NEW ISSUE BOOK-ENTRY ONLY **RATINGS: (See "RATINGS" herein)**

In the opinion of Nixon Peabody LLP and Quateman LLP, Co-Special Counsel, under existing statutes, regulations, rulings and court decisions and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the City and certain 501(c)(3) Tenants, described herein, the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Series 2007A Certificates (the "Series 2007A Interest Portion") is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, Co-Special Counsel is of the opinion the Series 2007A Interest Portion of each Base Rental payment is not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. However, the Series 2007A Interest Portion of each Base Rental payment received by or allocated to a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability. Co-Special Counsel is also of the opinion that the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Series 2007B Certificates (the "Series 2007B Interest Portion") is included in gross income for federal income tax purposes. Co-Special Counsel is further of the opinion that the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Certificates is exempt from personal income taxes of the State of California (the "State") under present State law. See "TAX MATTERS" herein.

$153,700,000
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
consisting of

$152,120,000
Certificates of Participation,
Series 2007A
(City Office Buildings – Multiple Properties Project)

$1,580,000
Certificates of Participation,
Taxable Series 2007B
(City Office Buildings – Multiple Properties Project)

Evidencing Proportionate Interests of the Holders Thereof in a Project Lease,
Including the Right to Receive Base Rental Payments to be Made by the
CITY AND COUNTY OF SAN FRANCISCO

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

The $153,700,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, consisting of $152,120,000 of Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project) (the "Series 2007A Certificates") and $1,580,000 of Certificates of Participation, Taxable Series 2007B (City Office Buildings – Multiple Properties Project) (the "Series 2007B Certificates" and together with the Series 2007A Certificates, the "Certificates"), are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2007 (the "Trust Agreement"), between the City and County of San Francisco (the "City"), and Deutsche Bank National Trust Company, as trustee (the "Trustee"). The Series 2007A Certificates are being executed and delivered to provide funds to: (i) finance the acquisition of the portion of existing office buildings located at One South Van Ness Avenue, San Francisco, California (the "One South Van Ness Property") and 1650 Mission Street, San Francisco, California, (the "Mission Street Property") which are occupied by various City departments or certain tenants ("501(c)(3) Tenants") which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501(c)(3) of the Code; (ii) improve portions of the One South Van Ness Property, the Mission Street Property and existing City-owned office building located at 30 Van Ness Avenue, San Francisco, California (the "30 Van Ness Property") which are occupied by various City departments or are subleased to certain 501(c)(3) Tenants; (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007A Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007A Certificates; and (v) pay costs of delivery of the Series 2007A Certificates. The Series 2007B Certificates are being executed and delivered to provide funds to: (i) finance the acquisition of the portion of the One South Van Ness Property and the Mission Street Property which the City will sublease to either non-governmental tenants or non-501(c)(3) Tenants; (ii) improve portions of the One South Van Ness Property, Mission Street Property and 30 Van Ness Property which are subleased to either non-governmental tenants or non-501(c)(3) Tenants; (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007B Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007B Certificates; and (v) pay costs of delivery of the Series 2007B Certificates.

The land and improvements at the One South Van Ness Property and the Mission Street Property (together, the "Leased Property"), are to be conveyed to the Trustee pursuant to a Property Lease, dated as of May 1, 2007 (the "Property Lease"), by and between the City, as lessor, and the Trustee, as lessee. The Leased Property is to be leased back to the City pursuant to a Project Lease, dated as of May 1, 2007 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee. Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay Base Rental in amounts sufficient to pay, when due, the principal and interest evidenced and represented by the Certificates. 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 thereunder (together, the "Rental Payments") for the Leased Property in its annual budget, and to make necessary annual appropriations therefor. The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to the Project Lease.

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment."

Interest evidenced and represented by the Certificates is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2007. The Certificates will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Certificates will be made in book entry form only, in the principal amount of $5,000 and integral multiples thereof. Beneficial owners of the Certificates will not receive certificates representing their interest in the Certificates, but will receive a credit balance on the books of the nominees of such purchasers. Principal and interest with respect to the Certificates will be paid by the Trustee to DTC (as described herein), which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE 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 PAYMENTS UNDER THE PROJECT LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION 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."

The scheduled payment of principal and interest on the Series 2007A Certificates when due will be guaranteed by a Municipal Bond New Issue Insurance Policy to be issued concurrently with the execution and delivery of the Series 2007A Certificates by the Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company. See "CERTIFICATE INSURANCE" and "APPENDIX H – SPECIMEN INSURANCE POLICY" herein. The scheduled payment of principal and interest on the Series 2007B Certificates when due are **not** guaranteed by a Municipal Bond New Issue Insurance Policy.

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*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.*

MATURITY SCHEDULE
(See inside cover)

The Certificates are offered when, as and if executed and received by the initial purchasers, subject to the approval of the validity of the Project Lease by Nixon Peabody LLP and Quateman LLP, Los Angeles, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about May 17, 2007.

Dated: May 3, 2007.

MATURITY SCHEDULE

Series 2007A Certificates

Certificate Payment Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2009	$2,250,000	4.00%	3.55%	79765DTH3
2010	2,335,000	4.00	3.60	79765DTJ9
2011	2,430,000	4.00	3.65	79765DTK6
2012	2,530,000	4.00	3.70	79765DTL4
2013	2,630,000	5.00	3.75	79765DTM2
2014	2,760,000	5.00	3.80	79765DTN0
2015	2,900,000	3.50	3.87	79765DTP5
2016	3,000,000	5.00	3.88[C]	79765DTQ3
2017	3,150,000	5.00	3.91[C]	79765DTR1
2018	3,310,000	5.00	3.98[C]	79765DTS9
2019	3,475,000	5.00	4.04[C]	79765DTT7
2020	3,645,000	4.50	4.34[C]	79765DTU4
2021	3,810,000	4.50	4.39[C]	79765DTV2
2022	3,980,000	4.50	4.44[C]	79765DTW0
2023	4,160,000	4.50	4.49[C]	79765DTX8
2024	4,350,000	5.00	4.22[C]	79765DTY6
2025	4,565,000	4.50	4.46[C]	79765DTZ3
2026	4,770,000	4.50	4.47[C]	79765DUA6
2027	4,985,000	4.50	4.48[C]	79765DUB4
2028	5,210,000	4.50	4.49[C]	79765DUC2
2029	5,445,000	3.25	4.55	79765DUD0
2030	5,620,000	3.25	4.56	79765DUE8
2031	5,805,000	3.25	4.57	79765DUF5

$12,275,000 4.75% Series 2007A Term Certificate due September 1, 2033, Yield 4.40%[C], CUSIP[†] 79765DUG3

$28,130,000 4.50% Series 2007A Term Certificate due September 1, 2037, Yield 4.55%, CUSIP[†] 79765DUH1

$24,600,000 4.50% Series 2007A Term Certificate due September 1, 2040, Yield 4.58%, CUSIP[†] 79765DUJ7

Series 2007B Certificates

Certificate Payment Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2008	$1,580,000	5.25%	5.25%	79765DUK4

[†] CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is set forth for convenience of reference only. The City assumes no responsibility for the accuracy of such data. CUSIP numbers are provided only for the convenience of the reader. The City takes no responsibility for any changes to or errors in this list of CUSIP numbers.

[C] Priced to optional prepayment on September 1, 2014.

CITY AND COUNTY OF SAN FRANCISCO

Gavin Newsom, *Mayor*

BOARD OF SUPERVISORS

Aaron Peskin, *President, District 3*

Jake McGoldrick, District 1
Michela Alioto-Pier, District 2
Ed Jew, District 4
Ross Mirkarimi, District 5
Chris Daly, District 6

Sean Elsbernd, District 7
Bevan Dufty, District 8
Tom Ammiano, District 9
Sophie Maxwell, District 10
Gerardo Sandoval, District 11

CITY AND COUNTY OFFICIALS

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

PROFESSIONAL SERVICES

Nixon Peabody LLP
QUATEMAN LLP
Co-Special Counsel

CSG Advisors Incorporated
Causeway Financial Consulting
Co-Financial Advisors

Deutsche Bank National Trust Company
Trustee

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the 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.

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

The information set forth herein provided by parties other than 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. Further, a wide variety of information, including financial information, concerning the City is available from the City, City departments and agencies, and their respective publications and websites. No such information is part of or incorporated into this Official Statement, except as expressly noted herein. Any such information that is inconsistent with the information in this Official Statement should be disregarded. The information in "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM" hereto has been furnished by The Depository Trust Company and no representation has been made by the City, the Co-Financial Advisors or the initial purchasers of the Certificates as to the accuracy or completeness of such information. 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.

When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Lehman Brothers (the "Underwriter") has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The execution and delivery of the Certificates have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder for the execution and delivery of municipal securities.

This Official Statement and the information contained herein are in a form deemed final by the City for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended.

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(City Office Buildings – Multiple Properties Project)

$1,580,000
Certificates of Participation,
Taxable Series 2007B
(City Office Buildings – Multiple Properties Project)

Evidencing Proportionate Interests of the Holders 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, which includes the cover page and appendices hereto (this "Official Statement"), provides certain information concerning the execution and delivery of $153,700,000 aggregate principal amount of the City and County of San Francisco Certificates of Participation consisting of $152,120,000 Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project) (the "Series 2007A Certificates") and $1,580,000 of Certificates of Participation, Taxable Series 2007B (City Office Buildings – Multiple Properties Project) (the "Series 2007B Certificates" and together with the Series 2007A Certificates, the "Certificates"), which are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2007 (the "Trust Agreement"), between the City and County of San Francisco (the "City"), and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Any capitalized term not defined herein shall have the meaning given to such term in "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – Definitions."

The Series 2007A Certificates are being executed and delivered to provide funds to: (i) finance the acquisition of the portion of existing office buildings located at One South Van Ness Avenue, San Francisco, California (the "One South Van Ness Property") and 1650 Mission Street, San Francisco, California, (the "Mission Street Property") which are occupied by various City departments or certain tenants ("501(c)(3) Tenants") which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501(c)(3) of the Code (the "Acquisition Project A"); (ii) improve portions of the One South Van Ness Property, the Mission Street Property and existing City-owned office building located at 30 Van Ness Avenue, San Francisco, California (the "30 Van Ness Property") which are occupied by various City departments or are subleased to certain 501(c)(3) Tenants (the "Renovation Project A"); (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007A Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007A Certificates; and (v) pay costs of delivery of the Series 2007A Certificates. The Series 2007B Certificates are being executed and delivered to provide funds to: (i) finance the acquisition of the portion of the One South Van Ness Property and the Mission Street Property which the City will sublease to either non-governmental tenants or non-501(c)(3) Tenants (the "Acquisition Project B"); (ii) improve portions of the One South Van Ness Property, Mission Street Property and 30 Van Ness Property which are subleased to either non-governmental tenants or non-501(c)(3) Tenants (the "Renovation Project B" and together with the Acquisition Project A, Renovation Project A and Acquisition Project B, the "Project"); (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007B Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007B Certificates; and (v) pay costs of delivery of the Series 2007B Certificates. See "THE PROJECT" and "PLAN OF FINANCE" herein.

The land and improvements at the One South Van Ness Property and the Mission Street Property (together, the "Leased Property"), are to be conveyed to the Trustee pursuant to a Property Lease, dated as of May 1, 2007 (the "Property Lease"), by and between the City, as lessor, and the Trustee, as lessee. The Leased Property is to be leased back to the City pursuant to a Project Lease, dated as of May 1, 2007 (the "Project Lease"), by and between the Trustee, as lessor, and the City, as lessee.

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. Copies of all legal documents are available at the City's Office of Public Finance or the Trustee.

Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay to the Trustee specified base rental ("Base Rental") payments in amounts sufficient to pay, when due, the principal and interest evidenced and represented by the Certificates, and to pay certain Additional Rental payments (together with the Base Rental payments, the "Rental Payments") for use and occupancy of the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein. Under the Project Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments in its annual budget and to make the necessary annual appropriations therefor. The Project Lease provides that said covenants of the City are deemed by the City to be and shall be construed to be ministerial duties imposed by law.

Under the Project Lease, the Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. The City anticipates that it will have use and occupancy of the Leased Property on or about May 17, 2007. The City estimates that Final Completion of the Project will occur on or about March 31, 2010. No assurances can be given that Final Completion of the Project will be achieved by this date. See "THE PROJECT – Description of the Project."

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS UNDER THE PROJECT LEASE 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 PAYMENTS UNDER THE PROJECT LEASE CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION 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."

The scheduled payment of principal and interest on the Series 2007A Certificates when due will be guaranteed by a Municipal Bond New Issue Insurance Policy to be issued concurrently with the execution and delivery of the Series 2007A Certificates by the Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty"). See "CERTIFICATE INSURANCE" and "APPENDIX H – SPECIMEN INSURANCE POLICY" herein. The scheduled payment of principal and interest on the Series 2007B Certificates when due are **not** guaranteed by a Municipal Bond New Issue Insurance Policy.

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

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

THE CERTIFICATES

General Terms

The Certificates are being executed and delivered in the aggregate principal amount of $153,700,000 and will be dated their date of delivery. Interest evidenced and represented by the Certificates is payable on March 1 and September 1 of each year, commencing on September 1, 2007 (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 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 thereon 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 with respect thereto 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, interest thereon 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 with respect to the Certificates will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Certificates will be delivered in registered form, without coupons, 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 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. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Prepayment of the Series 2007A Certificates

Optional Prepayment. The Series 2007A Certificates with a Certificate Payment Date on or before September 1, 2014 are not subject to optional prepayment prior to their respective fixed Certificate Payment Dates. The Series 2007A Certificates with a Certificate Payment Date on or after September 1, 2015 are subject to optional prepayment prior to their respective fixed Certificate Payment Dates, at the option of the City, in the event the City exercises its option under the Project Lease to prepay the principal component of Base Rental payments, as a whole or in part, on any date on or after September 1, 2014, (expressed as a percentage of the principal component to be prepaid), plus accrued but unpaid interest to the date fixed for prepayment.

Special Mandatory Prepayment. The Series 2007A Certificates will be 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 $12,275,000 Series 2007A Certificate maturing September 1, 2033, is subject to prepayment prior to its stated final Certificate Payment Date, in part, by lot, from mandatory sinking account payments, at the principal amount thereof, without premium, on September 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (September 1)	Sinking Account Payment Amount
2032	$ 5,995,000
2033†	6,280,000

† Final Certificate Payment Date.

The $28,130,000 Series 2007A Certificate maturing September 1, 2037, is subject to prepayment prior to its stated final Certificate Payment Date, in part, by lot, from mandatory sinking account payments, at the principal amount thereof, without premium, on September 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (September 1)	Sinking Account Payment Amount
2034	$ 6,575,000
2035	6,870,000
2036	7,180,000
2037†	7,505,000

† Final Certificate Payment Date.

The $24,600,000 Series 2007A Certificate maturing September 1, 2040, is subject to prepayment prior to its stated final Certificate Payment Date, in part, by lot, from mandatory sinking account payments, at the principal amount thereof, without premium, on September 1 in each of the years and in the amounts set forth below:

Sinking Account Payment Date (September 1)	Sinking Account Payment Amount
2038	$ 7,840,000
2039	8,195,000
2040†	8,565,000

† Final Certificate Payment Date.

Prepayment of the Series 2007B Certificates

No Optional Prepayment. The Series 2007B Certificates are not subject to optional prepayment prior to their respective fixed Certificate Payment Dates.

Special Mandatory Prepayment. The Series 2007B Certificates will be 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.

No Mandatory Sinking Account Installment Prepayment. The Series 2007B Certificates are not subject to mandatory sinking account installment prepayment prior to their respective fixed Certificate Payment.

Additional Prepayment Terms

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 Certificates are to be prepaid, the City will direct the principal amount of each Certificate Payment Date to be prepaid. Within a 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 by Electronic Notice or mailed by the Trustee, first class, postage prepaid, at least thirty (30) but not more than forty-five (45) days before any prepayment date, to the respective registered Owners of any Certificates designated for prepayment at their addresses appearing on the registration books maintained by the Trustee. Notice is also required to be given to certain depositories and information services as described in the Trust Agreement. Each notice of prepayment will state the Certificates or designated portions thereof to be prepaid, the prepayment date, the place or places of prepayment, the prepayment price, the CUSIP numbers (if any) of the Certificates to be prepaid, the Certificate numbers of the Certificates to be prepaid in whole or in part, and, in the case of any Certificate being prepaid in part only, the amount of such Certificate to be prepaid, and the original issue date and the stated Certificate Payment Date of each Certificate to be prepaid. Each such notice will also state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid, the prepayment price together with interest accrued but unpaid to the prepayment date, and that from and after such prepayment date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such prepayment. The City shall have the right to rescind any notice of prepayment of Certificates by written notice to the Trustee on or prior to the date fixed for prepayment. Each notice of prepayment relating to a prepayment shall state that such prepayment may be rescinded by the City. Any such notice of prepayment shall be cancelled and annulled if for any reason funds are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute a default under any agreement or obligation. The Trustee shall mail a notice of rescission of prepayment in the same manner as the related notice of prepayment was originally provided.

Effect of Prepayment. Notice of prepayment having been duly given as aforesaid, and monies for payment of the prepayment price of, together with interest accrued to the date fixed for prepayment with respect to the Certificates (or portions thereof) so called for prepayment being held by the Trustee, on the prepayment date designated in such notice, the Certificates (or portions thereof) so called for prepayment will become due and payable, interest with respect to the Certificates so called for prepayment will cease to accrue, such Certificates (or portions thereof) will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price and interest accrued to the date fixed for prepayment.

Cancellation of Optional Prepayment. If the Certificates are subject to optional prepayment, and the Trustee does not have monies sufficient to prepay all of the Certificates proposed to be prepaid on or prior to the date fixed for prepayment, 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. 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.

The Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each Certificate Payment Date of the Certificates in the aggregate principal amount represented thereby, and will be deposited with DTC. For further information concerning the Book-Entry Only System, see "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

The Certificates represent Base Rental payments required of the City to be made to the Trustee under the Project Lease so long as the City has use and occupancy of the Leased Property. The Certificates are executed and delivered under and pursuant to the Trust Agreement, payable solely from: (i) all Base Rental payments received by the Trustee from the City, including Base Rental derived from receipts of the Trustee from the lease of the Leased Property, but excluding certain indemnification rights and rights to payment of expenses retained by 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), (iii) proceeds of rental interruption insurance policies with respect to the Leased Property, (iv) all amounts on hand from time to time in the Reserve Fund and the Base Rental Fund established under the Trust Agreement 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.

Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient 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.

Base Rental Payments; Abatement; Capitalized Interest

The Trustee will collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the City must immediately be paid by the City to the Trustee. 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 amounts 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.

Except to the extent of: (i) available amounts in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received with respect to rental interruption insurance and (iii) amounts, if any, otherwise legally available to the City for payments under the Project Lease or to the Trustee for payments with respect to the Certificates, Rental Payments under the Project Lease are subject to abatement during any period in which, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or defects in title to the Leased Property or any portion thereof, there is substantial interference with the City's right to the use and occupancy of the Leased Property or any portion thereof. The amount of annual rental abatement would be such that the resulting Rental Payments in any Project Lease Year during which such interference continues, excluding any amounts described in the previous sentence, 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. Any abatement of Base Rental payments could affect the payments with respect to the Certificates, although the Project Lease requires the City to maintain rental interruption insurance and the Trust Agreement requires the establishment of a Reserve Fund. The rental interruption insurance will cover only rental interruptions due to the perils covered by the property insurance required to be maintained by the City under the Project Lease and therefore will not likely cover abatement due to, among other things, earthquake damage. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance" and "CERTAIN RISK FACTORS – Abatement" herein. See also "– Replacement, Maintenance and Repairs" below for additional provisions governing damage to the Leased Property.

The City is only obligated to pay Base Rental from its general funds when it has use and occupancy of the Leased Property. See "THE PROJECT – Description of the Project." Interest will be capitalized and deposited into the Base Rental Fund in an amount sufficient to pay a portion of the interest evidenced by the Certificates through February 17, 2008. The City anticipates that it will have use and occupancy of the Leased Property on or about May 17, 2007.

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 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. Such covenants are subject to the provisions under the Project Lease regarding abatement of the City's obligation to pay Base Rental in the event of the City's loss of use and occupancy of all or a portion of the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Base Rental Payments; Abatement; Capitalized Interest" herein.

IF THE CITY DEFAULTS ON ITS COVENANT IN THE PROJECT LEASE TO INCLUDE ALL RENTAL PAYMENTS IN THE APPLICABLE ANNUAL BUDGET, THE TRUSTEE MAY EITHER RELET 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. SUCH OBLIGATIONS TO BUDGET AND MAKE SUCH RENTAL PAYMENTS DO NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION, NOR DO SUCH

OBLIGATIONS CONSTITUTE OBLIGATIONS 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.

The Reserve Fund

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee. Within the Reserve Fund the Trust Agreement establishes a special trust account for each series of Certificates designated "Series 2007A Reserve Account" and "Series 2007B Reserve Account." Simultaneously with the delivery of the Series 2007A Certificates, the City will cause to be deposited into the Series 2007A Reserve Account established under the Trust Agreement a portion of the proceeds of the 2007A Certificates, which amount is at least equal to the Series 2007A Reserve Requirement. "Series 2007A Reserve Requirement" is defined under the Trust Agreement to mean "as of any date of calculation, the least of: (i) 100% of the maximum annual principal and interest payable with respect to the Series 2007A Certificates in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of the average annual principal and interest payable with respect to the Series 2007A Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Series 2007A Certificates or (iii) 10% of the principal amount of Series 2007A Certificates originally executed and delivered." As of the date of delivery of the Series 2007A Certificates, the Series 2007A Reserve Requirement is equal to $8,951,862.50. Simultaneously with the delivery of the Series 2007B Certificates, the City will cause to be deposited into the Series 2007B Reserve Account established under the Trust Agreement a portion of the proceeds of the Series 2007B Certificates, which amount is at least equal to the Series 2007B Reserve Requirement. The Series 2007B Reserve Requirement is equal to ten percent of the principal amount of the Series 2007B Certificates. As of the date of delivery of the Series 2007B Certificates, the Series 2007B Reserve Requirement is equal to $158,000.00. The Series 2007A Reserve Requirement together with the Taxable Series 2007B Reserve Requirement is defined in the Trust Agreement as the "Reserve Requirement."

The City has the right to substitute a qualifying credit facility (the "Credit Facility") for all or a portion of the amount of the Reserve Requirement; provided that such substitution of a Credit Facility for the funds held by the Trustee in the Reserve Fund (or the applicable account thereof): (i) must not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates (and the City must notify each Rating Agency prior to making any such substitution) and (ii) prior to any such substitution becoming effective, the Trustee must receive an opinion of Independent Counsel stating that such substitution will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the interest and principal payments due with respect to the Certificates on such date, then the Trustee is required to transfer from the Reserve Fund pro rata based on aggregate principal amount of each Series of Certificates then outstanding for credit to the Base Rental Fund amounts sufficient to make up such deficiencies. Any monies in the Reserve Fund in excess of the Reserve Requirement pro rata based on aggregate principal amount of each Series of Certificates then outstanding on each March 1 and September 1, commencing September 1, 2007, and at such other time or times as directed by the City in writing, will be transferred to the Base Rental Fund and applied to the payment of the principal of and interest payable with respect to the Certificates on the next succeeding Interest Payment Date or transferred to such other funds as may be designated in such written order.

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, substitute or replace any such portion of the Leased Property if 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 TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – The Project Lease."

Insurance

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 Project only if such insurance is not provided by the contractor under the construction contract for the Project): (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 per occurrence, (ii) property insurance on all structures constituting any part of the Leased Property in an amount equal to the greater of 100% of the replacement costs of the Leased Property (less the applicable deductible amount) or, to the extent commercially available, an amount equal to the maximum aggregate principal amount of Certificates Outstanding during the applicable policy period, (iii) earthquake insurance (to the extent commercially available) in an amount equal to the lesser of the Outstanding principal amount of the Certificates or the replacement cost of the Leased Property; 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 at reasonable costs on the open market from reputable insurance companies (See "CERTAIN RISK FACTORS – Seismic Risks" herein), (iv) boiler and machinery insurance with a property damage limit of not less than $5,000,000 per accident, (v) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Project Lease for a period of at least twenty-four (24) months (to be adjusted annually on or prior to March 1, commencing March 1, 2008, to reflect the actual scheduled Base Rental payments due under the Project Lease for the next succeeding twenty-four (24) months) to insure against loss of rental income from the Leased Property caused by the perils covered by the insurance described in (ii) and (iii) above, and such insurance shall not be subject to any deductible and (vi) builders' risk insurance in an amount equal to the replacement cost of the improvements relating to the Project, which insurance shall be outstanding until Final Completion of the Project. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – The Project Lease – Insurance." The Project Lease permits the City to adopt alternative risk management programs meeting the terms and conditions of the Project Lease 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). See also "CERTAIN RISK FACTORS – Seismic Risks."

Application of Insurance Proceeds

Under the Trust Agreement, upon the damage or destruction of the Leased Property or any portion thereof, the City is to make an election either to prepay the Certificates or to repair or replace the Leased Property or affected portion thereof in accordance with the provisions of the Project Lease. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – The Trust Agreement – Application of Insurance Proceeds."

Eminent Domain

If all of the Leased Property or so much of the Leased Property as to render the remainder thereof 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 TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – Trust Agreement – Eminent Domain" and "– The Project Lease – Eminent Domain."

Addition, Release and Substitution

If no event of default under the Project Lease has occurred and is then continuing, the Project Lease permits the City with the consent of the Trustee to amend the Project Lease to release any portion of the Leased Property or to add other property and improvements to the Leased Property or to substitute other property for all or any portion of the Leased Property provided the City complies with the provisions of the Project Lease requiring, among other items, that the City deliver to the Trustee, Financial Guaranty and the Rating Agencies: (i) a certificate of a City Representative stating that the annual fair rental value of the property which 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 Lease Year or in any subsequent Lease Year, (ii) a fair market appraisal from the Director of Real Estate of the City setting forth the annual fair rental value and the fair replacement value of the property which will constitute the Leased Property or any portion thereof after such addition, release or substitution and evidencing that such fair replacement value is equal to or greater than the principal amount of the Certificates then Outstanding; provided that no such appraisal shall be necessary for the release from the Project Lease and the Property Lease, following Final Completion of the Project, of portions of the Site and the improvements thereon, other than the Project and the portion of the Site directly under the Project; it being the intent of the parties that following Final Completion, the Leased Property shall consist solely of the Project and the portion of the Site upon which the Project is located; (iii) a certificate of a City Representative stating that the useful life of the Leased Property constituting the Leased Property after such addition, release or substitution meets or exceeds the remaining term of the Certificates and (iv) an opinion of Independent Counsel that such 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. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – The Project Lease – Addition, Release and Substitution."

City Budget and Finances

For a discussion of the budget and finances of the City, see "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – CITY BUDGET AND FINANCES" and "APPENDIX C – COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

Investment Policy

For a discussion of the City's investment policy regarding pooled cash, see "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – INVESTMENT POLICY."

CERTIFICATE INSURANCE

The information regarding Financial Guaranty and its insurance policy is applicable only to the Series 2007A Certificates. The scheduled payment of principal and interest on the Series 2007B Certificates when due are not guaranteed by a Municipal Bond New Issue Insurance Policy. *The following information has been provided by Financial Guaranty for inclusion in this Official Statement. Reference is made to APPPENDIX H for a specimen of Financial Guaranty's Municipal Bond New Issue Insurance Policy. No representation is made by the City, Lehman Brothers (the "Underwriter"), Co-Special Counsel or the Co-Financial Advisors as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.*

Payments Under the Policy

Concurrently with the execution and delivery of the Series 2007A Certificates, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Series 2007A Certificates (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Series 2007A Certificates which has become due for payment, but shall be unpaid by reason of nonpayment by the City of the Series 2007A Certificates. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Series 2007A Certificates or the trustee or paying agent (if any) of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Series 2007A Certificates to its owner upon receipt by the

Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 2007A Certificate includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Series 2007A Certificate which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Series 2007A Certificates on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Series 2007A Certificates may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Series 2007A Certificates is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Series 2007A Certificate, appurtenant coupon or right to payment of principal or interest on such Series 2007A Certificate and will be fully subrogated to all of the rights of the holder of the Series 2007A Certificates thereunder.

The Policy does not insure any risk other than Nonpayment by the City, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the Series 2007A Certificates, Financial Guaranty may be granted certain rights under the Series 2007A Certificate documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 2007A Certificates may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. The Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At March 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At March 31, 2007, Financial Guaranty had net admitted assets of approximately $3.947 billion, total liabilities of approximately $2.828 billion, and total capital and policyholders' surplus of approximately $1.119 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of March 31, 2007, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "CERTIFICATE INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series 2007A Certificates shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Series 2007A Certificates, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007A Certificates. Financial Guaranty does not guarantee the market price or investment value of the Series 2007A Certificates nor does it guarantee that the ratings on the Series 2007A Certificates will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Series 2007A Certificates, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "CERTIFICATE INSURANCE." In addition, Financial Guaranty makes no representation regarding the Series 2007A Certificates or the advisability of investing in the Series 2007A Certificates.

PLAN OF FINANCE

The Series 2007A Certificates are being executed and delivered to provide funds to: (i) finance the Acquisition Project A; (ii) finance the Renovation Project A; (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007A Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007A Certificates; and (v) pay costs of delivery of the Series 2007A Certificates. The Series 2007B Certificates are being executed and delivered to provide funds to: (i) finance the Acquisition Project B; (ii) finance the Renovation Project B; (iii) fund capitalized interest payable for a portion of the interest with respect to the Series 2007B Certificates through February 17, 2008; (iv) fund the applicable account within the Reserve Fund established under the Trust Agreement for the Series 2007B Certificates; and (v) pay costs of delivery of the Series 2007B Certificates.

The Leased Property is to be conveyed to the Trustee pursuant to the Property Lease and leased back to the City pursuant to the Project Lease. Pursuant to the Project Lease, the City is required, subject to abatement in certain circumstances, to pay Base Rental in amounts sufficient to pay, when due, the principal and interest evidenced and represented by the Certificates. The City has covenanted in the Project Lease to take such action as may be necessary to include all Base Rental payments and Additional Rental payments thereunder for the Project in its annual budget, and to make necessary annual appropriations therefor. Principal and interest evidenced and represented by the Certificates are payable from the Base Rental payments and from certain funds held under the Trust Agreement.

Under the Project Lease, the Trustee agrees to acquire, construct and renovate, or cause the acquisition, construction and renovation of, the Project pursuant to plans and specifications submitted to and approved by the City from time to time. Also under the Project Lease, the Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. The City anticipates that it will have use and occupancy of the Leased Property on or about May 17, 2007. The City estimates that Final Completion of the Project will occur on or about March 31, 2010. No assurances can be given that Final Completion of the Project will be achieved by this date.

THE PROJECT

Vicinity

The Project is located in the "Civic Center" district of the City. The City's Civic Center is home to City Hall, the San Francisco Main Public Library, Louise M. Davies Symphony Hall, the Opera House, the Court Building, the War Memorial Building and the Asian Art Museum of San Francisco. The Civic Center is generally considered to be bounded by Seventh Street on the east, Howard Street on the south, Gough Street on the west and Golden Gate Avenue on the north. Federal, State, local government and government-related offices such as the San Francisco Unified School District occupy significant portions of the buildings in the area. The California State Automobile Association is also located in this area. Other area property users include non-profit entities and other public service institutions.

Description of the Project

The One South Van Ness Property

The One South Van Ness Property is located at One South Van Ness Avenue, San Francisco, California on the southeast corner of Van Ness Avenue and Mission Street and has approximately 65,000 square feet of site area. An approximately 636,538 square foot, eight-story office building (plus mezzanine and basement) with approximately 508,057 rentable square feet and a multi-level enclosed parking garage with capacity for approximately 120 automobiles are situated on the One South Van Ness Property (together, the "One South Van Ness Building"). Parking at the One South Van Ness Building is operated by Standard Parking Corporation. The One South Van Ness Building was built in 1960 and renovated in 1990.

The City currently leases portions of the 2nd, 3rd, 5th, 7th floors, together with portions at the ground floor and mezzanine level of the One South Van Ness Building, which are occupied by the City's Department of Telecommunications and Information Services, the Mayor's Office of Housing, the Mayor's Office of Community Development, the City's Redevelopment Agency and the City's Municipal Transportation Agency. The space currently leased by City departments comprises approximately 295,790 rentable square feet (approximately 58.22% of the total) of the One South Van Ness Building. The City's Department of Telecommunications and Information

Services leases approximately 60,699 rentable square feet of the One South Van Ness Building, currently only occupies approximately 22,614 rentable square feet and is scheduled to occupy the remaining 38,085 rentable square feet in December 2007.

Currently portions of the One South Van Ness Building are leased to two non-governmental tenants: California Pacific Medical Center, a non-profit public benefit corporation and 501(c)(3) Tenant ("CPMC"), and Bank of America ("BofA"). CPMC occupies approximately 132,264 rentable square feet on the 4th and 8th floors of the One South Van Ness Building. CPMC's lease expires January 31, 2012 and is subject to one, five-year option to renew. CPMC has the right to terminate its lease as of November 30, 2008 upon (i) payment by CPMC of certain unamortized tenant improvement allowances and (ii) provision of nine months' notice. CPMC has not provided notice of its intent to exercise its right to terminate its lease. Under its lease, CPMC also has a right of first opportunity to lease up to one floor in the One South Van Ness Building available for lease by a party not affiliated with the landlord. When the CPMC lease expires the City intends to use the space for either (i) expansion of a City agency or agencies already located in the One South Van Ness Building or (ii) further relocation of large City departments. BofA occupies approximately 16,892 rentable square feet on the ground floor and lower level of the One South Van Ness Building. BofA's lease expires on June 30, 2008 and is subject to nine, five-year options to renew. Under its lease, BofA has (i) a right of first refusal to purchase the One South Van Ness Property, (ii) right of first offer on this sale of the One South Van Ness Property; provided, however, to exercise such rights BofA is required to occupy 35% of the net rentable area of the One South Van Ness Building. Currently, BofA occupies less than 3.5% of the rentable space in the One South Van Ness Building. Also under its lease, the BofA has the right, once annually, to request the landlord to identify potential expansion space and rent terms. Upon identification, BofA has an option to lease all or a portion of such expansion space, subject to certain terms and conditions.

In addition, the State Compensation Insurance Fund ("State Comp") is in the process of vacating approximately 63,111 rentable square feet on the 6th floor of the One South Van Ness Building. The City expects its Municipal Transportation Agency to occupy the space vacated by State Comp. Upon such occupancy and the occupancy by the City's Department of Telecommunications and Information Services described above, the space occupied by City departments will comprise approximately 358,901 rentable square feet (approximately 70.64% of the total) of the One South Van Ness Building.

Acquisition and Renovation of the One South Van Ness Property

The City intends to use a portion of the proceeds of the Certificates to purchase and improve the One South Van Ness Property. The improvements to the One South Van Ness Building will include, but are not limited to, (i) improvements in connection with scheduled occupancy by the City's Department of Telecommunications and Information Services of approximately 38,085 rentable square feet in December 2007, (ii) improvements in connection with the occupancy by the City's Municipal Transportation Agency of space previously occupied by State Comp, (iii) replacement of the roof, (iv) upgrades and repairs to the heating, air conditioning and ventilations systems, (v) upgrades to the escalators, (vi) installation of a roof garden, (vii) improvements to access to public areas for disabled persons, (viii) improvements to security systems and (ix) water conservation measures. Currently, the City estimates that the cost of these improvements to be approximately $15,883,200, of which approximately $15,645,597 is intended to be financed with the proceeds of the Certificates. The City intends to fund the difference with certain available funds.

The Mission Street Property

The Mission Street Property is located at 1650 Mission Street, San Francisco, California on the west side of Mission Street, between 12th and 13th Streets, and has approximately 43,713 square feet of site area. An approximately 216,712 square foot, five-story office building (the "Mission Building") with approximately 182,964 rentable square feet is situated on the Mission Street Property. The Mission Building was built in 1962 and was renovated for office use in 1983. The Mission Building currently includes approximately 118 valet parking spaces. Parking at the Mission Building is operated by AMPCO Parking.

The City currently leases portions of the 2nd, 3rd, 4th and 5th floors of the Mission Building which are occupied by the City's Department of Human Services, the City's Planning Department and the City's Department of Building Inspection. The space occupied by City departments consists of approximately 170,383 rentable square feet (approximately 93.12% of the total) of the Mission Building.

Currently, portions of the Mission Building are leased to two non-governmental tenants: Spectrum Federal Credit Union ("Spectrum") and Mimi Wong & Paul Hui doing business as John's Café and Delicatessen ("John's Café"). Viacom Outdoor Inc. ("Viacom") also leases a sign on the exterior of the Mission Building. Spectrum occupies approximately 10,331 rentable square feet on the 5th floor of the Mission Building. Spectrum's lease expires October 31, 2008, subject to one, five-year option to renew. Spectrum has proposed to the City that the City accept an assignment of Spectrum's lease as of June 1, 2007 and upon acquisition of the Mission property by the City, terminate such lease. The City has accepted Spectrum's proposal. John's Café's lease expires March 31, 2008, subject to one, five-year option to renew. Viacom's exterior wall lease expires March 31, 2011. When Spectrum's lease expires the City intends to use the vacated space for either (i) expansion of a City agency or agencies already located in the Mission Building or (ii) relocation of large City departments.

Acquisition and Renovation of the Mission Street Property

The City intends to use a portion of the proceeds of the Certificates to purchase and improve the Mission Street Property. The City intends to use a portion of the proceeds of the Certificates to finance various other improvements to the Mission Building. These improvements include, but are not limited to, (i) improvements in connection with occupancy by the City's Department of Human Services, (ii) installation of a new generator, (iii) seismic upgrades, (iv) replacement of the roof, (v) interior finishes for common areas, (vi) improvements to security systems, (vii) plumbing upgrades and (viii) conversion of approximately 22 parking spaces for bicycle storage. Currently, the City estimates that the cost of these improvements will be approximately $5,911,400, of which approximately $5,804,300 is intended to be financed with the proceeds of the Certificates. The City intends to fund the difference with certain available funds.

The 30 Van Ness Property

The City acquired beneficial ownership of the 30 Van Ness Property in 2001. The City occupies approximately 89.07% of the approximately 180,939 square foot building on the 30 Van Ness Property (the "30 Van Ness Building"). The 30 Van Ness Building has approximately 40 parking spaces, two of which are fenced for secure bicycle parking and six of which are reserved for use by non-governmental tenants. The City uses the remaining 32 spaces for City-owned cars, City employees' cars and for short-term parking for building service providers. Parking at the 30 Van Ness Building is operated by the City.

The City Department of Public Health occupies approximately 34,467 square feet on the 1st and 2nd floors of the 30 Van Ness Building. The City Department of Human Services occupies approximately 8,524 rentable square feet on the 1st and 2nd floors of the 30 Van Ness building. The City Police Department occupies approximately 1,418 rentable square feet on the 2nd floor of the 30 Van Ness Building. The City Department of Human Resources occupies 31,377 square feet on the 3rd floor of the 30 Van Ness Building and approximately 1,347 square feet of the 3rd floor of the 30 Van Ness Building. The City Department of Public Works occupies approximately 84,030 square feet of the 4th and 5th floors of the 30 Van Ness Building.

Currently, portions of the rentable square feet of the 30 Van Ness Building are leased to five non-governmental tenants. Dr. Irene Koga and Dr. Daniel Ng occupy approximately 1,100 square feet on the ground floor under a lease that expires August 31, 2008. Rite Aid Corporation ("Rite Aid") occupies approximately 12,772 square feet on the ground floor. Rite Aid's lease expires August 31, 2018, subject to two, five year extensions and one, four year, eleven month extension. Boston Deli, Inc. ("Boston Deli") occupies approximately 761 square feet on the ground floor. Boston Deli's lease expires December 31, 2012. Van Ness Keno/Ice Cream occupies approximately 558 square feet on the ground floor under a lease that expires February 28, 2009. The leases described above are each for retail space on Van Ness Avenue. The City encourages ground-floor retail along Van Ness Avenue and will seek retail tenants in the event any of the current retail tenants vacate such leased space. In addition to the retail tenants described above, The Herbst Foundation, Inc., a non-profit foundation and 501(c)(3) Tenant ("Herbst"), occupies approximately 1,158 rentable square feet on the 3rd floor of the 30 Van Ness Building. The Herbst lease expires October 31, 2007. In the event Herbst vacates its space, the City intends to use the vacated space for either (i) expansion of a City agency or agencies already located in the 30 Van Ness Building or (ii) relocation of large City departments.

Renovation of the 30 Van Ness Building

The City intends to use a portion of the proceeds of the Certificates to finance various improvements to the 30 Van Ness Building. These improvements include, but are not limited to, (i) upgrades to the fire detection systems, (ii) improvements related to occupancy by the City's Department of Public Works, (iii) improvements to access to public areas for disabled persons and (iv) improvements to the mail room. Currently the City estimates that the cost of these improvements will be approximately $6,309,800, of which approximately $6,126,300 is intended to be financed with the proceeds of the Certificates. The City intends to fund the difference with certain available funds.

Projected Project Funding

Project	Amount Financed by the Certificates
Acquisition of the One South Van Ness Property	$ 71,500,000.00
Acquisition of the Mission Street Property	40,500,000.00
Renovation of the One South Van Ness Building	15,645,597.00
Renovation of the Mission Street Building	5,804,300.00
Renovation of the 30 Van Ness Building	6,126,300.00
Total estimated Project costs	$139,576,197.00

Project Acquisition Terms

One South Van Ness Property

As discussed above, the City currently leases space in the One South Van Ness Building pursuant to several office leases between the City and One South Associates, LLC, a Delaware limited liability company (the "Van Ness Property Owner"), dated December 1, 2002, July 1, 2005, February 1, 2006, April 1, 2006, September 1, 2006 and December 1, 2007, all terminating November 30, 2017 (collectively, the "Van Ness Building Leases"). Pursuant to the Van Ness Building Leases the City has the right to purchase the One South Van Ness Property (the "Van Ness Purchase Right") pursuant to the terms and conditions of that certain Agreement of Purchase and Sale for Real Estate by and between the Van Ness Property Owner and the City (the "Van Ness Purchase Agreement"). The City has exercised the Van Ness Purchase Right and has entered into the Van Ness Purchase Agreement.

Pursuant to the Van Ness Purchase Agreement the City will purchase the One South Van Ness Property including all improvements, other property of the Van Ness Property Owner thereon and certain other agreements and intangible rights. The purchase price of the One South Van Ness Property is $71,500,000.

The City is purchasing the One South Van Ness Property on an "as is with all faults" basis except with respect to certain representations of the Van Ness Property Owner regarding, (i) documents provided to the City, (ii) leases and agreements affecting the One South Van Ness Property, (iii) threats of condemnation with respect to the One South Van Ness Property, (iv) pending or threatened litigation which would have a material adverse affect on the use, operation or value of the One South Van Ness Property, (v) certain environmental matters affecting the One South Van Ness Property and (vi) third party rights to acquire an interest in the property. As such the City may be responsible for certain liabilities that arise with respect to the One South Van Ness Property. The City cannot make any assurances that any such liability will not arise or that sufficient funds will be available to pay costs associated with any such liability.

Pursuant to the Van Ness Purchase Agreement, if the Van Ness Property Owner fails to perform its obligations thereunder (including failing to close the sale of the One South Van Ness Property to the City), the City is required to make written demand for performance to the Van Ness Property Owner. If the Van Ness Property Owner fails to comply with such written demand within thirty (30) days after receipt thereof, the City may (i) waive the default and proceed to close the sale of the One South Van Ness Property to the City, (ii) decline to proceed to close the sale of the One South Van Ness Property to the City and pursue such remedies as are available at law or in equity. The City's remedies in event of such default by the Van Ness Property Owner are further limited as follows: (a) the City may only seek specific performance for the Van Ness Property Owner to remove certain title exceptions; remove certain liens; deliver the deed, bill of sale and the assignment of leases and contracts and to perform the Van Ness Property Owner's obligations with respect to the construction of certain improvements as provided in the Van Ness Purchase Agreement and (b) the City may seek damages subject to certain limitations.

