment Development Department. All other data is obtained from San Francisco Business Times Book of Lists.

Note:
(1) The latest data as of calendar year 2007 is presented.

CITY AND COUNTY OF SAN FRANCISCO

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION [1]

	Fiscal Year								
Function	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public Protection									
Fire Department	1,856	1,864	1,909	1,899	1,835	1,752	1,706	1,665	1,726
Police	2,742	2,785	2,748	2,688	2,669	2,616	2,664	2,765	2,870
Sheriff	896	892	921	920	937	929	944	939	951
Other	1,013	1,013	998	982	954	930	958	978	1,019
Total Public Protection	6,507	6,554	6,576	6,489	6,395	6,227	6,272	6,347	6,566
Public Works, Transportation and Commerce									
Municipal Transportation Agency	4,406	4,525	4,629	4,569	4,518	4,386	4,232	4,374	4,358
Airport Commission	1,517	1,578	1,537	1,306	1,214	1,203	1,248	1,220	1,228
Department of Public Works	1,004	1,065	1,081	1,077	1,053	1,059	1,035	1,040	1,060
Public Utilities Commission	1,376	1,404	1,411	1,513	1,589	1,513	1,573	1,596	1,609
Other	516	537	569	546	507	505	532	538	543
Total Public Works, Transportation and Commerce	8,819	9,109	9,227	9,011	8,881	8,666	8,620	8,768	8,798
Community Health									
Public Health	6,133	6,068	6,192	6,309	6,093	5,928	5,956	5,988	6,196
Total Community Health	6,133	6,068	6,192	6,309	6,093	5,928	5,956	5,988	6,196
Human Welfare and Neighborhood Development									
Human Services	1,706	1,807	1,724	1,744	1,735	1,697	1,663	1,745	1,812
Other	245	269	305	316	317	312	306	313	312
Total Human Welfare and Neighborhood Development	1,951	2,076	2,029	2,060	2,052	2,009	1,969	2,058	2,124
Culture and Recreation									
Recreation and Park Commission	1,010	998	1,014	976	1,001	954	916	922	942
Public Library	594	599	612	613	617	616	606	631	641
War Memorial	94	94	94	95	95	96	95	96	96
Other	124	120	130	149	156	149	200	199	204
Total Culture and Recreation	1,822	1,811	1,850	1,833	1,869	1,815	1,817	1,848	1,883
General Administration and Finance									
Administrative Services	417	426	420	401	405	383	378	438	505
City Attorney	316	334	329	321	319	308	321	324	327
Telecommunications and Information Services	314	352	333	324	313	276	261	270	307
Controller	161	165	156	155	141	170	179	184	188
Human Resources	209	211	215	213	188	172	151	156	155
Treasurer/Tax Collector	183	182	184	185	192	197	199	208	208
Mayor	145	77	75	72	56	51	48	51	57
Other	455	467	470	466	466	454	491	520	571
Total General Administration and Finance	2,200	2,214	2,182	2,137	2,080	2,011	2,028	2,151	2,318
General City Responsibility	-	2	3	4	4	4	3	-	-
Subtotal annually funded positions	27,432	27,834	28,059	27,843	27,374	26,660	26,665	27,160	27,885
Capital project funded positions	848	1,776	1,857	1,875	1,567	1,597	1,588	1,628	1,750
Total annually funded positions	28,280	29,610	29,916	29,718	28,941	28,257	28,253	28,788	29,635

Source: Controller, City and County of San Francisco

Note:
(1) Data represent budgeted and funded full-time equivalent positions.