The City will obtain a policy of title insurance, has conducted a property boundary line survey and has completed a survey as to the One South Van Ness Building's structural, mechanical and electrical components which listed certain deficiencies in systems that are the subject of the renovations to the One South Van Ness Building described above. See "CERTAIN RISK FACTORS – Seismic Risks."

Mission Street Property

As discussed above, the City currently leases space in the Mission Street Building pursuant to an Office Lease between the City and G&I Mission, LLC, a Delaware limited liability company (the "Mission Street Owner"), dated June 29, 2006 (the "Mission Street Lease"). Pursuant to the Mission Street Lease the City has the right to purchase the Mission Street Property (the "Mission Street Purchase Right") pursuant to the terms and conditions of that certain Agreement of Purchase and Sale for Real Estate by and between the Mission Street Owner and the City (the "Mission Street Purchase Agreement"). The City has exercised the Mission Street Purchase Right and has entered into the Mission Street Purchase Agreement.

Pursuant to the Mission Street Purchase Agreement the City will purchase the Mission Street Property including all improvements, other property of the Mission Street Owner thereon and certain other agreements and intangible rights. The purchase price of the Mission Street Property is $40,500,000.

The City is purchasing the Mission Street Property on an "as is with all faults" basis except with respect to certain representations of the Mission Street Owner regarding, (i) documents provided to the City, (ii) leases and agreements affecting the Mission Street Property, (iii) threats of condemnation with respect to the Mission Street Property, (iv) pending or threatened litigation which would have a material adverse affect on the use, operation or value of the Mission Street Property and (v) certain environmental matters affecting the Mission Street Property. As such the City may be responsible for certain liabilities that arise with respect to the Mission Street Property. The City cannot make any assurances that any such liability will not arise or that sufficient funds will be available to pay costs associated with any such liability.

Pursuant to the Mission Street Purchase Agreement, in the event the Mission Street Owner fails to close the sale of the Mission Street Property to the City, the City may either (i) terminate the Mission Street Purchase Agreement and recover reimbursement of certain expenses from the Mission Street Owner or (ii) bring an action against the Mission Street Owner for specific performance to cause the Mission Street Owner to close the sale of the Mission Street Property to the City.

The City will obtain a policy of title insurance, conduct a property boundary line survey and has completed a survey as to the Mission Street Building's structural, mechanical and electrical components which collectively listed certain deficiencies in systems of the Mission Street Building that are the subject of the renovations to the Mission Street Building described above. See "CERTAIN RISK FACTORS – Seismic Risks."

Environmental Inspections

A Phase I environmental site assessment for the One South Van Ness Property dated June 8, 2004 indicated that (i) the One South Van Ness Property contains two decommissioned 10,000-gallon diesel underground storage tanks which were filled with a concrete slurry, closed in place in 1997 and received a notice of completion from the San Francisco Department of Public Health ("SFDPH") and (ii) based on the date of construction, asbestos containing materials and lead-containing paint may be present in the One South Van Ness Building. Based on these conclusions, the assessment (i) stated that because the underground storage tanks were decommissioned in 1997 in accordance with applicable standards and to the approval of SFDPH, the issue is now considered a historical recognized environmental condition and a *de minimis* condition, (ii) recommended continued implementation of the existing operating and maintenance plan to manage any remaining known or assumed asbestos containing materials, (iii) recommended that prior to any significant remodeling or demolition, asbestos containing materials, if present, should be managed properly and (iv) recommended that prior to any significant renovation or demolition activities, testing for lead-containing paint coatings should be performed in the areas to be disturbed so lead-containing paint, if present, can be properly managed.

A Phase I environmental site assessment prepared for the City regarding the Mission Street Property dated December 20, 2001 indicated that (i) the current land use has low potential to impact the site's soil and ground water, (ii) because residual contamination remains in proximity of a former underground storage tank, prior to any soil excavation or groundwater extrusion, soil samples be collected and analyzed to determine proper handling and disposal based on the proximity of a CAFID site at 1660 Mission Street, the assessment recommended annual review of the files at the San Francisco Environmental Health Management Oversight Program and San Francisco Environmental Health Hazardous Materials Unified Program Agency to determine whether the site has been closed or if further investigation has been performed regarding the extent of contamination.

Asbestos-Containing Materials and Lead-Containing Paint

An environmental site assessment for the Mission Street Property concluded that there were no asbestos-containing materials or lead-containing paint on the Mission Street Property since extensive renovations were undertaken on the Mission Street Property after legislation had been passed prohibiting the use of asbestos-containing materials and lead-based paint. Further, an asbestos survey conducted in 1992 did not detect any asbestos-containing materials.

A hazardous materials survey report prepared for the City regarding the One South Van Ness Property disclosed asbestos-containing materials and lead-containing paint in various locations.

As required by law, the City will be implementing an Asbestos Operation and Maintenance Program at both the Mission Street Property and the One South Van Ness Property. Any work to remove loose or peeling paint containing concentrations of lead at 1.0 mg/cm^2 or greater, or involving suspect areas with said concentrations, will include work conducted by a licensed contractor, and by workers with the California Department of Health Services certification in lead-related construction, utilizing work practices specified in the HUD Guidelines and in full compliance with the Cal-OSHA Lead-in Construction Standards.

Except as described herein, the reports described above were not prepared for or by the City and no further reports or evaluations have been undertaken by the City with respect to environmental matters.

Project Status and Final Completion Date

The term "Final Completion" means the acquisition and installation of improvements to and the substantial readiness of the Project (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 filed with the Trustee pursuant to the Project Lease, stating that the Project has been completed. The City anticipates that it will have use and occupancy of the Leased Property on or about May 17, 2007. The City estimates that Final Completion of the Project will occur on or about March 31, 2010. No assurances can be given that Final Completion of the Project will be achieved by this date.

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ESTIMATED SOURCES AND USES OF FUNDS

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

	Series 2007A Certificates	Series 2007B Certificates	Total
Sources of Funds:			
Certificate Par Amount	$152,120,000.00	$1,580,000.00	$153,700,000.00
Less: Net Original Issue Discount	(1,855,753.50)	--	(1,855,753.50)
Total Sources:	$150,264,246.50	$1,580,000.00	$151,844,246.50
Uses of Funds:			
Project Fund	$138,180,435.03	$1,395,761.97	$139,576,197.00
Base Rental Fund[(1)]	570,087.16	6,097.22	576,184.38
Reserve Fund	8,951,862.50	158,000.00	9,109,862.50
Underwriter's Discount[(2)]	1,213,235.20	4,345.00	1,217,580.20
Costs of Delivery[(3)]	1,348,626.61	15,813.81	1,364,440.42
Total Uses:	$150,264,246.50	$1,580,000.00	$151,844,246.50

(1) Represents capitalized interest for a portion of the interest with respect to the Certificates through February 17, 2008.

(2) Includes an amount to be wired directly to Financial Guaranty by the Underwriter for payment of the Municipal Bond New Issue Insurance Policy for the Series 2007A Certificates.

(3) Includes amounts for legal fees, Trustee's fees and expenses, financial advisory fees, rating agency fees, appraisals and property condition report fees, escrow and title insurance fees, market study fees, rounding amounts, printing costs and any other delivery costs.

BASE RENTAL PAYMENT SCHEDULE

The Project Lease requires the City to make Base Rental payments in arrears on each February 25 and August 25, commencing August 25, 2007, 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 March 1 and September 1 of each year, commencing on September 1, 2007, 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.

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SERIES 2007A CERTIFICATES
DEBT SERVICE SCHEDULE

SERIES 2007B CERTIFICATES
DEBT SERVICE SCHEDULE

Payment Date	Principal	Interest	Semi-Annual Debt Service	Payment Date	Principal	Interest	Semi-Annual Debt Service	Fiscal Year Debt Service
9/1/07		$ 1,936,093.61	$ 1,936,093.61	9/1/07		$ 23,963.33	$ 23,963.33	
3/1/08		3,350,931.25	3,350,931.25	3/1/08		41,475.00	41,475.00	$ 5,352,463.19
9/1/08		3,350,931.25	3,350,931.25	9/1/08	$ 1,580,000.00	41,475.00	1,621,475.00	
3/1/09		3,350,931.25	3,350,931.25					6,701,862.50
9/1/09	$2,250,000.00	3,350,931.25	5,600,931.25					
3/1/10	-	3,305,931.25	3,305,931.25					8,906,862.50
9/1/10	2,335,000.00	3,305,931.25	5,640,931.25					
3/1/11	-	3,259,231.25	3,259,231.25					8,900,162.50
9/1/11	2,430,000.00	3,259,231.25	5,689,231.25					
3/1/12	-	3,210,631.25	3,210,631.25					8,899,862.50
9/1/12	2,530,000.00	3,210,631.25	5,740,631.25					
3/1/13	-	3,160,031.25	3,160,031.25					8,900,662.50
9/1/13	2,630,000.00	3,160,031.25	5,790,031.25					
3/1/14	-	3,094,281.25	3,094,281.25					8,884,312.50
9/1/14	2,760,000.00	3,094,281.25	5,854,281.25					
3/1/15	-	3,025,281.25	3,025,281.25					8,879,562.50
9/1/15	2,900,000.00	3,025,281.25	5,925,281.25					
3/1/16	-	2,974,531.25	2,974,531.25					8,899,812.50
9/1/16	3,000,000.00	2,974,531.25	5,974,531.25					
3/1/17	-	2,899,531.25	2,899,531.25					8,874,062.50
9/1/17	3,150,000.00	2,899,531.25	6,049,531.25					
3/1/18	-	2,820,781.25	2,820,781.25					8,870,312.50
9/1/18	3,310,000.00	2,820,781.25	6,130,781.25					
3/1/19	-	2,738,031.25	2,738,031.25					8,868,812.50
9/1/19	3,475,000.00	2,738,031.25	6,213,031.25					
3/1/20	-	2,651,156.25	2,651,156.25					8,864,187.50
9/1/20	3,645,000.00	2,651,156.25	6,296,156.25					
3/1/21	-	2,569,143.75	2,569,143.75					8,865,300.00
9/1/21	3,810,000.00	2,569,143.75	6,379,143.75					
3/1/22	-	2,483,418.75	2,483,418.75					8,862,562.50
9/1/22	3,980,000.00	2,483,418.75	6,463,418.75					
3/1/23	-	2,393,868.75	2,393,868.75					8,857,287.50
9/1/23	4,160,000.00	2,393,868.75	6,553,868.75					
3/1/24	-	2,300,268.75	2,300,268.75					8,854,137.50
9/1/24	4,350,000.00	2,300,268.75	6,650,268.75					
3/1/25	-	2,191,518.75	2,191,518.75					8,841,787.50
9/1/25	4,565,000.00	2,191,518.75	6,756,518.75					
3/1/26	-	2,088,806.25	2,088,806.25					8,845,325.00
9/1/26	4,770,000.00	2,088,806.25	6,858,806.25					
3/1/27	-	1,981,481.25	1,981,481.25					8,840,287.50
9/1/27	4,985,000.00	1,981,481.25	6,966,481.25					
3/1/28	-	1,869,318.75	1,869,318.75					8,835,800.00
9/1/28	5,210,000.00	1,869,318.75	7,079,318.75					
3/1/29	-	1,752,093.75	1,752,093.75					8,831,412.50
9/1/29	5,445,000.00	1,752,093.75	7,197,093.75					
3/1/30	-	1,663,612.50	1,663,612.50					8,860,706.25
9/1/30	5,620,000.00	1,663,612.50	7,283,612.50					
3/1/31	-	1,572,287.50	1,572,287.50					8,855,900.00
9/1/31	5,805,000.00	1,572,287.50	7,377,287.50					
3/1/32	-	1,477,956.25	1,477,956.25					8,855,243.75
9/1/32	5,995,000.00	1,477,956.25	7,472,956.25					
3/1/33	-	1,335,575.00	1,335,575.00					8,808,531.25
9/1/33	6,280,000.00	1,335,575.00	7,615,575.00					
3/1/34	-	1,186,425.00	1,186,425.00					8,802,000.00
9/1/34	6,575,000.00	1,186,425.00	7,761,425.00					
3/1/35	-	1,038,487.50	1,038,487.50					8,799,912.50
9/1/35	6,870,000.00	1,038,487.50	7,908,487.50					
3/1/36	-	883,912.50	883,912.50					8,792,400.00
9/1/36	7,180,000.00	883,912.50	8,063,912.50					
3/1/37	-	722,362.50	722,362.50					8,786,275.00
9/1/37	7,505,000.00	722,362.50	8,227,362.50					
3/1/38	-	553,500.00	553,500.00					8,780,862.50
9/1/38	7,840,000.00	553,500.00	8,393,500.00					
3/1/39	-	377,100.00	377,100.00					8,770,600.00
9/1/39	8,195,000.00	377,100.00	8,572,100.00					
3/1/40	-	192,712.50	192,712.50					8,764,812.50
9/1/40	8,565,000.00	192,712.50	8,757,712.50					8,757,712.50
Total	$152,120,000.00	$142,886,356.11	$295,006,356.11		$1,580,000.00	$106,913.33	$1,686,913.33	$295,071,794.44

CERTAIN RISK FACTORS

THIS SECTION PROVIDES A GENERAL OVERVIEW OF CERTAIN RISK FACTORS. THIS SECTION IS NOT MEANT TO BE A COMPREHENSIVE OR DEFINITIVE DISCUSSION OF THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE CERTIFICATES AND THE POTENTIAL INVESTORS IN THE CERTIFICATES ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS, AMONG OTHERS, AND TO REVIEW THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. ANY ONE OR MORE OF THE FACTORS DISCUSSED BELOW, AMONG OTHERS, COULD AFFECT THE MARKET VALUE AND/OR THE MARKETABILITY OF THE CERTIFICATES. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED HEREIN WILL NOT BECOME MATERIAL IN THE FUTURE.

Lease Obligation

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 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 IN THE TRUST AGREEMENT. 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.

Project Lease Payments Not Debt of the City

THE OBLIGATION OF THE CITY TO MAKE THE 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. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Subject to certain restrictions of the Charter of the City (the "Charter"), the City may incur other obligations which may constitute additional charges against its revenues. To the extent that the City incurs additional obligations, the funds available to make Rental Payments may decrease. The City is currently liable on other obligations payable from general revenues. See "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – STATEMENT OF DIRECT AND OVERLAPPING DEBT AND LONG-TERM OBLIGATIONS," "– GENERAL OBLIGATION BONDS AUTHORIZED BUT NOT ISSUED" 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 FISCAL YEAR ENDED JUNE 30, 2006."

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 and may be abated in whole or in part if the City does not have full use and right of occupancy of the Leased Property, and if the Leased Property then available for beneficial use and occupancy by the City has an aggregate fair rental value below the amount of the applicable Base Rental payments. The City anticipates that it will have use and occupancy of the Leased Property on or about May 17, 2007. No assurances can be given that the City will have full use and occupancy of the Leased Property on or after May 17, 2007. Base Rental payments under the Project Lease (which are contingent on use and occupancy of the Leased Property) are expected to be paid in part from capitalized interest through February 17, 2008. There can be no assurance, however, that delays including, but not limited to (i) delays in the acquisition of the Leased Premises, (ii) construction delays caused by inclement weather, natural disaster, contractor claims, labor disputes, the discovery of additional hazardous materials or (iii) other factors, including cost overruns, as discussed below, will not delay Final

Completion of the Project or the City's use and occupancy of the Leased Premises. Certain risks are exacerbated by the significant time period between the sale of the Certificates and the anticipated date of Final Completion.

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

The amount of Base Rental payments due under the Project Lease will be abated during any period in which by reason of damage, destruction, condemnation or title defect there is substantial interference with the use and right of occupancy of the Leased Property or any portion thereof. Such abatement will continue for the period commencing with the date of such damage, destruction, condemnation or title defect and will end with the restoration of the Leased Property or any portion thereof to useable condition or correction of the title defect. Reserve Fund monies and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Certificates if Base Rental payments received by the Trustee are insufficient to pay principal or interest with respect to the Certificates as such amounts become due. **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 monies in the Reserve Fund, 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 or that portion of the remaining principal and interest evidenced and represented by the Certificates.

Delayed Acquisition of the Leased Property

The City anticipates that it will have acquired and have use and occupancy of the Leased Property on or about May 17, 2007. Base Rental payments under the Project Lease (which are contingent on use and occupancy of the Leased Property) are expected to be paid in part from capitalized interest through February 17, 2008. There can be no assurance, however, that delays in acquiring the Leased Premises, including, but not limited to (i) the failure or delay of the Van Ness Property Owner to close the sale of the One South Van Ness Property to the City on a timely basis as provided in the Van Ness Purchase Agreement (see "THE PROJECT – Project Acquisition Terms – The One South Van Ness Property" herein), (ii) the failure or delay of the Mission Street Owner to close the sale of the Mission Street Property to the City on a timely basis as provided in the Mission Street Purchase Agreement (see "THE PROJECT – Project Acquisition Terms – The Mission Street Property" herein) will not delay the execution and delivery of the Certificates.

Limited Recourse on Default; Reletting of the Leased Property

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. Although the Project Lease and the Trust Agreement provide that if there is a default by the City, the Trustee may take possession of and relet the Leased Property for the account of the City, no assurance can be given that the amounts received from such reletting would be sufficient to pay the principal of and interest evidenced and represented by the Certificates when due. In addition, the Trust Agreement provides that no remedies such as reletting 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 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, conditions or agreements contained in the Project Lease (and does not remedy such breach 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 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) to enforce all of its rights and remedies under the Project Lease, including the right to recover Base Rental payments as they become due, by pursuing any remedy available in law or in equity.

The ability of the Trustee to exercise remedies in the event of a default under the Project Lease may be especially difficult because of the essential nature of the Project and its commercial value. Consequently, the Trustee may find it more difficult, time consuming or expensive to exercise its legal remedies than in a lease structure that did not involve essential governmental services. Consequently, it is likely that the Trustee's only practical remedy will be to sue the City as rent becomes due and it will be unable to exercise upon the collateral and take possession of, and relet, the Project and/or the Leased Property. If the Trustee is unable to take possession and relet the Project and/or the Leased Property, the holders of the Certificates may not receive payment of principal, premium, if any, or interest evidenced by the Certificates, or such payment may be delayed.

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

Reserve Fund

At the time of delivery of the Certificates, the separate accounts in the Reserve Fund will be funded in an amount equal to the Reserve Requirement. As of the date of delivery of the Certificates the Series 2007A Reserve Requirement is equal to $8,951,862.50 and the Series 2007B Reserve Requirement is equal to $158,000.00. In the event of abatement or default, the amounts on deposit in the Reserve Fund may be significantly less than the amount of Base Rental due at the time of abatement or default.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Project Lease. Any suit for money damages would be subject to the legal limitations on remedies against charter 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 TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE – 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 in a seismically active region of California. During the past 150 years, the San Francisco Bay Area has experienced several major and numerous minor earthquakes. The largest was the 1906 San Francisco earthquake along the San Andreas Fault with an estimated magnitude of 8.2. Another was the 1868 Hayward earthquake along the Hayward Fault. The most recent significant earthquake was the 1989 Loma Prieta earthquake with a magnitude of 7.1 and an epicenter near Santa Cruz, approximately fifty-five (55) miles south of San Francisco. The San Andreas Fault lies 7.5 miles immediately west of the City, and the Hayward Fault is approximately 11.5 miles to the east. According to a recent study by the United States Geological Survey, there is a sixty-seven percent (67%) probability of another earthquake the size of the Loma Prieta earthquake within the next thirty (30) years. This study states that the next earthquake will most likely occur farther north than the Loma Prieta earthquake, somewhere between San Jose (approximately forty-five (45) miles south of San Francisco) and Santa Rosa (approximately fifty (50) miles north of San Francisco). Such an earthquake would cause more damage than the

Loma Prieta earthquake because the epicenter would be closer to San Francisco. A significant earthquake along these or other faults is probable during the period the Certificates will be outstanding under the Trust Agreement.

The City's seismic code requirements changed in July 1999, causing all buildings built prior to July 1999, including the Van Ness Building and the Mission Street Building to no longer meet seismic code requirements. However, under Section 104(f) of the City's Building Code, a property will not be required to meet the City's new 1999 seismic code requirements where there is no significant change of use, addition to the property or substantial rehabilitation. The improvements to the Van Ness Building and the Mission Street Building will not require the Van Ness Building or the Mission Street Building to be retrofit to comply with the 1999 seismic code requirements.

In a Building Evaluation Report prepared by the City's Municipal Transportation Agency it is reported that a prior Seismic Risk Assessment Report concluded that a substantial property loss in the tens of millions of dollars could be expected after a major seismic event unless the seismic performance level is improved.

In connection with the purchase of the Mission Street Property the City's Bureau of Architecture prepared a report regarding the structural and seismic aspects of the Mission Street Building. The Bureau of Architecture reported that two studies to determine the Probable Maximum Loss in a seismic event of the Mission Street Property had been conducted in 2001 and in 2006. The Bureau of Architecture reports that both studies concluded that, while the Mission Street Building has no major deficiencies, it exhibits some vulnerabilities and could suffer moderately low damage, described as localized damage to structural components, exterior cladding and interior partitions and ceilings after a seismic event.

In the Project Lease, the City covenants to obtain earthquake insurance, but only to the extent it is commercially available, and such earthquake insurance is not required if the City's Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at a reasonable cost. The City does not initially anticipate obtaining earthquake insurance for the Project because the City has determined that it is not available at commercially reasonable rates. In addition, if the Property were damaged or destroyed in an earthquake, the rental interruption insurance would not provide coverage for any abatement of Rental Payments and the City would have no obligation to repair such damage. However, any damage or destruction directly caused by fire or other events covered by the City's property insurance may be insured even if such fire or other events are indirectly caused by earthquake. See "THE PROJECT" herein. Accordingly, the risk that the Leased Property may be damaged or destroyed and the risk of a consequent abatement of Base Rental payments with respect thereto should be considered.

Risk Management and Insurance

The Project Lease obligates the City to maintain and keep in force various forms of insurance on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. The City is also required to maintain rental interruption insurance. 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. The City has maintained a program of self-insurance for many years for the above types of claims, including annual appropriations for self-insured losses and professional staff for investigation and legal defense of claims and litigation.

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 State may increase the appropriation limit of counties in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS – 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 (the "Board") 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 TAX LIMITATIONS – Articles XIII C and XIII D of the California Constitution" herein. See also "APPENDIX A – 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 holders 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.

All legal opinions with respect to the Certificates, the enforceability of the Trust Agreement and the Project Lease will be expressly subject to a qualification that such agreements may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights generally and by applicable principles of equity if equitable remedies are sought.

Loss of Tax Exemption

The portion of the Base Rental Payments designated as and comprising interest and received by the Owners of the Series 2007A Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date such Series 2007A Certificates were executed and delivered as a result of future acts or omissions of (i) the City in violation of their covenants contained in the Trust Agreement, the Project Lease or the tax certificate or (ii) certain 501(c)(3) Tenants in violation of their covenants contained in certificates executed in connection with the Series 2007A Certificates. Should such an event of taxability occur, the Series 2007A Certificates are not subject to mandatory prepayment or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement.

Potential Increases in Retirement Costs

The City's required contribution for employee retirement costs has significantly increased over the last few years. See "APPENDIX A – RETIREMENT SYSTEM". In addition, pursuant to Governmental Accounting Standards Board Statement 45 ("GASB 45") the City will be required to account for other post-employment benefits through actuarial methods similar to those required to be employed for the analysis of pension fund liabilities and perform an actuarial study of such liabilities every two years beginning in Fiscal Year 2009. See "APPENDIX A – MEDICAL BENEFITS". There can be no assurances that these City obligations will not continue to materially increase, or that such increases will not materially affect the City's financial condition.

CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS

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

Article XIII A of the California Constitution

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

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

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

Article XIII B of the California Constitution

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

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

Articles XIII C and XIII D of the California Constitution

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes on voter-approved debt once such debt has been approved by the voters. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval either have been reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements. In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See APPENDIX A–"CITY AND COUNTY OF SAN FRANCISCO–Organization and Finances–Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218. With respect to the City's general obligation bonds, the State Constitution and the laws of the State impose a duty on the Board to levy a property tax sufficient to pay debt service coming due in each year; the initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the City's general obligation bonds or to otherwise interfere with performance of the duty of the City with respect to such taxes which are pledged as security for payment of those bonds.

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

Statutory Limitations

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

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

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

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

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

Proposition 1A

Proposition 1A, proposed by the State's legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the annual vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

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

Future Initiatives

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

THE CITY

For further information about the City, see "APPENDIX A – CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES." "APPENDIX B – CITY AND COUNTY OF SAN FRANCISCO – ECONOMY AND GENERAL INFORMATION" and "APPENDIX C – COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

TAX MATTERS

In the opinion of Nixon Peabody LLP and QUATEMAN LLP, Co-Special Counsel, under existing statutes, regulations, rulings and court decisions, the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Series 2007 A Certificates (the "Series 2007A Interest Portion") is excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, Co-Special Counsel is of the opinion that the portion of the Project Lease allocable to the Series 2007A Certificates is not a "private activity bond" within the meaning of Section 141(a) of the Code and, therefore, the Series 2007A Interest Portion of each Base Rental payment is not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. However, the Series 2007A Interest Portion of each Base Rental payment received by or allocated to a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

Co-Special Counsel is also of the opinion that the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Series 2007B Certificates (the "Series 2007B Interest Portion") is **included** in gross income for federal income tax purposes.

Co-Special Counsel is further of the opinion that the portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Certificates is exempt from personal income taxes of the State under present State law.

In rendering such opinions, Co-Special Counsel will rely upon representations and covenants of the City and certain 501(c)(3) Tenants in the Trust Agreement and in or attached to the City's Tax Certificate (as applicable) concerning the use of the facilities financed with Certificate proceeds, the investment and use of Certificate proceeds and the rebate to the federal government of certain earnings thereon. Co-Special Counsel will also rely on the opinion of Sutter Health Office of the General Counsel, counsel to CPMC, and the opinion of Titchell, Maltzman, Mark & Ohleyer, P.C., counsel to Herbst, as to all matters concerning the status of each such 501(c)(3) Tenant as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code and as to matters relating to unrelated trades or businesses under Section 513 of the Code. Co-Special Counsel will not independently verify the accuracy of the representations and certifications of the 501(c)(3) Tenants or the opinions of their counsel.

In addition, Co-Special Counsel has assumed that all such representations are true and correct and that the City and such 501(c)(3) Tenants will comply with such covenants. Co-Special Counsel has expressed no opinion with respect to the exclusion of the interest with respect to the Certificates from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the City or such 501(c)(3) Tenants fail to comply with such covenants, unless such failure to comply is based on the advice or opinion of Co-Special Counsel.

Co-Special Counsel has expressed no opinion regarding any impact of the ownership of, receipt of interest with respect to, or disposition of the Certificates other than as expressly described above. Prospective purchasers of the Certificates should be aware that ownership of the Certificates may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Certificates.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Certificates is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, the interest portion of each Base Rental payment received by the Owners may be subject to backup withholding if such interest is allocated to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Co-Special Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption "TAX MATTERS." Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Certificates, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for Federal income tax purposes of the Series 2007A Interest Portion, and thus on the economic value of the Series 2007A Certificates. This could result from reductions in Federal income tax rates, changes in the structure of the Federal income tax rates, changes in the structure of the Federal income tax or its replacement with another type of tax, repeal of the exclusion of the Series 2007A Interest Portion from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the Certificates may be proposed or enacted.

Co-Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Certificates may affect the tax status of interest with respect to Certificates. Co-Special Counsel expresses no opinion as to any Federal, State or local tax law consequences with respect to the Certificates, or the interest with respect thereto, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, execution and delivery of the Certificates are subject to the approval of Nixon Peabody LLP, San Francisco, California and QUATEMAN LLP, Los Angeles, California, Co-Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

The proposed form of the approving opinion of Co-Special Counsel is attached hereto as APPENDIX G. See "TAX MATTERS" herein. Co-Special Counsel will deliver to the City a supplemental opinion as to the accuracy in all material respects of the descriptions contained in the Official Statement of the Certificates, the Trust Agreement, the Property Lease, the Project Lease and Co-Special Counsel's federal and State tax opinions. Except as expressly described in said opinion (which may be relied upon only by the City), Co-Special Counsel are not passing upon and undertake no responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement. Co-Special Counsel will receive compensation that is contingent upon the sale, execution 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 not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2006 – 2007 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each NRMSIR and State Repository, if any. The notices of material events will be filed by the City with each NRMSIR or with the Municipal Securities Rulemaking Board and with the State Repository, if any. The specific nature of information to be contained in the Annual Report or the notices of material events is shown in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchasers in complying with SEC Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings pursuant to said 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 on the Controller's website at www.sfgov.org/controller. In addition, a wide variety of information concerning the City, including financial information in addition to the City's Comprehensive Annual Financial Report, may be available from time to time from the City, City departments and agencies, and their respective publications and websites. Such information may be derived from a number of other sources which the City or City departments and agencies believe to be reliable; however, no representation can or will be made by the City regarding the truth or accuracy of such other information. Any information that is inconsistent with the information set forth in the City's Annual Reports or notices of material events should be disregarded. No such information is a part of or incorporated into the City's Annual Reports or notices of material events, except as expressly noted therein.

NO LITIGATION

No litigation is pending with service of process having been accomplished or, to the knowledge of the City Attorney, threatened, concerning the validity of the Certificates or the Trust Agreement and the City Attorney will issue an opinion addressed solely to the Board to that effect. In addition, no litigation is pending with service of process having been accomplished or, to the knowledge of the City Attorney, threatened, concerning the validity of the Property Lease or the Project Lease, and the City Attorney will issue an opinion addressed solely to the Board to that effect. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to appropriate or make Base Rental payments.

VALIDATION ACTION

The City filed a complaint on January 22, 2007, 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 March 29, 2007, 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 thirty (30) days after the entry of judgment. No notice of appeal was filed within such thirty (30) day period.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("S&P"), and Fitch Ratings ("Fitch") have assigned ratings of "Aaa", "AAA" and "AAA", respectively to the Series 2007A Certificates with the understanding that Financial Guaranty will issue its policy concurrently with the execution and delivery of the Series 2007A Certificates. Moody's, S&P and Fitch have assigned underlying municipal bond ratings of "A2," "AA-" and "A+," respectively to the Series 2007A Certificates and the Series 2007B Certificates. Certain information was supplied by the City to the rating agencies to be considered in evaluating the Certificates. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from Moody's, S&P and Fitch, respectively. No assurance can be given that any rating issued by the rating agencies will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agencies, if in their judgment circumstances so warrant. The City and the Trustee undertake no responsibility to bring to the attention of the Owners of the Certificates any revision or withdrawal of the ratings. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Certificates.

CO-FINANCIAL ADVISORS

The City has retained CSG Advisors Incorporated and Causeway Financial Consulting as co-financial advisors (the "Co-Financial Advisors") in connection with the execution and delivery of the Certificates. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors will receive compensation that is contingent upon the sale, execution and delivery of the Certificates.

SALE OF CERTIFICATES

The Certificates were sold at competitive bid on May 3, 2007, and awarded to Lehman Brothers, at a purchase price of $150,626,666.30. The Official Notice of Sale provides that all Certificates will be purchased if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Special Counsel and certain other conditions.

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MISCELLANEOUS

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or Owners and Beneficial Owners of any of the Certificates. The preparation and distribution of this Official Statement have been authorized by the City. For further information, please contact the Office of Public Finance at (415) 554-5956.

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

CITY AND COUNTY OF SAN FRANCISCO

By: /s/ Edward M. Harrington
Edward M. Harrington, Controller

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APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

Government and Organization

San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), the only consolidated city and county in the State. San Francisco can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted to the City and County of San Francisco (the "City"). Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. The San Francisco International Airport ("SFO" 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") in setting policy and determining budgets, while reducing the authority of the various City commissions, which are composed of appointed citizens. Under the Charter, the Mayor's appointment of commissioners is subject to approval by a two-thirds vote of the Board. The Mayor appoints department heads from nominations submitted by the commissioners.

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

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

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

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

Edward M. Harrington serves as the City Controller. Mr. Harrington was appointed to a 10-year term as Controller in March 1991 by then-Mayor Art Agnos and was re-appointed to a new ten-year term in 2000, by then-Mayor Willie L. Brown, Jr. The City Controller's appointment is also subject to confirmation by the Board of Supervisors. As Chief Fiscal Officer and Auditor, he monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds, including those in the $5.75 billion fiscal year 2006-07 budget. The City Controller certifies the accuracy of budgets, receives and disburses funds, estimates the cost of ballot measures, provides payroll services for the City's employees and directs performance and financial audits of City activities. Before becoming Controller, Mr. Harrington had been the Assistant General Manager and Finance Director of the San Francisco Public Utilities Commission (the "PUC"). He was responsible for the financial activities for the Municipal Railway (public transit), Water Department and Hetch Hetchy Water and Power System. Mr. Harrington worked with the PUC from 1984 to 1991. From 1980 to 1984, Mr. Harrington was an auditor with KPMG Peat Marwick, specializing in government, non-profit and financial institution clients, and was responsible for the audit of the City and County of San Francisco. While working for KPMG, Mr. Harrington became a certified public accountant.

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

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

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

City Budget and Finances

General

The City Controller's Office is responsible for processing all payroll, accounting and budget information for the City. All payments to City employees and to parties outside the City are processed and controlled by this office. No obligation to expend City funds can be incurred without a prior certification by the City Controller that sufficient revenues are or will be available in the current fiscal year, which ends June 30, to meet such obligation as it becomes due. The City Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the City Controller can certify these surplus funds as a source for supplemental appropriation that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance or "Original Budget" (as such term is defined below) due to supplemental appropriations, continuing appropriations of prior years and unexpended current year funds.

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

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

Forward-Looking Statements

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

Budget Process

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

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

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

Following the adoption of the Annual Appropriation Ordinance, the City makes various revisions throughout the fiscal year (the Original Budget plus any changes made to date are collectively referred to herein as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year reflecting the year-end's final revenue and expenditure appropriation for such fiscal year. The Mayor presented the fiscal year 2006-07 proposed budget to the Board of Supervisors on May 31, 2006. The Board of Supervisors adopted the fiscal year 2006-07 Original Budget (Ordinance No. 202-06) on July 25, 2006. The Mayor approved the Original Budget on July 28, 2006.

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

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

Under the Charter, the Treasurer-Tax Collector, upon recommendation of the City Controller, is authorized to transfer legally available monies to the City's operating cash reserve from any unencumbered funds then held in the pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer-Tax Collector has transferred unencumbered monies in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other funds of the City. Any such transfers must be and have been repaid within one year of the transfer, together with interest at the then current interest rate earned on the pooled funds. On a related note, the City has not issued tax and revenue anticipation notes ("TRANs") to finance cash flow needs since fiscal year 1996-97. The City does not anticipate issuing TRANs for fiscal year 2007-08. See "—Investment Policy" below.

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

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

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

Capital Plan

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

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by March 1 and is due to be adopted by the Board of Supervisors and the Mayor on or before May 1. The 2007 Capital Plan was submitted to the Mayor and the Board of Supervisors on March 1 and was adopted by the Board of Supervisors on March 27, 2007.

General Fund Results

The fiscal year 2005-06 Original Budget totaled approximately $5.34 billion, of which approximately $2.45 billion was allocated to the General Fund and approximately $2.89 billion was allocated to all other funds. Such other funds include expenditures of other governmental funds and enterprise fund departments such as SFO, the MTA, the PUC (the Water Enterprise, the Wastewater Enterprise, and the Hetch Hetchy Water and Power System), the Port, and the City-owned Hospitals (San Francisco General and Laguna Honda).

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

The fiscal year 2006-07 Original Budget totaled approximately $5.75 billion, of which approximately $2.66 billion was allocated to the General Fund, and approximately $3.08 billion was allocated to all other funds. Such other funds consist of expenditures of other governmental funds and the enterprise fund departments listed above. Revenues have continued to grow along with the general economic recovery and exceed current-year Original and Revised Budget expectations. A detailed review of both revenues and expenditures was completed and published on February 2, 2007 in the City Controller's fiscal year 2006-07 Six-Month Budget Status Report ("Six-Month Budget Status Report"). (This Report is not incorporated by reference herein.)

The fiscal year 2006-07 Original Budget included an annual service payment from the SFO to the City of $22.06 million for indirect services. However, separate from this indirect service payment, in March 2004, the Office of the Inspector General (the "OIG") of the U.S. Department of Transportation released the results of its audit of certain payments made by the Airport to the City for direct services during fiscal years 1997-98 through 2001-02 (the "OIG Audit"). The OIG Audit found that the City had received approximately $12.5 million of excess revenue from the Airport during fiscal years 1997-98 through 2001-02 with respect to reimbursement for these direct services. In December 2005, SFO submitted the City's Corrective Action Plan to the Federal Aviation Administration (the "FAA"), which was charged with closing out the OIG Audit. The City's plan included the transfer of $4.6 million to the airlines, implementation of new interdepartmental billing procedures and submission by the City of a Certificate of Compliance when all items were completed. At the close of fiscal year 2004-05, the City transferred $4.6 million to SFO as provided in its Corrective Action Plan and in January 2006 SFO submitted the Certificate of Compliance to the FAA. In November 2006, the FAA advised the City that the OIG Audit was closed.

Table A-1 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2002-03, 2003-04, 2004-05, and 2005-06 and the original budget for fiscal year 2006-07.

TABLE A-1

Fiscal Years 2002-03 through 2006-07
(000s)

	FY 2002-03 Final Revised Budget	FY 2003-04 Final Revised Budget	FY 2004-05 Final Revised Budget	FY 2005-06 Final Revised Budget	FY 2006-07 Original Budget
Prior-Year Actual Budgetary Fund Balance	$385,027	$207,167	$222,611	$324,724	$125,125
Budgeted Revenues					
Property Taxes	$513,203	$527,767	$645,495	$696,660	$837,543
Business Taxes	282,230	288,619	295,230	288,320	332,168
Other Local Taxes	387,955	371,251	381,389	413,712	455,509
Licenses, Permits and Franchises	16,982	17,074	16,132	19,128	20,917
Fines, Forfeitures and Penalties	4,497	31,843	12,196	11,475	4,899
Interest and Investment Earnings	17,323	12,579	6,490	11,393	33,989
Rents and Concessions	17,833	19,316	21,902	19,583	20,138
Grants and Subventions	686,566	663,997	612,970	685,948	664,547
Charges for Services	102,801	107,847	119,637	130,773	133,972
Other	24,278	19,296	29,061	13,090	17,949
Total Budgeted Revenues	$2,053,668	$2,059,589	$2,140,502	$2,290,083	$2,521,631
Proceeds from Issuance of Bonds and Loans	13,451	31,207	596	597	901
Expenditure Appropriations					
Public Protection	$695,409	$668,872	$699,088	$743,958	$800,885
Public Works, Transportation & Commerce	59,646	60,467	63,250	46,708	38,734
Human Welfare & Neighborhood Development	517,334	507,740	525,887	548,935	589,681
Community Health	461,958	445,236	419,404	453,716	424,786
Culture and Recreation	102,354	93,017	92,245	81,126	98,969
General Administration & Finance [1]	135,449	131,959	122,666	140,674	201,970
General City Responsibilities	61,416	83,406	62,541	53,601	60,101
Total Expenditure Appropriations	$2,033,566	$1,990,697	$1,985,081	$2,068,718	$2,215,126
Budgetary reserves and designations	$83,595	$9,301	$13,487	$22,712	$60,377
Transfers In	$137,672	$150,354	$161,840	$108,902	$57,159
Transfers Out	(313,341)	(292,664)	(339,436)	(436,092)	(429,313)
Net Transfers In/Out	($175,669)	($142,310)	($177,596)	($327,190)	($372,154)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	$159,316	$155,655	$187,545	$196,784	$0
Variance of Actual vs. Budget	47,851	66,956	137,179	281,217	
Total Actual Budgetary Fund Balance	$207,167	$222,611	$324,724	$478,001	$0

[1] Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This resulted in the General Administration and Finance grouping increasing and others decreasing.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2006 was $461.28 million prepared on a GAAP basis that is, using Generally Accepted Accounting Principles. Such General Fund balance was derived from audited revenues of $2.47 billion for the fiscal year ended on June 30, 2006. Audited General Fund balances as of June 30, 2006 are shown in Table A-2 on both a budget basis and a GAAP basis, respectively, with comparative financial information for the fiscal year ended June 30, 2004, 2005 and 2006. Evidence of the economic recovery can be seen in both the recovery of revenues in Table A-3 as well as the growing General Fund balances in Table A-2 below.

***TABLE* A-2**

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

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

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

Table A-3, entitled "Statement of Revenues, Expenditures and Changes in General Fund Balances", is extracted from information in the City's CAFR for the five most recent fiscal years for which audits are available. Audited financials for the fiscal year ended June 30, 2006 are included herein as Appendix C—"THE COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2006." Prior years' audited financial statements can be obtained from the City Controller's website. (These reports are not incorporated by reference herein.) Excluded from these General Fund financial statements are special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) as well as all of the enterprise operations of the City, each of which prepares separate audited financial statements and none of which is available to pay the Certificates.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO

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

Fiscal Year Ended June 30

Audited

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

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

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

Three-Year Budget Projection Report

Section 3.6 of the City's Administrative Code requires that the City Controller, the Mayor's Budget Director and the Board of Supervisors' Budget Analyst jointly publish an annual three-year estimated summary budget. This summary includes a review of all major revenue and expenditure assumptions impacting the upcoming three years for the City's General Fund-supported operations, including the General Fund and 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 such report was published on March 21, 2007 and covered the projection period of fiscal years 2007-08 through 2009-10 (the "Joint Report"). The Joint Report projects a shortfall of $25.4 million (an amount equal to less than one percent of General Fund supported budgetary spending) for the upcoming fiscal year 2007-08, followed by a shortfall of $85.3 million for fiscal year 2008-09, and a surplus of $8.3 million for fiscal year 2009-10. Previous such reports had also included projections of shortfalls, which were larger than those in this Joint Report. For example, the Joint Report's projected shortfall of $85.3 million in fiscal year 2008-2009 may be viewed in the context of prior such reports which projected first-year shortfalls of $347.2 million in fiscal year 2003-04, $299.3 million in fiscal year 2004-05, $102.2 million in fiscal year 2005-06, and $12.5 million in fiscal year 2006-07. In each of these prior years. the City adopted a balanced budget as required by the City Charter.

This discussion of the Joint Report budget projection is a summary only and is qualified by the full report, which is posted on the City Controller's office website at www.sfgov.org/controller. (The Joint Report is not incorporated by reference herein.)

Impact of September 11, 2001

Following the events of September 11, 2001 in New York City and Washington, D.C., both business and tourist travel in San Francisco declined significantly, including passenger loads, and revenues at SFO and transient occupancy tax and sales tax revenues to the City declined as well. In fiscal year 2001-02, significant year to year losses occurred in transient occupancy tax revenues, which fell 29.8% ($56.15 million), sales tax revenues, which declined 15.5% ($21.45 million), and SFO's transfer of concession revenue to the City's General Fund, which declined 28.4% ($7.04 million). Tables A-6 and A-7 illustrate the sales tax and transient occupancy tax trends since 2001-02.

Impact of State Budget

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

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

The City's projected impact of the Governor's fiscal year 2007-08 Proposed Budget, as issued in January 2007, appears to have largely offsetting positive and negative changes resulting in a projected net revenue increase of $4.40 million for the City's General Fund compared to the net revenues anticipated to be realized under the State's 2006-07 Adopted Budget. However, State Transit Assistance Funding reductions estimated at $20.40 million appear to impact adversely the MTA's funds. The City will continue to monitor State Budget developments including the release of the May Revise and the Adopted State Budget. The State's Adopted Budget could differ materially from the Proposed Budget.