CITY AND COUNTY OF SAN FRANCISCO
OPERATING INDICATORS BY FUNCTION

Function	Fiscal Year 2001	2002	2003	2004	2005	2006	2007	2008
Public Protection								
Fire and Emergency Communications								
Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile	N/A	N/A	N/A	8:09	7:59	8:01	8:04	7:36
Police								
Average time from dispatch to arrival on scene for highest priority calls (1)	2:34	2:36	2:45	2:58	3:07	3:09	3:15	4:08
Number of homicides per 100,000 population	N/A	N/A	N/A	10.8	9.8	12.8	9.6	12.0
Percentage of San Franciscans who report feeling safe or very safe crossing the street (2)	34%	42%	45%	45%	51%	N/A	48%	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 (3)	38%	45%	N/A	52%	49%	N/A	49%	N/A
Number of blocks of City streets repaved	252	324	292	154	186	267	243	334
Municipal Transportation Agency								
Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good) (4)	2.70	2.92	3.21	3.20	3.13	N/A	2.84	N/A
Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points (5)	55.4%	69.9%	70.4%	68.8%	71.0%	69.2%	70.8%	70.6%
Percentage of scheduled service hours delivered (6)	94.4%	96.3%	96.5%	97.2%	95.3%	94.2%	94.3%	95.9%
Airport								
Percent change in air passenger volume	-3.6%	-20.1%	-5.9%	5.3%	5.5%	1.5%	2.8%	8.4%
Human Welfare and Neighborhood Development								
Environment								
Percentage of total solid waste materials diverted in a calendar year	42%	46%	52%	63%	67%	67%	69%	70%
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 (7)	65%	64%	67%	67%	60%	N/A	57%	NA
Citywide percentage of park maintenance standards met for all parks inspected	N/A	N/A	N/A	N/A	N/A	83%	86%	88%
Public Library								
Percentage of San Franciscans who rate the quality of library staff assistance as good or very good	76%	77%	79%	81%	76%	N/A	75%	N/A
Circulation of materials at San Francisco libraries	5,409,585	6,259,092	6,793,335	6,755,843	7,279,926	7,459,821	7,685,892	8,334,391
Asian and Fine Arts Museums								
Number of visitors to City-owned art museums	962,090	453,117	727,437	763,242	696,271	1,546,617	1,879,868	1,739,096

Source: Controller, City and County of San Francisco

Notes:

(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 2005 has been restated to be consistent with City Survey data.
(3) Value for FY 2002 has been restated to be consistent with City Survey data.
(4) Value for FY 2005 has been restated to be consistent with City Survey data.
(5) Values for FY 2002 through FY 2005 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
(6) Values for FY 2002 and FY 2006 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
(7) Value for FY 2005 has been restated to be consistent with City Survey data.

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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police protection (1)										
Number of stations	10	10	11	11	11	10	10	10	10	10
Number of police officers	2,180	2,229	2,321	2,449	2,388	2,170	2,180	2,070	2,304	2,455
Fire protection (2)										
Number of stations	43	45	45	45	45	45	45	48	42	42
Number of firefighters	1,586	1,654	1,804	1,800	1,795	1,690	1,675	1,333	1,012	978
Public works										
Mile of street (3)	945	989	989	1,044	1,252	1,050	1,050	1,051	1,051	1,291
Number of streetlights (4)	40,957	41,052	41,066	42,363	41,042	41,031	41,431	41,571	42,029	42,957
Water (4)										
Number of services	164,495	171,978	174,427	174,873	175,278	165,122	175,000	176,351	176,758	177,648
Average daily consumption (million gallons)	248.7	253.2	255.3	249.4	247.0	273.9	247.0	239.4	250.8	248.1
Mile of water mains	1,483	1,440	1,520	1,520	1,503	1,455	1,475	1,485	1,485	1,485
Sewers (4)										
Mile of collecting sewers	887.5	900	900	900	903	903	903	903	903	960
Mile of transport/storage sewers	16.5	16.5	16.5	15	15	15	15	15	15	17
Recreation and cultures										
Number of parks (5)	227	227	228	230	230	209	210	220	209	222
Number of libraries (6)	27	27	27	27	27	27	27	27	28	28
Number of library volumes (million) (6)	2.1	2.1	2.2	2.2	2.3	2.1	2.4	2.6	2.7	2.8
Public school education (7)										
Attendance centers	117	116	116	113	118	118	119	117	112	112
Number of classrooms	2,698	2,698	3,200	3,428	3,418	3,439	3,434	3,390	3,256	3,269
Number of teachers, full-time equivalent	2,094	2,671	3,260	3,272	3,362	3,138	3,171	3,103	3,103	3,113
Number of students	65,540	63,895	62,569	60,421	59,521	57,805	57,144	56,236	55,497	56,259

Sources:
(1) Police Commission, City and County of San Francisco
(2) Fire Commission, City and County of San Francisco
(3) Department of Public Works, City and County of San Francisco
(4) Public Utilities Commission, City and County of San Francisco
(5) Parks and Recreation Commission, City and County of San Francisco
(6) Library Commission, City and County of San Francisco
(7) San Francisco Unified School District

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions 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 this Official Statement have the meanings set forth in the Trust Agreement.

DEFINITIONS OF CERTAIN TERMS

"2009A Certificates" means City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects) authorized by the Trust Agreement and at any time Outstanding thereunder.

"2009A Reserve Account" means the account within the Reserve Fund established pursuant to the Trust Agreement in connection with the 2009A Certificates.

"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 2009A Certificates and all Additional Certificates under the Trust Agreement.

"Defeasance Securities" means (i) Government Obligations and (ii) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or Government Obligations; (c) the principal of and interest on the Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the Government Obligations are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (f) the municipal obligations are rated AAA by S&P and Aaa by Moody's.

"Facilities" means the improvements, structures and fixtures related thereto and located on the Site, together with all other works, property or structures located from time to time on the Site. The Facilities will initially be the Link Building and the East Residence on the Site.

"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 and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Trustee, obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and prerefunded municipal obligations rated in the highest rating category by Moody's and S&P.

"Leased Property" means the Site and the Facilities, as the same may be modified, substituted or supplemented in accordance with the terms of the Project Lease.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(a) Government Obligations or Government Certificates;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FmHA) - Certificates of beneficial ownership;

(ii) Federal Housing Administration Debentures (FHA);

(iii) General Services Administration - Participation certificates;

(iv) Government National Mortgage Association (GNMA or "Ginnie Mae") - guaranteed mortgage backed bonds and GNMA guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration - Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds; and

(vii) Any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the full faith and credit of the United States of America;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States of America government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation certificates (mortgage-backed securities) and senior debt obligations;

(iii) Fannie Mae - mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae") - Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(vi) Federal Farm Credit System - Consolidated system wide bonds and notes; and

(vii) Any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the non-full faith and credit of the United States of America;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm-G or AAAm and by Moody's of Aaa;

(e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan; provided that such certificates of deposit shall 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;

(f) Savings accounts or money market deposits that are fully insured by FDIC;

(g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated, 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;

(h) 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;

(i) 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;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P; provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated, 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, shall be maintained at least 100% of par. In addition, repurchase agreements shall meet the following criteria: (i) the third party (who shall 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 shall require liquidation; and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities;

(l) Defeasance Securities described in clause (ii) of the definition thereof; and

(m) 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.

(n) The Local Agency Investment Fund administered by the State of California; and

(o) Any investment, with confirmation from the Rating Agencies that the ratings on the Certificates will not be lowered as a result of such investment.

In connection with the purchase of any Permitted Investment, the City may enter into agreements, including forward purchase agreements, with the seller thereof.

"Project" means the health care, assisted living and/or other type of continuing care facility or facilities and related improvements and equipment to be financed with the 2009A Certificates, and any facilities financed with

Additional Certificates, as the same may be amended, modified or supplemented in accordance with the Trust Agreement.

"Reserve Requirement" means, as of any date of calculation, the least of (i) the maximum annual principal and interest payable with respect to the Certificates in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest payable with respect to the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates or (iii) 10% of the principal amount of Certificates originally executed and delivered. The Reserve Requirement shall be applied separately for each 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.

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 2009A 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 2009A Certificates shall be designated "City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects)."

Eminent Domain

If the Leased Property or any portion thereof shall 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 shall apply. Notwithstanding the provisions of the Project Lease, the City shall, 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 shall 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, shall 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.

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, of Certificates as required under the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, shall 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 shall, 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 shall so notify the Trustee in writing, and then any excess amounts shall be transferred by the Trustee to the Base Rental

Fund and used to prepay Certificates pursuant to the Trust Agreement, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Amendments to Trust Agreement

The Trust Agreement may be amended in writing by agreement between the parties thereto, but no such amendment shall 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 shall 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 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 shall 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 shall (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 shall 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 and the Trustee deem necessary or desirable and not inconsistent with the terms thereof and which shall 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 as set forth in clause (c) above shall be effective unless and until the City shall 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 shall be entitled to the benefit, protection and security of the provisions of the Trust Agreement and shall comply in all respects with the applicable laws of the State.

Performance

The City shall 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 shall 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 shall 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 shall not be considered an Event of Default; however, the Trustee, to the extent indemnified from and against any cost, liability or expense, may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Certificate holder or Beneficial Owner may, take such actions as may be necessary and appropriate, to cause the City to comply with the provisions of the Continuing Disclosure Certificate.