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Total assessed value has increased on average by 6.6% per year since fiscal year 2001-02. Between fiscal year 2005-06 and fiscal year 2006-07, the increase was 7.6%. Property tax delinquencies have remained low in San Francisco ranging from 1.96% to 2.48% over the previous five years. The delinquency rate for fiscal year 2005-06 was 2.18%.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property [1]
Fiscal Years 2001-02 through 2006-07
($000s)

Fiscal Year	Assessed Valuation: Land	Assessed Valuation: Improvements on Land	Assessed Valuation: Personal Property	Total Assessed Valuation	% Change from Prior Year	Exclusions[2]	Total Tax Rate per $100[3]	Total Tax Levy (000s)[4]	Delinquency Rate June 30
2001-02	34,849,574	51,294,178	4,744,367	90,888,119	12.1%	3,625,783	1.124	1,010,960	2.48%
2002-03	37,851,208	55,002,726	4,681,815	97,535,748	7.3%	3,797,422	1.117	1,051,921	2.21%
2003-04	40,778,606	57,505,939	3,808,383	102,092,928	4.7%	3,947,660	1.107	1,100,951	1.96%
2004-05	44,383,604	60,741,259	3,675,195	108,800,058	6.6%	4,328,770	1.144	1,208,044	2.32%
2005-06	48,278,509	64,291,494	3,476,725	116,046,728	6.7%	4,640,538	1.140	1,291,491	2.18%
2006-07	53,027,801	68,286,422	3,506,008	124,820,231	7.6%	4,949,252	1.135	1,360,510	n/a [5]

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

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

[3] Total secured tax rate includes bonded debt service for the City, San Francisco Unified School District, San Francisco Community College District, Bay Area Air Quality Management District, Bay Area Rapid Transit District, and San Francisco Redevelopment Agency. Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.

[4] The final levy by fiscal year is shown through fiscal year 2005-06. The tax levy for fiscal year 2006-07 is based on the Certificate of Assessed Valuation as of August 2006. The fiscal year 2006-07 final levy will be available after June 30, 2007.

[5] The fiscal year 2006-07 actual delinquency rate will be available after June 30, 2007.

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

For fiscal year 2006-07, total assessed valuation of property within the City is $124.82 billion. After deducting non-reimbursable and homeowner exemptions, net assessed valuation is $119.87 billion. Of this total, $112.39 billion (93.8%) represents secured valuations and $7.48 billion (6.2%) represents unsecured valuations. (See below for a further discussion of secured and unsecured property valuations.) The net valuation will result in total budgeted property tax revenues of $1.36 billion before reflecting delinquencies for all taxing entities. A portion of property tax revenues are applied to pay all or part of the debt service for general obligation bonds issued by the City, the San Francisco Unified School District, the San Francisco Community College District and the Bay Area Rapid Transit District. The City's General Fund allocation equals about 50 percent of total property tax revenue before adjusting for the State's Triple Flip (where Proposition 57 dedicated one quarter of one percent of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts. After making these State-mandated adjustments, the result is estimated property tax related General Fund revenues of $841.38 million as was assumed in the fiscal year 2006-07 Original Budget. The San Francisco Community College District, the San Francisco Unified School District and the ERAF are estimated to receive $16.50 million, $87.96 million and $285.40 million (before adjusting for the State's Triple Flip sales tax and vehicle license fee backfill shifts), respectively. The San Francisco Redevelopment Agency will receive approximately $71.15 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. As of the Six-Month Budget Status Report, the City Controller's Office projected an additional $23.86 million in General Fund property tax related revenue in large part due to higher supplemental assessments, lower assessment appeals, and increased State sales tax and VLF backfill revenues.

Under Article XIII A of the State Constitution, property sold after March 1, 1975 must be reassessed to full cash value. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with the counties' property assessments. Property owners in the City filed 1,116 new applications for assessment appeal during fiscal year 2006-07. Taxpayers had until November 30, 2006 to file assessment appeals for secured property for fiscal year 2006-07. As in every year, some appeals are multiple-year or retroactive in nature. With respect to the fiscal year 2006-07 levy, property owners representing approximately 11.7% of the total assessed valuation in the City filed appeals for a partial reduction of their assessed value. This reflects a decrease in the amount appealed from the prior year, fiscal year 2005-06, where property owners representing approximately 14.0% of total assessed valuation filed for a partial reduction of their assessed value. Most of the appeals involve large commercial properties, including offices and hotels.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases as the economy rebounds. Historically during economic downturns, partial reductions of approximately 20.0% to 30.0% of the assessed valuations appealed have been granted on average. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. For example, if the appeals totaling 11.7% of assessed valuation pertaining to the fiscal year 2006-07 levy were to be granted at an average reduction to 25.0%, the City would expect revenue refunds equal to 2.9% of total property tax revenue. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the subsequent year's budget projections. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" in the forepart of this Official Statement.

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

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

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

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

In October 1993, the Board of Supervisors passed a resolution, which adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the

City's taxing agencies 100.0% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan. This reserve has been funded at $9.15 million as of June 30, 2002, $9.05 million as of June 30, 2003, $8.93 million as of June 30, 2004, $10.08 million as of June 30, 2005, and $10.06 million as of June 30, 2006.

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

TABLE A-5

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

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

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

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

Other City Tax Revenues

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

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

Business Taxes

Businesses in the City may be subject to two types of tax. The first is a payroll expense tax, assessed at a rate of 1.5% on gross payroll expense attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The City also levies a registration tax on businesses which varies from $25 to $500 per year per subject business.

The fiscal year 2006-07 Original Budget included $8.23 million in business registration revenues and $323.94 million in payroll tax revenues accruing to the General Fund. This compares to fiscal year 2005-06 actual collections of $7.70 million in business registration revenues and $314.71 million in payroll tax revenues. The Six-Month Budget Status Report reflects that the City Controller's Office is projecting business tax revenue to be $3.36 million greater than budget.

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

In October 2006 the First District Court of Appeal rejected the argument of Macy's Federated that it was entitled to a full refund of all taxes paid and adopted the City's proposed remedy as to the calculation of the award payable to Macy's Federated. Based on this ruling this refund amount is expected to total several hundred thousand dollars.

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, then remits the local sales tax collections to the City. The local sales tax is deposited in the City's General Fund. Fiscal year 2006-07 sales and use tax receipts are budgeted at $106.24 million. This compares to fiscal year 2005-06 actual collections of $103.07 million. The 0.25% reduction of the local sales tax allocation (related to the Triple Flip) is wholly backfilled by increased property tax allocations to the City.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and jobs. A five-year history of sales and use tax actual revenues from fiscal year 2000-01 through fiscal year 2005-06 is presented in Table A-6. This revenue is significantly impacted by changes in the economy, and after adjusting for State shifts related to the Triple Flip, fiscal year 2005-06 collections neared prior peak levels attained in fiscal year 2000-01. The Six-Month Budget Status Report reflects that the City Controller's Office is projecting sales tax revenues to be $1.99 million greater than budget. Table A-6 reflects the City's actual Sales and Use Tax receipts for fiscal years 2004-05 and 2005-06 and the impact due to the Triple Flip backfill payments.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO Sales and Use Tax Receipts ($000's) Fiscal Years 2000-01 through 2005-06					
				Change	
Fiscal Year	Tax Rate	City Share	Revenue	$	%
2000-01	8.25%	1.00%	$138,281	4,886	3.7%
2001-02	8.50%	1.00%	116,827	(21,454)	-15.5%
2002-03	8.50%	1.00%	115,578	(1,249)	-1.1%
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%

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

Transient Occupancy Tax

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. In fiscal year 2005-06, revenue from transient occupancy tax grew 13.6 percent (or approximately $21.53 million). Budgeted revenue, across all funds, from transient occupancy tax for fiscal year 2006-07 is $182.60 million; including $5.96 million allocated to the Redevelopment Agency and $125.43 million to the City's General Fund. As of the Six-Month Budget Status Report, the City Controller's Office is projecting total transient occupancy tax revenues to be $6.50 million greater than budget, all of which will accrue to the City's General Fund during fiscal year 2006-07. Table A-7 sets forth a history of transient occupancy tax receipts and illustrates that this revenue is significantly impacted by changes in the economy, tourism, and business travel and is once again nearing prior peak levels attained in fiscal year 2000-01.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO Transient Occupancy Tax Receipts ($000's) Fiscal Years 2000-01 through 2005-06				
			Change	
Fiscal Year	Tax Rate	Revenue	$	%
2000-01	14.00%	$183,377	$6,275	3.4%
2001-02	14.00%	132,226	(56,151)	-29.8%
2002-03	14.00%	128,590	(3,636)	-2.7%
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%

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

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. The current rate is $5.00 per $1,000 of the sale price of the property being transferred for properties valued at $250,000 or less, $6.80 per $1,000 for properties valued more than $250,000 or less than $999,999; and $7.50 per $1,000 for properties valued at $1.0 million or more. Budgeted revenue from real property transfer tax for fiscal year 2006-07 is $105.00 million, which assumed a 20.0%

reduction from the $131.28 million in fiscal year 2005-06 actual collections. Unprecedented levels of commercial building transactions resulted in record transfer tax revenue collections during fiscal years 2003-04, 2004-05 and 2005-06. This revenue source has generally proven to be more susceptible to economic and real estate cycles than most other City revenue sources. As of the Six-Month Budget Status Report, the City Controller's Office is projecting real property transfer tax revenues to be $3.90 million greater than budget.

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone utilities, as well as all cellular telephone and enhanced specialized mobile radio communication services for billing addresses in the City. Budgeted revenue from utility users tax for fiscal year 2006-07 is $79.44 million. As of the Six-Month Budget Status Report, the City Controller's Office is projecting utility users tax revenues to be $0.32 million greater than budget.

A recent Internal Revenue Service Notice has the potential to affect the scope of services to which the City may apply its telephone user tax ("TUT"), with the potential result of a substantial reduction in the revenues the City receives from this source on an annual basis. The City's TUT is linked in certain respects to the Federal Excise Tax ("FET"), and on May 25, 2006 the IRS announced that it will no longer apply the FET to telephone toll services and to bundles of telephone services that include toll services. An ordinance adopted by the Board of Supervisors on August 15, 2006 and that went into effect on August 25, 2006 amended the City's Business and Tax Regulations Code to address this recent change in interpretation of federal law. This ordinance clarifies that the City levies its utility users tax under the City's inherent powers as a charter city and that federal law is not the basis or authority for the City's imposition of the utility users tax, including the TUT. This ordinance also provides that the City will continue to apply its TUT to all types of telephone communication services, including toll service. In addition, on July 27, 2006, the City's Treasurer-Tax Collector gave notice to the over 340 telecommunications carriers doing business in the City that the City will continue to apply its TUT to all types of telephone communication services. In other California jurisdictions, including Palo Alto and Los Angeles, lawsuits have been filed challenging the authority of California cities to impose similar taxes on cellphone usage and seeking refunds. Total TUT revenues were budgeted at $34.00 million in fiscal year 2005-06 and $37.50 million for fiscal year 2006-07.

Parking Tax

A 25.0% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code and is paid by the occupants of the spaces then remitted monthly by the operators of the parking facilities. Budgeted General Fund revenue from the parking tax for fiscal year 2006-07 is $36.05 million. As of the Six-Month Budget Status Report, the City Controller's Office is projecting parking tax revenues to be $1.20 million greater than budget.

Intergovernmental Revenues, Grants and Subventions

Intergovernmental revenues, grants and subventions are budgeted at $1.074 billion for fiscal year 2006-07. This includes $353.93 million from the Federal government, $651.56 million from the State, and $68.68 million from other intergovernmental sources across all City funds. In the General Fund, intergovernmental revenues, grants and subventions are budgeted for a total of $664.54 million, including $194.27 million from the Federal government and $470.27 million from the State. As of the Six-Month Budget Status Report, the City Controller's Office is projecting intergovernmental revenues, grants and subventions to be $1.35 million under budget for the General Fund. The major categories of such funds are set forth in further detail below.

Health and Welfare Realignment

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

Motor Vehicle License Fees

The City's budget reflects the permanent roll-back of the VLF revenues, along with the associated Triple Flip backfill shift made by the State wherein it partially reduced the amount of property taxes shifted from the City to the ERAF to make up the difference. After factoring in all State shifts, the fiscal year 2006-07 budget level for vehicle license fee revenues is $5.6 million. As of the Six-Month Budget Status Report, the City Controller's Office is projecting motor vehicle license fee revenues to be on budget.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. Budgeted revenue from this source is $74.03 million for fiscal year 2006-07. As of the Six-Month Budget Status Report, the City Controller's Office is projecting public safety sales tax revenues to be $1.22 million less than budget. This Revenue is a function of the City's proportionate share of statewide sales activity.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, across all funds in fiscal year 2006-07, the City budgets approximately $770.04 million in social service subventions from the State and Federal governments to fund programs such as Food Stamps, CalWORKs, Child Support Services and transportation projects. Health and welfare subventions are often based on State and Federal funding formulas, which currently reimburse counties according to actual spending on these services. As of the Six-Month Budget Status Report, the City Controller's Office is projecting other intergovernmental grants and subventions revenues to be $0.13 million less than budget in the General Fund.

Charges for Services

Charges for services are budgeted at $133.97 million for fiscal year 2006-07 in the General Fund. This includes $32.84 million of general government service charges (including, for example, city planning fees), $24.58 million of public safety service charges (including, for example, boarding of prisoners and safety inspection fees), $7.08 million of recreation charges, $47.39 million of MediCal, MediCare and health service charges, $11.79 million of other miscellaneous service charges, and $10.30 million of internal service cost recoveries. As of the Six-Month Budget Status Report, the City Controller's Office is projecting charges for services on revenues to be $2.35 million under budget.

Investment Policy

The management of the City's surplus cash is governed by an Investment Policy administered by the Treasurer-Tax Collector. In order of priority, the objectives of this Investment Policy are the preservation of capital, liquidity and yield. The preservation of capital is the foremost goal of any investment decision, and investments generally are made so that securities can be held to maturity. Once safety and liquidity objectives have been achieved, the

Treasurer then attempts to generate a favorable return by maximizing interest earnings without compromising the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly and is made available on the City's website. (These reports are not incorporated by reference herein.)

The investment portfolio is structured with the objective of enabling the City to meet all disbursement requirements that are anticipated from any fund during the subsequent eighteen months. As of March 31, 2007 the City's surplus investment fund consisted of the investments classified in Table A-8, and had the investment maturity distribution presented in Table A-9.

TABLE A-8

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

Type of Investment	Par Value	Book Value	Market Value
Treasury Bills	$ 205,000,000	$ 200,077,246	$ 200,577,399
Treasury Notes	530,000,000	527,505,388	528,128,125
FNMA Discount Notes	687,000,000	660,427,104	669,332,900
Federal Home Loan Disc Notes	316,000,000	311,477,977	313,377,690
FMC Discount Notes	877,000,000	848,827,392	862,778,376
Negotiable C.D.'s	415,000,000	415,000,000	414,945,280
Commercial Paper Disc	733,000,000	719,395,678	726,324,947
Public Time Deposit	35,200,000	35,200,000	33,993,175
Total	$ 3,798,200,000	$ 3,717,910,785	$ 3,749,457,892

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

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Investment Maturity Distribution
Pooled Funds
March 31, 2007

Maturity In Months		Cost	Percentage
1 to	2	$1,150,566,472	30.9%
2 to	3	334,542,811	9.0%
3 to	4	469,671,540	12.6%
4 to	5	291,715,873	7.8%
5 to	6	501,495,118	13.5%
6 to	12	969,918,971	26.2%
12 to	60	-	-
		$3,717,910,785	100.00%

Weighted Average Maturity: 143 Days

Source: Office of the Treasurer, 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-10 has been compiled by the City's Office of Public Finance.

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

TABLE A-10

CITY AND COUNTY OF SAN FRANCISCO			
Statement of Direct and Overlapping Debt and Long-Term Obligations			
2005-2006 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$ 119,870,979,379		
DIRECT GENERAL OBLIGATION BOND DEBT	**Outstanding 4/30/2007**		
General City Purposes Carried on the Tax Roll	$1,238,135,000		
GROSS DIRECT DEBT	$1,238,135,000		
DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS			
San Francisco COPs, Series 1997 (2789 25th Street Property)	$6,955,000		
San Francisco COPs, Series 1999 (555-7th Street Property)	6,985,000		
San Francisco Parking Authority Lease Revenue Bds, Series 2000A (North Beach Garage)	7,115,000		
San Francisco COPs, Series 2000 (San Bruno Jail Replacement Project)	130,710,000		
San Francisco Refunding COPs, Series 2001-1 (25 Van Ness Avenue Property)	11,245,000		
San Francisco Refunding Settlement Obligation Bonds, Series 2003-R1	27,095,000		
San Francisco COPs, Series 2001A & Taxable Series 2001B (30 Van Ness Ave. Property)	33,975,000		
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	40,380,000		
San Francisco Finance Corporation, Equipment LRBs Series 2002A, 2003A, 2004A, 2005A, 2006A	18,585,000		
San Francisco Finance Corporation Emergency Communication Series, 1997, 1998, 1998-1, 1999-1	44,230,000		
San Francisco Finance Corporation Moscone Expansion Center, Series, 2000-1, 2000-2, 2000-3	151,200,000		
San Francisco Finance Corporation LRBs Series 2006A, Open Space Fund (Various Park Projects)	27,005,000		
San Francisco Lease Revenue Refunding Bonds, Series 1998-I	1,595,000		
San Francisco Redevelopment Agency Moscone Convention Center 1992	27,038,731 [1]		
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2002	66,895,000		
San Francisco Redevelopment Agency Lease Revenue Refunding Bonds, Series 2004	33,565,000		
San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project)	36,670,000		
LONG-TERM OBLIGATIONS	$671,243,731		
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	$1,909,378,731		
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS			
Bayshore Hester Assessment District	$855,000		
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	132,918,333		
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds	25,283,650		
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	272,480,000		
San Francisco Parking Authority Meter Revenue Refunding Bonds - 1999-1	20,150,000		
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 1994	9,040,000		
San Francisco Redevelopment Agency Hotel Tax Revenue Refunding Bonds - 1998	53,260,000		
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	595,894,178		
San Francisco Unified School District General Obligation Bonds - Election of 2003	272,445,000		
San Francisco Unified School District General Obligation Bonds - Election of 2006	100,000,000		
San Francisco Unified School District COPs (1235 Mission Street), Series 1992	8,015,690		
San Francisco Unified School District COPs - 1996 Refunding, 1998 & 1999	16,015,000		
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$1,506,356,851		
GROSS COMBINED TOTAL OBLIGATIONS	$3,415,735,582 [2]		
Ratios to Assessed Valuation:		**Actual Ratio**	**Charter Req.**
Gross Direct Debt (General Obligation Bonds)		1.03%	< 3.00%
Gross Direct Debt & Long-Term Obligations		1.59%	n/a
Gross Combined Total Obligations		2.85%	n/a

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

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

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

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

Tax Supported Debt Service

Under the State Constitution and the Charter, the City general obligation bonds can only be authorized with the approval of the voters. As of April 30, 2007, the City had $1.24 billion aggregate principal amount of general obligation bonds outstanding.

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

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Direct Tax Supported Debt Service
As of April 30, 2007[1][2]

Fiscal Year	Principal	Interest	Annual Debt Service
2007	$82,191,207	$28,748,363	$110,939,570
2008	89,589,405	53,712,739	143,302,144
2009	95,302,785	49,523,389	144,826,174
2010	89,646,357	45,102,798	134,749,155
2011	91,310,133	40,774,710	132,084,843
2012	79,774,124	36,603,537	116,377,661
2013	70,853,341	32,832,258	103,685,599
2014	65,472,799	29,431,074	94,903,873
2015	58,482,510	26,394,565	84,877,075
2016	61,187,490	22,312,571	83,500,061
2017	51,212,752	19,768,886	70,981,638
2018	49,803,314	18,666,573	68,469,887
2019	50,304,193	16,355,316	66,659,509
2020	43,695,406	14,030,860	57,726,266
2021	40,086,973	12,036,026	52,122,999
2022	34,703,913	10,035,367	44,739,280
2023	33,946,248	8,141,806	42,088,054
2024	31,959,001	6,598,662	38,557,663
2025	27,327,194	5,164,720	32,491,914
2026	16,925,854	3,931,780	20,857,634
2027	17,530,000	3,224,950	20,754,950
2028	18,330,000	2,465,377	20,795,377
2029	18,840,000	1,670,587	20,510,587
2030	19,660,001	853,251	20,513,252
TOTAL[3]	$1,238,135,000	$488,380,165	$1,726,515,165

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

[2] Totals reflect rounding to nearest dollar.

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

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

General Obligation Bonds Authorized but Unissued

In November 1992, voters approved Proposition A, which authorized the issuance of up to $350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued $35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007 the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed $35 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N. A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans from time to time to the City as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007 the City initiated an initial borrowing of $2 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the $35 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

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

In November 2000, voters approved Proposition A, which authorized the issuance of up to $105.9 million in general obligation bonds for the acquisition, renovation and construction of branch libraries and other library facilities. The City has issued three series of library bonds and the City anticipates issuing the remaining $31.1 million of the total authorization in the fall of 2007.

Table A-12 below lists the City's voter-authorized general obligation bonds including authorized programs for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of April 30, 2007, the City had authorized and unissued general obligation bond authority of $344.07 million.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of April 30, 2007)

Description of Issue (Date of Authorization)	Series	Issued	Outstanding	Authorized & Unissued
Golden Gate Park Improvements (6/2/92)	1997A	$25,105,000	$1,180,000	
	2001A	17,060,000	13,970,000	
Seismic Safety Loan Program (11/3/92)	2007A	2,000,000	2,000,000	$313,000,000 [1]
School District Facilities Improvements (6/7/94)	1997B	22,050,000	1,035,000	
Asian Art Museum Relocation Project (11/8/94)	1999D	16,730,000	3,075,000	
Steinhart Aquarium Improvement (11/7/95)	2005F	29,245,000	28,180,000	
Affordable Housing Bonds (11/5/96)	1998A	20,000,000	14,780,000	
	1999A	20,000,000	15,765,000	
	2000D	20,000,000	4,440,000	
	2001C	17,000,000	14,100,000	
	2001D	23,000,000	19,640,000	
Educational Facilities - Community College District (6/3/97)	1999A	20,395,000	1,795,000	
	2000A	29,605,000	2,440,000	
Educational Facilities - Unified School District (6/3/97)	1999B	60,520,000	5,325,000	
	2003B	29,480,000	26,105,000	
Zoo Facilities Bonds (6/3/97)	1999C	16,845,000	1,480,000	
	2000B	17,440,000	1,435,000	
	2002A	6,210,000	5,295,000	
	2005H	7,505,000	7,230,000	
Laguna Honda Hospital (11/2/99)	2005A	110,000,000	110,000,000	
	2005B	40,000,000	40,000,000	
	2005C	40,000,000	40,000,000	
	2005D	40,000,000	40,000,000	
	2005I	69,000,000	69,000,000	
Neighborhood Recreation and Park (3/7/00)	2000C	6,180,000	505,000	
	2001B	14,060,000	11,510,000	
	2003A	20,960,000	18,560,000	
	2004A	68,800,000	64,130,000	
California Academy of Sciences Improvement (3/7/00)	2004B	8,075,000	7,525,000	
	2005E	79,370,000	76,480,000	
Branch Library Facilities Improvement (11/7/00)	2001E	17,665,000	14,590,000	
	2002B	23,135,000	19,730,000	
	2005G	34,000,000	32,765,000	31,065,000
SUB TOTALS		**$971,435,000**	**$714,065,000**	**$344,065,000**
General Obligation Refunding Bonds Series 1997-1 issued 10/27/97		$449,085,000	$261,390,000	
General Obligation Refunding Bonds Series 2002-R1 issued 4/23/02		$118,945,000	$96,065,000	
General Obligation Refunding Bonds Series 2004-R1 issued 6/16/04		$21,930,000	$9,360,000	
General Obligation Refunding Bonds Series 2006-R1 issued 10/17/06		$90,690,000	$90,690,000	
General Obligation Refunding Bonds Series 2006-R2 issued 12/18/06		$66,565,000	$66,565,000	
TOTALS		**$1,718,650,000**	**$1,238,135,000**	**$344,065,000**

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

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

Lease Payments and Other Long-Term Obligations

Table A-13 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of April 30, 2007. Note that the annual payment obligations reflected in Table A-13 include the fully-accreted value of any capital appreciation obligations that will accrue as of the final payment dates and does not include general obligation bonds.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Lease Payment and Other Long-Term Obligations
As of April 30, 2007

Fiscal Year	Principal	Interest	Annual Payment Obligation
2007	$4,960,000	$7,461,344	$12,421,344
2008	41,768,666	36,540,198	78,308,864
2009	40,275,247	35,502,396	75,777,643
2010	31,567,024	34,552,087	66,119,111
2011	31,513,573	33,768,896	65,282,469
2012	23,905,763	32,958,749	56,864,512
2013	24,471,157	32,315,241	56,786,398
2014	23,596,550	31,598,411	55,194,961
2015	29,190,751	25,940,680	55,131,431
2016	35,860,000	19,313,331	55,173,331
2017	35,120,000	17,687,473	52,807,473
2018	35,585,000	16,003,211	51,588,211
2019	36,025,000	14,289,206	50,314,206
2020	21,280,000	12,920,200	34,200,200
2021	21,440,000	11,919,921	33,359,921
2022	21,835,000	10,901,250	32,736,250
2023	22,215,000	9,861,469	32,076,469
2024	22,630,000	8,808,848	31,438,848
2025	19,180,000	7,738,761	26,918,761
2026	17,910,000	6,871,632	24,781,632
2027	22,400,000	5,956,498	28,356,498
2028	19,785,000	4,998,929	24,783,929
2029	20,605,000	4,085,579	24,690,579
2030	21,760,000	3,131,436	24,891,436
2031	11,855,000	2,123,898	13,978,898
2032	12,470,000	1,505,656	13,975,656
2033	10,740,000	913,544	11,653,544
2034	11,300,000	349,856	11,649,856
TOTAL [1][2]	$671,243,731	$430,018,700	$1,101,262,431

[1] Totals reflect rounding to nearest dollar.

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

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

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

In 1987, voters approved Proposition F, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued $8.19 million in lease revenue bonds to finance the construction of North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more series of bonds under Proposition F.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed $20.00 million, such amount increasing by five percent each fiscal year. As of May 1, 2007, the total authorized amount for such financings was $43.66 million. The total principal amount outstanding as of May 1, 2007 was $18.59 million. It is anticipated that the Corporation will issue approximately $11.00 million in equipment lease revenue bonds in May 2007.

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

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

On March 7, 2000 voters approved Proposition C which extended a two and one half cent per $100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the Open Space Fund). Proposition C also authorizes the issuance of revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued $27.00 million of such Open Space Fund lease revenue bonds in October 2006. The City anticipates issuing an additional $25.00 million of such Open Space Fund lease revenue bonds in July 2007.

Overlapping Debt

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

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the San Francisco Unified School District (the "SFUSD") to issue up to $295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued $58.00 million of such authorization in October 2004 and $130.00 million of such authorization in October 2005. The SFUSD issued the remaining $92.00 million in October 2006, leaving $15.00 million authorized but unissued.

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.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the 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 $980.00 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City and County of San Francisco. Of the $980 million, the portion payable from the levy of ad valorem taxes on property within the City the ("City Portion") is approximately 29.0% or $282.0 million. BART issued $100.0 million of such authorization in May 2005. Of the $100.0 million issued, the City Portion is approximately $29.0 million.

Labor Relations

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

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (California Government code Sections 3500-3511, "Meyers-Milias-Brown Act") and the Charter[1]. Except for nurses, transit workers, and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through a final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final unless legally challenged. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have gone on a union-authorized strike.

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

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

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

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

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

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

Of the unions covered under Charter Section A8.590-1, the City negotiated a successor agreement with the Deputy Sheriffs, effective July 1, 2005 through June 30, 2009. Employees covered by this agreement will pay their retirement contribution and receive general wage increases each year of the agreement. The current Police, Police Management, Fire and Fire Management contracts will expire on June 30, 2007. The parties are in the process of negotiating successor agreements.

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

In addition, the City adopts an annual "Unrepresented Employees' Ordinance" for employees who are not exclusively represented by a union. The Ordinance for fiscal year 2006-07 provides for employer pick-up of the employees' retirement contribution and a general wage increase. The Ordinance for fiscal year 2007-2008 will be filed with the Board of Supervisors in spring 2007, to become effective July 1, 2007.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO Employee Organizations as of June 30, 2006		
Organization	Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	414	June 30, 2009
Bricklayers, Local 3/Hod Carriers, Local 36	17	June 30, 2009
Building Inspectors Association	72	June 30, 2009
Carpenters, Local 22	106	June 30, 2009
CIR-SEIU (Interns & Residents)	204	June 30, 2009
Cement Masons, Local 580	24	June 30, 2009
Deputy Sheriffs Association	865	June 30, 2009
District Attorney Investigators Association	67	June 30, 2009
Electrical Workers, Local 6	785	June 30, 2009
Glaziers, Local 718	12	June 30, 2009
International Alliance of Theatrical Stage Employees, Local 16	14	June 30, 2009
Ironworkers, Local 377	18	June 30, 2009
Laborers International Union, Local 261	1,052	June 30, 2009
Municipal Attorneys' Association	413	June 30, 2009
Municipal Executives Association	863	June 30, 2009
MEA - Police Management	2	June 30, 2007
MEA - Fire Management	8	June 30, 2007
Operating Engineers, Local 3	59	June 30, 2009
Painters, Local 1176	105	June 30, 2009
Pile Drivers, Local 34	17	June 30, 2009
Plumbers, Local 38	336	June 30, 2009
Probation Officers Association	150	June 30, 2009
Professional & Technical Engineers, Local 21	4,012	June 30, 2009
Roofers, Local 40	13	June 30, 2009
S.F. Institutional Police Officers Association	4	June 30, 2009
S.F. Firefighters, Local 798	1,730	June 30, 2007
S.F. Police Officers Association	2,498	June 30, 2007
SEIU - UHW (250)	1,816	June 30, 2009
SEIU, Local 535	1,422	June 30, 2009
SEIU, Local 790	7,356	June 30, 2009
SEIU, Local 790 (Staff Nurse)	1,445	June 30, 2007
SEIU, Local 790 (H-1 Rescue Paramedics)	20	June 30, 2005 [1]
Sheet Metal Workers, Local 104	48	June 30, 2009
Stationary Engineers, Local 39	629	June 30, 2009
Supervising Probation Officers, Operating Engineers, Local 3	19	June 30, 2009
Teamsters, Local 350	2	June 30, 2009
Teamsters, Local 853	162	June 30, 2009
Teamsters, Local 856 (multi-unit)	117	June 30, 2009
Teamsters, Local 856 (Supervising Nurses)	128	June 30, 2007
TWU, Local 200 (SEAM multi-unit & claims)	303	June 30, 2009
TWU, Local 250-A TWU - Auto Service Workers	145	June 30, 2009
TWU, Local 250-A TWU - Miscellaneous	93	June 30, 2009
TWU, Local 250-A TWU - Transit Operators	2,113	June 30, 2008
Union of American Physicians & Dentists	178	June 30, 2009
Unrepresented Employees	135	June 30, 2009
	29,989 [2]	

[1] The parties are in the process of negotiating a successor contract. Under the status quo, the salary link continues between the H-1 Fire Rescue Paramedics and the H-3 Firefighter/Paramedic (represented by Firefighters, Local 798).

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

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

Risk Retention Program

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

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

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

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

Retirement System

The 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 retained under the currently-effective 1996 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's membership includes City employees who are not members of CalPERS, 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 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 Retirement System estimates that the total active membership as of June 30, 2006 was 33,061, including 2,901 vested members and 734 reciprocal members, compared to 32,760 members a year earlier. With respect to City employees, vested members are members who (i) worked for the City for five or more years, (ii) have separated from City Service and (iii) have elected to receive a deferred vested pension in the future. Reciprocal members are members who have established membership in a reciprocal pension plan and may be eligible to receive a reciprocal pension in the future. The total new enrollees in the Retirement System for fiscal year 2005-06 were approximately 2,166. Checks are mailed to approximately 20,185 benefit recipients monthly.

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

Actuarial valuation of the Retirement System is a joint effort of the Retirement System and an independent consulting actuarial firm employed under contract by the Retirement Board. A valuation of the Retirement System is conducted each year along with periodic interim studies and other actuarial analyses of performance. The latest report as of June 30, 2006 was issued in January 2007. Upon receipt of the consulting actuarial firm's valuation report, the 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 and employee contribution amounts required by the Retirement System as detailed in the report.

In November 1980, the voters of San Francisco adopted a change in the method through which the liabilities of the Retirement System are funded (the "Funding Method"). That change resulted in the following methodology to calculate Retirement System liabilities:

- Use of the entry age normal cost method. The entry age normal cost method is an actuarial method of calculating the anticipated cost of pension liabilities designed to fund promised benefits over the average future working life of the Plan's members.

- Amortization of supplemental costs over no more than 20 years. Supplemental costs are additional costs resulting from the past service component of Retirement System benefit increases.
- Amortization of actuarial gains and losses, assumption changes and miscellaneous items over a 15-year period. In calculating a pension benefit liability certain assumptions must be made about future costs of pension benefits. If the Retirement System's results are better or worse than expected, the result is called an actuarial gain or loss, respectively, and under this rule any such gain or loss is amortized over a 15 year period. Similarly, if the calculated liabilities change due to changes in the aforementioned assumptions, the effect of such changes is also amortized over a 15 year period.

Collectively the above methods are used to determine what is known as the accrued actuarial liability of the Retirement System. Along with the accrued actuarial liability calculation, the Funding Method requires the calculation of the actuarial value of assets based on a five-year smoothing methodology, which together are used to determine the Annual Required Contributions (the "ARC") for the Retirement System's employers (including the City).

From fiscal year 1996-97 through fiscal year 2003-04, the City's dollar contribution to the Retirement System decreased to zero due to lowered funding requirements as determined by the consulting actuary of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period were due primarily to higher than projected investment earnings and lower than projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer (including the City) contributions based on the funding requirements as determined by the consulting actuary. In fiscal year 2005-06, the City contributed $126.53 million in employer contribution to the Retirement System, which is 6.6% of pensionable salary. This amount includes $50.46 million in General Fund contribution. In fiscal year 2006-07, the City budgeted an estimated $134.00 million in employer contribution to the Retirement System, which is 6.2% of pensionable salary. This amount includes $53.50 million in General Fund contribution. The contribution rate approved to be effective July 1, 2007 is 5.9% of pensionable salary.

Table A-15 shows Retirement System actual contributions for fiscal years 2001-02 through 2005-06. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. The "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer ARC received by the Retirement System for fiscal years 2001-02 through 2005-06

TABLE A-15

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

Fiscal Years Ending June 30	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution [1]
2002	$10,415,950	$11,102,516	$9,415,905	118%	$155,918
2003	10,533,013	11,173,636	10,249,896	109.0	182,069
2004	11,907,358	11,299,997	10,885,455	104.0	170,550
2005	13,135,263	12,659,698	11,765,737	108.0	248,029
2006	14,497,022	13,597,646	12,515,463	109.0	289,226

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

Year	Rate
2004-2005	4.48%
2005-2006	6.58%
2006-2007	6.24%

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

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members; such payment from the General Fund equaled $6.74 million in fiscal year 2005-06. These contributions are summarized in Note 9 to the City's CAFR, as of June 30, 2006 attached hereto as Appendix C.

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.

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

Determination of Employer and Employee Contributions for Medical Benefits

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

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

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

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

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

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

Historical Employer Contributions for Health Service System Benefits

For fiscal year 2005-06, the Health Service System received approximately $475.2 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately $333.4 million for Health Service System benefit costs. For the City, approximately $88.0 million[1] of this amount was for health care benefits for approximately 17,000 retired City employees and their eligible dependents and approximately $245.4 million was for benefits for approximately 27,600 active City employees and their eligible dependents. Further information on Health Service System funding can be found in the audited financial statements, which are available through Fiscal Year 2005-2006.

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

Post-Employment Health Care Benefits and GASB 45

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

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

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

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

To help plan for the implementation of GASB 45, the City retained Towers Perrin, an independent consultant, to prepare a preliminary actuarial valuation report of this liability. In July 2006, Towers Perrin issued its report which illustrated what the effect of GASB 45 would be if the City were to report the accrued actuarial liability as of June 30, 2006. Towers Perrin's report showed that if the City were to report the cost of this unfunded liability as of the close of the fiscal year ended June 30, 2006, the City would have an estimated post-employment medical benefit liability of $4.9 billion. Towers Perrin also reported that the City would need to make annual contributions starting at approximately $456 million in fiscal year 2006-07 to amortize the full liability over 30 years. The estimate of the liability under this unfunded plan scenario assumes a discount rate for costs in future years of 4.5%, based on the City's return on its invested assets.

Towers Perrin also calculated the accrued actuarial liability under an alternative assumption that the City would begin to fund the plan with assets dedicated to pay for health benefits as employees earn them, in the same way the City handles its employees' pension benefits. Under this funded plan scenario, Towers Perrin estimated a lower total liability of $3.0 billion and lower required annual contributions, beginning at approximately $290 million in fiscal year 2006-07, to amortize the liability over 30 years. The estimate of the liability under this scenario assumes a discount rate for costs in future years of 8%, based on the rate of return set forth in the investment policy of the City's retirement system as of this date of the report.

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

As stated above, the City is not required to include such information in its financial statements until the 2007-08 fiscal year. As part of the planning for how the City will address this issue, Memoranda of Understanding negotiated in 2006 with City labor unions included a provision calling for a City-wide Retiree Health Benefits Committee to develop recommendations regarding funding of retiree health benefits. Any recommendation of the Committee must be reviewed and approved under the City's legislative and/or charter amendment processes before it is implemented. The Committee met twice in 2006 and has scheduled monthly meetings for 2007. The Committee's current activities include reviewing area and industry practices with respect to retiree health benefits, and developing an understanding of the scope of future obligations contained in collective bargaining agreements and the City Charter

Litigation

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

APPENDIX B

CITY AND COUNTY OF SAN FRANCISCO ECONOMY AND GENERAL INFORMATION

Area and Economy

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

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

Population and Income

The City had a population estimated by the State of California (the "State") Department of Finance Demographic Research Unit, at 798,680 as of January 1, 2006, ranking it the fourth largest city in California after Los Angeles, San Diego and San Jose. The table below reflects the population and per capita income of the City and the State between 2002 and 2006. The State Department of Finance projects that the City's population will reach 816.230 and 820,545 in 2010 and 2020, respectively.

TABLE B-1

POPULATION AND INCOME
2002-2006

Year	City and County of San Francisco	State of California	San Francisco Per Capita Income	California Per Capita Income
[1] 1990	723,959	29,760,021	16,409	19,695
[1] 2000	776,733	33,871,648	34,556	22,771
2002	793,633	35,301,000	54,908	32,989
2003	789,700	35,612,000	55,720	33,749
2004	792,700	36,271,091	59,398	35,219
2005	799,263	36,810,358	63,140	N/A*
2006	798,680	37,172,015	67,064	N/A*
[2] 2010	816,230	39,246,767	N/A*	N/A*
[2] 2020	820,545	43,851,741	N/A*	N/A*

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

[1] U.S. Census Bureau.

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

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

Conventions and Tourism

According to the San Francisco Convention & Visitor Bureau, during the calendar year 2005 approximately 15.7 million people (124,628 average per day) visited the City, generating approximately $7.3 billion for local businesses. On average, these visitors spent about $244 per visitor per day and stayed three to four nights. The figures for calendar year 2006 are not yet available.

Also as estimated by the Convention & Visitor Bureau, hotel occupancy rates in the City averaged 76.4% for calendar year 2006, an increase of 0.9% over the same period from the previous year. Average daily San Francisco room rates during 2006 increased about 7.1% to an average of $168, compared to the same period in the prior year.

Although visitors who stay in the City hotels accounted for only 35.0% of total out-of-town visitors, the Convention & Visitor Bureau estimates that such visitors generated 65.0% of total spending by visitors from outside the Bay Area. It is estimated that 40.0% of visitors to the City are on vacation, 35.0% are convention and trade show attendees, 22.0% are individual business travelers and the remaining 3.0% are en route elsewhere. International visitors are estimated to make up between 25% and 35% of overnight hotel visitors. San Francisco's top five inbound overseas markets in 2005 were the United Kingdom (408,000 visitors), Japan (268,000), France (178,000), Germany (166,000) and Australia 100,000). In 2005, San Francisco was ranked third in market share for international visitors to the USA, behind New York and Los Angeles, and ahead of Miami, Orlando, Honolulu and Las Vegas. The following table illustrates hotel occupancy and related spending from calendar years 2001 through 2006.

TABLE B-2

CITY AND COUNTY OF SAN FRANCISCO
San Francisco Overnight Hotel Guests

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

* Certain information for calendar year 2006 is not yet available.

Source: San Francisco Convention & Visitor Bureau.

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

Employment

The City benefits from a highly skilled, educated and professional labor force. Key industries include tourism, real estate, banking and finance, retailing, apparel design and manufacturing. Emerging industries include multimedia and bioscience. According to the State Employment Development Department, the unemployment rate for the City was 4.4% for January 2007 compared with an unadjusted unemployment rate of 5.3% for California and 5.0% for the nation during the same period.

TABLE B-3

CITY AND COUNTY OF SAN FRANCISCO
Civilian Labor Force, Employment, and Unemployment [1][2]
January 2006 and January 2007

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
January 2007				
San Francisco	426,700	408,000	18,700	4.4%
California	18,036,100	17,077,100	959,000	5.3%
January 2006				
San Francisco	417,100	397,800	19,300	4.6%
California	17,756,400	16,809,900	946,500	5.3%

[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). Currenty industry employment data are only available for the MSA or MD, not County. MSA Counties includes: San Francisco, Marin, and San Mateo.

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 2001-2005[1]

	2001	2002	2003	2004	2005
Professional and Business Services	129,700	111,600	103,400	100,400	104,800
Government	80,800	84,400	83,700	81,700	82,600
Leisure and Hospitality	72,200	69,900	69,600	70,700	71,800
Trade, Transportation and Utilities	78,000	74,200	71,200	70,000	70,000
Financial, Insurance & Real Estate	68,200	63,500	59,100	57,000	57,500
Educational and Health Services	51,900	51,700	53,200	54,400	54,600
Other Services	24,900	22,500	21,700	21,100	21,700
Information	29,800	23,700	20,500	19,100	17,600
Natural Resources, Mining & Construction	19,700	17,900	17,300	16,000	16,700
Manufacturing	17,800	15,100	13,100	12,300	11,800
Total	573,000	534,500	512,800	502,700	509,100

[1] City and County of San Francisco. does not include Metropolitan Statistical Area (MSA) or Metropolitan Division (MD).

Source: California Employment Development Department.

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

TABLE B-5

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

Employer	Number of Employees	Nature of Business
City and County of San Francisco	26,665	Local government
University of California, San Francisco	17,500	Health services
Wells Fargo & Co. Inc.	13,794	Banks
State of California	6,228	State government
California Pacific Medical Center	5,569	Health care
San Francisco Unified School District	5,557	Education
United States Postal Service, San Francisco District	4,935	Mail delivery
Pacific & Gas and Electric Corporation	4,800	Energy
Gap Inc.	4,075	Retail
Kaiser Permanente	3,918	Health care

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

Taxable Sales

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

TABLE B-6

CITY AND COUNTY OF SAN FRANCISCO Taxable Sales 2001-2005 ($000s)					
	2001	2002	2003	2004	2005[1]
Apparel	$749,391	$737,396	$760,715	$826,686	$880,718
General Merchandise	1,078,664	1,051,122	1,065,160	1,143,657	1,199,308
Food Stores	413,650	403,163	405,673	419,286	439,472
Speciality Stores	1,998,450	1,889,144	1,910,757	2,084,323	2,212,530
Eating/Drinking	1,883,762	1,844,385	1,879,879	2,067,418	2,237,384
Household	513,618	459,529	484,455	527,519	575,985
Building Materials	313,277	310,111	320,316	353,002	397,218
Automotive	889,936	803,109	804,964	850,984	956,031
Other Retail Stores	149,638	143,999	135,582	141,906	151,142
Retail Stores Total	$7,990,386	$7,641,958	$7,767,501	$8,414,781	$9,049,788
Business and Personal Services	$1,107,028	$1,043,019	$945,689	$937,411	$939,108
All Other Outlets	3,357,822	2,904,463	2,784,369	2,855,315	3,037,078
Total All Outlets	$12,455,236	$11,589,440	$11,497,559	$12,207,507	$13,025,974

[1] Most recent annual data available.