Events of Default

Any one or more of the following events are an "Event of Default" under the Trust Agreement: the City defaults under the Project Lease by failing to deposit with the Trustee any Base Rental payment required to be so deposited pursuant to the Base Rental provisions of the Project Lease, 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 shall 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 shall 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, shall 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 shall give notice, at the expense of the City of such Event of Default to the Owners. Such notice shall state that an Event of Default has occurred and shall 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 shall 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 shall be cumulative and shall 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 shall 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 shall 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 shall 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 shall 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 shall be restored to their former positions and rights under the Trust Agreement, respectively, but such waiver shall be limited to the particular breach so waived and shall 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 shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall 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 shall have been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall 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 shall 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 shall 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 shall 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 shall 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 shall 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 shall be 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 shall pay the Base Rental and Additional Rental in the amounts, at the times and in the manner hereinafter set forth, 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 shall 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 shall 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 shall remain due and payable until received by the Trustee. Notwithstanding any dispute between the City and the Trustee under the Project Lease, the City shall make all Rental Payments when due and shall 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 shall 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 shall 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 shall 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, noncompletion of the construction of the Facilities, 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 shall 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 shall 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 shall 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 shall be an absolute net return to the Trustee free and clear of any expenses, charges or set-offs whatsoever.

Insurance

The City shall maintain or cause to be maintained, throughout the Project Lease Term (but during the period of construction of the Facilities only the insurance described in paragraphs (i) and (vi) below shall be required and may be provided by the contractor under the construction contract for the 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 shall, 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 shall 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) Commencing on the date of Final Completion of the Facilities, 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 October 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 shall 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) Builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates, or the replacement cost of the Facilities, which insurance shall be outstanding until Final Completion of the Facilities.

Notwithstanding anything in the Project Lease to the contrary, the City shall 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 shall 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 fee title of the Site in the name of the City and 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, shall be taken under the power of eminent domain, then the Project Lease shall terminate as of the later of the day possession shall 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 shall again begin to accrue with respect thereto upon replacement of the Leased Property.

If less than a substantial portion of the Leased Property shall be taken under the power of eminent domain, and the remainder is useable for the City's purposes, then the Project Lease shall 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 shall 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 shall again begin to accrue with respect thereto upon the completion of repair or replacement of such portion of the Leased Property.

Assignment

The City shall 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 shall be, and shall 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 shall 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 shall 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 shall 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 shall, 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, shall, at all times during the Project Lease Term, peaceably and quietly have, hold, and enjoy the Leased Property.

Events of Default

The following shall be events of default under the Trust Agreement: (i) the City shall fail 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 shall fail to pay any item of Additional Rental as and when the same shall become due and payable pursuant to the Project Lease, or (iii) the City shall breach any other terms, covenants or conditions contained in the Project Lease, in the Property Lease or in the Trust Agreement, and shall 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, shall 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 shall not constitute an event of default under the Project Lease.

Remedies on Default

The Trustee shall have the right, at its option, without any further demand or notice (i) to reenter the Leased Property and eject all parties in possession therefrom and, without terminating the Project Lease, relet the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable, in which event the rents received on such reletting shall be applied as set forth in the Trust Agreement; provided, that if a sufficient sum shall not be realized to pay such sums and other charges then the City shall pay to the Trustee any net deficiency existing on the date when the Base Rental or Additional Rental is due under the Project Lease; provided, however, that such reentry and reletting shall be done only with the consent of the City, which consent is irrevocably given; or (ii) in lieu of the above, so long as the Trustee does not terminate the Project Lease or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due under the Project Lease pursuant to Section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity, except as expressly provided therein. Any reentry pursuant to the Project Lease shall be allowed by the City without hindrance, and the Trustee shall not be liable in damages for any reentry or be guilty of trespass. The Trustee or any assignee of the rights of the Trustee thereunder shall 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. Notwithstanding any other provision of the Project Lease or the Trust Agreement, (i) in no event shall the Trustee have the right to accelerate the payment of any Base Rental under the Project Lease and (ii) the foregoing remedies to reenter and relet the Leased Property shall be subject to applicable laws regarding the use of such property (including but not limited to applicable laws relating to the use of property financed with general obligation bonds or federal or state grants).

Each and every remedy of the Trustee or any assignee of the rights of the Trustee under the Project Lease is cumulative and the exercise of one remedy shall not impair the right of the Trustee or its assignee to any or all other remedies. If any statute or rule validly shall limit the remedies given to the Trustee or any assignee of the rights of the Trustee, the Trustee or its assignee nevertheless shall 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 shall be applied in the manner set forth in the Trust Agreement.

Addition, Release and Substitution

If no Project Lease Event of Default has occurred and is continuing thereunder, the Project Lease may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Project Lease any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City shall 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 County Recorder of the 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, shall insure such added or substituted project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted project and as will not result in an abatement of Base Rental payments payable by the City under the Project Lease;

(v) A certificate of a City Representative stating that such addition, release or substitution does not materially adversely affect the ability of the City to perform its obligations under the Project Lease or the Property Lease;

(vi) (A) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Constitution and laws of the State and by the Project Lease, the Property Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of the Project Lease, the Property Lease and the Trust Agreement; and (3) will, upon the execution and delivery thereof, be valid and binding upon the Trustee and the City in accordance with its terms; and (B) an opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or the interest component of the Base Rental payments relating to the Certificates to be subject to State personal income tax;

(vii) A certificate of a City Representative stating that the useful life of the project that will constitute the Leased Property after such addition, release or substitution meets or exceeds the remaining term of the Certificates; and

(viii) A certificate of the Director of Property stating the useful life of the project that will constitute the Leased Property after such addition, release or substitution and that such project is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such project in the manner intended by the City).

THE PROPERTY LEASE

Although certain provisions of the Property Lease are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Property Lease.

Lease of Leased Property

The City leases to the Trustee the real property located in 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. The City also grants to the Trustee such rights of ingress and egress to the Site (as defined in the Project Lease) and infrastructure and utilities as the Trustee may require in order to fulfill its obligations under the Property Lease and under the Project Lease.

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 shall 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 shall peaceably and quietly have, hold and enjoy all of the Leased Property.

Default

In the event that the Trustee or its assignee shall 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 shall be deemed to occur as a result thereof; provided, however, that the City shall 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 shall duly perform the terms and conditions of the Property Lease, such assignee shall be deemed to be and shall become the tenant of the City under the Property Lease and shall be entitled to all of the rights and privileges granted under any such assignment.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 2009A
(MULTIPLE CAPITAL IMPROVEMENT PROJECTS)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the issuance of the certificates captioned above (the "Certificates"). The Certificates are issued pursuant to that certain Trust Agreement, dated as of May 1, 2009, between the City and County of San Francisco (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 May 1, 2009, 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 in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 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" shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean either the registered owners of the 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" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall 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. Effective July 1, 2009 and 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" shall 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" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2008-09 Fiscal Year (which is due not later than March 27, 2010), 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 shall 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 is 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 shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (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 shall 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 schedule of aggregate annual debt service on tax-supported indebtedness of the City; and

(f) summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be 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 shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Holders.
4. Optional, contingent or unscheduled bond calls.

5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events affecting the tax-exempt status of the Certificates.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Certificates pursuant to the Trust Agreement. Effective July 1, 2009, the notice of Listed Events must be submitted 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 shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 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 issuance 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 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 shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: _____________, 2009.

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 2009A (MULTIPLE CAPITAL IMPROVEMENT PROJECTS)
Date of Issuance:	_______________, 2009

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated the Date of Issuance. 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 ____

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1-10 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 or 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 depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of 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.

6. Redemption notices shall 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 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 issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 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.

APPENDIX G

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINIONS

_________, 2009

Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place
San Francisco, California 94102-4682

Re: City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects)

Ladies and Gentlemen:

We have acted as Co-Special Counsel to the City in connection with the delivery by the City and County of San Francisco, California (the "City"), of a Project Lease, dated as of May 1, 2009 (the "Project Lease") between U.S. Bank National Association, as trustee under the hereinafter mentioned Trust Agreement (the "Trustee"), as lessor, and the City, as lessee. Pursuant to the Trust Agreement, dated as of May 1, 2009 (the "Trust Agreement") between the City and the Trustee, the Trustee has executed and delivered $163,335,000 City and County of San Francisco Certificates of Participation, Series 2009A (Multiple Capital Improvement Projects) (the "Certificates") evidencing proportionate interests of the owners thereof in Base Rental payments made by the City under the Project Lease. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the Trust Agreement. We have reviewed the Trust Agreement, the Project Lease and the Property Lease and have examined the law, opinions and such certified proceedings and other papers as we deem necessary to render this opinion. In addition, we have reviewed the default judgment entered on January 15, 2009, in the action entitled *City and County of San Francisco v. All Persons Interested in the Matter*, CGC 08-479823, filed September 15, 2008.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Project Lease, the Property Lease, the Trust Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest with respect to the Certificates to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Project Lease, the Property Lease and the Tax Certificate, and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in or subject to the lien of the Project Lease, the Property Lease or the Trust Agreement or the accuracy or sufficiency of the description of any such property contained therein, or scope of remedies available to enforce liens on, any such property.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Project Lease, the Property Lease and the Trust Agreement have been duly executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the City.