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

Building Activity

Table B-7 shows a summary of building activity in the City for Fiscal Years 2000-01 through 2004-05, during which time approximately 10,809 housing units were authorized in the City (both market rate and "affordable housing"). According to the City's Department of Building Inspection, the total value of building permits was $434.0 million in Fiscal Year 2004-05.

TABLE B-7

CITY AND COUNTY OF SAN FRANCISCO Building Activity 2001-2005 ($000s)				
Fiscal Year Ended June 30	Authorized New Dwelling Units	Value of Building Permits		
		Residential	Non-Residential	Total
2001	2,570	$381,623	$725,313	$1,106,936
2002	3,273	299,028	364,801	663,829
2003	1,279	214,244	57,455	271,699
2004	1,726	307,603	122,377	429,980
2005	1,961	362,760	71,251	434,011

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

Banking and Finance

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

Commercial Real Estate

According to the 1st Quarter 2007 Report from CB Richard Ellis ("CBRE"), the City-wide vacancy rate was 8.6% in the 1st Quarter 2007. In the first quarter of 2007, there was "a modest 53,000 square feet of negative absorption" as a result of "the conversion of several large blocks of space in the Financial District from available to vacant land," according to the CBRE Report. The average Class A asking rent City-wide is over $40 psf (up from $36.11 in the 4th Quarter 2006), with Civic Center average Class A asking rent at $32 psf (even with the prior quarter).

Major Development Projects

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

After three years of construction, the $460.0 million Westfield San Francisco Centre (including the largest Bloomingdale's outside of downtown Manhattan) opened September 28, 2006. The 1.2 million square foot retail, office, and entertainment complex on the site of the former Emporium building between Market Street and Mission Street and 4th and 5th Streets is estimated to draw 25 million visitors annually and generate $600 million annually in taxable retail sales. In addition, approximately 2,000 net new permanent jobs are projected to be created, with about 20 percent of the jobs to be placed by community based organizations.

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

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

Development is continuing at the Mission Bay redevelopment project area, portions of which are owned by the City and the Port of San Francisco. The development is projected to utilize 303 acres of land comprised of 6,000 residential units (28.0% of which will be affordable units), office and commercial space, 863,637 square feet of retail space, a new public school, 51-acres of parks and recreational areas, and a 500-room hotel. In addition, the University of California is constructing a 2.65 million square feet biotechnology campus on a 43-acre site in Mission Bay, and has already completed several buildings, including the Bakar recreation center and several laboratory buildings. Alexandria Real Estate, the REIT that acquired most of

Mission Bay's entitled land from Catellus Corporation, completed its first lab building, next door to the Gladstone Institutes, in late 2006. Sirna Therapeutics is projected to occupy 40,000 square feet of the 155,000 square foot building.

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

Office developers initiated nearly a million square feet of new construction in 2006, half of which is on a speculative basis. A total of 2.63 million square feet of new office development is under construction, with another 1.2 million square feet entitled. Highlights include the following:

- Two speculative office buildings broke ground in the fourth quarter of 2006: Tishman Speyer's building at 555 Mission Street (550,000 sq.ft.) and Lowe Enterprises' building at 500 Terry Francois Boulevard (280,000 sq.ft.) in Mission Bay.
- Beacon Capital Partners is proposing two vertical additions that would add 140,000 square feet of Class A office space at 120 Howard and 100 California. Under the Proposal, Beacon would add five stories to each building, 70, 000 sq.ft. to 100 California and 67,000 sq.ft. to 120 Howard.
- Both Tishman Speyer and Beacon Capital Partners are seeking approval to build "green" office buildings. Tishman-Speyer is proposing to build a 700,000-square-foot green office tower at 222 Second St.; Beacon filed an application to construct a LEED-certified 27-story office building at 535 Mission Street.

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

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

In addition, Lennar/BVHP has completed demolition work at Hunters Point Shipyard, while mass grading has started, paving the way for infrastructure construction to begin for the first phase of development on Parcel A. The 75 acre first phase of development is expected to comprise approximately 1,600 housing units, 50,000 square feet of commercial uses, 34 acres of open space and other community amenities. Future phases of this projected 500-acre redevelopment effort will include additional residential and commercial development. The first finished lots are scheduled to be delivered to homebuilders by late summer 2007, with finished units on the first blocks projected to be available approximately 12 months later.

Hotel Development

The City added 476 rooms in 2005: the 200-room Hotel Vitale in March and the 276-room St. Regis in November. In 2006, 86 rooms were added: the 86-room Orchard Garden Hotel which opened in November 2006. In addition, there are a total of 2,202 hotel rooms under construction, entitled, or in the planning stage in the City. There are an estimated 550 hotel rooms under construction as part of the InterContinental Hotel project, a 32-story building near Moscone West at 888 Howard Street projected to open in November 2007.

In addition, another 702 rooms are entitled or planned, including the following:

- Chelsea Development plans to erect a $30 million, 10-story, 132-room boutique hotel across from AT&T Park at 144 King Street.
- Farallon Capital Management controls a parcel near Third Street and Channel Street, entitled for 500 hotel rooms, where Larkspur Hospitality of Corte Madera is considering building a lodge.
- Developer Circe Sher is in the process of entitling the Hotel SoMa, a 70-room boutique hotel at Fifth Street and Townsend Street.

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

Transportation Facilities

San Francisco International Airport

San Francisco International Airport ("SFO" or the "Airport"), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and San Francisco Bay. According to final data for calendar year 2005 from the Airports Council International (the "ACI"), SFO is one of the largest airports in the United States in terms of passengers and is one of the nation's principal gateways for Pacific traffic. In fiscal 2005-06, the Airport served approximately 33 million passengers and handled 593.6 thousand metric tons of cargo, per ACI's estimates.

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

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

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

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

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

TABLE B-8

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

	Passengers		Cargo Traffic	
Fiscal year Ended June 30,	Enplanements and Deplanements	Annual Percent Change	Freight and Express Air (Metric Tons)	U.S. and Foreign Mail (Metric Tons)
2002	30,932,889	-20.1%	465,019	93,939
2003	29,174,229	-5.7%	517,419	89,536
2004	30,771,464	5.5%	472,964	79,154
2005	32,648,635	6.0%	512,800	74,717
2006	32,987,672	1.0%	524,856	68,715

Source: San Francisco Airport Commission.

Port of San Francisco

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

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

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

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

TABLE B-9

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

Business Line	FY 04-05 Audited Revenue	Percentage of 2005 Revenue	FY 05-06 Audited Revenue	Percentage of 2006 Revenue
Commercial & Industrial Rent	$34,791	59.4%	$35,803	61.1%
Parking	8,600	14.7%	9,122	15.6%
Cargo	5,277	9.0%	4,181	7.1%
Fishing	1,520	2.6%	1,609	2.7%
Ship Repair	1,021	1.7%	1,105	1.9%
Harbor Services	997	1.7%	1,003	1.7%
Cruise	1,679	2.9%	2,065	3.5%
Other Maritime	1,206	2.1%	1,272	2.2%
Other	2,428	4.1%	2,428	4.1%
TOTAL	$57,519	98%	$58,588	100%

Source: Port of San Francisco Audited Financial Statements.

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

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

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

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

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

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

Other Transportation Facilities

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

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

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

Education

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

Colleges and Universities

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

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

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APPENDIX C

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

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CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Annual Financial Report
Year ended June 30, 2006

Prepared by:
Office of the Controller

Edward Harrington
Controller

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CITY AND COUNTY OF SAN FRANCISCO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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

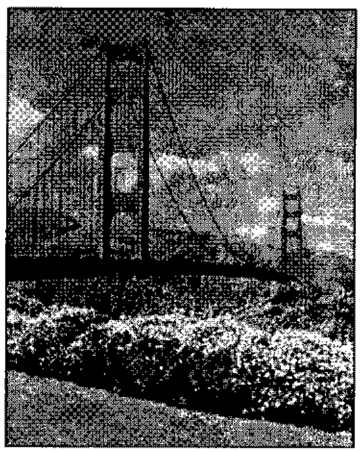

photo by: SF Convention & Visitors Bureau

December 20, 2006

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City or primary government) for the fiscal year ended June 30, 2006, with the Independent Auditor's Report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB).

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

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

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

The CAFR is divided into the following sections:

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

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

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

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

Profile of San Francisco's Government

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

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

San Francisco's Budgetary Process

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

San Francisco's Local Economy

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

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

Population

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

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

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

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

Employment

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

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

Housing Markets and Property Taxes

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

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

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

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

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

[2] Source: State of California, Employment Development Department

[3] Source: State of California, Employment Development Department. Recent county level data not yet reported. The median annual wage represents the level of income at which half of wage earners earned more, and the other half earned less.

[4] Source: California Association of Realtors.

[5] Source: California Association of Realtors.

[6] Source: National Bureau of Economic Research.

[7] Source: Real Facts.

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

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

Commercial Real Estate

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

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

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

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

Other Tax Sources

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

Travel and Tourism

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

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

[9] Source: Cushman & Wakefield, Inc.

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

Improving Bond Ratings

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

City Government Initiatives and Updates

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

City and County of San Francisco 10-Year Capital Plan

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

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

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

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

[10] Mayor's Office of Public Finance and Fitch Ratings, September 2006.

[11] Bayview Hunters Point Redevelopment Project, February 28, 2006.

Port of San Francisco

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

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

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

Treasure Island Development Authority

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

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

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

Third Street Light Rail Project

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

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

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

Toward Universal Health Care: Health Care Access Program

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

San Bruno Jail

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

311 Call Center

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

Affordable Housing and Homeownership Program

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

Homeless Housing Outreach Efforts

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

San Francisco Connect

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

Disaster Preparedness

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

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

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

San Francisco General Hospital Medical Center

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

Laguna Honda Hospital

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

Awards

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Finance Report (CAFR) for the fiscal year ended June 30, 2005. This was the twenty-fourth consecutive year (fiscal years ended June 30, 1982 – 2005) that the City has achieved this prestigious award. In

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

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

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

Acknowledgements

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

Respectfully submitted,

Edward Harrington
Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City and County of San Francisco, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

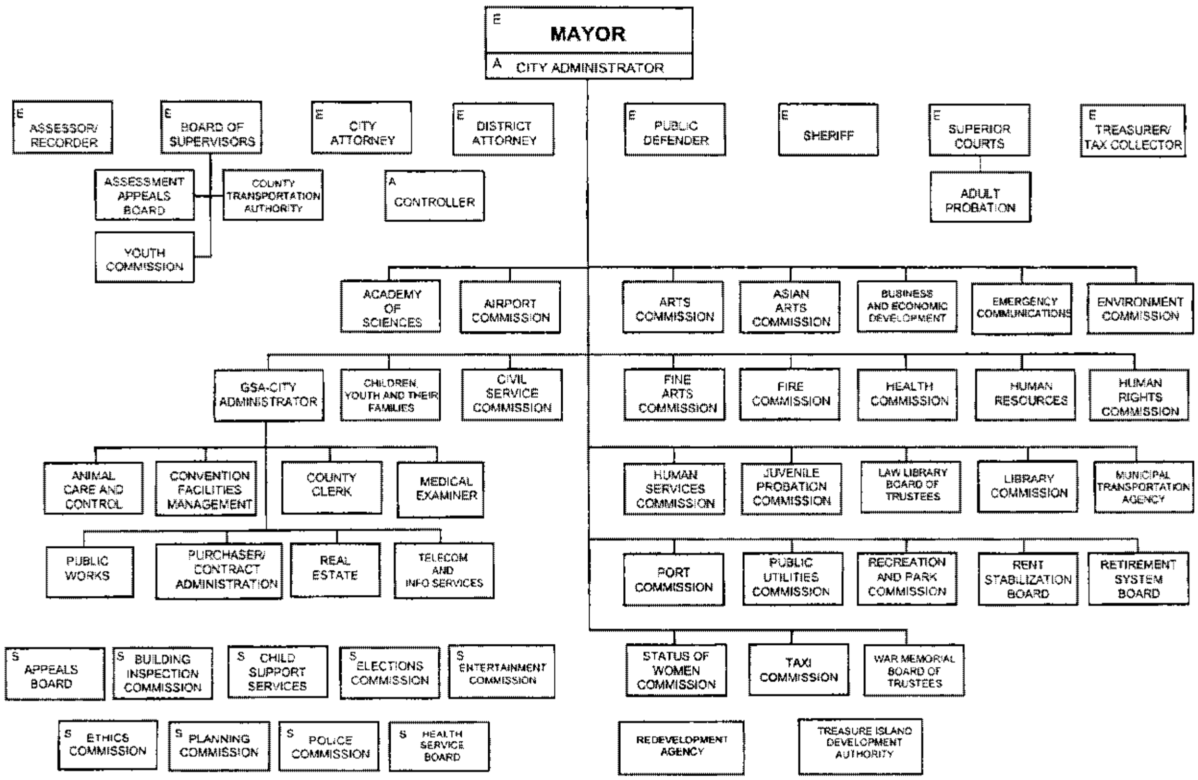
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

City and County of San Francisco Organization Chart

(As of June 30, 2006)



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

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of San Francisco

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

February 24, 2006

William J. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

List of Principal Officials
As of June 30, 2006

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

City Administrator	Edwin M. Lee
Controller	Edward Harrington

DEPARTMENT DIRECTORS/ADMINISTRATORS

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

DEPARTMENT DIRECTORS/ADMINSTRATORS *(Continued)*

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

DISCRETELY PRESENTED COMPONENT UNITS

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

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Financial Section

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

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Wastewater Enterprise, Port of San Francisco, City of San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues as of and for the year ended June 30, 2006:

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

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2005 basic financial statements and, in our report dated December 29, 2005, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

December 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

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

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

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

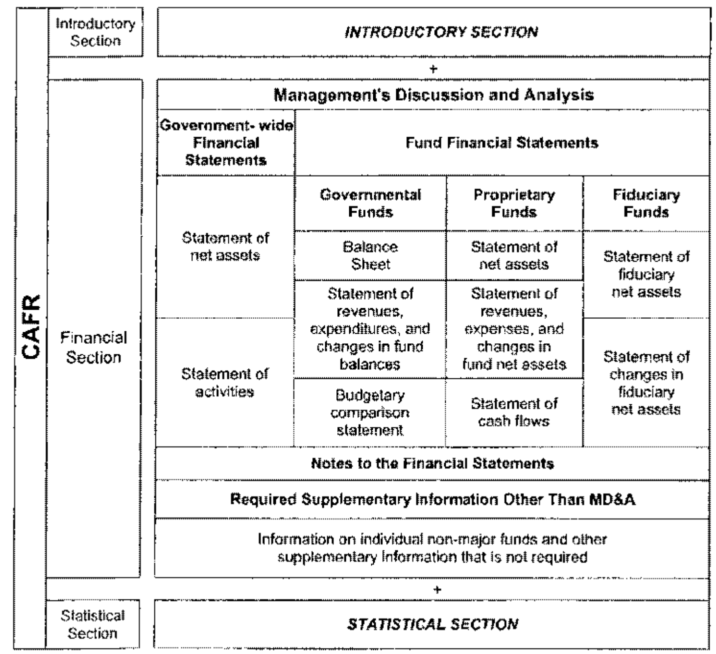
- The City's General Fund had an unreserved fund balance of $139.0 million at the end of fiscal year 2005-2006, a $4.8 million increase over the previous fiscal year, and the total fund balance was $461.3 million, a 50.0 percent increase over the previous fiscal year. This growth was primarily due to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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2006 (in thousands)

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

Analysis of Net Assets

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

The largest portion of the City's net assets reflects its $4.9 billion (79 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. This percentage is substantially the same as in the prior two fiscal years. The City uses capital assets to provide services to citizens; consequently, they are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for to pay these liabilities.

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

At the end of the fiscal year 2005-2006, the City had positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of $72.0 million related in part to $125 million in debt from general obligation bonds for the San Francisco Unified School District and San Francisco Community College District, which are recorded with no corresponding assets.

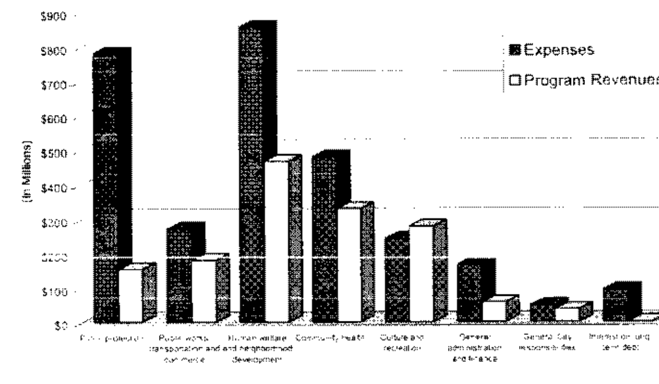
Changes in Net Assets
Year Ended June 30, 2006 (in thousands)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	$ 359,265	$ 351,029	$ 1,714,488	$ 1,683,830	$ 2,113,753	$ 2,034,859
Operating grants and contributions	859,919	834,607	188,672	180,807	1,048,591	1,015,414
Capital grants and contributions	248,329	55,435	110,403	93,724	358,732	149,159
General revenues:						
Property taxes	1,016,220	920,314	-	-	1,016,220	920,314
Business taxes	323,153	292,763	-	-	323,153	292,763
Other local taxes	595,664	538,085	-	-	595,664	538,085
Interest and investment income	71,129	29,490	53,161	33,268	124,290	62,758
Other	56,022	47,153	272,873	237,102	328,895	284,255
Total revenues	3,589,701	3,068,876	2,339,597	2,228,731	5,909,298	5,297,607
Expenses						
Public protection	780,642	738,688	-	-	780,542	738,688
Public works, transportation and commerce	272,397	213,335	-	-	272,397	213,335
Human welfare and neighborhood development	858,396	619,753	-	-	858,396	619,753
Community health	478,844	503,259	-	-	478,844	503,259
Culture and recreation	244,423	256,336	-	-	244,423	256,336
General administration and finance	167,490	152,850	-	-	167,490	152,850
General City responsibilities	49,054	59,024	-	-	49,054	59,024
Unallocated interest on long-term debt	94,923	89,690	-	-	94,923	89,690
Airport	-	-	633,102	628,445	633,102	628,445
Transportation	-	-	695,593	711,733	695,593	711,733
Port	-	-	55,329	54,897	55,329	54,897
Water	-	-	213,584	197,848	213,584	197,848
Power	-	-	119,146	116,683	119,146	116,683
Hospitals	-	-	646,149	598,160	646,149	598,160
Sewer	-	-	160,701	160,650	160,701	160,650
Market	-	-	1,035	1,055	1,035	1,055
Total expenses	2,946,169	2,632,935	2,524,639	2,469,471	5,470,808	5,102,406
Increase/(decrease) in net assets before special items and transfers	623,532	435,941	(185,042)	(240,740)	438,490	195,201
Special items	-	-	-	(46,358)	-	(46,358)
Transfers	(329,996)	(241,600)	329,996	241,600	-	-
Change in net assets	293,536	194,341	144,954	(45,498)	438,490	148,843
Net assets at beginning of year	1,501,082	1,306,741	4,267,479	4,312,977	5,768,561	5,619,718
Net assets at end of year	$ 1,794,618	$ 1,501,082	$ 4,412,433	$ 4,267,479	$ 6,207,051	$ 5,768,561

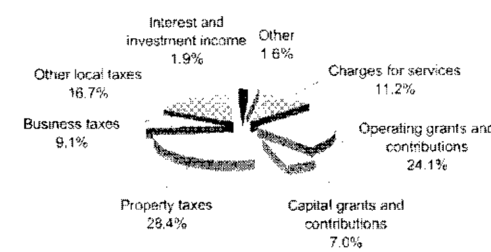
Analysis of Changes in Net Assets

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

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



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

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

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

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

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

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

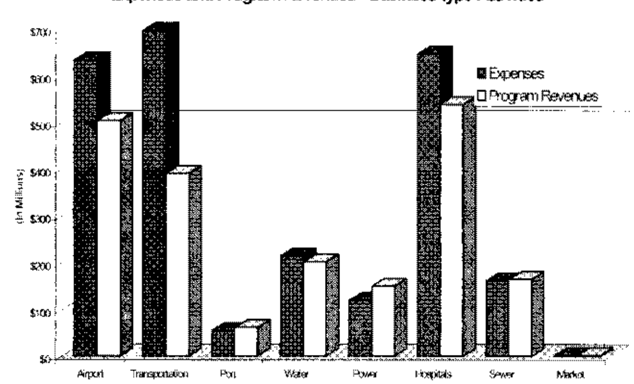
- The Capital contributions revenue significant increase of $192.9 million is primarily due to recognition of the City's newly rebuilt de Young Museum ($202.0 million less a decrease in capital grants of $9.1 million). This premier art museum opened early in 2005-2006 and was constructed with private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

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

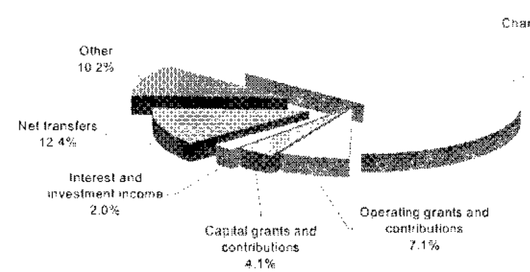
- Net transfers to business-type activities were $330.0 million in fiscal year 2005-2006, a net $88.4 million increase from the end of fiscal year 2004-2005. These transfers included a net increase of $52.3 to Laguna Honda Hospital related to support for re-construction of the hospital, a $65.6 million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

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

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by $145.0 million. A significant increase from the prior year decrease of $45.5 million. Key factors of this improvement are:

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

- Laguna Honda Hospital, the City's long term care hospital, had an increase to net assets of $68.2 million. This increase included $49.8 million in transfers from the non-major governmental funds which account for the Laguna Honda Hospital General Obligation Bond proceeds and capital project activity. In addition, the hospital received a $39.9 million transfer from the City's General Fund and $1.2 million from the San Francisco General Hospital Medical Center. This $90.7 million of inflow was offset by approximately $22.5 million in operating and non-operating losses, compared to last year's loss of $20.7 million.

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately $1.32 billion, an increase of $247.3 million over the end of the prior year. The increase is due to revenue sources increasing at a faster rate than expenditures, consistent with the City's improving economy.

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

The General Fund is the chief operating fund of the City and had an unreserved fund balance of $139.0 million at the end of fiscal year 2005-2006, a $4.8 million increase over the fiscal year 2004-2005 unreserved fund balance of $134.2 million. The General Fund's total fund balance was $461.3 for fiscal year 2005-2006, a 50 percent improvement over the prior year balance of $307.7 million. This increase was mainly due to a general increase in revenues from property, business, other local taxes and charges for services, coupled with only a moderate increase in expenditures. Overall for the fiscal year ended June 30, 2006, the General Fund's revenues exceeding expenditures by $506.0 million, before transfers and other items are considered.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For fiscal year 2005-2006, the unreserved fund balance of $139.0 million represents 7.1 percent of total General Fund expenditures of $1.97 billion, and the total fund balance represents approximately 23.4 percent of that amount. For the prior fiscal year, 2004-2005, the General Fund's unreserved fund balance of $134.2 million was 6.9 percent of the total expenditures of $1.94 billion, and the total fund balance represented approximately 15.8 percent of expenditures.

Proprietary Funds

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

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

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

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

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

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions Special Items, and Others	Interfund Transfers	Change In Net Assets
Airport	$ 456,342	$ 432,811	$ 22,531	$ (92,234)	$ 48,544	$ (21,513)	(42,672)
Water	201,833	186,934	14,899	(14,250)	-	(602)	47
Hetch Hetchy	149,500	119,146	30,354	11,299	-	-	41,653
Municipal Transportation Agency	210,692	691,100	(480,408)	275,138	58,399	199,850	52,979
General Hospital	341,035	473,991	(132,956)	73,973	-	61,551	2,568
Wastewater Enterprise	164,703	140,954	23,749	(12,439)	-	-	11,310
Port	58,588	54,429	4,159	2,726	3,460	-	10,345
Laguna Honda Hospital	131,292	170,035	(38,743)	16,215	-	90,710	68,182
Market Corporation	1,503	1,035	468	74	-	-	542
Total	$ 1,714,488	$ 2,270,435	$ (555,947)	$ 260,502	$ 110,403	$ 329,996	$ 144,954

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2005-2006, the net assets of the Retirement System and Health Service System totaled $14.54 billion, representing an increase of $1.36 billion in total net assets since June 30, 2005. This 10.3 percent increase is primarily due to a third year of improved performance of the Retirement Trust's investments. The Investment Trust Fund's net assets totaled $547.4 million, an increase in net assets of $227.0 million or 70.8 percent since June 30, 2005 due to the increase in additions over withdrawals and distributions to external participants of the fund.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2005-2006, the City approved $64.0 million in General Fund supplemental appropriations for various departments primarily for capital projects including affordable housing, street resurfacing and recreation facilities.

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

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

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

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

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

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

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

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

Capital Assets and Debt Administration

Capital Assets

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

Capital Assets, Net of Accumulated Depreciation
(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Administration

At the end of the current fiscal year, the City had total long-term debt outstanding of $7.8 billion. Of this amount, $1.23 billion is general obligation bonds backed by the full faith and credit of the City and $6.5 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

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

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

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City - approximately $114 billion in value as of the close of the fiscal year. As of June 30, 2006, the City had $1.23 billion in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 1.04 percent of gross (1.08 percent of net) taxable assessed value of property. As of June 30, 2006, there were an additional $346.1 million in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total

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

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

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

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

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

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

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

Economic factors and next year's budget and rates

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

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

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

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

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

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

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

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

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

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

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

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

Component Unit Financial Statement

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

Blended Component Units Financial Statements

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

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets

June 30, 2006

(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury	$ 1,511,936	$ 681,935	$ 2,193,871	$ -	$ 1,268
Deposits and investments outside City Treasury	48,885	9,758	58,643	169,046	-
Receivables (net of allowance for uncollectible amounts of $84,334 for the primary government):					
Property taxes and penalties	42,586	-	42,586	-	-
Other local taxes	168,457	-	168,457	-	-
Federal and state grants and subventions	154,086	57,707	211,793	-	-
Charges for services	22,194	194,800	216,994	-	-
Interest and other	16,132	43,787	59,919	7,641	4
Loans receivable	7,025	132	7,157	12	-
Capital lease receivable from primary government	-	-	-	14,460	
Due from component unit	782	-	782	-	-
Inventories	-	53,051	53,051	-	-
Deferred charges and other assets	10,423	3,531	13,954	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	54,218	54,218	-	-
Deposits and investments outside City Treasury	-	45,306	45,306	78,413	-
Grants and other receivables	-	36	36	1,206	-
Total current assets	1,982,506	1,144,261	3,126,767	270,778	1,272
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $383,869 and $158,166 for the primary government and component units, respectively)	67,016	455	67,471	10,455	-
Advance to component unit	4,024	-	4,024	-	-
Capital lease receivable from primary government	-	-	-	175,636	-
Deferred charges and other assets	19,887	72,632	92,519	9,565	-
Restricted assets:					
Deposits and investments with City Treasury	-	617,925	617,925	-	-
Deposits and investments outside City Treasury	-	265,093	265,093	20,797	-
Grants and other receivables	-	61,670	61,670	-	-
Property held for resale	-	-	-	15,988	-
Capital assets:					
Land and other assets not being depreciated	504,527	1,208,435	1,712,962	119,965	-
Facilities, infrastructure, and equipment, net of depreciation	2,170,335	7,320,619	9,490,954	146,638	-
Total capital assets	2,674,862	8,529,054	11,203,916	266,603	-
Total noncurrent assets	2,765,789	9,546,829	12,312,618	499,044	-
Total assets	$ 4,748,295	$ 10,891,090	$ 15,439,385	$ 769,822	$ 1,272

(Continued)

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

Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets *(Continued)*

June 30, 2006

(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	$ 178,765	$ 121,868	$ 300,633	$ 7,962	$ 3,207
Accrued payroll	64,377	46,498	110,875	-	-
Accrued vacation and sick leave pay	65,948	43,182	109,130	1,254	-
Accrued workers' compensation	41,803	35,466	77,269	-	-
Estimated claims payable	23,811	24,629	48,440	-	-
Bonds, loans, capital leases, and other payables	262,599	142,119	404,718	27,791	-
Capital lease payable to component unit	14,460	-	14,460	-	-
Accrued interest payable	7,764	18,472	26,236	27,207	-
Unearned grant and subvention revenues	2,421	-	2,421	-	-
Due to primary government	-	-	-	782	-
Internal balances	27,956	(27,966)	-	-	-
Deferred credits and other liabilities	125,111	91,061	216,172	750	664
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	17,393	17,393	-	-
Accrued interest payable	-	26,321	26,321	-	-
Other	-	38,331	38,331	-	-
Total current liabilities	815,025	577,374	1,392,399	65,746	3,871
Noncurrent liabilities:					
Accrued vacation and sick leave pay	66,576	36,381	102,957	1,553	-
Accrued workers' compensation	160,678	126,188	286,866	-	-
Estimated claims payable	45,666	53,154	98,820	-	-
Bonds, loans, capital leases, and other payables	1,690,096	5,438,803	7,128,899	700,942	-
Advance from primary government	-	-	-	4,024	-
Capital lease payable to component unit	175,636	-	175,636	-	-
Accrued interest payable	-	-	-	63,839	-
Deferred credits and other liabilities	-	46,757	46,757	6,117	-
Total noncurrent liabilities	2,138,652	5,701,283	7,839,935	776,475	-
Total liabilities	2,953,677	6,278,657	9,232,334	842,221	3,871
NET ASSETS					
Invested in capital assets, net of related debt	1,438,010	3,438,397	4,876,407	87,463	-
Restricted for:					
Reserve for rainy day	121,976	-	121,976	-	-
Debt service	53,076	256,055	309,131	54,821	-
Capital projects	10,589	148,957	159,546	-	-
Community development	71,207	-	71,207	-	-
Transportation Authority activities	23,727	-	23,727	-	-
Grants and other purposes	148,071	32,354	180,425	15,988	-
Unrestricted (deficit)	(72,038)	536,670	464,632	(210,671)	(2,599)
Total net assets (deficit)	$ 1,794,618	$ 4,412,433	$ 6,207,051	$ (72,399)	$ (2,599)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Activities

Year ended June 30, 2006

(In Thousands)

		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	$ 780,642	$ 51,874	$ 103,358	$ -	$ (625,410)	$ -	$ (625,410)	$ -	$ -
Public works, transportation and commerce	272,397	113,861	30,223	37,411	(90,902)	-	(90,902)	-	-
Human welfare and neighborhood development	858,396	29,181	437,381	150	(391,684)	-	(391,684)	-	-
Community health	478,644	52,183	278,218	-	(148,443)	-	(148,443)	-	-
Culture and recreation	244,423	64,720	3,144	210,768	34,209	-	34,209	-	-
General administration and finance	167,490	55,799	2,400	-	(109,291)	-	(109,291)	-	-
General City responsibilities	49,054	31,647	5,195	-	(12,212)	-	(12,212)	-	-
Unallocated Interest on long-term debt	94,923	-	-	-	(94,923)	-	(94,923)	-	-
Total governmental activities	2,946,169	399,265	859,919	248,329	(1,438,656)	-	(1,438,656)	-	-
Business-type activities:									
Airport	633,102	455,342	-	48,544	-	(129,216)	(129,216)	-	-
Transportation	695,593	210,692	122,057	58,399	-	(304,445)	(304,445)	-	-
Port	55,329	58,588	-	3,460	-	6,719	6,719	-	-
Water	213,584	201,833	-	-	-	(11,751)	(11,751)	-	-
Power	119,146	149,500	-	-	-	30,354	30,354	-	-
Hospitals	646,149	472,327	66,585	-	-	(107,237)	(107,237)	-	-
Sewer	160,701	164,703	30	-	-	4,032	4,032	-	-
Market	1,035	1,503	-	-	-	468	468	-	-
Total business-type activities	2,524,639	1,714,468	188,672	110,403	-	(511,076)	(511,076)	-	-
Total primary government	$5,470,808	$2,113,753	$ 1,048,591	$ 358,732	(1,438,656)	(511,076)	(1,949,732)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 142,493	$ 25,345	$ 13,912	$ -				(103,236)	-
Treasure Island Development Authority	9,188	8,208	-	-				-	(980)
Total component units	$ 151,681	$ 33,553	$ 13,912	$ -				(103,236)	(980)
General Revenues:									
Taxes:									
Property taxes					1,016,220	-	1,016,220	65,826	-
Business taxes					323,153	-	323,153	-	-
Other local taxes					595,664	-	595,664	5,549	-
Interest and investment income					71,129	53,161	124,290	10,751	56
Other					56,022	272,873	328,895	9,722	527
Transfers - internal activities of primary government					(329,996)	329,996	-	-	-
Total general revenues and transfers					1,732,192	656,030	2,388,222	91,848	583
Change in net assets					293,536	144,954	438,490	(11,388)	(397)
Net assets (deficit) - beginning					1,501,082	4,267,479	5,768,561	(61,011)	(2,202)
Net assets (deficit) - ending					$ 1,794,618	$4,412,433	$6,207,051	$ (72,399)	$ (2,599)

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

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet
Governmental Funds

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

	General Fund 2006	General Fund 2005	Other Governmental Funds 2006	Other Governmental Funds 2005	Total Governmental Funds 2006	Total Governmental Funds 2005
ASSETS						
Deposits and investments with City Treasury	$ 443,102	$ 314,607	$ 1,060,891	$ 915,547	$ 1,503,993	$ 1,230,154
Deposits and investments outside City Treasury	1,465	355	22,287	45,745	23,752	46,100
Receivables:						
Property taxes and penalties	34,157	26,141	8,429	6,890	42,586	33,031
Other local taxes	154,505	148,744	13,952	12,788	168,457	161,532
Federal and state grants and subventions	63,843	61,412	90,243	89,559	154,086	150,971
Charges for services	17,117	7,416	5,077	6,832	22,194	14,248
Interest and other	6,184	4,406	9,035	3,726	15,219	8,132
Due from other funds	30,859	29,743	3,960	12,303	34,819	42,046
Due from component unit	3,848	2,416	958	959	4,806	3,375
Loans receivable (net of allowance for uncollectible amount of $383,869 in 2006; $165,336 in 2005)	-	1,174	74,041	241,728	74,041	242,902
Deferred charges and other assets	7,243	6,797	1,729	1,570	8,972	8,367
Total assets	$ 762,323	$ 603,211	$ 1,290,602	$ 1,337,647	$ 2,052,925	$ 1,940,858
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 84,710	$ 82,524	$ 88,151	$ 53,335	$ 172,861	$ 135,859
Accrued payroll	51,792	39,729	10,982	8,812	62,774	48,541
Deferred tax, grant and subvention revenues	33,473	26,880	30,442	19,371	63,915	46,251
Due to other funds	821	1,857	61,964	77,614	62,785	79,471
Agency obligations	-	-	-	40	-	40
Deferred credits and other liabilities	130,251	144,541	94,755	267,899	225,006	412,440
Bonds, loans, capital leases, and other payables	-	-	150,000	150,000	150,000	150,000
Total liabilities	301,047	295,531	436,294	577,071	737,341	872,602
Fund balances:						
Reserved for rainy day	121,976	48,139	-	-	121,976	48,139
Reserved for assets not available for appropriation	10,710	9,031	20,202	17,683	30,912	26,714
Reserved for debt service	-	-	57,429	45,540	57,429	45,540
Reserved for encumbrances	38,159	57,762	423,120	97,920	461,279	155,682
Reserved for appropriation carryforward	124,009	36,198	294,340	549,571	418,349	585,769
Reserved for subsequent years' budgets	27,451	22,351	8,004	8,004	35,455	30,355
Unreserved (deficit), reported in:						
General fund	138,971	134,199	-	-	138,971	134,199
Special revenue funds	-	-	35,243	30,809	35,243	30,809
Capital project funds	-	-	13,662	7,193	13,562	7,193
Permanent fund	-	-	2,308	3,856	2,308	3,856
Total fund balances	461,276	307,680	854,308	760,576	1,315,584	1,068,256
Total liabilities and fund balances	$ 762,323	$ 603,211	$ 1,290,602	$ 1,337,647	$ 2,052,925	$ 1,940,858

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

City and County of San Francisco

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006
(In Thousands)

Fund balances - total governmental funds	$ 1,315,584
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,670,387
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	14,338
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,161,461)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(6,459)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	164,015
Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(201,786)
Net assets of governmental activities	$ 1,794,618

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

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

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2006	2005	2006	2005	2006	2005
Revenues:						
Property taxes	$ 783,303	$ 705,949	$ 224,848	$ 212,696	$ 1,008,151	$ 918,645
Business taxes	322,407	292,172	746	591	323,153	292,763
Other local taxes	480,501	428,244	115,163	109,841	595,664	538,085
Licenses, permits and franchises	20,825	19,427	6,837	6,515	27,662	25,942
Fines, forfeitures and penalties	10,195	9,536	4,254	2,973	14,449	12,509
Interest and investment income	22,496	8,374	47,550	19,894	70,046	28,268
Rents and concessions	20,007	20,468	32,419	28,982	52,426	49,450
Intergovernmental:						
Federal	182,448	165,739	168,537	183,025	350,985	348,764
State	490,187	438,697	75,802	84,240	565,989	522,937
Other	-	99	23,500	25,684	23,500	25,783
Charges for services	126,433	115,812	137,561	125,938	263,994	241,750
Other	15,037	12,277	46,528	45,210	61,565	57,487
Total revenues	2,473,839	2,216,794	883,745	845,589	3,357,584	3,062,383
Expenditures:						
Current:						
Public protection	739,470	697,450	47,928	41,044	787,398	738,494
Public works, transportation and commerce	46,448	60,628	228,221	135,268	274,669	195,896
Human welfare and neighborhood development	524,516	503,874	172,586	141,025	697,102	644,899
Community health	377,226	413,110	94,515	87,940	471,741	501,050
Culture and recreation	80,516	87,023	176,463	151,999	256,979	239,022
General administration and finance	146,567	120,400	14,628	14,718	161,195	135,118
General City responsibilities	53,065	62,185	698	614	53,763	62,799
Debt service:						
Principal retirement	-	-	86,970	80,306	86,970	80,306
Interest and fiscal charges	-	-	75,975	61,524	75,975	61,524
Bond issuance costs	-	-	1,933	4,842	1,933	4,842
Capital outlay	-	-	153,493	130,224	153,493	130,224
Total expenditures	1,967,808	1,944,670	1,053,410	849,504	3,021,218	2,794,174
Excess (deficiency) of revenues over expenditures	506,031	272,124	(169,665)	(3,915)	336,366	268,209
Other financing sources (uses):						
Transfers in	62,431	152,288	162,092	119,265	224,523	271,553
Transfers out	(420,066)	(330,230)	(135,069)	(183,193)	(555,155)	(513,423)
Issuance of bonds and loans						
Face value of bonds issued	-	-	219,120	346,225	219,120	346,225
Face value of loans issued	-	-	5,359	500	5,359	500
Premium on issuance of bonds	-	-	10,233	11,989	10,233	11,989
Payment to refunded bond escrow agent	-	-	-	(38,913)	-	(38,913)
Other financing sources-capital leases	5,220	3,063	1,662	1,479	6,882	4,542
Total other financing sources (uses)	(352,435)	(174,879)	263,397	257,352	(89,038)	82,473
Net change in fund balances	153,596	97,245	93,732	253,437	247,328	350,682
Fund balances at beginning of year	307,680	210,435	760,576	507,139	1,068,256	717,574
Fund balances at end of year	$ 461,276	$ 307,680	$ 854,308	$ 760,576	$ 1,315,584	$ 1,068,256

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

City and County of San Francisco

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2006

(In Thousands)

Net change in fund balances - total governmental funds	$ 247,328
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period plus capital contribution of an asset to the City.	302,616
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the decrease in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	19,058
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,069
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	1,202
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.	(156,332)
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	18,915
Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	1,138
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period.	(137,509)
Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the amount of bond premiums capitalized during the current period.	(10,233)
Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities.	(10,748)
The net revenues of certain activities of internal service funds is reported with governmental activities.	9,832
Change in net assets of governmental activities	$ 293,536

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund
Year ended June 30, 2006
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 120,483	$ 324,724	$ 324,724	$ -
Resources (inflows):				
Property taxes	696,660	696,660	782,690	86,030
Business taxes	288,320	288,320	322,407	34,087
Other local taxes:				
Sales tax	102,780	102,780	103,074	294
Hotel room tax	121,462	121,462	130,824	9,362
Utility users tax	70,920	70,920	76,444	5,524
Parking tax	33,120	33,120	36,165	3,045
Real Property Transfer Tax	83,000	83,000	131,279	48,279
Stadium Operator Admission Tax	2,430	2,430	2,716	286
Licenses, permits, and franchises.				
Licenses and permits	6,705	6,705	7,088	383
Franchise tax	12,423	12,423	13,737	1,314
Fines, forfeitures, and penalties	11,475	11,475	10,195	(1,280)
Interest and investment income	11,307	11,393	30,953	19,560
Rents and concessions:				
Garages - Recreation and Park	7,926	7,925	9,207	1,281
Rents and concessions - Recreation and Park	9,980	9,979	9,082	(897)
Other rents and concessions	1,679	1,679	1,718	39
Intergovernmental:				
Federal subventions:				
Health and social service subventions	197,359	184,911	177,804	(7,107)
Other grants and subventions	8,980	8,596	4,644	(3,952)
State subventions:				
Social service subventions	84,812	97,120	93,184	(3,936)
Health/mental health subventions	105,064	105,646	100,900	(4,746)
Health and welfare realignment	158,447	158,447	157,921	(526)
Public safety sales tax	70,000	70,000	69,344	(656)
Motor vehicle in-lieu	36,660	36,660	35,764	(896)
Other grants and subventions	19,406	24,568	33,393	8,825
Charges for services:				
General government service charges	47,031	47,096	39,161	(7,935)
Public safety service charges	21,607	21,807	24,908	3,301
Recreation charges - Recreation and Park	5,798	5,798	6,776	978
MediCal, MediCare and health service charges	56,548	56,272	55,588	(684)
Other financing sources:				
Transfers from other funds	107,570	108,902	57,965	(50,937)
Proceeds from issuance of bonds and loans	597	597	-	(597)
Other resources (inflows)	12,644	13,090	7,681	(5,409)
Total amounts available for appropriation	$ 2,513,193	$ 2,724,306	$2,857,336	$ 133,030

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund *(Continued)*
Year ended June 30, 2006
(In Thousands)

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

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	8,913	10,857	10,843	14
City Planning	17,078	15,927	15,382	545
Civil Service	550	544	498	46
Controller	21,427	18,866	18,850	16
Elections	11,081	11,861	11,861	-
Ethics Commission	1,382	1,389	1,286	103
Health Service System	100	-	-	-
Human Resources	12,757	9,861	9,695	166
Mayor	6,282	6,698	6,679	19
Retirement Services	436	242	241	1
Treasurer/Tax Collector	22,152	20,057	19,773	284
General City Responsibilities				
General City Responsibilities	53,684	53,601	52,849	752
Other financing uses:				
Transfers to other funds	390,531	436,092	415,936	20,156
Budgetary reserves and designations	54,117	22,712	-	22,712
Total charges to appropriations	2,513,193	2,527,522	2,379,335	148,187
Total Sources less Current Year Uses	-	196,784	478,001	281,217
Budgetary Reserves Carried Into Subsequent Year	-	60,977	-	(60,977)
New Deposits Into Rainy Day Reserves in Current Year				
Economic Stabilization Account	-	49,772	-	(49,772)
One-Time Spending Account New Deposits	-	24,886	-	(24,886)
Budgetary fund balance, June 30	$ -	$ 332,419	$ 478,001	$ 145,582

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

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

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets - Proprietary Funds

June 30, 2006

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

(In Thousands)