2. The obligation of the City to pay the Base Rental payments during the term of the Project Lease constitutes a valid and binding obligation of the City, payable from funds of the City lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. Under existing statutes and court decisions, interest with respect to the Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest with respect to the Certificates is not treated as a preference item in calculating alternative minimum tax imposed on individuals and corporations and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City in connection with the Certificates, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the execution and delivery of the Certificates in order that, for federal income tax purposes, interest with respect to the Certificates not be included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Certificate proceeds, restrictions on the investment of Certificate proceeds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest with respect to the Certificates to become subject to federal income taxation retroactive to their date of execution and delivery, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Certificates, the City will execute a Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the City covenants that the City will comply with the provisions and procedures set forth therein and that the City will do and perform all acts and things necessary or desirable to assure that interest paid on the Certificates will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid with respect to the Certificates, and (ii) compliance by the City and the users of the Project with the procedures and covenants set forth in the Tax Certificate as to such tax matters.

5. Under existing statutes, interest with respect to the Certificates is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion regarding any Federal, state or local tax consequences arising with respect to the Certificates or the ownership or disposition thereof. We render this opinion under existing statutes and court decisions as of the date of the execution and delivery of the Certificates, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of the interest with respect to the Certificates, or under state and local tax law.

Respectfully submitted,

APPENDIX H

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE TREASURER & TAX COLLECTOR

INVESTMENT POLICY

As of March 2009

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 investment return while conforming to all state and local statutes governing the investment of public funds.

2.0 Scope:

This investment policy applies to all investments that the Treasurer's Office manages.

3.0 Prudence:

Investments shall be made with judgment and care—under circumstances then prevailing— which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with state and local law and the 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 in the overall portfolio. To attain this objective, the Treasurer's Office will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.2 Liquidity: The Treasurer's Office investment portfolio will remain sufficiently liquid to enable the Treasurer's Office to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investments: The Treasurer's Office investment portfolio shall be designed with the objective of generating a favorable rate of return in investments 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:

All broker/dealer firms must be (a) Primary Government Securities Dealers or top-ten largest in U.S. dollars banking underwriters of U.S. agencies (according to Bloomberg Underwriter Rankings, or a similar ratings service), or (b) operating at least one office in San Francisco and approved by the Treasurer based on the capitalization, tenure, profitability, reputation, and expertise of the company involved. All broker/dealer firms must review and abide by this Investment Policy.

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.

Annually, each firm will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials and compliance with this Policy to qualify as an Authorized Dealer.

Each firm authorized to do business with the Treasurer's Office shall, at least annually, supply the Treasurer with financial statements.

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. 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 Public Time Deposits (Term Certificates Of Deposit):

Deposits will be made only in approved financial institutions having at least one full service branch office within the geographical boundaries of the City and County of San Francisco.

All said deposits shall be negotiated to yield a minimum of .125% higher than equal maturity Treasuries, except in special circumstances specifically authorized by the Treasurer.

Deposits will be insured by the Federal Deposit Insurance Corporation (FDIC) up to the current deposit insurance limit. (See glossary definition for terms of insurance). Deposits in excess of the FDIC limit will be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). All Public Time Deposits will have a maximum maturity of one year with interest disbursed quarterly.

The Treasurer's Office will not use money broker deposits.

Commercial bank deposits will also be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

7.2 Public Demand Accounts:

The Treasurer's Office will accept the following collateralization:

Collateral of Eligible Securities, per California Government Code Section 53651(a) through (i), with a market value that is equal to or exceeds 110% of the daily ledger balance.

7.3 Negotiable Certificates Of Deposit:

Negotiable Certificates of Deposit shall be limited to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. The portfolio may hold up to but not more than 30% in these instruments.

7.4 Securities and Money Market Instruments:

All securities shall be purchased and sold in a competitive environment.

7.5 U.S. Treasury Instruments:

Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are fixed-interest instruments that may or may not pay a coupon and mature between 1 and 10 years. Bonds are fixed-interest instruments that may or may not pay a coupon and at time of issuance mature in more than 10 years.

Maximum Maturity	5 Years
Maximum Par Value	N/A
Maximum % of Portfolio	100%

7.6.0 Federal Agencies

Investments in U.S. Federal Agencies are appropriate in the following entities listed in Section 7.6. Up to 60% of the portfolio in market value may be held U.S. Agencies instruments subject to the following constraints, regardless of receivership status.

7.6.1 U.S. Agencies under U.S. Government Receivership

Constraints at time of purchase (par value)

Acronym	Name	Max % of Portfolio
FANNIE MAE	Federal National Mortgage Association	30
FREDDIE MAC	Federal Home Loan Mortgage Corporation	30

7.6.2 U.S. Agencies not under U.S. Government Receivership

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

Constraints at time of purchase (par value)

Acronym	Name	Max % of Portfolio
F.H.L.B.	Federal Home Loan Bank	30
F.F.C.B.	Federal Farm Credit Bank	30
Farmer Mac	Federal Agricultural Mortgage Association	10
RTC	Resolution Trust Funding Corporation	5
TVA	Tennessee Valley Authority	10

7.7 Commercial Paper:

The Treasurer's Office shall purchase only domestic Commercial Paper with maturities not to exceed 270 days. Issuer must be rated A-1 or P-1, without regard to plusses or minuses, or the equivalent rating then in place, by at least one of the national rating agencies (Moody's Investors Service, Standard & Poor's Ratings Services or Fitch Ratings). The maximum allowable investment in Commercial Paper is 25% at time of purchase.

7.8 Bankers Acceptances:

Purchases of Bankers Acceptances shall be limited to 40% of the portfolio (at the time of purchase).

7.9 Repurchase Agreements:

The Treasurer's Office shall selectively utilize this investment vehicle with terms not to exceed 30 days, secured solely by government securities and said collateral will be delivered to a third party, so that recognition of ownership of the City and County of San Francisco is perfected.

7.10 Reverse Repurchase 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 Financial Futures or Options Contracts:

These investment vehicles shall not be used unless specifically authorized in writing by amendment of these policies.

7.12.0 Medium Term Notes:

Not considered a prudent investment vehicle for this portfolio at this time, except as provided in Section 7.12.1.

7.12.1 TLGP (Treasury Liquidity Guarantee Program)

TLGP bonds, which are backed by the FDIC, with a final maturity of less than 5 years, shall be limited to 30% of the portfolio.

7.13 Notes, Bonds or Other Obligations Secured by Valid First Priority Security Interest:

Not considered prudent investment vehicles for this portfolio at this time.

7.14 Investments In State and Local Government Agencies:

The Treasurer's Office may selectively purchase bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Appropriate investments also include bonds of any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a state department, board, agency, or local authority.

These instruments may comprise 20% or less of the portfolio at the time of purchase.

7.15 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 of 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)(1)(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 requires quarterly reports, a monthly report on the status of the investment portfolio will be submitted to the Board of Supervisors, Controller and Mayor. The report will include investment types, issuer, maturity, par value, and dollar amount invested; market value as of the date of the report and the source of the valuation; a citation 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.

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.

ASKED: 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 moneys in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

DERIVATIVES: (1) 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 (10/08/2008): The FDIC is an independent agency of the United States government that protects against the loss of insured deposits if an FDIC-insured bank or savings association fails. Deposit insurance is backed by the full faith and credit of the United States government. Since the FDIC was established, no depositor has ever lost a single penny of FDIC-insured funds.

FDIC insurance covers funds in deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit (CDs). FDIC insurance also covers the Treasury Liquidity Guarantee Program (TLGP). FDIC insurance does not, however, cover other financial products and services that insured banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or municipal securities.

There is no need for depositors to apply for FDIC insurance or even to request it. Coverage is automatic.

To ensure funds are fully protected, depositors should understand their deposit insurance coverage limits. The FDIC provides separate insurance coverage for deposits held in different ownership categories such as single accounts, joint accounts, Individual Retirement Accounts (IRAs) and trust accounts.

Basic FDIC Deposit Insurance Coverage Limits*
Single Accounts (owned by one person) $250,000 per owner**
Joint Accounts (two or more persons) $250,000 per co-owner**
IRAs and certain other retirement accounts $250,000 per owner
Trust Accounts $250,000 per owner per beneficiary subject to specific limitations and requirements**

* These deposit insurance coverage limits refer to the total of all deposits that an accountholder (or accountholders) has at each FDIC-insured bank. The listing above shows only the most common ownership categories that apply to individual and family deposits, and assumes that all FDIC requirements are met.