	Business-type Activities - Enterprise Funds: Major Funds: San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Waste Water Enterprise	Port of San Francisco	Laguna Honda Hospital	Other Fund: Market Corporation	Total 2006	Total 2005	Governmental Activities-Internal Service Funds 2006	Governmental Activities-Internal Service Funds 2005
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 240,171	$ 101,590	$121,929	$ 62,311	$ 34,278	$ 55,631	$ 66,065	$ -	$ -	$ 681,935	$ 561,311	$ 7,943	$ 8,196
Deposits and investments outside City Treasury	120	41	10	6,185	10	3	13	1	3,376	9,758	8,017	25,133	16,057
Receivables (net of allowance for uncollectible amounts of $41,774 and $29,030 in 2006 and 2005, respectively):													
Federal and state grants and subventions	-	-	-	54,369	1,928	-	1,410	-	-	57,707	52,907	-	-
Charges for services	31,931	41,071	23,686	6,292	34,339	24,552	3,380	27,435	14	194,800	148,463	78	-
Interest and other	7,950	1,027	988	19,593	13,269	381	579	-	-	43,787	42,255	835	457
Loans receivable	-	-	132	-	-	-	-	-	-	132	130	21,855	18,862
Due from other funds	-	145	15,713	29,775	-	-	-	-	-	45,633	53,339	-	2,301
Inventories	76	1,733	276	43,169	5,281	-	1,152	1,359	-	53,051	52,874	-	-
Deferred charges and other assets	2,245	-	-	1,222	-	-	38	-	26	3,531	3,644	149	148
Restricted assets:													
Deposits and investments with City Treasury	14,192	-	-	-	-	-	4,528	35,498	-	54,218	45,285	-	-
Deposits and investments outside City Treasury	40,221	-	-	-	-	-	5,085	-	-	45,306	51,750	-	-
Grants and other receivables	36	-	-	-	-	-	-	-	-	36	1,115	-	-
Total current assets	336,942	145,571	162,734	224,936	89,085	80,667	82,250	64,293	3,416	1,189,894	1,111,090	56,993	46,021
Noncurrent assets													
Deferred charges and other assets	53,525	8,018	-	2,219	-	3,051	5,819	-	-	72,632	65,054	2,551	2,403
Loans receivable	-	-	455	-	-	-	-	-	-	455	687	210,947	212,958
Restricted assets:													
Deposits and investments with City Treasury	152,999	364,068	-	24,016	-	76,842	-	-	-	617,925	383,439	-	-
Deposits and investments outside City Treasury	152,784	79,063	-	30,332	12	6	2,057	829	-	265,093	216,687	-	-
Grants and other receivables	53,636	2,260	-	5,055	-	462	-	227	-	61,670	33,596	-	-
Capital assets:													
Land and other assets not being depreciated	70,506	217,514	57,845	487,459	4,971	78,964	156,365	134,741	-	1,208,435	915,349	-	-
Facilities, infrastructure, and equipment, net of depreciation	3,606,265	690,170	212,228	1,402,416	48,998	1,233,863	113,759	8,092	4,828	7,320,619	7,502,464	4,475	4,155
Total capital assets	3,676,771	907,754	270,073	1,889,875	53,969	1,312,827	270,124	142,833	4,828	8,529,054	8,417,813	4,475	4,155
Total noncurrent assets	4,089,695	1,361,213	270,528	1,951,497	53,981	1,393,188	278,010	143,889	4,828	9,546,829	9,117,176	217,973	219,516
Total assets	4,426,637	1,506,784	433,262	2,176,433	143,066	1,473,855	360,260	208,182	8,244	10,736,723	10,228,266	273,966	265,537

(Continued)

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

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Waste Water Enterprise	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2006	Total 2005	Governmental Activities-Internal Service Funds 2006	Governmental Activities-Internal Service Funds 2005
Operating revenues:													
Aviation	$ 263,422	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 263,422	$ 303,015	$ -	$ -
Water and power service	-	189,603	139,627	-	-	-	-	-	-	329,230	295,456	-	-
Passenger fees	-	-	-	134,553	-	-	-	-	-	134,553	120,193	-	-
Net patient service revenue	-	-	-	-	326,910	-	-	130,661	-	457,571	479,655	-	-
Sewer service	-	-	-	-	-	159,281	-	-	-	159,281	144,348	-	-
Rents and concessions	81,665	8,763	234	34,666	2,055	-	47,038	-	-	174,421	157,249	61	-
Parking and transportation	61,186	-	-	34,417	-	-	9,122	-	-	104,725	99,228	-	-
Charges for services	-	-	-	2,152	-	-	-	-	1,503	3,655	2,028	98,943	92,150
Other revenues	48,869	3,467	9,639	4,904	12,070	5,422	2,425	631	-	87,430	82,626	-	-
Total operating revenues	455,342	201,833	149,500	210,692	341,035	164,703	58,588	131,292	1,503	1,714,488	1,683,830	99,004	92,150
Operating expenses:													
Personal services	153,777	58,452	22,318	422,050	265,147	44,798	21,047	144,035	191	1,131,815	1,092,794	42,648	40,203
Contractual services	52,863	5,767	4,768	41,824	118,589	7,962	2,531	6,289	473	241,095	222,750	30,948	28,861
Light, heat and power	18,544	-	48,742	1,035	-	-	3,360	-	73	69,754	68,934	-	-
Materials and supplies	7,654	10,137	1,879	36,286	55,517	8,565	1,323	12,750	3	134,114	119,564	16,678	14,421
Depreciation and amortization	162,009	41,877	10,701	96,567	8,825	37,228	9,536	1,034	256	368,483	386,679	1,185	1,119
General and administrative	2,813	32,930	21,761	54,876	125	13,725	1,421	-	9	127,660	132,046	485	450
Services provided by other departments	11,136	31,553	2,608	35,713	25,579	24,106	11,562	5,927	-	148,183	137,351	4,834	4,088
Other	24,015	6,218	8,349	2,349	2,210	4,571	3,649	-	-	51,351	49,993	2,415	2,279
Total operating expenses	432,811	186,934	119,146	691,100	473,991	140,954	54,429	170,035	1,035	2,270,435	2,210,113	99,193	91,421
Operating income (loss)	22,531	14,899	30,354	(480,408)	(132,956)	23,749	4,159	(38,743)	468	(555,947)	(528,283)	(189)	729
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	-	-	24,093	-	-	-	362	-	24,455	23,776	-	-
State / other	-	-	-	97,964	66,223	30	-	-	-	164,217	157,031	-	-
Interest and investment income (loss)	25,331	11,665	3,564	3,144	(110)	5,385	2,993	1,115	74	53,161	33,258	7,966	6,468
Interest expense	(200,291)	(26,650)	-	(4,493)	(946)	(19,747)	(900)	(1,177)	-	(254,204)	(259,359)	(8,200)	(6,523)
Other, net	82,726	735	7,735	154,430	8,806	1,893	633	15,915	-	272,873	237,102	28	8
Total nonoperating revenues (expenses)	(92,234)	(14,250)	11,299	275,138	73,973	(12,439)	2,726	16,215	74	260,502	191,619	(206)	(47)
Income (loss) before capital contributions, transfers and special item	(69,703)	649	41,653	(205,270)	(58,983)	11,310	6,885	(22,528)	542	(295,445)	(334,464)	(395)	682
Capital contributions	48,644	-	-	58,399	-	-	3,460	-	-	110,403	93,724	-	-
Transfers in	-	-	-	211,122	93,803	-	-	90,760	-	395,685	359,016	636	270
Transfers out	(21,613)	(602)	-	(11,272)	(32,252)	-	-	(50)	-	(65,689)	(117,415)	-	-
Net income (loss) before special item	(42,672)	47	41,653	52,979	2,568	11,310	10,345	68,182	542	144,954	860	241	952
Special item	-	-	-	-	-	-	-	-	-	-	(46,358)	-	-
Change in net assets	(42,672)	47	41,653	52,979	2,568	11,310	10,345	68,182	542	144,954	(45,498)	241	952
Net assets (deficit) at beginning of year	357,595	433,015	370,402	1,748,723	48,435	915,067	297,422	89,412	7,408	4,267,479	4,312,977	(1,477)	(2,429)
Net assets (deficit) at end of year	$ 314,923	$ 433,062	$412,055	$ 1,801,702	$ 51,003	$926,377	$307,767	$157,594	$ 7,950	$4,412,433	$4,267,479	$ (1,236)	$ (1,477)

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds *(Continued)*
June 30, 2006
(with comparative financial information as of June 30, 2005)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Waste Water Enterprise	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2006	Total 2005	Governmental Activities-Internal Service Funds 2006	Governmental Activities-Internal Service Funds 2005
LIABILITIES													
Current liabilities:													
Accounts payable	27,794	5,657	9,743	49,093	17,434	4,244	4,457	3,306	140	121,868	123,029	5,904	7,237
Accrued payroll	5,829	4,040	1,415	16,196	9,956	2,549	899	5,612	-	46,498	40,412	1,603	1,385
Accrued vacation and sick leave pay	6,306	5,060	1,105	13,977	8,482	2,244	971	5,037	-	43,182	41,624	1,869	1,826
Accrued workers' compensation	1,492	1,850	395	23,911	4,030	669	555	2,354	-	35,486	38,005	216	241
Estimated claims payable	15	1,168	1,024	20,325	-	1,247	850	-	-	24,629	22,503	-	-
Due to other funds	-	-	-	247	2,294	-	-	15,126	-	17,667	16,841	-	1,374
Deferred credits and other liabilities	43,305	13,833	476	3,883	22,677	-	3,700	3,326	61	91,061	84,043	29,675	19,731
Accrued interest payable	-	11,401	-	394	-	6,542	135	-	-	18,472	11,631	1,305	1,082
Bonds, loans, capital leases, and other payables	67,092	15,450	104	7,869	1,122	49,875	84	523	-	142,119	185,612	20,672	18,310
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	13,418	-	-	-	-	-	3,975	-	-	17,393	16,573	-	-
Accrued interest payable	26,070	-	-	-	-	-	251	-	-	26,321	32,240	-	-
Other	9,173	15,527	-	696	-	6,823	4,820	1,092	-	38,331	28,416	-	-
Total current liabilities	200,494	73,796	14,262	136,793	65,995	74,393	20,697	36,376	201	623,007	640,934	61,244	51,188
Noncurrent liabilities:													
Accrued vacation and sick leave pay	6,024	5,335	1,037	10,734	6,706	2,072	808	3,665	-	36,381	33,694	2,061	1,894
Accrued workers' compensation	3,460	6,850	1,543	82,369	16,884	3,304	2,564	9,405	-	126,188	138,618	889	910
Estimated claims payable	22	4,632	3,975	39,279	-	4,732	514	-	-	53,154	46,215	-	-
Deferred credits and other liabilities	-	1,180	-	32,776	-	9	12,699	-	93	46,757	39,409	-	-
Bonds, loans, capital leases, and other payables	3,901,714	981,920	390	72,780	2,678	462,968	15,211	1,142	-	5,438,803	5,061,917	211,008	213,022
Total noncurrent liabilities	3,911,220	999,926	6,945	237,938	26,068	473,085	31,796	14,212	93	5,701,283	5,319,853	213,958	215,826
Total liabilities	4,111,714	1,073,722	21,207	374,731	92,063	547,478	52,493	50,588	294	6,324,290	5,960,787	275,202	267,014
NET ASSETS													
Invested in capital assets, net of related debt	(134,016)	254,221	270,073	1,774,574	50,169	820,914	256,465	141,168	4,828	3,438,397	3,391,450	4,292	3,561
Restricted:													
Debt service	153,498	79,813	-	21,825	-	919	-	-	-	256,055	202,006	-	-
Capital projects	15,210	20,817	-	17,749	-	46,343	16,758	32,080	-	148,957	163,079	-	-
Other purposes	-	-	-	32,354	-	-	-	-	-	32,354	44,905	-	-
Unrestricted (deficit)	280,231	78,211	141,982	(44,800)	834	58,201	34,543	(15,654)	3,122	536,670	446,039	(5,528)	(5,038)
Total net assets (deficit)	$ 314,923	$ 433,062	$ 412,055	$ 1,801,702	$ 51,003	$926,377	$307,767	$ 157,594	$ 7,950	$4,412,433	$4,267,479	$ (1,235)	$ (1,477)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows
Proprietary Funds

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

(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund			Governmental Activities-Internal Service Funds	
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Waste Water Enterprise	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2006	Total 2005	2006	2005
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 489,457	$ 17 ,722	$ 147,237	$ 231,677	$ 343,334	$ 162,891	$ 8,553	$ 129,759	$ 1,497	$ 1,685,826	$ 1,655,760	$ 118,313	$ 107,954
Cash received from tenants for rent	-	8,621	234	2,263	2,056	-	49,515	-	-	62,692	58,965	-	-
Cash paid to employees for services	(152,371)	(57,435)	(21,429)	(429,205)	(202,272)	(42,763)	(20,903)	(143,602)	(191)	(1,070,451)	(1,065,114)	(42,268)	(40,109)
Cash paid to suppliers for goods and services	(146,015)	(87,183)	(78,518)	(167,429)	(264,962)	(59,098)	(19,321)	(26,143)	(627)	(844,296)	(718,182)	(59,230)	(52,464)
Cash paid for judgements and claims	-	(5,981)	(4,562)	(7,742)	-	(2,926)	(870)	-	-	(22,081)	(15,792)	-	-
Net cash provided by (used in) operating activities	191,071	31,744	42,962	(370,438)	(122,145)	58,104	16,978	(40,267)	679	(188,310)	(82,363)	16,815	15,391
Cash flows from noncapital financing activities:													
Operating grants	-	125	128	215,294	65,683	30	-	-	-	281,258	280,149	-	-
Transfers in	-	-	-	200,475	93,803	-	-	90,760	-	385,038	280,303	636	270
Transfers out	(21,513)	(602)	-	(17,164)	(32,252)	-	-	(50)	-	(71,581)	(117,416)	-	-
Transit Impact Development fees received	-	-	-	410	-	-	-	-	-	410	426	-	-
Claims settlement proceeds	10,642	-	-	-	-	-	-	-	-	10,642	-	-	-
Other noncapital increases	6,547	-	-	15,450	9,960	-	307	6,589	-	38,853	19,332	-	-
Other noncapital decreases	-	-	-	(908)	-	-	-	-	-	(908)	(17,440)	-	-
Net cash provided by (used in) noncapital financing activities	(4,334)	(477)	126	413,557	137,194	30	307	97,299	-	643,712	455,854	638	270
Cash flows from capital financing activities:													
Capital grants	30,328	-	-	71,521	-	-	3,609	16,276	-	121,934	98,967	-	-
Transfers in	-	-	-	32,132	-	-	-	-	-	32,132	78,657	-	-
Bond sale proceeds and loans received	-	830,135	-	-	-	-	-	-	-	830,135	22,313	19,671	-
Principal payments on commercial paper borrowings	-	(120,000)	-	-	-	-	-	-	-	(120,000)	-	-	-
Proceeds from sale of capital assets	10	36	8	16	-	-	11	-	-	81	236	-	-
Proceeds from commercial paper borrowings	-	40,000	-	-	-	-	-	-	-	40,000	55,000	-	-
Proceeds from passenger facility charges	59,327	-	-	-	-	-	-	-	-	59,327	63,385	-	-
Acquisition of capital assets	(73,366)	(125,300)	(16,870)	(101,156)	(7,344)	(44,603)	(16,160)	(66,992)	(65)	(451,956)	(400,770)	(1,455)	(1,850)
Retirement of capital leases, bonds and loans	(79,125)	(123,085)	-	(8,060)	-	(15,915)	(3,470)	(375)	-	(230,056)	(144,487)	(19,321)	(15,810)
Bond issue costs paid	(1,537)	-	-	-	-	-	-	-	-	(1,537)	(4,092)	(319)	(74)
Interest paid on debt	(199,760)	(72,893)	-	(4,211)	(946)	(21,438)	(705)	(1,177)	-	(251,130)	(261,472)	(7,575)	(6,218)
Other capital financing increases	-	-	-	2,574	1,281	2,051	-	-	-	5,906	7,875	-	-
Other capital financing decreases	(3,688)	-	(101)	(4)	-	-	(3,299)	-	-	(7,092)	(7,297)	-	-
Net cash provided by (used in) capital financing activities	(267,811)	[illegible]	(15,963)	(7,214)	(7,009)	(80,105)	(19,814)	(52,168)	(65)	(182,256)	(491,685)	(8,999)	(24,050)
Cash flows from investing activities:													
Purchases of investments with trustees	(894,328)	(507,685)	-	(3,644)	-	-	-	-	-	(1,465,657)	(1,901,356)	-	-
Proceeds from sale of investments with trustees	910,190	502,916	-	460	-	-	-	-	-	1,413,568	1,966,505	-	-
Interest and investment income (loss)	30,319	9,454	2,838	3,070	(110)	5,024	2,984	1,116	74	54,769	23,660	773	423
Claims settlement proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
Other investing activities	-	939	-	(543)	(12)	-	-	167	-	551	6,478	(402)	(211)
Net cash provided by (used in) investing activities	46,181	[illegible]	2,838	(557)	(122)	5,024	2,984	1,283	74	3,231	95,287	371	212
Net increase (decrease) in cash and cash equivalents	(34,883)	248,786	28,963	35,250	7,918	(16,947)	455	6,147	688	276,377	(23,507)	8,823	(8,177)
Cash and cash equivalents-beginning of year	441,463	216,872	92,976	58,230	26,370	149,423	74,722	29,352	2,688	1,092,096	1,115,603	24,253	32,430
Cash and cash equivalents-end of year	$ 406,580	$ 465,658	$ 121,939	$ 93,480	$ 34,288	$ 132,475	$ 75,177	$ 35,499	$ 3,376	$ 1,368,473	$ 1,092,096	$ 33,076	$ 24,253

(Continued)

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows *(Continued)*
Proprietary Funds

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

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Waste Water Enterprise	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2006	Total 2005	2006	2005
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 22,531	$ 14,899	$ 30,354	$ (490,408)	$ (132,958)	$ 23,749	$ 4,159	$ (38,743)	$ 468	$ (565,947)	$ (526,283)	$ (189)	$ 729
Adjustments for non-cash activities:													
Depreciation and amortization	182,009	41,877	10,701	96,967	6,825	37,228	9,536	1,034	286	386,463	393,353	1,185	1,119
Provision for uncollectibles	818	-	339	(378)	-	(799)	158	-	-	134	4,362	-	-
Write-off of capital assets	670	5,731	2,557	-	-	2,214	-	-	-	11,172	25,570	-	-
Other	13,390	(1,322)	7,753	14,004	-	-	345	-	-	34,170	11,977	28	8
Changes in assets/liabilities:													
Receivables, net	(9,446)	(6,121)	(7,685)	(4,984)	941	(1,812)	(1,212)	(4,208)	(6)	(34,533)	11,907	16,513	15,187
Due from other funds	-	-	(1,378)	-	(540)	-	-	-	-	(1,918)	(3)	24	-
Inventories	(28)	122	(6)	(230)	(139)	-	22	82	-	(177)	(5,010)	-	-
Deferred charges and other assets	(351)	-	-	(211)	-	-	1,676	-	(2)	1,115	6,049	-	(26)
Accounts payable	(6,129)	(3,814)	(2,373)	4,732	(114)	(79)	1,701	(1,259)	(77)	(7,412)	(323)	(429)	1,384
Accrued payroll	731	(181)	843	1,320	1,418	996	145	996	-	6,068	5,237	218	120
Accrued vacation and sick leave pay	842	811	273	611	(2,185)	221	68	(1,293)	-	(632)	(260)	208	39
Accrued workers' compensation	(167)	(1,832)	(512)	(9,072)	952	(501)	393	450	-	(10,089)	(4,116)	(46)	(65)
Estimated claims payable	-	2,223	2,997	9,838	-	(3,113)	(363)	-	-	11,582	19,393	-	-
Due to other funds	-	(207)	-	(2,448)	3,653	-	-	2,674	-	3,672	(2,063)	-	-
Deferred credits and other liabilities	6,203	(17,642)	(701)	(177)	-	-	329	-	10	(11,978)	(23,753)	(2,667)	(3,104)
Total adjustments	168,540	19,845	12,608	109,972	10,811	34,355	12,819	(1,524)	211	367,637	443,320	17,004	14,662
Net cash provided by (used in) operating activities	$ 191,071	$ 34,744	$ 42,962	$ (370,436)	$ (122,145)	$ 58,104	$ 16,978	$ (40,267)	$ 679	$ (198,310)	$ (82,963)	$ 16,815	$ 15,391
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 240,171	$ 101,550	$ 121,929	$ 62,311	$ 34,278	$ 55,631	$ 66,065	$ -	$ -	$ 681,935	$ 651,311	$ 7,943	$ 8,196
Restricted	167,191	364,068	-	24,016	-	76,842	4,528	35,498	-	672,143	428,144	-	-
Unrestricted deposits and investments outside City Treasury	120	40	10	6,185	10	3	13	1	3,376	9,758	8,017	25,133	16,057
Total deposits and investments	407,482	465,658	121,939	92,512	34,288	132,476	70,606	35,499	3,376	1,363,836	1,087,472	33,076	24,253
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents	-	-	-	968	-	-	4,571	-	-	5,539	4,845	-	-
Less: Investments not meeting the definition of cash equivalents	(902)	-	-	-	-	-	-	-	-	(902)	(221)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 406,580	$ 465,658	$ 121,939	$ 93,480	$ 34,288	$ 132,476	$ 75,177	$ 35,499	$ 3,376	$ 1,368,473	$ 1,092,096	$ 33,076	$ 24,253

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 70,387	$ 553,370	$ 100,125
Deposits and investments outside City Treasury:			
Cash and deposits	22,749	109	120
Short term bills and notes	943,188	-	-
Debt securities	3,669,902	-	-
Equity securities	7,197,575	-	-
Real estate	1,316,852	-	-
Venture capital	1,492,752	-	-
Receivables:			
Employer and employee contributions	23,706	-	35,151
Brokers, general partners and others	133,277	-	-
Interest and other	41,380	3,086	109,718
Invested securities lending collateral	2,040,873	-	-
Deferred charges and other assets	-	-	26,658
Total assets	16,952,621	556,565	$ 271,772
Liabilities			
Accounts payable	13,116	9,123	$ 53,546
Estimated claims payable	8,888	-	-
Agency obligations	-	-	218,226
Obligations under fixed coupon dollar reverse repurchase agreements	99,141	-	-
Payable to brokers	209,422	-	-
Securities lending collateral	2,040,873	-	-
Deferred credits and other liabilities	41,619	-	-
Total liabilities	2,413,059	9,123	$ 271,772
Net Assets			
Held in trust for pension and other employee benefits and external pool participants	$ 14,539,562	$ 547,442	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2006

(In Thousands)

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

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

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

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

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

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

Discretely Presented Component Units

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

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

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

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

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

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

Non-Disclosed Organizations

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

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

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

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

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

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

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

(c) Budgetary Data

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

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

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

Original Budget

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

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

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

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

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

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

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

Final Budget

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

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

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

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

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

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

(d) Deposits and Investments

Investment in the Treasurer's Pool

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

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

The San Francisco Unified School District (school district), San Francisco Community College District (community college district), and the City are involuntary participants in the City's investment pool. As of June 30, 2006, involuntary participants accounted for approximately 94 percent of the pool. Voluntary participants accounted for 6 percent of the pool. Further, the school district, community college district, the Trial Courts of the State of California, and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2006, $547 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these three external participants is 15 percent. Internal participants accounted for 85 percent of the pool.

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

Investment Valuation

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

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

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

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

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

The City Charter and Retirement System Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. This credit exposure at June 30, 2006 was approximately $734 thousand.

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

Component Unit – San Francisco Redevelopment Agency (The Agency) – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2006. Money market investments (such as short-term,

highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity of less than one year at the date of purchase are valued at the amortized cost, which approximates fair value as of June 30, 2006.

Investment Income

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

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

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

(e) Loans Receivable

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

The Mayor's Office of Housing (MOH) administers several housing programs and issues loans to qualified applicants. During fiscal year 2005-2006, the MOH reevaluated its methodology for calculating the allowance for uncollectible loans. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. As a result of this change in methodology, the City recorded an expense of $218 million in the government-wide statement of activities to increase the allowance for those loan portfolios which meet the City's policy criteria. Of this amount, $179 million is related to loans outstanding at the beginning of the year. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting deferred credit account. Accordingly, $383.9 million of the $450.9 million loan portfolio is not expected to be ultimately collected as of June 30, 2006.

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

(f) Inventory

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

(g) Redevelopment Agency Property Held for Resale

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

(h) Capital Assets

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

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

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

(i) Accrued Vacation and Sick Leave Pay

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

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or

death. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 and will sunset by June 30, 2009.

This Program provides:

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

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

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

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

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

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

(k) Fund Equity

Reservations of Fund Equity

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

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

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

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

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

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

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

Restricted Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2006, the government-wide statement of net assets reported restricted assets of $428.6 million in governmental activities and $437.4 million in business-type activities. For governmental activities, $23.7 million is restricted by enabling legislation.
- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2006.

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

Deficit Net Assets/Fund Balances

The Culture and Recreation Fund had a $0.5 million deficit as of June 30, 2006. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Environmental Protection Fund has a $7 thousand deficit as of June 30, 2006. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a $4.8 million deficit as of June 30, 2006. The deficit will be covered as hotel tax revenues are realized.

The Telecommunications and Information Internal Service Fund had a $2.3 million deficit in total net assets as of June 30, 2006. Approximately $0.6 million of this deficit is due to current year depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

(l) Interfund Transfers

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

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

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

(m) Refunding of Debt

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

(n) Cash Flows

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

(o) Estimates

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

(p) Reclassifications

Certain amounts presented as 2004-2005 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2005-2006 basic financial statements.

(q) Effects of New Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. In the current year, the City did not identify any prominent events or changes resulting in impairment of capital assets.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. The City implemented this new reporting requirement in the fiscal year 2005-2006 financial statements.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34,* which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The disclosure changes related to this statement are reflected in note 2 (k).

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits,* which establishes accounting standards for termination benefits. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. Application of this statement is effective for the City in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.* For all other termination benefits, the City has determined this statement does not impact the City's fiscal year 2005-2006 financial statements.

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

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

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

In September 2006, GASB issued Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006. The City plans on implementing GASB Statement No. 48 for the fiscal year 2007-2008 financial statements.

In December 2006, GASB issued Statement No. 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement issued a standard that will require state and local governments to provide the public with better information about the financial impact of environmental cleanups. This statement is effective for the City's fiscal year ending June 30, 2009.

(r) Restricted Assets

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

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

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

Total fund balances of the City's governmental funds, $1,315,584, differ from net assets of governmental activities, $1,794,618, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental funds balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 1,503,993	$ -	$ 7,943	$ -	$ 1,511,936
Deposits and investments outside City Treasury	23,752	-	25,133	-	48,885
Receivables, net:					
Property taxes and penalties	42,586	-	-	-	42,586
Other local taxes	168,457	-	-	-	168,457
Federal and state grants and subventions	154,086	-	-	-	154,086
Charges for services	22,194	-	-	-	22,194
Interest and other	15,219	-	913	-	16,132
Due from other funds	34,819	-	-	(34,819)	-
Due from component unit	4,806	-	-	-	4,806
Loans receivable, net	74,041	-	-	-	74,041
Capital assets, net	-	2,670,387	4,475	-	2,674,862
Deferred charges and other assets	8,972	14,338	7,000	-	30,310
Total assets	2,052,925	2,684,725	45,464	(34,819)	4,748,295
Liabilities					
Accounts payable	172,861	-	5,904	-	178,765
Accrued payroll	62,774	-	1,603	-	64,377
Accrued vacation and sick leave pay	-	128,594	3,930	-	132,524
Accrued workers' compensation	-	201,376	1,105	-	202,481
Estimated claims payable	-	69,477	-	-	69,477
Accrued interest payable	-	6,459	1,305	-	7,764
Deferred tax, grant and subvention revenues	63,915	(61,494)	-	-	2,421
Due to other funds/internal balances	62,785	-	-	(34,819)	27,966
Deferred credits and other liabilities	225,006	(101,618)	1,723	-	125,111
Bonds, loans, capital leases, and other payables	150,000	1,761,111	231,680	-	2,142,791
Total liabilities	737,341	2,003,905	247,250	(34,819)	2,953,677
Fund balances/net assets					
Total fund balances/net assets	1,315,584	680,820	(201,786)	-	1,794,618
Total liabilities and fund balances/net assets	$ 2,052,925	$ 2,684,725	$ 45,464	$ (34,819)	$ 4,748,295

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

Cost of capital assets	$ 3,361,174
Accumulated depreciation	(690,787)
	$ 2,670,387

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. $ 14,338

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued vacation and sick leave pay	$ (128,594)
Accrued workers' compensation	(201,376)
Estimated claims payable	(69,477)
Bonds, loans, capital leases, and other payables	(1,761,111)
Deferred credits and other liabilities	(903)
	$ (2,161,461)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (6,459)

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

Deferred tax, grant and subvention revenue	$ 61,494
Deferred credits and other liabilities	102,521
	$ 164,015

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

Net deficit before adjustments	(1,236)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(232,802)
Deferred charges and other assets	4,300
Deferred credits and other liabilities	27,952
	$ (201,786)

In addition, intrafund receivables and payables among various internal service funds of $0.3 million are eliminated.

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

The net change in fund balances for governmental funds, $247,328, differs from the change in net assets for governmental activities $293,536, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

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

	Total Governmental Funds	Long-term Revenues/ Expenses(3)	Capital-related Items(4)	Internal Service Funds(5)	Long-term Debt Transactions(6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,008,151	$ 8,069	$ -	$ -	$ -	$ 1,016,220
Business taxes	323,153	-	-	-	-	323,153
Other local taxes	595,664	-	-	-	-	595,664
Licenses, permits and franchises	27,662	-	-	-	-	27,662
Fines, forfeitures and penalties	14,449	-	-	-	-	14,449
Interest and investment income	70,046	250	-	833	-	71,129
Rents and concessions	52,426	1,185	-	-	-	53,611
Intergovernmental:						
Federal	350,985	-	-	-	-	350,985
State	565,989	(233)	-	-	-	565,756
Other	23,500	-	-	-	-	23,500
Charges for services	263,994	-	-	-	-	263,994
Other revenues	61,565	-	202,013	-	-	263,578
Total revenues	3,357,584	9,271	202,013	833	-	3,569,701
Expenditures/Expenses						
Expenditures:						
Public protection	787,398	(11,261)	8,523	(4,018)	-	780,642
Public works, transportation and commerce	274,669	(213)	8,143	(10,202)	-	272,397
Human welfare and neighborhood development	697,102	160,769	525	-	-	858,396
Community health	471,741	6,188	915	-	-	478,844
Culture and recreation	258,979	(3,941)	19,089	(8,789)	(18,915)	244,423
General administration and finance	161,195	(8,939)	15,495	(261)	-	167,490
General City responsibilities	53,763	(5,329)	-	(175)	795	49,054
Debt service:						
Principal retirement	86,970	-	-	-	(86,970)	-
Interest and fiscal charges	75,975	-	-	8,200	10,748	94,923
Bond issuance costs	1,933	-	-	-	(1,933)	-
Capital outlay	153,493	-	(153,493)	-	-	-
Total expenditures/expenses	3,021,218	137,274	(100,803)	(15,245)	(96,275)	2,946,169
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(330,632)	-	-	636	-	(329,996)
Issuance of bonds and loans:						
Face value of bonds issued	219,120	-	-	-	(219,120)	-
Face value of loans issued	5,359	-	-	-	(5,359)	-
Premium on issuance of bonds	10,233	-	-	-	(10,233)	-
Other financing sources - capital leases	6,882	-	-	(6,887)	-	-
Total other financing sources (uses)/changes in net assets	(89,038)	-	-	(6,246)	(234,712)	(329,996)
Net change for the year	$ 247,328	$ (128,003)	$ 302,816	$ 9,832	$ (138,437)	$ 293,536

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(3) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds — $ 8,069

Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities. — 1,202

$ 9,271

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the decrease in long-term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources. — $ 19,058

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenses are not reported in the statement of activities. — (156,332)

$ (137,274)

(4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets. In fiscal year 2005-2006, the City received the newly constructed deYoung Museum from the Fine Arts Museums of San Francisco.

Capital expenditures	$ 168,710
Depreciation expense	(66,776)
Loss on disposal of capital assets	(9)
Write-off of construction in progress	(1,122)
Capital contribution - received newly constructed deYoung Museum from the Fine Arts Museums of San Francisco	202,013
Difference	$ 302,816

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. — $ 9,832

(6) Lease payments on the Moscone Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to lessee.

Total property rent payments	$ 18,915

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

Bond issuance costs	$ 1,933
Amortization of bond issuance costs	(795)
Difference	$ 1,138

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period	$ (10,233)

Repayment of bond principal is reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders.

Principal payments made	$ 86,970

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

General obligation bonds	$ (219,120)
Loans	(5,359)
	(224,479)
	$ (137,509)

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

Decrease in accrued interest	$ 58
Interest payment on capital lease obligations on the Moscone Convention Center	(10,784)
Amortization of bond premiums, discounts and refunding losses	784
Increase in arbitrage rebate liability	(806)
	$ (10,748)

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

Budgetary Results Reconciliation

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

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

The fund balance of the General Fund as of June 30, 2006 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund Balance - Budget Basis	$ 478,001
Unrealized Gains/(Losses) on Investments	(562)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(23,806)
Deferred Charges and Other	(3,067)
Reserved for Assets Not Available for Appropriation	10,710
Fund Balance - GAAP Basis	$ 461,276

General Fund Budget basis fund balance at June 30, 2006 is composed of the following (in thousands):

Reserved for Rainy Day - Economic Stabilization Reserve	$ 97,910	
Reserved for Rainy Day - One-Time Spending Account	24,066	
Reserved for Encumbrances	38,159	
Reserved for Appropriation Carryforward	124,009	
Reserved for Subsequent Years' Budgets:		
Baseline Appropriation Funding Mandates	5,232	
Budget Savings Incentive Program	2,628	
Budget Savings Incentive Program - Recreation and Park	3,366	
Litigation	2,877	
Salaries and benefits costs (MOU)	13,349	
Total Reserved Fund Balance		$ 311,596
Designated for Litigation and Contingencies	20,823	
Unreserved, Undesignated Fund Balance - Available for Appropriation	145,582	
Total Unreserved Amounts		166,405
Fund Balance, June 30, 2006 - Budget basis		$ 478,001

Of the $145.6 million unreserved, undesignated fund balance – available for appropriation, $99.5 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2006-2007.

(5) DEPOSITS AND INVESTMENTS

(a) *Cash, Deposits and Investments Presentation*

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,511,936 [1]	$ 681,935	$ 723,882 [2]	$ 2,917,753	$ 1,268
Deposits and investments outside City Treasury	48,885 [3]	9,758	14,643,227	14,701,870	169,046
Restricted assets:					
Deposits and investments with City Treasury	-	672,143	-	672,143	-
Deposits and investments outside City Treasury	-	310,399	-	310,399	99,210
Invested securities lending collateral	-	-	2,040,873	2,040,873	-
Total deposits and investments	$ 1,560,821	$ 1,674,235	$ 17,407,982	$ 20,643,038	$ 269,524
Cash and deposits	$ (50,915)	$ 5,429	$ 22,711	$ (22,775)	$ 13,077
Investments	1,611,736	1,668,806	17,385,271	20,665,813	256,447
Total deposits and investments	$ 1,560,821	$ 1,674,235	$ 17,407,982	$ 20,643,038	$ 269,524

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,503,993) and internal service funds ($7,943).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($70,387), investment trust fund ($553,370) and agency funds ($100,125).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($23,752) and internal service funds ($25,133).

(b) *Cash and Deposits*

The City had cash and deposits at June 30, 2006, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 1,690	$ -	$ 832	$ -	$ -	$ -	$ 1	$ -
Federally insured deposits	600	600	318	318	100	100	271	271
Collateralized deposits*	(53,705)	22,914	160	150	3,752	3,752	12,805	14,359
Uninsured and uncollateralized	500	500	4,119	3,999	18,859	18,859	-	-
	$ (50,915)	$ 24,014	$ 5,429	$ 4,467	$ 22,711	$ 22,711	$ 13,077	$ 14,630

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2006, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $78 million. Of the $78 million of outstanding checks, $8.2 million relates to the San Francisco Unified School District and Community College District, which have been reflected in an investment trust fund.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2006, $2.06 million and $15.1 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

(c) *Investment Policies*

Cash and Cash Equivalents

The City's cash and cash equivalents include all highly liquid investments and are considered to be cash on hand, restricted assets demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Treasurer's Pool

The City's investment policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee), comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

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

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

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

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

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

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

Other Funds

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

Employees' Retirement System

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; and alternative investments, which include investments in a variety of commingled partnership vehicles.

San Francisco Redevelopment Agency

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

Certain investments of the Agency are in the Local Agency Investment Fund (LAIF). LAIF is sponsored by the State Treasurer and prepares its market value report detailing the carrying cost and the estimated fair value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated fair values. In addition, the Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

(d) Investment Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2006 (in thousands). The Employees' Retirement System's interest rate risk information begins on page 69.

		Investment Maturities			
	Fair Value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Primary Government:					
Investments in City Treasury:					
U.S. Treasury Bills	$ 334,334	$ 334,334	$ -	$ -	$ -
U.S. Treasury Notes	1,058,972	543,977	514,995	-	
U.S. Agencies - Discount	800,839	800,839	-	-	-
Commercial paper	812,472	812,472	-	-	-
Negotiable certificates of deposits	639,895	639,895	-	-	-
Public time deposits	4,934	4,934	-	-	-
Less: Treasure Island Development Authority					
Investments with City Treasury	(1,268)	(1,268)	-	-	-
Subtotal investments in City Treasury	3,650,178	$ 3,135,183	$ 514,995	$ -	$ -
Investments Outside City Treasury:					
(Governmental and Business-Type)					
U.S. Treasury Notes	196,354	$ 194,449	$ 1,905	$ -	$ -
U.S. Treasury Bills	16,592	14,147	2,445	-	-
U.S. Agencies - Coupon	5,670	2,221	3,449	-	-
U.S. Agencies - Discount	7,044	7,044	-	-	-
Money market mutual funds	127,284	127,284	-	-	-
Equity securities	829	829	-	-	-
Commercial paper	740	740	-	-	-
Subtotal investments outside City Treasury	354,513	$ 346,714	$ 7,799	$ -	$ -
Employees' Retirement System investments	16,661,122				
Total Primary Government	20,665,813				
Component Units:					
Redevelopment Agency:					
U.S. Agencies - Coupon	52,800	$ 39,369	$ 13,431	$ -	$ -
U.S. Agencies - Discount	10,388	10,388	-	-	-
Bankers' acceptances	10,042	10,042	-	-	-
Commercial paper	10,328	10,328	-	-	-
Certificate of deposit	7,535	7,535	-	-	-
Repurchase agreements	1,302	-	1,302	-	
State Local Agency Investment Fund	49,383	49,383	-	-	-
Money market mutual funds	92,604	92,604	-	-	-
Guaranteed investment contracts	20,797	-	987	-	19,810
Subtotal Redevelopment Agency	255,179	$ 219,649	$ 15,720	$ -	$ 19,810
Treasure Island Development Authority:					
Investments with City Treasury	1,268	$ 1,268	$ -	$ -	$ -
Subtotal Treasure Island Development Authority	1,268	$ 1,268	$ -	$ -	$ -
Total Component Units	256,447				
Total Investments	$ 20,922,260				

One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits investments to securities with short maturities, such as the following:

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

- The maximum maturity of corporate notes is five years. Investment in corporate notes may not exceed 15% of the Agency's portfolio.

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

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2006 for each investment type in the City's Treasury.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Total Investment Portfolio
U.S. Treasury Bills	N/A	A-1	9%
U.S. Treasury Notes	N/A	A-1	29%
U.S. Agencies	N/A	A-1	22%
Commercial Paper	A-1	A-1	22%
Negotiable Certificates of Deposits	N/A	A-1	18%

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

Investment Type	Credit Ratings	Total Investment Portfolio
U.S. Agencies - Coupon	AAA	21%
U.S. Agencies - Discount	AAA	4%
Commercial paper	A-1/P-1+	4%
Repurchase agreements	Not rated	1%
State Local Agency Investment Fund	Not rated	19%
Money market mutual funds	AAAm	36%
Guaranteed investment contracts	AA or Higher	8%
Bankers acceptances	Not rated	4%
Certificates of deposit	N/A	3%

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

The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2006, $1.3 million of the Agency's investments are uninsured and unregistered.

Concentration of Credit Risk

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to single issuer limitation. More than 5 percent of the City's investments with the City Treasurer are in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and the Federal National Mortgage Association. These investments represent 9 percent, 7 percent, and 6 percent, respectively, of the City's investments in U.S. Agencies. The City's investments in commercial paper are with Bank of America, U.S. Bank, and Union Bank, with Bank of America representing 15 percent of the total 22 percent investment in commercial paper. The City's investments in negotiable certificates of deposit are with Wells Fargo Bank and Bank of America, with Wells Fargo Bank representing 11 percent of the total 18 percent investment in negotiable certificates of deposit.

In addition, more than five percent of the Airport's investments with its trustees are in Federal Home Loan Bank and Federal National Mortgage Association. These investments represent 51 percent and 48 percent, respectively, of the Airport's investments with its trustees. The Finance Corporation's investments with its trustee are held in Federal Home Loan Bank for 19 percent and Federal National Mortgage Association for 20 percent.

(e) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2006 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants	$ 3,591,164
Equity of internal pool participants	3,043,722
Equity of external pool participants	547,442
Total equity	$ 3,591,164
Statement of Changes in Net Assets	
Net assets at July 1, 2005	$ 2,828,140
Net change in investments by pool participants	763,024
Net assets at June 30, 2006	$ 3,591,164

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2006 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities	4.42% - 5.16%	07/06/06-03/31/08	$ 1,412,000	$ 1,393,306
Federal agencies	4.85% - 5.21%	07/05/06-02/23/07	810,000	800,839
Negotiable certificate of deposits	5.02% - 5.28%	07/03/06-08/23/06	640,000	639,895
Commercial paper	5.00% - 5.32%	07/05/06-08/22/06	820,000	812,472
Public time deposits	3.00% - 5.40%	07/16/06-06/06/07	5,200	4,934
			$ 3,687,200	3,651,446
Carrying amount of deposits in Treasurer's Pool				(60,282)
Total cash and investments in Treasurer's Pool				$ 3,591,164

(f) Retirement System Investments

The Retirement System's investments as of June 30, 2006 are summarized as follows (in thousands):

Fixed Income Investments:	
Short-term bills and notes	$ 943,168
Debt securities:	
U.S. Government and agencies	1,151,022
U.S. Corporate	2,080,693
International government	329,792
International corporate	108,395
Subtotal debt securities	3,669,902
Total fixed income investments	4,613,070
Equity securities:	
Domestic	4,300,868
International	2,896,707
Total equity securities	7,197,575
Real estate holdings	1,316,852
Venture capital	1,492,752
Investment in lending agent's short-term investment pool	2,040,873
Total Retirement System Investments	$ 16,661,122

Interest Rate Risk

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

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2006.