** The legislation authorizing the increase in deposit insurance coverage limits makes the change effective October 3, 2008, through December 31, 2009.

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 DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market. Congress defined this mission in (their) 1970 charter. Freddie Mac buys mortgage loans from banks, thrifts and other financial intermediaries, and re-sells these loans to investors, or keeps them for their own portfolio, profiting from the difference between their funding costs and the yield generated by the mortgages.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The principal amount of a bond returned by the maturity date.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PUBLIC TIME DEPOSITS (Term Certificates Of Deposit): Time deposits are issued by depository institutions against funds deposited for a specified length of time. Time deposits include instruments such as deposit notes. They are distinct from certificates of deposit (CDs) in that interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similar to that of money market instruments.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TLGP: Treasury Liquidity Guarantee Program. The FDIC has created the Treasury Liquidity Guaranty Program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies. The TLGP is expected to end on June 30, 2012.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX II

Table of Authorized Investments

The following table is for reference purposes only, and where any provision herein conflicts with any provision of the Investment Policy, the Investment Policy controls.

				CCSF Requirements October 2008		
#	**Investment Set**	**Investment Policy Location**	**Investment Type**	**Maximum Maturity in Days**	**Max % of Portfolio**	**Additional Quality Requirements**
1	Bank & Thrift	7.1	Public Time Deposits (Term Certificates Of Deposit) / FDIC, Collateralized	1825	100%	S.F Office., Yield>T +.125%,Collateralized at 110% per code 53651
2	Bank & Thrift	7.2	Public Demand Deposits/ FDIC, Collateralized	1825	100%	Collateralized at 110% per code 53651
3	Bank & Thrift	7.3	Negotiable Certificates of Deposit / not FDIC/Collateralized	1825	30%	Top 5 largest banks
4	Securities and MM Instruments	7.4	Securities and MM Instruments	1825		
5	Treasury	7.5	US Treasury, Fixed Rates	1825	100%	
6	U.S Agencies	7.60	All US Agencies*	1825	60%	
7	U.S Agencies	7.61	FHLMC	1825	30%	
8	U.S Agencies	7.61	FNMA	1825	30%	
9	U.S Agencies	7.62	Farmer Mac	1825	10%	Maturity Constraint
10	U.S Agencies	7.62	FFCB	1825	30%	Maturity Constraint
11	U.S Agencies	7.62	FHLB	1825	30%	Maturity Constraint
12	U.S Agencies	7.62	RTC	1825	5%	Maturity Constraint
13	U.S Agencies	7.62	TVA	1825	10%	Maturity Constraint
14	Commercial Paper	7.7	Commercial Paper - Select Agencies	270		Highest Grade by at least 1 rating agency
15	Commercial Paper	7.7	Commercial Paper - Other Agencies	270		Highest Grade by at least 1 rating agency
16	Bankers' Acceptances	7.8	Bankers' Acceptances	1825	40%	
17	Repo	7.9	Repurchase Agreements	30		
18	Repo	7.10	Reverse Repo & Securities Lending	45		<= $75mm
19	TLGP	7.12.1	Treasury Liquidity Guarantee Program	1825	30%	
20	Valid First Priority Security Interest	7.13	Valid First Priority Security Interest	0	0%	Not considered prudent now
21	State of California	7.14	State of California Obligations	1825	10%	
22	State of California	7.15	Local Agency Investment Fund (LAIF)	1825		

APPENDIX III
California Government Code Section 53601 as of October 14, 2008

This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having money in a sinking fund or money in its treasury not required for the immediate needs of the local agency may invest any portion of the money that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) 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.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 United States in addition to California,, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) 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.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.
This subdivision does not preclude a municipal utility district from investing any money in its treasury in any manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
(1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars ($500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).
(2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).
Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their money in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) 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. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section

53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.
(2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met: (A) The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale. (B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio. (C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. (D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency. (B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank: (i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness. (ii) Financing of a local agency's activities. (iii) Acceptance of a local agency's securities or funds as deposits.
(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. (B) "Securities," for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity. (C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements. (D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral. (E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods. (F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) 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 United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency's money that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
(2) 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.).
(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange

Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and with assets under management in excess of five hundred million dollars ($500,000,000).
(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).
(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's money that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive.
(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).