Investment Type	Market Value	Less than 1 year	1-6 years	6-10 years	10+ years
Asset Backed Securities	$ 82,077	$ -	$ 4,176	$ 6,537	$ 71,364
Commercial Mortgage-Backed Securities	469,713	-	11,577	43,743	414,393
Commercial Paper	1,116	1,116	-	-	-
Corporate Bonds	511,778	23,035	202,833	202,684	83,226
Corporate Convertible Bonds	178,396	755	18,961	7,486	151,194
Government Agencies	315,860	-	298,281	13,319	4,260
Government Bonds	915,297	17,482	551,438	174,627	171,750
Government Mortgage-Backed Securities	178,824	-	-	196	178,628
Index Linked Government Bonds	57,720	-	166	25,556	31,998
Loans	15,344	-	15,344	-	-
Mortgages	69,575	-	31,053	12,098	26,424
Municipal/Provincial Bonds	8,252	-	4,385	3,821	46
Non-Government Backed Collateralized					
Mortgage Obligations	99,106	400	9,575	2,250	86,881
Other Fixed Income	3,000	3,000	-	-	-
Short-term Bills and Notes	75,114	75,114	-	-	-
Total	$ 2,981,172	$ 120,902	$ 1,147,789	$ 492,317	$ 1,220,164

Credit Risk

The Retirement System's fixed income managers are limited within their portfolios to no more than 10% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government as of June 30, 2006 (amounts in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	C	Not Rated
Asset Backed Securities	$ 82,077	$ 17,954	$ -	$ -	$ 2,065	$ 9,080	$ 763	$ -	$ 52,215
Commercial Mortgage-Backed	469,713	61,278	16,600	10,198	26,756	42,680	9,424	781	302,018
Corporate Bonds	1,395,642	15,709	16,323	52,887	75,844	95,080	148,486	30,101	961,232
Corporate Convertible Bonds	178,396	-	4,584	13,234	35,732	24,370	14,409	2,668	83,402
Government Agencies	315,860	259,760	3,478	470	-	-	-	-	52,152
Government Bonds	337,665	143,601	12,858	68,950	45,321	29,863	10,870	373	25,229
Government Mortgage-Backed Securities	183,684	-	-	-	-	-	-	-	183,584
Index Linked Government Bonds	11,805	3,137	-	-	-	-	-	-	8,668
Mortgages	121,429	-	-	-	-	-	-	-	121,428
Municipal/Provincial Bonds	8,252	-	8,065	187	-	-	-	-	-
Non-Government Backed Collateralized									
Collateralized Mortgage Obligations	99,105	25,362	480	324	3,041	4,428	3,430	-	61,440
Other fixed income	18,344	-		-	-	-	-	-	18,344
Short-term bills and notes	72,594	-	-	-	-	-	-	-	72,594
Total	$ 3,294,765	$ 526,999	$ 62,388	$ 146,830	$ 189,359	$ 205,501	$ 187,378	$ 33,904	$ 1,942,406

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

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2006, $5.7 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2006, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk is as follows (in thousands):

Currency	Cash	Equity	Fixed Income	Venture Capital	Swaps	Total
Argentine peso	$ -	$ -	$ 4,621	$ -	$ -	$ 4,621
Australian dollar	157,323	72,271	-	-	-	229,594
Brazilian real	(3,618)	19,573	2,467	-	8,092	26,514
British pound sterling	192,440	427,263	47,495	2,783	-	669,981
Canadian dollar	133,927	94,841	14,679	-	-	243,447
Chilean peso	3,617	-	-	-	-	3,617
Chinese yuan renminbi	80,555	-	-	-	-	80,555
Czech koruna	(2,991)	7,729	-	-	-	4,738
Danish krone	(2,181)	19,690	788	-	-	18,297
Egyptian pound	16	1,777	-	-	2,233	4,026
Euro currency	(508,138)	795,899	109,050	113,130	-	509,941
Hong Kong dollar	(8,632)	86,565	-	-	-	77,933
Hungarian forint	50	5,920	-	-	-	5,970
Indian rupiah	(245)	3,040	-	-	-	2,795
Japanese yen	(1,848)	624,967	86,849	9,390	-	719,358
Kazakhstan tenge	-	-	-	-	1,435	1,435
Malaysian ringgit	63	17,039	-	-	-	17,102
Mexican peso	113	9,135	3,269	-	-	12,517
New Israeli sheke!	108	8,946	-	-	-	9,054
New Romanian Leu	5,004	-	-	-	-	5,004
New Taiwan dollar	9,343	-	-	-	-	9,343
New Zealand dollar	(39,204)	2,509	3,137	-	-	(33,558)
Nigerian naira	10	-	-	-	4,155	4,165
Norwegian krone	57,698	21,475	-	-	-	79,173
Peruvian nuevo sol	831	-	-	-	-	831
Philippine peso	3,056	-	-	-	-	3,056
Polish zloty	7,795	10,553	5,995	-	-	24,343
Russian ruble (new)	10,167	-	6,113	-	2,444	18,724
Singapore dollar	10,112	19,032	-	-	-	29,144
South African rand	(2,214)	43,487	-	-	-	41,273
South Korean won	(1,744)	100,929	-	-	-	99,185
Swedish krona	(28,950)	37,402	1,151	-	-	9,603
Swiss franc	46,331	149,627	-	-	-	195,958
Thai baht	(2,749)	10,996	-	-	-	8,247
Turkish lira	4,095	3,312	-	-	-	7,407
Uruguayan peso	46	-	2,725	-	-	2,771
Total	$ 120,186	$ 2,593,977	$ 288,339	$ 125,303	$ 18,359	$ 3,146,164

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2006, the fair value of open contracts is reported as liabilities and can be summarized as follows (in thousands):

Purchase contracts	$ 6,808,465
Sales contracts	(6,821,290)
Net fair value	$ (12,825)

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

Contracts used to hedge or to settle trades, net	$ (1,387,002)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	1,374,177
Net fair value	$ (12,825)

Securities Lending

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

The Retirement System lent $2,350,346 in securities and received collateral of $364,213 and $2,040,873 in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2006, are summarized in the following table (in thousands):

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities Loaned for Cash Collateral:			
International Corporate Fixed	$ 5,650	$ 5,842	$ -
International Equities	416,062	428,695	-
International Government Fixed	23,431	23,954	-
U.S. Agencies	321,877	327,556	-
U.S. Corporate Fixed	158,598	161,201	-
U.S Equities	514,048	523,569	-
U.S. Government Fixed	560,925	570,056	-
Securities Loaned with Non-Cash Collateral:			
International Equities	275,659	-	287,816
International Government Fixed	43,837	-	45,547
International UK Gilt	6,314	-	6,498
U.S. Agencies	2,812	-	2,859
U.S. Corporate Fixed	7,162	-	7,278
U.S. Equities	10,297	-	10,479
U.S. Government Fixed	3,674	-	3,736
Total	$ 2,350,346	$ 2,040,873	$ 364,213

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2006, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

(g) *Supplemental disclosure of non-cash investing, capital and financing activities*

San Francisco International Airport

During the fiscal year 2005-2006, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 33 in 10 separate series. The $467 million in proceeds were deposited immediately into irrevocable trusts to refund certain revenue bonds previously issued.

Other Non-Cash Transactions

The following represents the other non-cash transactions as of June 30, 2006 (in thousands):

	San Francisco International Airport	San Francisco Water Department	Hetch Hetchy Water & Power	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of Francisco	Laguna Honda Hospital	Internal Service Funds	Total 2006
Donated inventory	$ -	$ -	$ -	$ 519	$	$ -	$ -	$ -	$ 519
Tenant improvements	-	-	-	-	-	10,947	-	-	10,947
Acquisition of capital assets on accounts payable and capital leases	22,249	15,007	870	2,068	6,823	1,895	142	195	49,249
Total	$ 22,249	$ 15,007	$ 870	$ 2,587	$ 6,823	$ 12,842	$ 142	$ 195	$ 60,715

(6) PROPERTY TAXES

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are due on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the dates of the underlying transaction.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $135 million for the year ended June 30, 2006.

Taxable valuation for the year ended June 30, 2006 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $106.9 billion, an increase of 6.2%. The secured tax rate was $1.140 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: $0.65 for general government, $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.140 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.36% and 2.52%, respectively, of the current year tax levy, for an average delinquency rate of 1.43% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2006 was $10.1 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2006, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 143,640	$ -	$ -	$ 143,640
Construction in progress	292,040	151,705	(82,858)	360,887
Total capital assets, not being depreciated	435,680	151,705	(82,858)	504,527
Capital assets, being depreciated:				
Facilities and improvements	2,140,598	223,653	(141)	2,364,110
Machinery and equipment	256,437	17,646	(3,336)	270,747
Infrastructure	194,466	60,794	-	255,260
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	2,596,317	302,093	(3,477)	2,894,933
Less accumulated depreciation for:				
Facilities and improvements	436,332	42,967	(141)	479,158
Machinery and equipment	210,416	19,412	(3,327)	226,501
Infrastructure	9,243	5,416	-	14,659
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	660,271	67,795	(3,468)	724,598
Total capital assets, being depreciated, net	1,936,046	234,298	(9)	2,170,335
Governmental activities capital assets, net	$ 2,371,726	$ 386,003	$ (82,867)	$ 2,674,862

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2006, was as follows (in thousands):

San Francisco International Airport

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	45,042	84,475	(61,327)	68,190
Total capital assets, not being depreciated	47,358	84,475	(61,327)	70,506
Capital assets, being depreciated:				
Facilities and improvements	4,769,544	57,832	(10,205)	4,817,171
Machinery and equipment	65,869	3,664	(905)	68,628
Easements	138,609	758	-	139,367
Total capital assets, being depreciated	4,974,022	62,254	(11,110)	5,025,166
Less accumulated depreciation for:				
Facilities and improvements	1,148,818	152,341	(3,560)	1,297,599
Machinery and equipment	59,464	2,734	(905)	61,293
Easements	53,075	6,934	-	60,009
Total accumulated depreciation	1,261,357	162,009	(4,465)	1,418,901
Total capital assets, being depreciated, net	3,712,665	(99,755)	(6,645)	3,606,265
Capital assets, net	$ 3,760,023	$ (15,280)	$ (67,972)	$ 3,676,771

San Francisco Water Department

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 17,929	$ -	$ -	$ 17,929
Construction in progress	121,863	136,825	(59,033)	199,655
Total capital assets, not being depreciated	139,792	136,825	(59,033)	217,584
Capital assets, being depreciated:				
Facilities and improvements	1,027,836	46,655	-	1,074,491
Machinery and equipment	104,194	13,041	(342)	116,893
Total capital assets, being depreciated	1,132,030	59,696	(342)	1,191,384
Less accumulated depreciation for:				
Facilities and improvements	391,206	33,610	-	424,816
Machinery and equipment	68,451	8,267	(320)	76,398
Total accumulated depreciation	459,657	41,877	(320)	501,214
Total capital assets, being depreciated, net	672,373	17,819	(22)	690,170
Capital assets, net	$ 812,165	$ 154,644	$ (59,055)	$ 907,754

Hetch Hetchy Water and Power

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	50,906	15,903	(13,179)	53,630
Total capital assets, not being depreciated	55,121	15,903	(13,179)	57,845
Capital assets, being depreciated:				
Facilities and improvements	443,372	9,413	-	452,785
Machinery and equipment	39,058	1,654	(149)	40,563
Total capital assets, being depreciated	482,430	11,067	(149)	493,348
Less accumulated depreciation for:				
Facilities and improvements	243,263	9,050	-	252,313
Machinery and equipment	27,279	1,651	(123)	28,807
Total accumulated depreciation	270,542	10,701	(123)	281,120
Total capital assets, being depreciated, net	211,888	366	(26)	212,228
Capital assets, net	$ 267,009	$ 16,269	$ (13,205)	$ 270,073

Municipal Transportation Agency

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	379,203	90,946	(8,935)	461,214
Total capital assets, not being depreciated	405,448	90,946	(8,935)	487,459
Capital assets, being depreciated:				
Facilities and improvements	383,597	3,826	-	387,423
Machinery and equipment	1,089,266	5,145	(13,147)	1,081,264
Infrastructure	716,725	2,341	-	719,066
Total capital assets, being depreciated	2,189,588	11,312	(13,147)	2,187,753
Less accumulated depreciation for:				
Facilities and improvements	155,713	6,083	-	161,796
Machinery and equipment	316,413	64,941	(12,402)	368,952
Infrastructure	231,683	22,906	-	254,589
Total accumulated depreciation	703,809	93,930	(12,402)	785,337
Total capital assets, being depreciated, net	1,485,779	(82,618)	(745)	1,402,416
Capital assets, net	$ 1,891,227	$ 8,328	$ (9,680)	$ 1,889,875

San Francisco General Hospital Medical Center

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	2,683	3,097	(1,351)	4,429
Total capital assets, not being depreciated	3,225	3,097	(1,351)	4,971
Capital assets, being depreciated:				
Facilities and improvements	128,432	2,366	-	130,798
Machinery and equipment	48,442	3,232	-	51,674
Total capital assets, being depreciated	176,874	5,598	-	182,472
Less accumulated depreciation for:				
Facilities and improvements	87,617	3,805	-	91,422
Machinery and equipment	39,032	3,020	-	42,052
Total accumulated depreciation	126,649	6,825	-	133,474
Total capital assets, being depreciated, net	50,225	(1,227)	-	48,998
Capital assets, net	$ 53,450	$ 1,870	$ (1,351)	$ 53,969

San Francisco Wastewater Enterprise

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ -	$ 22,168
Construction in progress	33,558	51,890	(28,652)	56,796
Total capital assets, not being depreciated	55,726	51,890	(28,652)	78,964
Capital assets, being depreciated:				
Facilities and improvements	1,937,406	19,759	-	1,957,165
Machinery and equipment	26,716	8,113	(53)	34,776
Total capital assets, being depreciated	1,964,122	27,872	(53)	1,991,941
Less accumulated depreciation for:				
Facilities and improvements	699,636	35,867	-	735,503
Machinery and equipment	21,267	1,361	(53)	22,575
Total accumulated depreciation	720,903	37,228	(53)	758,078
Total capital assets, being depreciated, net	1,243,219	(9,356)	-	1,233,863
Capital assets, net	$ 1,298,945	$ 42,534	$ (28,552)	$ 1,312,827

Port of San Francisco

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 119,452	$ 1,002	$ -	$ 120,454
Construction in progress	20,394	25,356	(9,839)	35,911
Total capital assets, not being depreciated	139,846	26,358	(9,839)	156,365
Capital assets, being depreciated:				
Facilities and improvements	273,279	9,224	-	282,503
Machinery and equipment	13,477	946	(64)	14,359
Total capital assets, being depreciated	286,756	10,170	(64)	296,862
Less accumulated depreciation for:				
Facilities and improvements	165,473	8,427	-	173,900
Machinery and equipment	8,158	1,109	(64)	9,203
Total accumulated depreciation	173,631	9,536	(64)	183,103
Total capital assets, being depreciated, net	113,125	634	-	113,759
Capital assets, net	$ 252,971	$ 26,992	$ (9,839)	$ 270,124

Laguna Honda Hospital

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	67,919	65,908	-	133,827
Total capital assets, not being depreciated	68,833	65,908	-	134,741
Capital assets, being depreciated:				
Facilities and improvements	27,388	719	-	28,107
Machinery and equipment	12,907	222	-	13,129
Property held under lease	2,802	43	-	2,845
Total capital assets, being depreciated	43,097	984	-	44,081
Less accumulated depreciation for:				
Facilities and improvements	22,835	715	-	23,550
Machinery and equipment	11,985	216	-	12,201
Property held under lease	135	103	-	238
Total accumulated depreciation	34,955	1,034	-	35,989
Total capital assets, being depreciated, net	8,142	(50)	-	8,092
Capital assets, net	$ 76,975	$ 65,858	$ -	$ 142,833

Other Fund – San Francisco Market Corporation

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, being depreciated:				
Facilities and improvements	$ 9,531	$ 64	$ -	$ 9,595
Machinery and equipment	55	-	-	55
Total capital assets, being depreciated	9,586	64	-	9,650
Less accumulated depreciation for:				
Facilities and improvements	4,538	270	-	4,808
Machinery and equipment	-	14	-	14
Total accumulated depreciation	4,538	284	-	4,822
Total capital assets, being depreciated, net	5,048	(220)	-	4,828
Capital assets, net	$ 5,048	$ (220)	$ -	$ 4,828

Total Business-type Activities

	Balance July 1, 2005	Increases*	Decreases*	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 193,781	$ 1,002	$ -	$ 194,783
Construction in progress	721,568	474,400	(182,316)	1,013,652
Total capital assets, not being depreciated	915,349	475,402	(182,316)	1,208,435
Capital assets, being depreciated:				
Facilities and improvements	9,000,385	149,858	(10,205)	9,140,038
Machinery and equipment	1,399,984	36,017	(14,660)	1,421,341
Infrastructure	716,725	2,341	-	719,066
Property held under lease	2,802	43	-	2,845
Easements	138,609	758	-	139,367
Total capital assets, being depreciated	11,258,505	189,017	(24,865)	11,422,657
Less accumulated depreciation for:				
Facilities and improvements	2,919,100	250,167	(3,560)	3,165,707
Machinery and equipment	552,049	83,313	(13,867)	621,495
Infrastructure	231,682	22,907	-	254,589
Property held under lease	135	103	-	238
Easements	53,075	6,934	-	60,009
Total accumulated depreciation	3,756,041	363,424	(17,427)	4,102,038
Total capital assets, being depreciated, net	7,502,464	(174,407)	(7,438)	7,320,619
Capital assets, net	$ 8,417,813	$ 300,995	$ (189,754)	$ 8,529,054

* The increases and decreases include transfers of categories of capital assets from properties held under lease to facilities and improvements.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental activities	
Public protection	$ 9,180
Public works, transportation, and commerce	14,984
Human welfare and neighborhood development	548
Community health	930
Culture and recreation	25,242
General administration and finance	15,892
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis	1,019
Total depreciation expense - governmental activities	$ 67,795
Business-type activities:	
Airport	162,009
Water	41,877
Power	10,701
Transportation	93,930
Hospitals	7,859
Sewer	37,228
Port	9,536
Market	284
Total depreciation expense - business-type activities	$ 363,424

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.6 billion as of June 30, 2006. In addition, the Water Department had utility type assets with useful lives over 100 years, which totaled $4.5 million as of June 30, 2006.

During the fiscal year ended June 30, 2006, the City's enterprise funds incurred total interest expense and interest income of approximately $261.2 million and $53 million, respectively. Of these amounts, interest expense of approximately $7 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2006, the Water Department, Hetch Hetchy and the Wastewater Enterprise expensed $5.7 million, $2.6 million, and $2.2 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

In addition, the City received a capital contribution of the newly completed de Young Museum from the Fine Arts Museums of San Francisco. The new de Young Museum, with a total cost of $202 million, is located in Golden Gate Park and opened on October 15, 2005. The addition of the asset was included in the facilities and improvements of the governmental activities.

Component Unit –Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2006 was as follows (in thousands):

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Property held under lease	$ 104,968	$ -	$ -	$ 104,968
Construction in progress	22,292	2,628	(9,923)	14,997
Total capital assets, not being depreciated/amortized	127,260	2,628	(9,923)	119,965
Capital assets, being depreciated:				
Facilities and improvements	161,439	10,886	-	172,325
Machinery and equipment	7,827	241	-	8,068
Leasehold improvements	21,602	600	-	22,202
Total capital assets, being depreciated	190,868	11,727	-	202,595
Less accumulated depreciation and amortization for:				
Facilities and improvements	36,015	4,056	-	40,071
Machinery and equipment	7,440	228	-	7,668
Leasehold improvements	7,786	432		8,218
Total accumulated depreciation and amortization	51,241	4,716	-	55,957
Total capital assets, being depreciated, net	139,627	7,011	-	146,638
Redevelopment Agency capital assets, net	$ 266,887	$ 9,639	$ (9,923)	$ 266,603

(8) BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES

Short-Term Obligations

The following is a summary of short-term obligations of the City as of June 30, 2006 (in thousands):

Type of Obligation	Final Maturity Date	Interest Rates	Amount
Governmental activities:			
Commercial paper	2007	3.37 to 3.6%	$150,000

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2006, are as follows (in thousands):

	July 1, 2005	Additional Obligations	Current Maturities	June 30, 2006
Governmental activities:				
Commercial paper	$ 150,000	$ -	$ -	$ 150,000
Governmental activities short-term obligations	$ 150,000	$ -	$ -	$ 150,000
Enterprise activities:				
Commercial paper				
San Francisco Water Department	$ 80,000	$ -	$ (80,000)	$ -
Business-type activities short-term obligations	$ 80,000	$ -	$ (80,000)	$ -

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority (the Authority) authorized the issuance of an initial tranche of up to $50 million and in September 2004, the Authority authorized the second tranche of $100 million of a programmed $200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide an interim source of financing for the Authority's New Transportation Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million, with an expiration date of April 14, 2007. The expiration date of the irrevocable letter of credit was extended through Authority Board Resolution 06-01 on July 12, 2005 to December 29, 2015. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2006, $150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 3.37% to 3.6%.

San Francisco Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the San Francisco Water Department. In May and June 1999, the San Francisco Public Utilities Commission and the Board of Supervisors, respectively, approved a commercial paper program to provide short-term financing for capital improvement projects funded under the $304 million Water Revenue Bond Program. There is no outstanding commercial paper as of June 30, 2006. The commercial paper retired in fiscal year 2005-2006 has interest rates ranging from 2.48% to 3.23%.

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2006 (in thousands):

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing	2021	4 0 to 7.05%	$ 80,305
California Academy of Sciences	2025	3.0 to 5.25%	84,005
Library	2025	2 5 to 5.0%	67,085
Laguna Honda Hospital	2030	3.25 to 5.0%*	299,000
Museums	2019	4.5 to 5.5%	12,660
Parks and playgrounds	2024	2 4 to 5 75%	129,835
Steinhart Aquarium	2025	3.0 to 5.0%	28,180
Schools	2023	2.4 to 5.75%	125,175
Zoo facilities	2025	2.5 to 5.75%	39,145
Refunding	2018	3.0 to 5.75%	366,815
General obligation bonds - governmental activities			1,232,205
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b) & (e)	2030	2 1 to 5.5%**	231,265
Lease revenue bonds - governmental activities			231,265
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2034	3.0 to 5.3%	276,160
Loans (c), (d) & (f)	2025	2 0 to 7.498%	12,377
Capital leases payable (c) & (f)	2025	1.5 to 7.05%	190,279
Settlement Obligation Bonds (d)	2011	2.4 to 3.05%	32,955
Accrued vacation and sick leave (d) & (f)			132,524
Accrued workers' compensation (d) & (f)			202,481
Estimated claims payable (d) & (f)			69,477
Other long-term obligations - governmental activities			916,253
DEFERRED AMOUNTS:			
Bond issuance premiums			24,983
Bond issuance discounts			(2,341)
Bond refunding			(5,092)
Deferred amounts			17,550
Governmental activities total long-term obligations			$ 2,397,273

Debt service payments are made from the following sources:
(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Revenues recorded in the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Laguna Honda Hospital General Obligation Bonds Series 2005 A and Series 2005 I are fixed rate bonds Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated above are for Series 2005 A and Series 2005 I. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2006 was 2.86%. The rate at June 30, 2006 was 3.88%.

** Includes the Moscone Center West Expansion Project, which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2006 was 1.80%. The rate at June 30, 2006 was 3.88%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	3.0 to 8.0%*	$ 4,048,005
San Francisco Water Department:			
Revenue bonds	2032	3.125 to 6.5%	981,765
Accreted interest			2,945
Hetch Hetchy Water and Power:			
Notes, loans, and other payables	2010	3.0%	494
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.0 to 5.0%	20,150
Lease revenue bonds	2022	3.8 to 5.5%	9,455
Capital leases	2008	5.11%	57
Notes, loans and other payables**	2010	3.0 to 5.25%	16,041
Downtown Parking - parking revenue refunding bonds	2018	4.0 to 5.375%	10,760
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	4,960
Japan Center Garage Corporation - notes, loans and other payables	2008	6 75%	203
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	18,115
San Francisco General Hospital Medical Center:			
Capital leases	2011	5.0 to 8.5%	3,800
San Francisco Wastewater Enterprise:			
Revenue bonds	2025	3.0 to 5.25%	396,270
State of California - Revolving fund loans	2021	2.8 to 3.5%	118,868
Port of San Francisco:			
Revenue bonds	2010	2.25 to 4.0%	16,550
Notes, loans and other payables	2029	4.5%	3,279
Laguna Honda Hospital:			
Capital leases	2009	3.465%	1,665
Accrued vacation and sick leave			79,563
Accrued workers' compensation			161,654
Estimated claims payable			77,783
Deferred Amounts:			
Bond issuance premiums			64,473
Bond issuance discounts			(16,765)
Bond refunding			(102,775)
Business-type activities total long-term obligations			$ 5,917,315

* Includes Second Series Revenue Bonds Issue 32, which were issued in an auction mode and Issue 33 initially issued as variable rate bonds in a weekly mode The average interest rate on the Issue 32 was 2.791% for the period July 1, 2005 through June 30, 2006. The average interest rate on the Issue 33 Bonds from inception through June 30, 2006 was 3.415%.

** Includes an unamortized loan premium of $0.7 million for Parking and Traffic.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective enterprise funds.

COMPONENT UNIT

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2025	2.0 to 7.05%	$ 132,645
Hotel Tax Revenue Bonds (b)	2025	4.4 to 6.94%	64,795
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2031	2.98 to 8.3%	510,903
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (3.98% at 6/30/06)	8,500
Less deferred amounts:			
Bond issuance premiums			8,604
Bond issuance discounts			(671)
Refunding loss			(4,043)
Sub-total			720,733
California Department of Boating and Waterways Loan (e)	2037	4.5%	8,000
Accreted interest payable			74,151
Accrued vacation and sick leave pay			2,807
Component unit total long-term obligations			$ 805,691

Debt service payments are made from the following sources.

(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.

(b) Hotel taxes from hotels located in the Redevelopment Project Areas.

(c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.

(d) South Beach Harbor Project cash reserves, property tax increments and project revenues.

(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2006, the City's debt limit (3% of valuation subject to taxation) was $3.4 billion. The total amount of debt applicable to the debt limit was $1.2 billion. The resulting legal debt margin was $2.2 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation and has recognized an arbitrage liability of $0.9 million as of June 30, 2006. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of $67 thousand was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2006. Each enterprise fund has performed a similar analysis of its debt, which is subject to arbitrage rebate requirements. Any

material arbitrage liability related to the debt of the enterprise funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued $1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2006, the aggregate outstanding obligation of such bonds was $83.1 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2006, are as follows (in thousands):

	July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2006	Amounts Due Within One Year
Governmental activities:					
Bonds payable					
General obligation bonds	$ 1,086,355	$ 219,120	$ (73,270)	$ 1,232,205	$ 75,950
Lease revenue bonds	230,620	19,555	(18,910)	231,265	20,550
Certificates of participation	283,320	-	(7,160)	276,160	9,240
Settlement obligation bond	38,670	-	(5,715)	32,955	5,860
Less deferred amounts:					
For issuance premiums	16,254	10,398	(1,669)	24,983	-
For issuance discounts	(2,425)	-	84	(2,341)	-
On refunding	(5,843)	-	751	(5,092)	-
Total bonds payable	1,646,951	249,073	(105,889)	1,790,135	111,600
Loans	7,961	5,359	(943)	12,377	877
Capital leases	198,703	6,499	(14,923)	190,279	14,582
Accrued vacation and sick leave pay	125,037	82,184	(74,697)	132,524	65,548
Accrued workers' compensation	214,805	25,583	(37,907)	202,481	41,803
Estimated claims payable	83,537	7,046	(21,106)	69,477	23,811
Governmental activities long-term obligations	$ 2,276,994	$ 375,714	$ (255,435)	$ 2,397,273	$ 258,621

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2006, $231.3 million of lease revenue bonds, $0.2 million of capital leases, $3.9 million of accrued vacation and sick leave pay and $1.1 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2006, are as follows (in thousands):

	July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2006	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,114,431	$ 467,000	$ (533,426)	$ 4,048,005	$ 80,510
Less deferred amounts:					
For issuance premiums	17,109	-	(633)	16,476	-
For issuance discounts	(17,350)	-	1,853	(15,497)	-
On refunding	(60,590)	(12,533)	6,363	(66,760)	-
Total Bonds payable	4,053,600	454,467	(525,843)	3,982,224	80,510
Accrued vacation and sick leave pay	11,490	8,705	(7,865)	12,330	6,306
Accrued workers' compensation	5,119	1,967	(2,134)	4,952	1,492
Estimated claims payable	845	-	(808)	37	15
Long-term obligations	$ 4,071,054	$ 465,139	$ (536,650)	$ 3,999,543	$ 88,323
San Francisco Water Department					
Bonds payable:					
Revenue bonds	$ 486,970	$ 617,880	$ (123,085)	$ 981,765	$ 15,450
Less deferred amounts:					
For issuance premiums	6,687	21,487	(687)	27,487	-
For issuance discounts	(2,758)	(17)	1,507	(1,268)	-
On refunding	(7,411)	(6,702)	554	(13,559)	-
Total bonds payable	483,488	632,648	(121,711)	994,425	15,450
Accreted interest payable	2,749	196	-	2,945	-
Accrued vacation and sick leave pay	9,584	6,993	(6,182)	10,395	5,060
Accrued workers' compensation	10,351	387	(2,019)	8,719	1,860
Estimated claims payable	5,286	4,476	(3,962)	5,800	1,168
Long-term obligations	$ 511,458	$ 644,700	$ (133,874)	$ 1,022,284	$ 23,538
Hetch Hetchy Water and Power					
Notes, loans and other payables	$ 595	$ -	$ (101)	$ 494	$ 104
Accrued vacation and sick leave pay	1,869	1,255	(982)	2,142	1,105
Accrued workers' compensation	2,450	-	(512)	1,938	395
Estimated claims payable	2,002	7,073	(4,076)	4,999	1,024
Long-term obligations	$ 6,916	$ 8,328	$ (5,671)	$ 9,573	$ 2,628
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 56,350	$ -	$ (2,365)	$ 53,985	$ 2,450
Lease revenue bonds	10,465	-	(1,010)	9,455	1,050
Less deferred amounts:					
For issuance premiums	940	-	(32)	908	-
Total bonds payable	67,755	-	(3,407)	64,348	3,500
Notes, loans, and other payables	20,575	-	(4,331)	16,244 *	4,331
Capital leases	195	-	(138)	57	38
Accrued vacation and sick leave pay	24,100	708	(97)	24,711	13,977
Accrued workers' compensation	115,352	9,549	(18,621)	106,280	23,911
Estimated claims payable	49,766	18,941	(9,103)	59,604	20,325
Long-term obligations	$ 277,743	$ 29,198	$ (35,697)	$ 271,244	$ 66,082

* Includes an unamortized loan premium of $0.7 million for Parking and Traffic.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2006, are as follows (in thousands) - continued:

	July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2006	Amounts Due Within One Year
San Francisco General Hospital Medical Center					
Capital leases	$ 2,519	$ 3,474	$ (2,193)	$ 3,800	$ 1,122
Accrued vacation and sick leave pay	14,236	10,869	(9,917)	15,188	8,482
Accrued workers' compensation	22,899	2,144	(4,329)	20,714	4,030
Long-term obligations	$ 39,654	$ 16,487	$ (16,439)	$ 39,702	$ 13,634
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 396,270	$ -	$ -	$ 396,270	$ 33,445
Less deferred amounts:					
For issuance premiums	20,381	-	(1,006)	19,375	-
On refunding	(23,397)	-	1,727	(21,670)	-
Total bonds payable	393,254	-	721	393,975	33,445
State of California - Revolving fund loans	134,783	-	(15,915)	118,868	16,430
Accrued vacation and sick leave pay	4,095	2,206	(1,985)	4,316	2,244
Accrued workers' compensation	4,674	317	(818)	4,173	869
Estimated claims payable	9,092	-	(3,113)	5,979	1,247
Long-term obligations	$ 545,898	$ 2,523	$ (21,110)	$ 527,311	$ 54,235
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 19,940	$ -	$ (3,390)	$ 16,550	$ 3,975
Less deferred amounts:					
For issuance premiums	303	-	(76)	227	-
On refunding	(1,048)	262	-	(786)	-
Total bonds payable	19,195	262	(3,466)	15,991	3,975
Notes, loans, and other payables	3,359	-	(80)	3,279	84
Accrued vacation and sick leave pay	1,692	87	-	1,779	971
Accrued workers' compensation	2,726	1,119	(726)	3,119	555
Estimated claims payable	1,727	517	(860)	1,384	850
Long-term obligations	$ 28,699	$ 1,985	$ (5,152)	$ 25,532	$ 6,435
Laguna Honda Hospital					
Capital leases	$ 2,040	$ 142	$ (517)	$ 1,665	$ 523
Accrued vacation and sick leave pay	8,252	9,559	(9,109)	8,702	5,037
Accrued workers' compensation	13,052	3,797	(5,090)	11,759	2,354
Long-term obligations	$ 23,344	$ 13,498	$ (14,716)	$ 22,126	$ 7,914

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2006, is as follows (in thousands):

	July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2006	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 6,073,951	$ 1,084,880	$ (662,256)	$ 5,496,575	$ 135,830
Lease revenue bonds	10,465	-	(1,010)	9,455	1,050
Less deferred amounts:					
For issuance premiums	45,420	21,487	(2,434)	64,473	-
For issuance discounts	(20,106)	(17)	3,360	(16,765)	-
On refunding	(92,446)	(18,973)	8,544	(102,775)	-
Total bonds payable	6,017,292	1,087,377	(653,706)	5,450,963	136,880
Accreted interest payable	2,749	196	-	2,945	-
State of California - Revolving fund loans	134,783	-	(15,915)	118,868	16,430
Notes, loans, and other payables	24,529	-	(4,512)	20,017	4,519
Capital leases	4,754	3,616	(2,848)	5,522	1,683
Accrued vacation and sick leave pay	75,318	40,382	(36,137)	79,563	43,182
Accrued workers' compensation	176,623	19,280	(34,249)	161,654	35,466
Estimated claims payable	68,718	31,007	(21,942)	77,783	24,629
Business-type activities long-term obligations	$ 5,504,766	$ 1,181,858	$ (769,309)	$ 5,917,315	$ 262,789

The changes in long term obligations for the component unit for the year ended June 30, 2006, are as follows (in thousands):

	July 1, 2005	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2006	Amounts Due Within One Year
Component Unit: San Francisco Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 675,046	$ 88,610	$ (55,313)	$ 708,343	$ 27,791
Refunding bonds	10,000	-	(1,500)	8,500	-
Less deferred amounts:					
For issuance premiums	9,207	93	(696)	8,604	-
For issuance discounts	(241)	(468)	38	(671)	-
On refunding	(3,042)	(1,315)	314	(4,043)	-
Total bonds payable	690,970	86,920	(57,157)	720,733	27,791
Accreted interest payable	77,025	8,703	(11,577)	74,151	10,809 [1]
Notes, loans, and other payables	8,000	-	-	8,000	-
Accrued vacation and sick leave pay	2,701	1,198	(1,092)	2,807	1,254
Component unit - long-term obligations	$ 778,696	$ 96,821	$ (69,826)	$ 805,691	$ 39,854

[1] This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2006, for governmental activities are as follows (in thousands):

Governmental Activities (1) (2)

Fiscal Year Ending	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 75,950	$ 59,048	$ 20,550	$ 9,538	$ 15,977	$ 14,566	$ 112,477	$ 83,152
2008	85,175	55,419	19,255	8,780	16,028	14,061	120,458	78,260
2009	89,040	51,395	17,335	8,064	16,617	13,443	122,992	72,902
2010	90,065	47,130	9,135	7,408	17,121	12,876	116,321	67,414
2011	91,860	42,671	8,580	7,044	17,759	12,230	118,199	61,945
2012-2016	340,810	156,108	35,880	30,270	56,906	52,670	433,596	239,048
2017-2021	240,805	81,690	37,840	22,363	47,246	40,077	325,891	144,130
2022-2026	144,140	33,383	43,690	13,526	45,633	28,626	233,463	75,535
2027-2031	74,360	8,214	39,000	4,116	53,695	16,205	167,055	28,537
2032-2036	-	-	-	-	34,510	2,769	34,510	2,769
Total	$ 1,232,205	$ 535,058	$ 231,265	$ 111,111	$ 321,492	$ 207,523	$ 1,784,962	$ 853,692

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine

(2) Includes the following variable rate demand notes, the Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. Currently, they bear interest at a weekly rate. The rate at June 30, 2006 was 3.88%, together with an ancillary fee of 0.242% and 0.255% for Moscone bonds and Laguna Honda bonds respectively, was used to project the interest payment in this table.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)

Fiscal Year Ending	Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 80,510	$ 195,107	$ -	$ -	$ 80,510	$ 195,107
2008	94,275	190,127	-	-	94,275	190,127
2009	108,425	186,578	-	-	108,425	186,578
2010	118,795	180,498	-	-	118,795	180,498
2011	143,905	175,598	-	-	143,905	175,598
2012-2016	804,490	768,860	-	-	804,490	768,860
2017-2021	990,050	562,445	-	-	990,050	562,445
2022-2026	1,126,520	310,918	-	-	1,126,520	310,918
2027-2031	564,050	75,527	-	-	564,050	75,527
2032	16,985	858	-	-	16,985	858
Total	$ 4,048,005	$ 2,646,516	$ -	$ -	$ 4,048,005	$ 2,646,516

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Water Department (1)

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 15,450	$ 49,830	$ -	$ -	$ 15,450	$ 49,830
2008	19,015	45,348	-	-	19,015	45,348
2009	25,395	44,358	-	-	25,395	44,356
2010	26,505	43,259	-	-	26,505	43 259
2011	27,710	42,040	-	-	27,710	42 040
2012-2016	160,770	188,175	-	-	160,770	188,176
2017-2021	148,695	150,491	-	-	148,695	150,491
2022-2026	168,020	112,759	-	-	168,020	112,759
2027-2031	193,945	68,725	-	-	193,945	68,725
2032-2036	165,085	24,807	-	-	165,085	24,807
2037	31,175	741	-	-	31,175	741
Total	$ 981,765	$ 770,532	$ -	$ -	$ 981,765	$ 770,532

Hetch Hetchy Water and Power (1)

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ -	$ -	$ 104	$ 14	$ 104	$ 14
2008	-	-	107	11	107	11
2009	-	-	110	8	110	8
2010	-	-	115	4	115	4
2011	-	-	58	1	58	1
Total	$ -	$ -	$ 494	$ 38	$ 494	$ 38

Municipal Transportation Agency (1) (2)

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 3,500	$ 3,162	$ 4,369	$ 725	$ 7,869	$ 3,887
2008	3,650	3,020	4,538	506	8,188	3,526
2009	3,810	2,869	6,381	283	10,191	3,152
2010	3,125	2,726	279	61	3,404	2,787
2011	3,260	2,587	-	-	3,260	2,587
2012-2016	18,785	10,494	-	-	18,785	10,494
2017-2021	15,755	5,617	-	-	15,755	5,617
2022-2026	4,750	2,846	-	-	4,750	2,846
2027-2031	5,500	1,420	-	-	5,500	1,420
2032-2036	1,305	78	-	-	1,305	78
Total	$ 63,440	$ 34,819	$ 15,567	$ 1,575	$ 79,007	$ 36,394

(1) The specific year for payment of accreted interest payable (San Francisco Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine

(2) Unamortized loan premiums of $0.7 million (MTA) are not included in principal payments.

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The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Wastewater Enterprise (1)

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 33,445	$ 16,718	$ 16,430	$ 3,701	$ 49,875	$ 20,419
2008	34,500	15,698	13,337	3,168	47,837	18,866
2009	35,665	14,646	13,761	2,744	49,426	17,390
2010	37,130	13,183	14,199	2,307	51,329	15,490
2011	26,320	11,827	14,650	1,856	40,970	13,683
2012-2016	122,615	43,194	36,631	4,369	159,246	47,563
2017-2021	66,890	18,935	9,860	764	76,750	19,699
2022-2026	39,705	3,038	-	-	39,705	3,038
Total	$ 396,270	$ 137,239	$ 118,868	$ 18,909	$ 515,138	$ 156,148

Port of San Francisco (1)

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 3,975	$ 453	$ 84	$ 148	$ 4,059	$ 601
2008	4,070	348	88	144	4,158	492
2009	4,185	222	92	140	4,277	362
2010	4,320	75	96	136	4,416	211
2011	-	-	100	131	100	131
2012-2016	-	-	574	585	574	585
2017-2021	-	-	715	443	715	443
2022-2026	-	-	892	267	892	267
2027-2031	-	-	638	58	638	58
Total	$ 16,550	$ 1,098	$ 3,279	$ 2,052	$ 19,829	$ 3,150

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006 for business-type activities is as follows (in thousands):

Total Business-type Activities (1) (2)

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 136,880	$ 265,270	$ 20,987	$ 4,588	$ 157,867	$ 269,858
2008	155,510	254,541	18,070	3,829	173,580	258,370
2009	177,480	248,671	20,344	3,175	197,824	251,846
2010	189,875	239,741	14,689	2,508	204,564	242,249
2011	201,195	232,052	14,808	1,988	216,003	234,040
2012-2016	1,106,660	1,010,724	37,205	4,954	1,143,865	1,015,678
2017-2021	1,221,390	737,488	10,575	1,207	1,231,965	738,695
2022-2026	1,338,995	429,561	892	267	1,339,887	429,828
2027-2031	763,495	145,672	638	58	784,133	145,730
2032-2036	183,375	25,743	-	-	183,375	25,743
2037-2041	31,175	741	-	-	31,175	741
Total	$ 5,506,030	$ 3,590,204	$ 138,208	$ 22,574	$ 5,644,238	$ 3,612,778

(1) The specific year for payment of accreted interest payable (San Francisco Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

(2) Unamortized loan premiums of $0.7 million (MTA) are not included in principal payments

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2006, for the component unit are as follows (in thousands):

Component Unit: San Francisco Redevelopment Agency (1)

Fiscal Year Ending June 30	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Tax Revenue Bonds Principal	Tax Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2007	$ 5,148	$ 12,728	$ 20,150	$ 26,245	$ 2,495	$ 4,183	$ 27,791	$ 43,156
2008	5,544	13,027	27,198	23,615	2,582	4,024	35,324	40,666
2009	5,350	13,289	26,367	24,177	2,652	3,865	34,369	41,331
2010	5,152	13,565	26,736	23,149	2,799	3,661	34,687	40,375
2011	5,019	13,776	28,414	22,017	3,352	3,493	36,785	39,286
2012-2016	39,119	55,653	168,051	77,782	22,078	14,345	229,248	147,780
2017-2021	55,500	8,138	148,077	27,520	20,258	9,057	223,835	44,715
2022-2026	11,815	1,256	39,865	42,212	21,015	4,058	72,695	47,526
2027-2031	-	-	16,155	4,798	1,932	747	18,087	5,545
2032-2036	-	-	9,890	1,312	2,108	272	11,998	1,584
2037-2041	-	-	-	-	24	1	24	1
Total	$ 132,645	$ 131,432	$ 510,903	$ 272,827	$ 61,295	$ 47,706	$ 724,843	$ 451,965

(1) The specific year for payment of accreted interest payable and accrued vacation and sick leave pay is not practicable to determine.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2006, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2005	$ 565,185
Bonds issued:	
Series 2005E, California Academy of Sciences Improvement Bonds	(79,370)
Series 2005F, Steinhart Aquarium Improvement Bonds	(29,245)
Series 2005G, Branch Library Facilities Improvement Bonds	(34,000)
Series 2005H, Zoo Facilities Bonds	(7,505)
Series 2005I, Laguna Honda Hospital	(69,000)
Net authorized and unissued as of June 30, 2006	$ 346,065

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2006.

In July 2005, the City issued $150.1 million in General Obligation Bonds, consisting of California Academy of Sciences Improvement Bonds, Series 2005E in the amount of $79.4 million; Steinhart Aquarium Improvement Bonds, Series 2005F in the amount of $29.2 million; Branch Library Facilities Improvement Bonds, Series 2005G, in the amount of $34 million and Zoo Facilities Bonds, Series 2005H in the amount of $7.5 million. Interest rates range from 3.0% to 5.0%. The bonds mature from June 2006 through June 2025. Debt service payments are funded through ad valorem taxes on property.

The California Academy Sciences Bonds were issued to provide funds to finance the acquisition, construction, and reconstruction of certain improvements to the California Academy of Sciences, and all other works, property and structures necessary or convenient for these purposes. The Steinhart

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Aquarium Bonds were issued to provide funds to finance the acquisition, construction and reconstruction of certain improvements to the Steinhart Aquarium, and all other works, property and structures necessary or convenient for these purposes. The Branch Library Facilities Bonds were issued to provide funds to finance the acquisition, renovation and construction of branch libraries and other library facilities, convenient for these purposes. The Zoo Facilities Bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of San Francisco Zoo facilities and properties and all other works, property and structures necessary or convenient for these purposes.

In September 2005, the City issued General Obligation Bonds, Laguna Honda Hospital, Series 2005I in the amount of $69 million. Interest rates range from 4.0% to 5.0%. The bonds mature from June 2008 through June 2030. The bonds were issued to provide funds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Debt service payments are funded through ad valorem taxes on property.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2006 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2005	$ 135,554
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	1,980
Current year maturities in Finance Corporation's equipment program	8,720
Bonds issued:	
Series 2005A, San Francisco Finance Corporation	(9,420)
Series 2006A, San Francisco Finance Corporation	(10,135)
Net authorized and unissued as of June 30, 2006	$ 126,699

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of

June 30, 2006, the total authorized amount is $41.6 million. The total accumulated annual authorization since 1990 is $21.6 million, of which $2 million is new annual authorization for the fiscal year ending June 30, 2006.

The equipment lease program functions as a revolving bond authorization fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued $123.6 million in equipment lease revenue bonds since 1991. As of June 30, 2006, $94.6 million has been repaid, leaving $29 million in equipment lease revenue bonds outstanding and $12.5 million available for new issuance.

In October 2005, the Finance Corporation issued its thirtieth Series of equipment lease revenue bonds, Series 2005A in the amount of $9.4 million, with interest rates ranging from 3.25% to 5%. The bonds mature from April 2006 to October 2010.

In April 2006, the Finance Corporation issued its fourteenth Series of equipment lease revenue bonds, Series 2006A in the amount of $10.1 million, with interest rates ranging from 3.375% to 4%. The bonds mature from October 2006 to October 2011.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2006, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2006, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to $157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds. Currently, the bonds bear interest at a weekly rate.

Fillmore Renaissance Center Project Loan

In July 2005, the City entered into an agreement with the Department of Housing and Urban Development (HUD) for an approved Section 108 Loan in the maximum amount of $5.5 million. The funds were committed to the Fillmore Renaissance Center Project, a mixed-use commercial housing development located in San Francisco Redevelopment Agency's Jazz Preservation District. During the fiscal year 2005-2006, HUD advanced to the City loan funds totaling $5.4 million.

There are quarterly interest payments only in the first two years based on the variable 90-DAY LIBOR rate on the outstanding principal balance. Principal payments will begin in August 2007 through August 2025 at an interest rate to be determined when the loan is converted into a fixed rate financing by the City. The average interest rate on the loan is 4.74% from its first payment in August 2005 through June 30, 2006.

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Business-Type Activities Long-Term Liabilities

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

In February 2006, the San Francisco International Airport (SFO or Airport) issued its Second Series Variable Rate Revenue Refunding Bonds Issue 33 (Issue 33 Bonds) in ten separate series in the principal amount of $467 million. The Issue 33 Bonds were initially issued as variable rate bonds in a Weekly Mode, subject to conversion by the Airport to another interest rate mode. The initial interest rate was established by the Airport for the interest rate period commencing February 15, 2006 for each series of Issue 33 Bonds.

Each series of the Issue 33 Bonds may bear a different interest rate and be subject to a different mode. As of June 30, 2006, each series of the Issue 33 Bonds was in a Weekly Mode. For the period February 15, 2006 through June 30, 2006, the average interest rate on the Issue 33 Bonds was 3.415%.

Proceeds from the Issue 33 Bonds were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 10	$ 162,100	5.125% - 5.700%	$ 102.000
Issue 12	183,725	5.500% - 5.900%	101.000
Issue 13	56,730	5.500% - 8.000%	101.000
Issue 14	51,745	5.500% - 8.000%	101.000
	$ 454,300		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2006 to May 1, 2026 and were called on May 1, 2006.

The net proceeds of $463.1 million (after payment of $3.9 million in underwriting fees, insurance and surety premiums, and costs of issuance) plus an additional $6.1 million (net of payment of $2.5 million to a cost of issuance account) of available debt service funds were used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on refunded bonds identified above until called on May 1, 2006.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

Although the refunding resulted in the recognition of a deferred accounting loss of $12.5 million for the year ended June 30, 2006, the Airport in effect reduced its aggregate debt service payments by approximately $101.2 million (based on an interest swap rate of 3.39% for the hedged portion, and an assumed interest rate of 3.62% for the unhedged portion of the Issue 33 Bonds) over the next 21 years and obtained an economic gain (the difference between the present values of the old and new debt service payments), of $79.2 million.

During fiscal year 2004-2005, the Airport issued Second Series Revenue Refunding Bonds Issue 31F and Series Issue 32 for $109.1 million and $197.7 million respectively, to refund previously issued debt. The Series Issue 31F Bonds were issued as fixed rate bonds. The Series Issue 32 Bonds were initially issued and remain in auction mode, subject to conversion by the Airport to another interest rate mode.

Each series of Issue 32 Bonds may bear a different interest rate and is subject to different auction periods. As of June 30, 2006, series 32B, 32C and 32D were in a 35-day auction period and Series 32A and 32E were in a 7-day auction period. For the period July 1, 2005 through June 30, 2006, the average interest rate on the Issue 32 Bonds was 2.791%.

SFO entered into seven forward-starting interest rate swap agreements in December 2004 in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32, on February 10, 2005, and a portion of its Variable Rate Refunding Bonds, Issue 33, on February 15, 2006. Pursuant to these interest rate swaps, SFO receives a monthly variable rate payment from each counterparty equal to 63.5% of the USD-LIBOR-BBA, plus 0.29%, times the notional amount of the swap, which is intended to approximate to the variable interest rates SFO pays on the Issue 32 Bonds and the hedged portion of the Issue 33 Bonds. SFO makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the interest rate swaps is to achieve a synthetic fixed rate with respect to the Issue 32 Bonds and the hedged portion of the Issue 33 Bonds.

For the fiscal year ended June 30, 2006, SFO paid the total of $9.5 million in fixed rate payments to the counterparties and received $8.7 million in floating rate payments in return, resulting in total net swap payments to the counterparties of $0.8 million. During the same period, SFO made variable interest rate payments on the related bonds of $8.5 million, resulting in SFO receiving $0.2 million more from the counterparties than it paid in interest on the related variable rate bonds. The effective synthetic fixed rate on the related bonds was 3.34%.

The four interest rate swaps relating to the Issue 32 Bonds went into effect on February 10, 2005, the date of the issuance of the Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three interest rate swaps relating to the Issue 33 Bonds went into effect on February 15, 2006, the date of issuance of the Issue 33 Bonds and the first payment commenced on March 1, 2006. All of the interest rate swaps are terminable at any time at the option of SFO at their fair market value.

The interest rate swaps relating to the Issue 32 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 32 Bonds. The following is additional information regarding each swap and the counterparties as of June 30, 2006 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
J.P. Morgan Chase Bank, N.A.	$ 70,000	AA-/Aa2	3.444%	$ 3,425
Bear Sterns Capital Markets, Inc.	30,000	A/A1	3.444%	1,468
J.P. Morgan Chase Bank, N.A.	69,930	AA-/Aa2	3.445%	3,415
Bear Sterns Capital Markets, Inc.	29,970	A/A1	3.445%	1,464
(Aggregate notional amount)	$ 199,900			$ 9,772

The interest rate swaps relating to the Issue 33 Bonds terminate by their terms on May 1, 2019, the final maturity date for the Issue 33 Bonds. The following is additional information regarding each swap and counterparties as of June 30, 2006 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
Lehman Brothers Special Financial Inc.	$ 73,570	A/A1	3.393%	$ 2,715
Bear Sterns Capital Markets, Inc.	31,530	A/A1	3.393%	1,164
Lehman Brothers Special Financial Inc.	100,000	A/A1	3.379%	3,816
(Aggregate notional amount)	$ 205,100			$ 7,695

Risks Disclosure

The aggregate market fair value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Airport will have to that counterparty. The Airport has limited counterparty credit risk by limiting its exposure to any one counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the fair market value of the swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. There is limited basis risk with respect to the interest rate swaps, as the Airport has chosen a variable rate index designed to closely approximate the variable rates payable on the Issue 32 and 33 Bonds. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for its payments, including termination payments, due under each interest rate swap from insurers currently rated AAA/Aaa.

Additional Termination Events under the swap documents in respect of the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional Termination Events under the swap documents in respect of counterparty include a ratings downgrade below investment grade followed by failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

San Francisco Water Department

During fiscal year 2005-2006, the San Francisco Water Department (Water Department) issued 2006 Water Revenue Bonds, Series A (the 2006 Series A Bonds) in the amount of $507.8 million. The purpose of the bonds is to finance improvements to the City's water system and to retire commercial paper outstanding. The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's respectively. The 2006 Series A Bonds include current interest and serial and term bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2027 and the current interest term bonds mature on November 1, 2031, 2033 and 2036.

During fiscal year 2005-2006, the Water Department issued 2006 Water Revenue Refunding Bonds, Series B (the 2006 B Refunding Bonds) in the amount of $110.1 million. The purpose of these bonds is to refund a portion of the 1996A Series A Bonds and the 2001 Series A Bonds. These bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's respectively. The 2006 B Refunding Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest serial bonds mature through November 1, 2026.

San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater) has entered into several contracts (State Revolving Fund Loans) with the State Water Resources Control Board (SWRCB) under which Wastewater borrowed up to prescribed maximum amounts to finance the construction of certain facilities. The amount of loans outstanding as of June 30, 2006 is $118.9 million, with interest rates ranging from 2.8% to 3.5%, and matures from April 2007 through January 2021.

Component Unit Debt – San Francisco Redevelopment Agency

The current year debt activities of the San Francisco Redevelopment Agency are discussed in note 12.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

Employees' Retirement System

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2006 was approximately $2,155 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2005 the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits.......	2,079	1,900	16,114	20,093
Active members:				
Vested..............................	1,841	1,371	19,271	22,483
Nonvested..........................	252	261	6,168	6,681
Subtotal.........................	2,093	1,632	25,439	29,164
Total.......................................	4,172	3,532	41,553	49,257

As of July 1, 2005 there were 2,833 terminated members entitled to, but not yet receiving benefits.

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Funding Policy - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2005-2006 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2005 actuarial report, the required employer contribution for fiscal year 2005-06 was 6.58 percent. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary.

For fiscal year ended June 30, 2006, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2005. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$ -	N/A	$ -
6/30/2005	83,664	100%	-
6/30/2006	126,533	100%	-

California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency employees are eligible to participate in PERS. Disclosures for the Redevelopment Agency are included in the separately issued financial statements.

Plan Description - The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 199 active members. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

Miscellaneous Plan

Funding Policy - Miscellaneous plan - Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2005-2006 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan - cost for PERS for fiscal year 2005-2006 was equal to the City's required and actual contributions which was determined as part of the June 30, 2003 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$ -	N/A	$ -
6/30/2005	-	N/A	-
6/30/2006	-	N/A	-

Safety Plan

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 20.850% because the City is funded at 96.7%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2005-2006 was equal to the City's required and actual contributions which was determined as part of the June 30, 2003 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2003 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$ 5,606	100%	$ -
6/30/2005	3,689	100%	-
6/30/2006	6,736	100%	-

(b) Deferred Compensation Plan

The City offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The City has no administrative involvement and does not perform the investing function. The City has no fiduciary accountability for the plan and, accordingly, the plan assets and related liabilities to plan participants are not included in the basic financial statements.

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately $404.7 million in fiscal year 2005-2006. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is $115.3 million to provide post-employment health care benefits for 20,798 retired employees. The City's liability for both current employee and post-employment health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In June 1992, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the "Transportation Fund for Clean Air" Program (AB 434) which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

The Authority serves as the Congestion Management Agency under state laws, and in that capacity prioritizes state and federal transportation funds for San Francisco. The funding is administered by the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

During fiscal years 1989-1999, $6 million in Intermodal Surface Transportation Efficiency Act (ISTEA) Section 204 funds were granted to the California Department of Transportation (Caltrans) for environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project. The ISTEA grant was awarded to the Authority, which also manages the Doyle Drive Intermodal Study, which is funded by Caltrans. In April 1998, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study. The Doyle Drive Environmental Impact Statement/Report (DEIS/R) was completed and circulated for public comment in December 2005, and on September 26, 2006, through Resolution 07-17, the Authority selected Alternative 5 (Presidio Parkway) with specified design options, as the Preferred Alternative to be identified within the Final Environmental Impact Statement/Report for the Doyle Drive Replacement Project. On September 1, 2006, Caltrans gave the Authority an authorization to proceed with preliminary engineering for the Doyle Drive Replacement Project, allocating $4.8 million in Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) funding.

In November 2003, the City voters approved Proposition K amending the City Business and Tax Code to extend the sunset date to 2034 from 2010, continue the existing half-cent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Roads (including street resurfacing, and bicycle and pedestrian improvements); Paratransit services for seniors and disabled people; Transportation System Management/Strategic Initiatives, to fund neighborhood parking management, land use coordination, and beautification efforts; and Major Capital Projects. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive). The Authority may modify the Expenditure Plan with voter approval, and the half-cent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to $485.2 million per year and issue up to $1.88 billion in bonds, to be repaid from the half-cent sales tax.

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2006 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to SFO creates a convenient connection between SFO and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The revised Capital Plan was approved in March 2005 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In May 2006, SFO obtained a direct-pay letter of credit with a maximum stated principal amount of $200 million. The subordinate Lien Resolution authorizes a maximum principal amount of notes of $400 million. There were no commercial borrowings during the year ended June 30, 2006.

In addition to the long-term obligations discussed above, there is $112 million and $115 million in Special Facilities Lease Revenue Bonds outstanding at June 30, 2006 and June 30, 2005, respectively, for SFO Fuel. SFO Fuel is required to pay facilities rent to SFO in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to SFO. SFO assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither SFO nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

In July 2001, the Federal Aviation Administration (FAA) approved SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the charge expiration date of PFC #2 will be recorded as of November 1, 2005.

In November 2003, the FAA approved SFO's third PFC application (PFC#3) to impose and use a $4.50 PFC per enplaning passenger for approximately $539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million. In September 2006, the FAA notified the Airport that the revised date for the start of collections for PFC #3 is recorded as of November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

For the year ended June 30, 2006, SFO reported approximately $62.1 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. SFO designated $67.7 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2005-2006.

Due to SFO's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2006 was $21.5 million.

Purchase commitments for construction, material and services as of June 30, 2006 are as follows (in thousands):

Construction	$ 40,690
Operating	16,700
Total	$ 57,390

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2006, approximately $124.3 million has been disbursed under this program.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2006, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines	20.4%
AMPCO Parking Systems	8.8%
American Airlines	4.1%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was owned and operated by the State of California. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20-year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2006, $16.7 million has been appropriated and $1.6 million has been expended for projects under the agreement. The $16.7 million appropriated includes $9 million received from the sale of a portion of a seawall lot to a developer. In accordance with a development agreement and the entitlement legislation, these land sale proceeds are restricted for the design and construction of a public plaza identified in the BCDC agreement. Other proceeds from the land sale, together with certain residual receipts from the sale of residential condominium units built on the land sold, are designated for the construction of a mixed use cruise terminal project.

As of June 30, 2006, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $6.3 million for capital projects and $2 million for general operations.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of $1.2 million for 20 years, commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are to be based on actual ticket collections, net of administrative costs. Under the agreement, payments to the Port should adjust periodically as parking fines increase. The Port and DPT are discussing terms for the payment of certain incremental revenues derived from fine increases and expect resolution in fiscal year 2007.

(c) San Francisco Water Department

The San Francisco Water Department (Water Department) was established in 1930. The Water Department, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Department delivers water, approximately 88,686 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately $19 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2005-2006, water sales to suburban resale customers were $103 million. As of June 30, 2006, the suburban resale customers owed the Water Department approximately $10 million under the Water Rate Agreement.

As of June 30, 2006, the Water Department had outstanding commitments with third parties of $84.6 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2000-2001. At June 30, 2006, the outstanding estimated liability is $8 million.

(d) Hetch Hetchy Water and Power

Hetch Hetchy Water and Power (Hetch Hetchy) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, San Francisco International Airport, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2006 include $58.3 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

As of June 30, 2006, Hetch Hetchy had outstanding commitments with third parties of $17 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2006, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2005-2006, Hetch Hetchy purchased $17.7 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2005-2006, power sales to the Districts totaled 1,002,916 MWhrs or $25.6 million.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $7.6 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $7.6 million. As of June 30, 2006, the City has requested and received a total of $6.3 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized $4.1 million of revenue from the Fund as of June 30, 2006.

(e) Municipal Transportation Agency

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of $1 million interagency accounts payables and receivables.

	MUNI	DPT	Parking Garages	Total
Assets				
Current assets	$ 192,405	$ 29,317	$ 3,214	$ 224,936
Noncurrent assets	1,815,367	37,001	99,129	1,951,497
Total assets	2,007,772	66,318	102,343	2,176,433
Liabilities				
Current liabilities	95,819	16,688	23,390	135,897
Liabilities payable from restricted assets	896	-	-	896
Noncurrent liabilities	149,761	54,713	33,464	237,938
Total liabilities	246,476	71,401	56,854	374,731
Net assets				
Invested in capital assets, net of related debt	1,782,880	(8,257)	(49)	1,774,574
Restricted net assets	31,590	3,456	36,882	71,928
Unrestricted net assets (deficit)	(53,174)	(282)	8,656	(44,800)
Total net assets (deficit)	$ 1,761,296	$ (5,083)	$ 45,489	$ 1,801,702

	MUNI	DPT	Parking Garages	Total
Operating revenues	$ 141,135	$ 29,900	$ 39,657	$ 210,692
Operating expenses	581,100	74,915	35,085	691,100
Net operating income (loss)	(439,965)	(45,015)	4,572	(480,408)
Nonoperating income (loss)	249,815	28,544	(1,221)	275,138
Capital contributions	58,399	-	-	58,399
Transfers in	172,537	38,585	-	211,122
Transfers out	-	(11,272)	-	(11,272)
Change in net assets	40,786	8,842	3,351	52,979
Net assets (deficit) at beginning of year	1,720,510	(13,925)	42,138	1,748,723
Net assets (deficit) at end of year	$ 1,761,296	$ (5,083)	$ 45,489	$ 1,801,702

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $161 million ($118 million for MUNI and $38.6 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2006, MUNI had approved capital grants with unused balances amounting to $312 million. Capital grants receivable as of June 30, 2006 totaled $40 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2006, MUNI had various operating grants receivable of $37 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2006, the SFCTA approved $48 million in new capital grants and $15 million in new operating grants for MUNI. During the same period, MUNI received total payments of $46 million for capital grants and $10 million in operating grants from the Authority. As of June 30, 2006, MUNI had $17 million due from the SFCTA for capital grants and $8 million due from the SFCTA for operating grants reported in due from other funds.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately $150 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $9 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.6 million.

Given that the proposed Metro East light Rail Vehicle Maintenance and Operating Facility (Metro East) is an integral part of the Third Street Light Rail Project and is vital for relieving overcrowded conditions at MUNI's existing light rail facility, MUNI identified a 17-acre site of the Western Pacific Railroad under the jurisdiction of the Port of San Francisco (Port) as the best location for the Metro East Facility.

In March 2001, MUNI and the Port entered into a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. The MOU also required MUNI to pay the Port an additional $4 million to construct the Illinois Street Bridge over Islais Creek. Construction of this bridge will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. In the event the Port fails to expend the money toward construction of the bridge within three years after the effective date of the MOU, the Port shall return the $4 million to MUNI. Any such return of funds shall have no effect on the rights granted to MUNI as specified in the MOU. The Port started construction of the Illinois Street Bridge in May 2005 with substantial completion scheduled by the end of July 2006. The entire $4 million fund has been expended as of the previous year.

Leveraged Lease-Leaseback with BREDA Vehicles

Tranche 1

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2006.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2001-2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million for fiscal year 2005-2006.

As of June 30, 2006, the outstanding payments to be made on the sublease through 2027 are $284.2 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency's Board of Directors and the City's Board of Supervisors, MUNI entered into a second leveraged lease-leaseback transaction over 21 BREDA light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately $67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such

that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2005-2006 amounted to $168 thousand.

As of June 30, 2006, the outstanding payments to be made on the sublease through 2029 are $57.6 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2006 follows (in thousands), including $1 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 12,311	$ 16,384	$ 2,646	$ 5,079	$ 3,237	$ 39,657
Depreciation	756	1,083	1,072	364	130	3,405
Net Operating income	757	1,111	(775)	3,403	76	4,572
Interest and other nonoperating revenues (expenses)	(249)	(882)	-	(119)	29	(1,221)
Change in net assets	508	229	(775)	3,284	105	3,351
Capital assets, additions	-	-	-	-	-	-
Capital assets, deletions	(50)	(1,006)	(1,055)	2,469	(58)	300
Net working capital (deficit)	(8,101)	(11,146)	189	(2,072)	955	(20,175)
Total assets	29,696	50,841	2,946	15,492	3,368	102,343
Total liabilities	19,169	29,926	492	6,753	514	56,854
Net assets	10,527	20,915	2,454	8,739	2,854	45,489
Total debt outstanding	$ 10,968	$ 18,774	$ 203	$ 4,966	$ -	$ 34,911

(f) Laguna Honda Hospital

General Fund Subsidy

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the fiscal year ended June 30, 2006, the subsidy for LHH was approximately $40 million.

Third Party Payor Agreements

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. During the fiscal year ended June 30, 2006, Medicare and Medi-Cal charges for services amounted to approximately $6 million and $112 million, respectively. As of June 30, 2006, LHH had net patient receivables from Medicare of $22 million and net patient receivables from Medi-Cal of $20 million.

During fiscal year ended June 30, 2006, LHH received approximately $13 million in payments as a result of matching federal funds to local funds, which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

Replacement Project

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for some construction of the Replacement Project, as well as to offset the cost to property owners of repaying the bonds. As of June 30, 2006, General Obligation Bonds in the amount of $299 million have been sold to fund the Replacement Project.

As of June 30, 2006, LHH has entered into various purchase contracts totaling approximately $8.6 million that are related to future construction for the Replacement Project.

Environmental Remediation

LHH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from approximately $0.8 million to $2.5 million. LHH and the San Francisco Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

(g) San Francisco General Hospital Medical Center

General Fund Subsidy

San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2006, the subsidy for SFGH was $91 million.

Third Party Payor Agreements

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-cal Hospital/Uninsured Care Demonstration Project and Short-Doyle mental health programs.

During the year ended June 30, 2006, Medicare and Medi-Cal revenues accounted for $68 million and $84 million of net patient service revenue, respectively. As of June 30, 2006, SFGH had net patient receivables from Medicare of $8.7 million and net patient receivables from Medi-Cal of $19 million.

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is a new system for paying selected hospitals for hospital care provided to Medi-cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services last year, and covers the period from July 1, 2005 to June 30, 2010. Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool. The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated $96.5 million for the fiscal year ended June 30, 2006.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle Program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2006, reimbursement under the Short-Doyle Program amounted to approximately $5.8 million and is included in other operating revenue.

Charity Care

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $216 million and estimated costs and expenses to provide charity care were $107 million in fiscal year 2005-2006.

Other Non-Operating Revenues

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $58.7 million as other operating revenue for the year ended June 30, 2006, for realignment funding.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2006, amounted to $1.8 million and is included in other operating revenue.

Contract with the University of California San Francisco

The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2006, was approximately $84.2 million.

SFGH Rebuild

In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department of Public Health to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In October 2005, the San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Portrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. More detailed design, engineering and geotechnical surveys are ongoing.

(h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

Wastewater's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

As of June 30, 2006, Wastewater had outstanding commitments with third parties for capital projects and for materials and services totaling $39.1 million.

(i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

(12) SAN FRANCISCO REDEVELOPMENT AGENCY

The San Francisco Redevelopment Agency (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment areas are now underway. In addition, the Agency has completed a feasibility study on the Mid Market Survey Area and the redevelopment plan has been submitted to the Board of Supervisors for review. A feasibility study has just started on Visitation Valley Survey Area designated by the Board of Supervisors.

The Agency acts as the lead agency for the City in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. In June 2005, the Board of Supervisors approved ordinance to adopt the Transbay project area as a new redevelopment area which consists of 40 acres and is located south of the San Francisco financial district. The project area is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. The future development of a new transit terminal and a concept plan which includes high-density, transit-oriented residential development are the highlights of this project.

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $65.8 million.

The Public Initiatives Development Corporation (PIDC) was formed in May 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XL Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2006, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

In July 2005, the Authority issued $20.4 million in Tax Allocation Refunding Revenue Bonds Series 2005 A (2005 Series A Refunding Bonds); $8.1 million in Taxable Tax Allocation Refunding Revenue Bonds 2005 Series B (2005 Series B Refunding Bonds); and $43.9 in Taxable Tax Allocation Revenue Bonds Series 2005 C (2005 Series C Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The net proceeds of the 2005 Series A Refunding Bonds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1998 A Bonds (1998 Series A Bonds), in the amount of $16.7

million; and a portion of the Tax Allocation Revenue Bonds Series 1998 C Bonds (1998 Series C Bonds), in the amount of $3.4 million.

The net proceeds of $20.8 million (including original issue discount of $15.7 thousand, and after depositing $1.7 million in a reserve fund and $26 thousand in an interest fund; and payment of $0.4 million in underwriting fees, and issuance costs) from the 2005 Series A Refunding Bonds, together with certain other moneys of the Agency were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. Defeased 1998 Series A Bonds in the amount of $4.1 million remain outstanding as of June 30, 2006.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $0.8 million, the Agency in effect reduced its aggregate debt service payments by approximately $2.7 million over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $1.3 million. The 2005 Series A Refunding Bonds mature through August 1, 2025 with interest rates ranging from 3.25% to 4.2%.

The net proceeds of the 2005 Series B Refunding Bonds were used to refund all the outstanding bonds of the Tax Allocation Revenue Bonds Series 1998 B Bonds (1998 Series B Bonds), in the amount of $3.8 million and the Taxable Tax Allocation Revenue Bonds Series 2000 B Bonds (2000 Series B Bonds), in the amount of $5 million.

The net proceeds of $9.3 million (including original issue discount of $52.4 thousand, and after depositing $39.1 thousand in an interest fund and payment of $0.2 million in underwriting fees and issuances costs) from the 2005 Series B Bonds, together with certain other moneys of the Agency were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. As a result, the refunded bonds described above are considered defeased and the liability for the refunded bonds has been removed from the accompanying statement of net assets. The defeased 2005 Series B Bonds remain outstanding as of June 30, 2006.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $0.6 million, the Agency in effect reduced its aggregate debt service payment by approximately $0.6 million over the next 10 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $0.8 million. The 2000 Series B Refunding Bonds mature through August 2015 with interest rates ranging from 4% to 4.5%.

The net proceeds of $42.6 million (including original issue discount of $0.4 million, and after depositing $10.6 thousand in an interest fund and payment of $1 million in underwriting fees and issuance costs) from the 2005 Series C Bonds will be used to finance the construction, rehabilitation, and preservation of low-income housing and for general redevelopment purposes. The 2005 Series C Bonds mature through August 2035 with interest rates ranging from 4.1% to 5.2%.

In July 2005, the Authority issued $16.2 million in Tax Allocation Revenue Bonds 2005 Series D (2005 Series D Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The net proceeds of $15 million (including original issue premium of $0.1 million, and after depositing $1 million in a reserve fund and $8.1 thousand in an interest fund; and payment of $0.3 million in underwriting fees, and issuance costs) from the 2005 Series D Bonds will be used to finance public infrastructure improvements and other redevelopment activities in the Mission Bay North Project Area. These bonds mature through August 2035 with interest rates ranging from 3.85% to 5%.

In order to facilitate construction and rehabilitation in the City, various construction loan notes, promissory notes, community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $664 million as of June 30, 2006 have been issued by the Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Low and Moderate Income Housing Fund to account for this commitment and has reserved $371 million for such expenditures since its inception. The Agency has expended $278 million for low- and moderate-income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $32.9 million as of June 30, 2006.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2005-2006, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2002-2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2006, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 15,733
	Laguna Honda Hospital	15,126
		30,859
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,960
		3,960
San Francisco Water Department	Municipal Transportation Agency	145
		145
Hetch Hetchy Water and Power	General Fund	821
	Nonmajor Governmental Funds	12,496
	Municipal Transportation Agency	102
	General Hospital Medical Center	2,294
		15,713
Municipal Transportation Agency	Nonmajor Governmental Funds	29,775
		29,775
Total		$ 80,452

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component Unit - San Francisco Redevelopment Agency	$ 4,806

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Transfers In (in thousands):

Transfers Out:	Funds						
Funds	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Laguna Honda Hospital	Total
General Fund	$ -	$ 124,053	$ 535	$ 161,803	$ 93,803	$ 39,892	$ 420,086
Nonmajor governmental funds	9,919	26,707	101	48,777	-	49,565	135,069
San Francisco International Airport	21,513	-	-	-	-	-	21,513
San Francisco Water Department	-	60	-	542	-	-	602
Municipal Transportation Agency	-	11,272	-	-	-	-	11,272
San Francisco General Hospital Medical Center	30,949	-	-	-	-	1,303	32,252
Laguna Honda Hospital	50	-	-	-	-	-	50
Total transfers out	$ 62,431	$ 162,092	$ 636	$ 211,122	$ 93,803	$ 90,760	$ 620,844

The $420.1 million General Fund transfer out includes a total of $295.5 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $124.1 million from the General Fund to the nonmajor governmental funds are to provide support to various City programs such as the Public Protection, Public Library, and the Children and Families Fund, as well as to provide resources for the payments of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of $30.9 million from San Francisco General Hospital Medical Center for the SB 855 matching program reimbursement (note 11(g)) and $21.5 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). Of the $48.8 million transferred from nonmajor governmental funds to the Municipal Transportation Agency, $47.7 million is for capital and operating transfers from San Francisco Transportation Authority. The $49.6 million transferred from nonmajor governmental funds to Laguna Honda Hospital is for capital transfers funded by the Laguna Honda Hospital General Obligation Bonds in the City Facilities Improvement Fund.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

(b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years		
2007	$	26,545
2008		23,200
2009		15,013
2010		13,551
2011		9,521
2012-2016		12,779
2017-2021		1,578
Total	$	102,187

Operating lease expense incurred for fiscal year 2005-2006 was approximately $27.7 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	San Francisco General Hospital Medical Center (SFGH)	Total Business-type Activities
2007	$ 5,574	$ 3,013	$ 5,310	$ 7,070	$ 20,967
2008	5,639	3,013	5,152	3,496	17,300
2009	4,559	3,013	5,647	2,797	16,016
2010	79	3,013	5,377	2,504	10,973
2011	75	3,013	837	1,182	5,107
2012-2016	-	14,905	4,417	-	19,322
2017-2021	-	14,269	4,867	-	19,136
2022-2026	-	14,269	5,349	-	19,618
2027-2031	-	14,269	5,992	-	20,261
2032-2036	-	14,269	-	-	14,269
2037-2041	-	14,269	-	-	14,269
2042-2046	-	14,269	-	-	14,269
2047-2051	-	8,800	-	-	8,800
Total	$ 15,926	$ 124,384	$ 42,948	$ 17,049	$ 200,307

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2005-2006 was $4.4 million, $2 6 million, $5.8 million, and $4.5 million, respectively.

Component Unit – San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (The Agency) has noncancellable operating leases for its office sites, which require the following minimum annual payments (in thousands):

Fiscal Years		
2007	$	1,796
2008		1,797
2009		1,775
2010		1,775
2011		1,775
2012-2016		8,876
2017-2021		5,456
2022-2026		4,119
2027-2031		4,119
2032-2036		4,119
2037-2041		4,119
2042-2046		4,119
2047-2050		3,338
Total	$	47,193

Rent payments totaling $2.1 million are included in the Agency's financial statements for the year ended June 30, 2006.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years		
2007	$	1,685
2008		1,490
2009		1,431
2010		1,219
2011		818
2012-2016		2,106
2017-2021		1,061
2022-2026		270
Total	$	10,080

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2007	$ 68,621	$ 27,083	$ 1,991	$ 3,388	$ 869	$ 101,952
2008	65,033	25,088	2,033	3,096	497	95,747
2009	51,823	22,999	2,077	2,961	374	80,234
2010	37,718	20,244	2,123	2,361	405	62,851
2011	19,607	17,601	2,168	1,783	361	41,520
2012-2016	7,900	79,274	2,214	3,460	944	93,792
2017-2021	-	67,271	-	-	-	67,271
2022-2026	-	56,066	-	-	-	56,066
2027-2031	-	49,353	-	-	-	49,353
2032-2036	-	46,363	-	-	-	46,363
2037-2041	-	32,373	-	-	-	32,373
2042-2046	-	22,749	-	-	-	22,749
2047-2051	-	17,158	-	-	-	17,158
2052-2056	-	8,400	-	-	-	8,400
2057-2061	-	7,023	-	-	-	7,023
2062-2066	-	7,023	-	-	-	7,023
2067-2071	-	1,094	-	-	-	1,094
Total	$ 250,702	$ 507,162	$ 12,608	$ 17,049	$ 3,450	$ 790,969

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees were approximately $10.3 million in fiscal year 2005-2006.

Component Unit – San Francisco Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition and Hunters Point areas. The minimum annual payments are as follows (in thousands):

Fiscal Years	
2007	$ 4,517
2008	4,548
2009	4,582
2010	4,634
2011	4,659
2012-2016	22,073
2017-2021	22,190
2022-2026	21,405
2027-2031	23,018
2032-2036	23,410
2037-2041	20,520
2042-2046	21,818
2047-2051	3,909
2052-2056	475
2057-2061	410
2062-2066	400
2067-2071	272
2072-2076	238
2077-2081	150
2082-2086	150
2087-2091	150
2092-2096	150
2097-2101	38
Total	$ 183,717

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $18 million per year through July 1, 2024. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. Together with financing from the City through appropriation of a portion of the hotel tax and through the issuance of lease revenue bonds by the Finance Corporation, the total cost of approximately $371.4 million was included in the City's asset class of facilities and improvements.

The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows (in thousands):

Fiscal Years	Moscone Convention Center	Other	Total
2007	$ 17,874	$ 128	$ 18,002
2008	18,571	63	18,634
2009	18,640	-	18,640
2010	18,717	-	18,717
2011	18,794	-	18,794
2012-2016	94,772	-	94,772
2017-2021	63,638	-	63,638
2022-2025	13,071	-	13,071
Total minimum lease payments	264,077	191	264,268
Less amounts representing interest	(73,981)	(8)	(73,989)
Present value of maximum lease payments	$ 190,096	$ 183	$ 190,279

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $842 million at June 30, 2006.

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), which was formed in 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2006, the City contributed approximately $6.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

(16) RISK MANAGEMENT

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Municipal Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of $20 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Redevelopment Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

Estimated Claims Payable

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2006 has been actuarially determined and includes an estimate of incurred but not reported losses.

Changes in the reported estimated claims payable since June 30, 2004, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2004-2005	$ 127,436	$ 63,684	$ (38,865)	$ 152,255
2005-2006	152,255	38,053	(43,048)	147,260

Breakdown of the estimated claims payable at June 30, 2006 is as follows (in thousands):

Governmental Activities:	
Current portion of estimated claims payables	$ 23,811
Long-term portion of estimated claims payable	45,666
Business-type activities:	
Current portion of estimated claims payables	24,629
Long-term portion of estimated claims payable	53,154
Total	$ 147,260

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police and fire lawsuit has been resolved in favor of the Retirement System during the year ended June 30, 2006. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending both of these class action lawsuits in the trial court. The VPOA lawsuit is on appeal. The potential loss to the Retirement System, should there be a successful appeal, is estimated to be less than $100 million as of June 30, 2006.

The Retirement System is involved in two securities fraud cases. The first lawsuit is against Enron Corporation, its officers and its accountants. In the second case, the Retirement System joined a coalition of government pension funds in a securities fraud suit against various investment banks for losses relating to WorldCom bonds. As these cases are in the preliminary stage, it is premature to determine the amount recovery for the Retirement System in these matters.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2006 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2006 was $364.1 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2004, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2004-2005	$ 397,126	$ 87,372	$ (93,070)	$ 391,428
2005-2006	391,428	44,863	(72,156)	364,135

Breakdown of the accrued workers' compensation liability at June 30, 2006 is as follows (in thousands):

Governmental Activities:	
Current portion of accrued workers' compensation liability	$ 41,803
Long-term portion of accrued workers' compensation liability	160,678
Business-type activities:	
Current portion of accrued workers' compensation liability	35,466
Long-term portion of accrued worker's compensation liability	126,188
Total	$ 364,135

(17) SUBSEQUENT EVENTS

Long-term Debt

In July 2006, the San Francisco Water Department issued 2006 Water Revenue Refunding Series C Bonds in the amount of $48.7 million. The purpose of the bonds is to refund the remaining portion of the 1996 Series A Water Revenue Refunding Bond. The bonds were insured by a municipal bond insurance company and carried Aaa and AAA ratings from Moody's and Standard & Poor's, respectively. The Revenue Bonds include serial bonds with interest rates varying from 4% to 5%. The current interest rate serial bonds mature through November 1, 2026.

In August 2006, the San Francisco Redevelopment Agency issued Taxable Tax Allocation Revenue Bonds Series A (2006 Series A Bonds) and Tax Allocation Revenue Bonds Series B (2006 Series B Bonds) in the amount of $50.7 million and $34.5 million, respectively. The proceeds from the 2006 Series A Bonds will be used to fund the construction of affordable housing, renovate a pier in the Rincon Point-South Beach project area, and provide financial assistance to a museum located in the Yerba Buena Center project area. The proceeds from the 2006 Series B Bonds will be used to fund the construction of streets, sidewalks, sewer/sewage facilities and open space in the Mission Bay North project areas.

The Agency loaned Community Housing Partnership (CHP), a California non-profit public benefit corporation, a construction bridge loan of $4.1 million for the rehabilitation of the Senator housing project. The loan funds were disbursed from November 2004 through February 2006. The loan was considered uncollectible as of June 30, 2006 because the permanent financing was dependent on receiving other sources of funding. On September 18, 2006, the principal amount of $4.1 million was paid when CHP received its permanent financing. The related accrued interest of $0.4 million was added to an existing permanent loan. As of June 30, 2006, the amount outstanding for the permanent loan to CHP is $1.3 million.

In March 2000, the voters of the City adopted Proposition C, amending the Charter by extending the term of the Open Space Fund and authorizing the issuance of revenue bonds for such purpose. A set aside of 2.5% of the City's general 1% property tax is required by the Charter to be deposited in the Open Space Fund. In November 2006, the Corporation issued Lease Revenue Bonds Series 2006 (Open Space Fund-Various Park Projects) in the amount of $27 million (the "Series 2006 Bonds"). The Series 2006 Bonds will finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.5%. The bonds begin to mature in July 2007 through July 2027.

In September 2006, the $5.4 million Fillmore Renaissance Center Project variable rate note with the Housing and Urban Department (HUD) was converted to a fixed rate financing and the amount of the loan was increased to $5.5 million. The new loan carries interest rates ranging from 4.9% to 5.74% and matures from August 2007 through August 2025.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

In October 2006, the City issued the General Obligation Refunding Bonds, Series 2006 R-1 (Series 2006-R1 Bonds) in the amount of $90.7 million. The proceeds of the bonds were used to refund all or a portion of certain outstanding general obligations bonds of the City and to pay for certain costs related to the issuance of the bonds. The Series 2006-R1 Bonds were issued with interest rates ranging from 4% to 5% and mature from June 2007 through June 2020. The City in effect reduced its aggregate debt service payment by $7 million and obtained a net present value savings of $5.4 million.

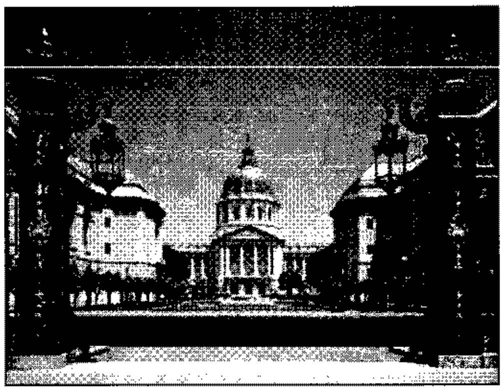
In December 2006, the City issued the General Obligation Refunding Bonds, Series 2006-R2 (Series 2006-R2 Bonds) in the amount of $66.6 million. The proceeds of the bonds were used to refund all or a portion of certain outstanding general obligation bonds of the City and to pay for certain costs related to the issuance of the bonds. The Series 2006-R2 Bonds were issued with interest rates ranging from 3.5% to 4.15% and mature from June 2007 through June 2019. The City in effect reduced its aggregate debt service payment by $9.4 million and obtained a net present value savings of $4.7 million.

Elections

On November 7, 2006, the San Francisco voters approved the following proposition that will have a fiscal impact on the City:

> **Proposition F – Sick Leave Ordinance** This ordinance establishes minimum requirements for employers, as defined by state law, to provide paid sick leave to their employees. This includes full-time, part-time, and temporary employees working in San Francisco. Employees will earn paid sick leave at the rate of 1 hour for every 30 hours worked. New employees will begin to earn sick leave after 3 months on the job. Employees who work in businesses with fewer than 10 employees could accumulate up to 40 hours of paid sick leave. All other employees could accumulate up to 72 hours of paid sick leave.
>
> The increase in the cost of government will be approximately $9.3 million annually for sick leave to groups of City workers who do not earn paid time off and for administration of the ordinance. This estimate does not address the potential impacts of a paid sick leave requirement on employers or the local economy.

Required Supplementary Information



CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information - Historical Pension Data (Unaudited)

Employees' Retirement System - Analysis of Funding Progress

Historical trend information is presented.

Schedule of funding progress for the Employees' Retirement System (In thousands):

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over-funded AAL (OAAL)	Funded Ratio	Covered Payroll	OAAL as a % of Covered Payroll
7/1/2003	$11,173,636	$10,249,896	$923,740	109.0%	$2,130,071	43.4%
7/1/2004	11,299,997	10,885,455	414,542	103.8%	2,155,252	19.2%
7/1/2005	12,659,698	11,765,737	893,961	107.6%	2,052,862	43.5%

California Public Employees' Retirement System - Analysis of Funding Progress

Historical trend information is presented.

Schedule of funding progress for PERS (In thousands):

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (OAAL)	Funded Ratio	Covered Payroll	OAAL as a % of Covered Payroll
06/30/01:						
Misc.	$ 32,773	$ 22,031	$ 10,742	148.8%	$ 1,087	988.2%
Safety	445,005	358,626	86,379	124.1%	63,581	135.9%
Total	$ 477,778	$ 380,657	$ 97,121	125.5%	$ 64,668	150.2%
06/30/02:						
Misc.	$ 31,897	$ 21,889	$ 10,008	145.7%	$ 1,150	870.3%
Safety	430,019	417,394	12,625	103.0%	71,716	17.6%
Total	$ 461,916	$ 439,283	$ 22,633	105.2%	$ 72,866	31.1%
06/30/03: [1]						
Safety	$ 442,850	$ 458,152	$ (15,302)	96.7%	$ 79,093	-19.3%

NOTES:

[1] There is a new pooled report format for the Miscellaneous First Tier Plan of the City and County of San Francisco for Miscellaneous 2% at 55 Risk Pool. Since this plan had less than 199 active members as of June 30, 2003, PERS changed the plan from an agent multiple employer plan to a cost-sharing multiple-employer plan. As such, funding status is no longer required to be disclosed. Mandated pooling is effective with this valuation which determined the contribution rate for fiscal year 2005-2006.

Combining Financial Statements and Schedules

photo by: SF Convention & Visitors Bureau

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Building Inspection Fund -- Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings.

Children and Families Fund -- Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

Community/Neighborhood Development Fund -- Accounts for various grants primarily from the Department of Housing and Urban Development to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

Community Health Services Fund -- Accounts for state and federal grants used to promote public health and mental health programs.

Convention Facilities Fund -- Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

Court's Fund -- Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

Culture and Recreation Fund -- Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

Environmental Protection Fund -- Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

(Continued)

SPECIAL REVENUE FUNDS *(Continued)*

Gasoline Tax Fund -- Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

General Services Fund -- Accounts for the activities of several non-grant activities, generally established by administrative action.

Gift Fund -- Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

Golf Fund -- Accounts for the revenue and expenditures related to the City's six golf courses.

Human Welfare Fund -- Accounts for state and federal grants used to promote education and discourage domestic violence.

Open Space and Park Fund -- Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

Public Library Fund -- Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

Public Protection Fund -- Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

Public Works, Transportation and Commerce Fund -- Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

Real Property Fund -- Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

(Continued)

SPECIAL REVENUE FUNDS *(Continued)*

San Francisco County Transportation Authority Fund -- Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

Senior Citizens' Program Fund -- Accounts for revenues from the allocation of one-fifth of the parking tax receipts and for grants from the state to be used to promote the well-being of San Francisco senior citizens.

War Memorial Fund -- Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.

General Obligation Bond Fund -- Accounts for property taxes and other revenues for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

Certificates of Participation (COP) Funds -- Accounts for transfers of Base Rental payments from the various COP Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

Other Bond Funds -- Accounts for funds and debt service of two nonprofit corporations (Social Services Corporation and San Francisco Stadium, Inc.) and business tax settlement bonds.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

City Facilities Improvement Fund -- Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

(Continued)

CAPITAL PROJECTS FUNDS *(Continued)*

Earthquake Safety Improvement Fund -- Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

Fire Protection Systems Improvement Fund -- Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

Moscone Convention Center Fund -- Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

Public Library Improvement Fund -- Accounts for bond proceeds and private gifts which are designated for construction of public library facilities including a new main library. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

Recreation and Park Projects Fund -- Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

Street Improvement Fund -- Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Bequest Fund -- Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.

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CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund — Bequest Fund	Total Nonmajor Governmental Funds
ASSETS					
Deposits and investments with City Treasury	$ 481,257	$ 56,453	$ 516,854	$ 6,327	$ 1,060,891
Deposits and investments outside City Treasury	6,916	9,325	3,992	54	22,287
Receivables:					
Property taxes and penalties	3,361	5,068	-	-	8,429
Other local taxes	13,952	-	-	-	13,952
Federal and state grants and subventions	74,428	-	15,815	-	90,243
Charges for services	4,988	-	89	-	5,077
Interest and other	5,854	771	2,376	34	9,035
Due from other funds	533	-	3,427	-	3,960
Due from component unit	-	-	958	-	958
Loans receivable (net of allowance for uncollectibles)	74,041	-			74,041
Deferred charges and other assets	1,693	-	36	-	1,729
Total assets	$ 669,023	$ 71,617	$ 543,547	$ 6,415	$ 1,290,602
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 48,230	$ 6	$ 39,910	$ 5	$ 88,151
Accrued payroll	9,521	-	1,449	12	10,982
Deferred tax, grant and subvention revenues	21,089	4,632	4,721	-	30,442
Due to other funds	44,002	-	17,962	-	61,964
Deferred credits and other liabilities	82,356	10,662	1,737	-	94,755
Bonds, loans, capital leases and other payables	150,000	-	-	-	150,000
Total liabilities	355,198	15,300	65,779	17	436,294
Fund balances:					
Reserved for assets not available for appropriation	19,154	-	994	54	20,202
Reserved for debt service	1,112	56,317	-	-	57,429
Reserved for encumbrances	78,038	-	345,042	40	423,120
Reserved for appropriation carryforward	172,274	-	118,070	3,996	294,340
Reserved for subsequent years' budgets	8,004	-	-	-	8,004
Unreserved (deficit)	35,243	-	13,662	2,308	51,213
Total fund balances	313,825	56,317	477,768	6,398	854,308
Total liabilities and fund balances	$ 669,023	$ 71,617	$ 543,547	$ 6,415	$ 1,290,602

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

(In Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund — Bequest Fund	Total Nonmajor Governmental Funds
Revenues:					
Property taxes	$ 89,867	$ 134,981	$ -	$ -	$ 224,848
Business taxes	746	-	-	-	746
Other local taxes	115,163	-	-	-	115,163
Licenses, permits and franchises	6,786	-	51	-	6,837
Fines, forfeitures and penalties	4,254	-	-	-	4,254
Interest and investment income	22,120	3,881	21,301	248	47,550
Rents and concessions	30,089	802	666	862	32,419
Intergovernmental:					
Federal	157,953	-	10,584	-	168,537
State	65,665	821	9,316	-	75,802
Other	2,752	-	20,748	-	23,500
Charges for services	137,291	-	270	-	137,561
Other	44,170	-	1,854	504	46,528
Total revenues	676,856	140,485	64,790	1,614	883,745
Expenditures:					
Current:					
Public protection	47,928	-	-	-	47,928
Public works, transportation and commerce	228,221	-	-	-	228,221
Human welfare and neighborhood development	172,582	-	-	4	172,586
Community health	94,515	-	-	-	94,515
Culture and recreation	175,533	-	-	930	176,463
General administration and finance	14,628	-	-	-	14,628
General City responsibilities	698	-	-	-	698
Debt service:					
Principal retirement	10	86,960	-	-	86,970
Interest and fiscal charges	1	75,128	846	-	75,975
Bond issuance costs	-	-	1,933	-	1,933
Capital outlay	-	-	153,493	-	153,493
Total expenditures	734,116	162,088	156,272	934	1,053,410
Excess (deficiency) of revenues over (under) expenditures	(57,260)	(21,603)	(91,482)	680	(169,665)
Other financing sources (uses):					
Transfers in	106,746	33,834	21,512	-	162,092
Transfers out	(75,809)	(523)	(58,697)	(40)	(135,069)
Issuance of bonds and loans					
Face value of bonds issued	-	-	219,120	-	219,120
Face value of loans issued	5,359	-	-	-	5,359
Premium on issuance of bonds	-	-	10,233		10,233
Other financing sources-capital leases	1,662	-	-	-	1,662
Total other financing sources (uses)	37,958	33,311	192,168	(40)	263,397
Net change in fund balances	(19,302)	11,708	100,686	640	93,732
Fund balances at beginning of year	333,127	44,609	377,082	5,758	760,576
Fund balances at end of year	$ 313,825	$ 56,317	$ 477,768	$ 6,398	$ 854,308

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue

June 30, 2006

(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund	Cultural and Recreation Fund	Environmental Protection Fund
ASSETS								
Deposits and investments with City Treasury	$ 29,385	$62,471	$ 81,058	$ 10,450	$ 14,437	$ 3,804	$ -	$ 1,040
Deposits and investments outside City Treasury	-	-	2,335	2	-	-	1	-
Receivables:								
Property taxes and penalties	-	1,292	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Federal and state grants and subventions	-	4,379	7,784	18,588	-	-	6,242	365
Charges for services	-	-	-	8	183	3	489	-
Interest and other	174	350	335	54	-	22	18	2
Due from other funds	-	-	-	-	-	-	-	109
Loans receivable (net of allowance for uncollectibles)	258	-	73,783	-	-	-	-	-
Deferred charges and other assets	-	85	446	14	-	-	-	-
Total assets	$ 29,817	$68,577	$ 165,741	$ 29,116	$ 14,620	$ 3,829	$ 6,750	$ 1,516
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 601	$20,585	$ 2,640	$ 8,463	$ 881	$ 305	$ 859	$ 140
Accrued payroll	1,090	619	403	1,125	16	6	111	25
Deferred tax, grant and subvention revenues	-	1,291	175	2,222	-	-	5,641	1,358
Due to other funds	-	614	-	-	-	-	596	-
Deferred credits and other liabilities	7,435	2,619	59,033	3,944	2,174	-	-	-
Bonds, loans, capital leases and other payables	-	-	-	-	-	-	-	-
Total liabilities	9,126	25,728	62,251	15,754	3,071	311	7,207	1,523
Fund balances:								
Reserved for assets not available for appropriation	-	85	17,085	14	1,011	-	-	-
Reserved for debt service	-	-	-	-	-	-	-	
Reserved for encumbrances	1,964	10,408	17,953	14,371	558	225	209	271
Reserved for appropriation carryforward	1,016	23,633	61,399	6,637	4,321	767	2,027	237
Reserved for subsequent years' budgets	-	8,000	-	-	-	-	4	-
Unreserved (deficit)	17,691	723	7,053	(7,660)	5,659	2,526	(2,697)	(515)
Total fund balances	20,691	42,849	103,490	13,362	11,549	3,518	(457)	(7)
Total liabilities and fund balances	$ 29,817	$68,577	$ 165,741	$ 29,116	$ 14,620	$ 3,829	$ 6,750	$ 1,516

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue *(Continued)*

June 30, 2006

(In Thousands)

	Gasoline Tax Fund	General Services Fund	Gift Fund	Golf Fund	Human Welfare Fund	Open Space and Park Fund	Public Library Fund
ASSETS							
Deposits and investments with City Treasury	$ -	$ 208	$ 6,463	$ 1,077	$ -	$ 24,231	$25,170
Deposits and investments outside City Treasury	-	8	469	-	-	-	-
Receivables:							
Property taxes and penalties	-	-	-	-	-	1,072	997
Other local taxes	-	-	-	-	-	-	-
Federal and state grants and subventions	1,824	3,792	71	-	4,855	-	-
Charges for services	95	1,874	-	479	-	-	-
Interest and other	1,579	504	18	-	-	144	63
Due from other funds	-	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	-
Deferred charges and other assets	-	-	-	-	-	-	-
Total assets	$ 3,498	$ 6,386	$ 7,021	$ 1,556	$ 4,855	$ 25,447	$26,230
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 106	$ 1,191	$ 463	$ 407	$ 1,049	$ 481	$ 1,623
Accrued payroll	289	248	39	114	3	576	1,806
Deferred tax, grant and subvention revenues	-	3,792	101	-	98	943	943
Due to other funds	440	445	-	-	3,641	-	-
Deferred credits and other liabilities	-	125	-	149	-	2,236	2,197
Bonds, loans, capital leases and other payables	-	-	-	-	-	-	-
Total liabilities	835	5,801	603	670	4,791	4,236	6,569
Fund balances:							
Reserved for assets not available for appropriation	-	-	469	-	-	-	-
Reserved for debt service	-	-	-	-	-	-	-
Reserved for encumbrances	325	327	390	127	471	891	1,086
Reserved for appropriation carryforward	2,497	1,442	5,551	297	180	12,753	4,003
Reserved for subsequent years' budgets	-	-	-	-	-	-	-
Unreserved (deficit)	(159)	(1,184)	8	462	(587)	7,567	14,572
Total fund balances	2,663	585	6,418	886	64	21,211	19,661
Total liabilities and fund balances	$ 3,498	$ 6,386	$ 7,021	$ 1,556	$ 4,855	$ 25,447	$26,230

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Special Revenue *(Continued)*
June 30, 2006
(In Thousands)

	Public Protection Fund	Public Works, Transportation and Commerce Fund	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
ASSETS							
Deposits and investments with City Treasury	$ 2,748	$ 15,719	$ 2,228	$189,811	$ -	$ 10,957	$ 481,257
Deposits and investments outside City Treasury	751	1	223	5,126	-	-	8,916
Receivables:							
Property taxes and penalties	-	-	-	-	-	-	3,361
Other local taxes	205	-	-	13,747	-	-	13,952
Federal and state grants and subventions	25,025	8	-	661	834	-	74,428
Charges for services	-	1,847	10	-	-	-	4,988
Interest and other	114	-	5	2,472	-	-	5,854
Due from other funds	-	424	-	-	-	-	533
Loans receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	74,041
Deferred charges and other assets	3	1,145	-	-	-	-	1,693
Total assets	$28,846	$ 19,144	$ 2,466	$211,817	$ 834	$ 10,957	$ 669,023
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 3,070	$ 2,053	$ 201	$ 2,542	$ 276	$ 294	$ 48,230
Accrued payroll	2,147	470	69	61	3	301	9,521
Deferred tax, grant and subvention revenues	3,995	-	-	530	-	-	21,089
Due to other funds	-	3,975	-	33,736	555	-	44,002
Deferred credits and other liabilities	26	1,197	-	1,221	-	-	82,356
Bonds, loans, capital leases and other payables	-	-	-	150,000	-	-	150,000
Total liabilities	9,238	7,695	270	188,090	834	595	355,198
Fund balances:							
Reserved for assets not available for appropriation	416	-	72	-	-	-	19,154
Reserved for debt service	-	-	-	1,112	-	-	1,112
Reserved for encumbrances	23,582	3,453	90	1,131	-	186	78,038
Reserved for appropriation carryforward	5,835	5,556	3,425	21,484	11	9,201	172,274
Reserved for subsequent years' budgets	-	-	-	-	-	-	8,004
Unreserved (deficit)	(10,227)	2,436	(1,391)	-	(11)	975	35,243
Total fund balances	19,608	11,449	2,196	23,727	-	10,362	313,825
Total liabilities and fund balances	$28,846	$ 19,144	$ 2,466	$211,817	$ 834	$ 10,957	$ 669,023

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue
Year ended June 30, 2006
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund	Cultural and Recreation Fund	Environmental Protection Fund
Revenues:								
Property taxes	$ -	$ 33,664	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	746	-	-	-	-	-
Other local taxes	-	-	-	-	34,743	-	-	-
Licenses, permits and franchises	3,552	-	-	-	-	-	171	-
Fines, forfeitures and penalties	-	-	1,020	1,657	-	27	-	-
Interest and investment income	1,155	1,862	6,181	239	654	166	107	57
Rents and concessions	-	-	-	-	17,613	-	178	-
Intergovernmental:								
Federal	-	10,876	28,766	72,740	-	-	-	47
State	-	13,819	552	14,890	-	98	617	1,562
Other	-	-	-	-	-	-	-	451
Charges for services	36,324	871	3,845	1,951	3,594	3,834	6,592	-
Other	17	5	36,269	234	-	-	403	13
Total revenues	41,048	61,097	77,479	91,711	56,604	4,125	8,068	2,130
Expenditures:								
Current								
Public protection	-	-	-	20	-	840	-	-
Public works, transportation and commerce	39,580	-	641	-	-	1,348	-	-
Human welfare and neighborhood development	-	85,101	55,311	-	835	-	-	1,677
Community health	-	-	-	89,578	-	-	-	-
Culture and recreation	-	-	40	-	62,120	-	7,562	-
General administration and finance	-	-	1,794	-	-	-	-	-
General City responsibilities	-	-	-	-	186	-	-	-
Debt service:								
Principal retirement	-	-	-	-	-	-	10	-
Interest and fiscal charges	-	-	-	-	-	-	1	-
Total expenditures	39,580	85,101	57,786	89,598	63,141	2,188	7,573	1,677
Excess (deficiency) of revenues over (under) expenditures	1,468	(24,004)	19,693	2,113	(6,537)	1,937	495	453
Other financing sources (uses):								
Transfers in	-	26,763	45	-	10,019	-	226	-
Transfers out	(2,843)	-	(2,645)	(85)	(652)	(1,500)	(801)	(841)
Issuance of bonds and loans								
Face value of loans issued	-	-	5,359	-	-	-	-	-
Other financing sources-capital leases	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(2,843)	26,763	2,759	(85)	9,367	(1,500)	(575)	(841)
Net change in fund balances	(1,375)	2,759	22,452	2,028	2,830	437	(80)	(388)
Fund balances at beginning of year	22,066	40,090	81,038	11,334	8,719	3,081	(377)	381
Fund balances at end of year	$ 20,691	$ 42,849	$ 103,490	$ 13,362	$11,549	$3,518	$ (457)	$ (7)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue *(Continued)*
Year ended June 30, 2006
(In Thousands)

	Gasoline Tax Fund	General Services Fund	Gift Fund	Golf Fund	Human Welfare Fund	Open Space and Park Fund	Public Library Fund
Revenues:							
Property taxes	$ -	$ -	$ -	$ -	$ -	$ 28,101	$ 28,102
Business taxes	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-
Licenses, permits and franchises	2	1,255	-	-	214	-	-
Fines, forfeitures and penalties	-	-	-	-	-	-	10
Interest and investment income	66	43	321	14	-	713	319
Rents and concessions	-	640	-	2,603	-	-	39
Intergovernmental:							
Federal	-	-	-	-	13,489	-	14
State	23,336	105	-	-	363	171	639
Other	-	-	-	-	41	-	-
Charges for services	272	1,685	74	6,236	193	-	719
Other	3	-	5,154	-	64	-	116
Total revenues	23,679	3,728	5,549	8,853	14,364	28,985	29,958
Expenditures:							
Current:							
Public protection	-	373	130	-	-	-	-
Public works, transportation and commerce	31,943	886	449	180	-	532	26
Human welfare and neighborhood development	-	-	2,070	-	14,838	-	-
Community health	-	-	1,098	-	-	-	-
Culture and recreation	-	641	842	9,285	-	25,725	59,403
General administration and finance	-	5,670	2,159	-	-	-	-
General City responsibilities	-	466	46	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	31,943	8,036	6,794	9,465	14,838	26,257	59,429
Excess (deficiency) of revenues over (under) expenditures	(8,264)	(4,308)	(1,245)	(612)	(474)	2,728	(29,471)
Other financing sources (uses):							
Transfers in	8,796	457	1,562	1,568	331	935	39,195
Transfers out	(1,051)	(667)	(1,539)	(935)	(16)	(70)	(89)
Issuance of bonds and loans							
Face value of loans issued							
Other financing sources-capital leases	1,325	-	-	-	-	-	-
Total other financing sources (uses)	9,070	(210)	23	633	315	865	39,106
Net change in fund balances	806	(4,518)	(1,222)	21	(159)	3,593	9,635
Fund balances at beginning of year	1,857	5,103	7,640	865	223	17,618	10,026
Fund balances at end of year	$ 2,663	$ 585	$ 6,418	$ 886	$ 64	$ 21,211	$ 19,661

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Special Revenue *(Continued)*
Year ended June 30, 2006
(In Thousands)

	Public Protection Fund	Public Works, Transportation and Commerce Fund	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
Revenues:							
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ 89,867
Business taxes	-	-	-	-	-	-	746
Other local taxes	-	-	-	72,064	-	8,356	115,163
Licenses, permits and franchises	1,592	-	-	-	-	-	6,786
Fines, forfeitures and penalties	1,530	4	-	-	-	6	4,254
Interest and investment income	686	673	43	8,410	19	392	22,120
Rents and concessions	-	158	7,024	-	-	1,834	30,089
Intergovernmental:							
Federal	26,650	1,059	-	-	4,112	-	157,953
State	7,653	118	-	1,382	260	-	65,665
Other	-	2,260	-	-	-	-	2,752
Charges for services	54,103	16,027	714	-	-	257	137,291
Other	87	1,721	14	70	-	-	44,170
Total revenues	92,501	22,020	7,795	81,926	4,391	10,845	676,856
Expenditures:							
Current:							
Public protection	46,515	50	-	-	-	-	47,928
Public works, transportation and commerce	55,591	11,466	20	85,070	-	489	228,221
Human welfare and neighborhood development	66	6,668	17	-	5,999	-	172,582
Community health	3,839	-	-	-	-	-	94,515
Culture and recreation	5	44	-	-	-	9,866	175,533
General administration and finance	58	75	4,872	-	-	-	14,628
General City responsibilities	-	-	-	-	-	-	698
Debt service.							
Principal retirement	-	-	-	-	-	-	10
Interest and fiscal charges	-	-	-	-	-	-	1
Total expenditures	106,074	18,303	4,909	85,070	5,999	10,355	734,116
Excess (deficiency) of revenues over (under) expenditures	(13,573)	3,717	2,886	(3,144)	(1,608)	490	(57,260)
Other financing sources (uses):							
Transfers in	16,714	135	-	-	-	-	106,746
Transfers out	(4,464)	(3,197)	(6,278)	(47,726)	(19)	(391)	(75,809)
Issuance of bonds and loans							
Face value of loans issued	-	-	-	-	-	-	5,359
Other financing sources-capital leases	-	337	-	-	-	-	1,662
Total other financing sources (uses)	12,250	(2,725)	(6,278)	(47,726)	(19)	(391)	37,958
Net change in fund balances	(1,323)	992	(3,392)	(50,870)	(1,627)	99	(19,302)
Fund balances at beginning of year	20,931	10,457	5,588	74,597	1,627	10,253	333,127
Fund balances at end of year	$ 19,608	$ 11,449	$ 2,196	$ 23,727	$ -	$ 10,352	$ 313,825

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis

Year ended June 30, 2006

(In Thousands)

	Building Inspection Fund				Children and Families Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 30,376	$ 30,676	$ 33,664	$ 2,988
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	4,000	4,000	3,552	(448)	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	400	400	1,008	608	758	2,055	1,933	(122)
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	8	8	-	(8)	10,266	11,093	10,876	(217)
State	-	-	-	-	12,877	13,933	13,819	(114)
Other	-	-	-	-	-	-	-	-
Charges for services	33,035	33,035	36,342	3,307	108	1,041	871	(170)
Other revenues	-	-	-	-	-	4	4	-
Total revenues	37,443	37,443	40,902	3,459	54,385	58,802	61,167	2,365
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	41,603	42,168	39,580	2,588	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	83,043	85,884	85,081	803
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	41,603	42,168	39,580	2,588	83,043	85,884	85,081	803
Excess (deficiency) of revenues over (under) expenditures	(4,160)	(4,725)	1,322	6,047	(28,658)	(27,082)	(23,914)	3,168
Other financing sources (uses):								
Transfers in	-	-	-	-	26,082	26,744	26,744	-
Transfers out	(2,365)	(2,665)	(2,665)	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(2,365)	(2,665)	(2,665)	-	26,082	26,744	26,744	-
Net change in fund balances	(6,525)	(7,390)	(1,343)	6,047	(2,576)	(338)	2,830	3,168
Budgetary fund balance (deficit), July 1	6,525	22,059	22,059	-	2,576	40,066	40,066	-
Budgetary fund balance (deficit), June 30	$ -	$ 14,669	$ 20,716	$ 6,047	$ -	$ 39,728	$ 42,896	$ 3,168

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Community/Neighborhood Development Fund				Community Health Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	550	550	746	196	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	1,020	1,020	-	1,761	1,691	1,656	(35)
Interest and investment income	-	5,061	5,648	587	50	60	159	99
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	28,766	28,766	-	72,049	72,740	72,740	-
State	-	652	652	-	14,339	14,890	14,890	-
Other	-	-	-	-	-	-	-	-
Charges for services	3,357	3,547	3,845	298	123	1,917	1,951	34
Other revenues	-	21,927	36,269	14,342	119	234	234	-
Total revenues	3,907	61,523	76,946	15,423	88,441	91,532	91,630	98
Expenditures:								
Public protection	-	-	-	-	-	20	20	-
Public works, transportation and commerce	429	642	642	-	-	-	-	-
Human welfare and neighborhood development	5,485	56,431	55,934	497	-	-	-	-
Community health	-	-	-	-	88,441	89,592	89,592	-
Culture and recreation	555	40	40	-	-	-	-	-
General administration and finance	-	1,794	1,794	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	6,469	58,907	58,410	497	88,441	89,612	89,612	-
Excess (deficiency) of revenues over (under) expenditures	(2,562)	2,616	18,536	15,920	-	1,920	2,018	98
Other financing sources (uses):								
Transfers in	-	11	11	-	-	-	-	-
Transfers out	(121)	(2,036)	(2,036)	-	-	-	-	-
Issuance of loans	-	5,359	5,359	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(121)	3,334	3,334	-	-	-	-	-
Net change in fund balances	(2,683)	5,950	21,870	15,920	-	1,920	2,018	98
Budgetary fund balance (deficit), July 1	2,683	71,998	71,998	-	-	11,334	11,334	-
Budgetary fund balance (deficit), June 30	$ -	$ 77,948	$ 93,868	$ 15,920	$ -	$ 13,254	$ 13,352	$ 98

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Convention Facilities Fund				Court's Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	34,743	34,743	34,743	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	23	23	27	4
Interest and investment income	-	2	2	-	78	78	171	93
Rents and concessions	20,135	20,134	17,613	(2,521)	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	251	98	98	-
Other	-	-	-	-	-	-	-	-
Charges for services	493	493	3,594	3,101	3,720	3,720	3,834	114
Other revenues	-	-	-	-	-	-	-	-
Total revenues	55,371	55,372	55,952	580	4,072	3,919	4,130	211
Expenditures:								
Public protection	-	-	-	-	2,072	787	840	(53)
Public works, transportation and commerce	-	-	-	-	1,000	2,348	1,348	1,000
Human welfare and neighborhood development	600	835	835	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	65,283	65,603	62,120	3,483	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	186	186	-	-	-	-	-
Total expenditures	65,883	66,624	63,141	3,483	3,072	3,135	2,188	947
Excess (deficiency) of revenues over (under) expenditures	(10,512)	(11,252)	(7,189)	4,063	1,000	784	1,942	1,158
Other financing sources (uses):								
Transfers in	10,512	10,019	10,019	-	-	-	-	-
Transfers out	-	-	-	-	-	(1,500)	(1,500)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	10,512	10,019	10,019	-	-	(1,500)	(1,500)	-
Net change in fund balances	-	(1,233)	2,830	4,063	1,000	(716)	442	1,158
Budgetary fund balance (deficit), July 1	-	11,966	11,966	-	-	3,079	3,079	-
Budgetary fund balance (deficit), June 30	$ -	$ 10,733	$ 14,796	$ 4,063	$ 1,000	$ 2,363	$ 3,521	$ 1,158

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Culture and Recreation Fund				Environmental Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	168	168	171	3	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	52	52	110	58	-	6	14	8
Rents and concessions	158	158	178	20	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	-	46	46	-
State	-	617	617	-	1,375	1,562	1,562	-
Other	-	-	-	-	-	451	451	-
Charges for services	6,790	6,859	6,592	(267)	-	-	-	-
Other revenues	661	538	402	(136)	-	260	13	(247)
Total revenues	7,829	8,392	8,070	(322)	1,375	2,325	2,086	(239)
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	85	-	-	-	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	917	1,677	1,677	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	8,003	7,438	7,438	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	8,088	7,438	7,438	-	917	1,677	1,677	-
Excess (deficiency) of revenues over (under) expenditures	(259)	954	632	(322)	458	648	409	(239)
Other financing sources (uses):								
Transfers in	-	102	102	-	-	-	-	-
Transfers out	-	(801)	(801)	-	(458)	(798)	(798)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	(12)	(12)	(12)	-	-	-	-	-
Total other financing sources (uses)	(12)	(711)	(711)	-	(458)	(798)	(798)	-
Net change in fund balances	(271)	243	(79)	(322)	-	(150)	(389)	(239)
Budgetary fund balance (deficit), July 1	288	4,505	4,505	-	-	381	381	-
Budgetary fund balance (deficit), June 30	$ 17	$ 4,748	$ 4,426	$ (322)	$ -	$ 231	$ (8)	$ (239)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Gasoline Tax Fund				General Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	1	1	-	2,168	2,168	1,256	(912)
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	255	255	67	(188)	15	15	44	29
Rents and concessions	700	-		-	-	1,280	640	(640)
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	18,819	24,036	23,337	(699)	-	-	105	105
Other	-	-	-	-	-	-	-	-
Charges for services	518	450	272	(178)	1,595	1,756	1,685	(71)
Other revenues	-	-	3	3	-	-	-	-
Total revenues	20,292	24,742	23,680	(1,062)	3,778	5,219	3,730	(1,489)
Expenditures:								
Public protection	-	-	-	-	354	374	374	-
Public works, transportation and commerce	27,902	32,208	31,438	770	1,612	886	886	-
Human welfare and neighborhood development	-	-	-	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	641	641	-
General administration and finance	-	-	-	-	2,641	5,729	5,670	59
General City responsibilities	-	-	-	-	-	22	22	-
Total expenditures	27,902	32,208	31,438	770	4,607	7,652	7,593	59
Excess (deficiency) of revenues over (under) expenditures	(7,610)	(7,466)	(7,758)	(292)	(829)	(2,433)	(3,863)	(1,430)
Other financing sources (uses):								
Transfers in	7,610	8,796	8,796	-	-	12	12	-
Transfers out	-	(1,051)	(1,051)	-	(667)	(667)	(667)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	7,610	7,745	7,745	-	(667)	(655)	(655)	-
Net change in fund balances	-	279	(13)	(292)	(1,496)	(3,088)	(4,518)	(1,430)
Budgetary fund balance (deficit), July 1	-	2,677	2,677	-	1,496	5,109	5,109	-
Budgetary fund balance (deficit), June 30	$ -	$ 2,956	$ 2,664	$ (292)	$ -	$ 2,021	$ 591	$ (1,430)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Gift Fund				Golf Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	41	172	131	10	10	15	5
Rents and concessions	-	-	-	-	3,015	3,015	2,604	(411)
Intergovernmental:								
Federal	-	-	-	-	-	-	-	-
State	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Charges for services	-	113	74	(39)	7,732	7,732	6,236	(1,496)
Other revenues	1,418	4,591	5,154	463	-	-	-	-
Total revenues	1,418	4,845	5,400	555	10,757	10,757	8,855	(1,902)
Expenditures:								
Public protection	80	130	130	-	-	-	-	-
Public works, transportation and commerce	-	450	450	-	-	180	180	-
Human welfare and neighborhood development	342	2,071	2,071	-	-	-	-	-
Community health	873	1,098	1,098	-	-	-	-	-
Culture and recreation	123	842	842	-	10,333	11,508	9,285	2,223
General administration and finance	-	2,160	2,160	-	-	-	-	-
General City responsibilities	-	45	45	-	-	-	-	-
Total expenditures	1,418	6,796	6,796	-	10,333	11,688	9,465	2,223
Excess (deficiency) of revenues over (under) expenditures	-	(1,951)	(1,396)	555	424	(931)	(610)	321
Other financing sources (uses):								
Transfers in	-	1,562	1,562	-	-	1,568	1,568	-
Transfers out	-	(1,387)	(1,387)	-	(544)	(935)	(935)	-
Issuance of bonds								
Issuance of loans	-	-	-	-	-	-	-	-
Issuance of commercial paper	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	175	175	-	(544)	633	633	-
Net change in fund balances	-	(1,776)	(1,221)	555	(120)	(298)	23	321
Budgetary fund balance (deficit), July 1	-	7,631	7,631	-	120	865	865	-
Budgetary fund balance (deficit), June 30	$ -	$ 5,855	$ 6,410	$ 555	$ -	$ 567	$ 888	$ 321

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Human Welfare Fund				Open Space and Park Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 25,403	$ 25,403	$ 28,101	$ 2,698
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	210	210	214	4	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	300	300	741	441
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	14,440	13,489	13,489	-	-	-	-	-
State	-	363	363	-	152	152	171	19
Other	-	41	41	-	-	-	-	-
Charges for services	180	180	193	13	-	-	-	-
Other revenues	-	-	64	64	-	-	-	-
Total revenues	14,830	14,283	14,364	81	25,855	25,855	29,013	3,158
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	-	-	-	-	-	532	532	-
Human welfare and neighborhood development	14,814	14,623	14,623	-	-	-	-	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	27,746	27,952	25,724	2,228
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	14,814	14,623	14,623	-	27,746	28,484	26,256	2,228
Excess (deficiency) of revenues over (under) expenditures	16	(340)	(259)	81	(1,891)	(2,629)	2,757	5,386
Other financing sources (uses):								
Transfers in	-	116	116	-	544	935	935	-
Transfers out	(16)	(16)	(16)	-	-	(70)	(70)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(16)	100	100	-	544	865	865	-
Net change in fund balances	-	(240)	(159)	81	(1,347)	(1,764)	3,622	5,386
Budgetary fund balance (deficit), July 1	-	223	223	-	1,347	17,607	17,607	-
Budgetary fund balance (deficit), June 30	$ -	$ (17)	$ 64	$ 81	$ -	$ 15,843	$ 21,229	$ 5,386

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Public Library Fund				Public Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ 25,403	$ 25,403	$ 28,101	$ 2,698	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	1,185	1,673	1,592	(81)
Fines, forfeitures, and penalties	-	-	10	10	1,819	1,819	1,529	(290)
Interest and investment income	50	50	250	200	77	86	816	730
Rents and concessions	28	28	39	11	-	-	-	-
Intergovernmental:								
Federal	-	15	15	-	34,639	26,850	26,850	-
State	651	648	639	(9)	7,089	7,653	7,653	-
Other	-	-	-	-	-	-	-	-
Charges for services	763	783	719	(44)	41,372	50,579	54,103	3,524
Other revenues	-	153	116	(37)	-	88	87	(1)
Total revenues	26,895	27,080	29,889	2,829	86,181	88,748	92,630	3,882
Expenditures:								
Public protection	-	-	-	-	37,576	46,276	46,163	113
Public works, transportation and commerce	-	26	26	-	54,077	55,727	55,591	136
Human welfare and neighborhood development	-	-	-	-	-	66	66	-
Community health	-	-	-	-	1,637	3,839	3,839	-
Culture and recreation	61,622	59,723	59,404	319	-	5	5	-
General administration and finance	-	-	-	-	-	58	58	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	61,622	59,749	59,430	319	93,290	105,971	105,722	249
Excess (deficiency) of revenues over (under) expenditures	(34,727)	(32,689)	(29,541)	3,148	(7,109)	(17,223)	(13,092)	4,131
Other financing sources (uses):								
Transfers in	33,791	39,419	39,195	(224)	16,289	16,355	16,355	-
Transfers out	-	-	-	-	(1,500)	(4,464)	(4,464)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	(110)	(110)	-	110	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	(9,597)	-	-	-
Total other financing sources (uses)	33,681	39,309	39,195	(114)	5,192	11,891	11,891	-
Net change in fund balances	(1,046)	6,620	9,654	3,034	(1,917)	(5,332)	(1,201)	4,131
Budgetary fund balance (deficit), July 1	1,046	10,018	10,018	-	1,917	20,971	20,971	-
Budgetary fund balance (deficit), June 30	$ -	$ 16,638	$ 19,672	$ 3,034	$ -	$ 15,639	$ 19,770	$ 4,131

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Public Works, Transportation and Commerce Fund				Real Property Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	-	-	-	-	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	4	4	-	-	-	-
Interest and investment income	-	-	-	-	-	1	36	35
Rents and concessions	-	-	158	158	7,564	7,564	7,024	(540)
Intergovernmental:								
Federal	253	507	253	(254)	-	-	-	-
State	178	118	118	-	-	-	-	-
Other	-	2,260	2,260	-	-	-	-	-
Charges for services	6,271	13,176	16,027	2,851	-	-	714	714
Other revenues	-	976	1,721	745	-	15	14	(1)
Total revenues	6,702	17,037	20,541	3,504	7,564	7,580	7,788	208
Expenditures:								
Public protection	-	50	50	-	-	-	-	-
Public works, transportation and commerce	431	10,869	10,205	664	-	20	20	-
Human welfare and neighborhood development	6,305	6,785	6,668	117	-	17	17	-
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	44	44	-	-	-	-	-
General administration and finance	-	75	75	-	10,393	4,872	4,872	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	6,736	17,823	17,042	781	10,393	4,909	4,909	-
Excess (deficiency) of revenues over (under) expenditures	(34)	(786)	3,499	4,285	(2,829)	2,671	2,879	208
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(2,523)	(2,523)	-	-	(6,271)	(6,271)	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(2,523)	(2,523)	-	-	(6,271)	(6,271)	-
Net change in fund balances	(34)	(3,309)	976	4,285	(2,829)	(3,600)	(3,392)	208
Budgetary fund balance (deficit), July 1	34	10,519	10,519	-	2,829	5,593	5,593	-
Budgetary fund balance (deficit), June 30	$ -	$ 7,210	$ 11,495	$ 4,285	$ -	$ 1,993	$ 2,201	$ 208

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	San Francisco County Transportation Authority Fund				Senior Citizens' Program Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business taxes	-	-	-	-	-	-	-	-
Other local taxes	70,500	70,500	72,064	1,564	-	-	-	-
Licenses, permits, and franchises	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-	-	-	-	-
Interest and investment income	887	887	8,410	7,523	-	-	-	-
Rents and concessions	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal	-	-	-	-	5,062	4,124	4,112	(12)
State	3,546	3,545	1,382	(2,163)	1,845	1,755	259	(1,496)
Other	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-
Other revenues	2,000	2,000	70	(1,930)	-	-	-	-
Total revenues	76,933	76,932	81,926	4,994	6,907	5,879	4,371	(1,508)
Expenditures:								
Public protection	-	-	-	-	-	-	-	-
Public works, transportation and commerce	183,552	182,595	132,797	49,798	-	-	-	-
Human welfare and neighborhood development	-	-	-	-	6,907	5,986	5,999	(13)
Community health	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
General administration and finance	-	-	-	-	-	-	-	-
General City responsibilities	-	-	-	-	-	-	-	-
Total expenditures	183,552	182,595	132,797	49,798	6,907	5,986	5,999	(13)
Excess (deficiency) of revenues over (under) expenditures	(106,619)	(105,663)	(50,871)	54,792	-	(107)	(1,628)	(1,521)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Issuance of loans	-	-	-	-	-	-	-	-
Budget reserves and designations	-	-	-	-	-	-	-	-
Loan repayments and other financing sources	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Net change in fund balances	(106,619)	(105,663)	(50,871)	54,792	-	(107)	(1,628)	(1,521)
Budgetary fund balance (deficit), July 1	106,619	217,275	217,275	-	-	1,631	1,631	-
Budgetary fund balance (deficit), June 30	$ -	$111,612	$166,404	$ 54,792	$ -	$ 1,524	$ 3	$ (1,521)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	War Memorial Fund				TOTAL			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes	$ -	$ -	$ -	$ -	$ 81,182	$ 81,482	$ 89,866	$ 8,384
Business taxes	-	-	-	-	550	550	746	196
Other local taxes	8,356	8,356	8,356	-	113,599	113,599	115,163	1,564
Licenses, permits, and franchises	-	-	-	-	7,731	8,220	6,786	(1,434)
Fines, forfeitures, and penalties	-	-	6	6	3,603	4,553	4,252	(301)
Interest and investment income	-	-	-	-	2,932	9,359	19,596	10,237
Rents and concessions	1,356	1,632	1,834	202	32,956	33,811	30,090	(3,721)
Intergovernmental:								
Federal	-	-	-	-	136,717	157,638	157,147	(491)
State	-	-	-	-	61,122	70,022	65,665	(4,357)
Other	-	-	-	-	-	2,752	2,752	-
Charges for services	251	290	257	(33)	106,308	125,651	137,309	11,658
Other revenues	-	-	-	-	4,198	30,886	44,151	13,265
Total revenues	9,963	10,278	10,453	175	550,898	638,523	673,523	35,000
Expenditures:								
Public protection	-	-	-	-	40,082	47,637	47,577	60
Public works, transportation and commerce	-	490	490	-	310,691	329,141	274,185	54,956
Human welfare and neighborhood development	-	-	-	-	118,413	174,375	172,971	1,404
Community health	-	-	-	-	90,951	94,529	94,529	-
Culture and recreation	10,558	9,989	9,866	123	184,223	183,785	175,409	8,376
General administration and finance	-	-	-	-	13,034	14,688	14,629	59
General City responsibilities	-	-	-	-	-	253	253	-
Total expenditures	10,558	10,479	10,356	123	757,394	844,408	779,553	64,855
Excess (deficiency) of revenues over (under) expenditures	(595)	(201)	97	298	(206,496)	(205,885)	(106,030)	99,855
Other financing sources (uses):								
Transfers in	-	-	-	-	94,828	105,639	105,415	(224)
Transfers out	-	(1)	(1)	-	(5,671)	(25,185)	(25,185)	-
Issuance of loans	-	-	-	-	-	5,359	5,359	-
Budget reserves and designations	-	-	-	-	(110)	(110)	-	110
Loan repayments and other financing sources	-	-	-	-	(9,609)	(12)	(12)	-
Total other financing sources (uses)	-	(1)	(1)	-	79,438	85,691	85,577	(114)
Net change in fund balances	(595)	(202)	96	298	(127,058)	(120,194)	(20,453)	99,741
Budgetary fund balance (deficit), July 1	595	10,230	10,230	-	128,075	475,737	475,737	-
Budgetary fund balance (deficit), June 30	$ -	$ 10,028	$ 10,326	$ 298	$ 1,017	$ 355,543	$ 455,284	$ 99,741

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Schedule of Expenditures by Department Budget and Actual - Budget Basis

Year ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
BUILDING INSPECTION FUND				
Public Works, Transportation and Commerce				
Building Inspection	$ 41,603	$ 42,168	$ 39,580	$ 2,588
Total Building Inspection Fund	41,603	42,168	39,580	2,588
CHILDREN AND FAMILIES FUND				
Human Welfare and Neighborhood Development				
Child Support Services	14,853	14,985	14,535	450
Children and Families Commission	11,518	13,408	13,408	-
Mayor's Office	56,672	57,491	57,138	353
Total Children and Families Fund	83,043	85,884	85,081	803
COMMUNITY/NEIGHBORHOOD DEVELOPMENT FUND				
Public Works, Transportation and Commerce				
Business and Economic Development	-	71	71	-
Public Works	429	392	392	-
Dept of Building Inspection	-	179	179	-
	429	642	642	-
Human Welfare and Neighborhood Development				
Controller	-	7,497	7,497	-
Mayor's Office	875	44,123	44,123	-
Rent Arbitration Board	4,610	4,811	4,314	497
	5,485	56,431	55,934	497
Culture and Recreation				
Recreation and Park Commission	555	40	40	-
General Administration and Finance				
City Attorney	-	1,020	1,020	-
City Planning	-	774	774	-
Total Community/Neighborhood Development Fund	6,469	58,907	58,410	497
COMMUNITY HEALTH SERVICES FUND				
Public Protection				
Trial Courts	-	20	20	-
Community Health				
Community Health Network	88,441	89,592	89,592	-
Total Community Health Services Fund	88,441	89,612	89,612	-
CONVENTION FACILITIES FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	600	836	836	-
Culture and Recreation				
Administrative Services - Convention Facilities	65,283	65,569	62,086	3,483
Arts Commission	-	34	34	-
	65,283	65,603	62,120	3,483
General City Responsibilities				
Controller	-	185	185	-
Total Convention Facilities Fund	65,883	66,624	63,141	3,483

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
COURT'S FUND				
Public Protection				
Police Department	74	74	74	-
Trial Courts	1,998	714	766	(52)
	2,072	788	840	(52)
Public Works, Transportation and Commerce				
Public Works	1,000	2,347	1,348	999
Total Court's Fund	3,072	3,135	2,188	947
CULTURE AND RECREATION FUND				
Public Works, Transportation and Commerce				
Mayor's Office	85	-	-	-
Culture and Recreation				
Arts Commission	940	1,264	1,264	-
Asian Art Museum	982	694	694	-
Fine Arts Museums	4,281	3,793	3,793	-
Recreation and Park Commission	1,800	1,687	1,687	-
	8,003	7,438	7,438	-
Total Culture and Recreation Fund	8,088	7,438	7,438	-
ENVIRONMENTAL PROTECTION FUND				
Human Welfare and Neighborhood Development				
Mayor's Office	917	1,677	1,677	-
Total Environmental Protection Fund	917	1,677	1,677	-
GASOLINE TAX FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency	-	76	76	-
Public Utilities Commission	-	13	13	-
Public Works	27,902	32,119	31,349	770
Total Gasoline Tax Fund	27,902	32,208	31,438	770
GENERAL SERVICES FUND				
Public Protection				
Mayor's Office	-	93	93	-
Trial Courts	354	280	280	-
	354	373	373	-
Public Works, Transportation and Commerce				
Telecommunications and Information Services	1,612	886	886	-
Culture and Recreation				
Fine Arts Museum	-	641	641	-
General Administration and Finance				
Administrative Services	-	3,617	3,558	59
Assessor/Recorder	2,641	2,037	2,037	-
Board of Supervisors	-	76	76	-
	2,641	5,730	5,671	59
General City Responsibilities				
Controller	-	22	22	-
Total General Services Fund	4,607	7,652	7,593	59

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

SPECIAL REVENUE FUNDS

Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GIFT FUND				
Public Protection				
Fire Department	20	75	75	-
Public Defender	60	21	21	-
Sheriff	-	19	19	-
Trial Courts	-	2	2	-
	80	117	117	-
Public Works, Transportation and Commerce				
Public Works	-	463	463	-
Human Welfare and Neighborhood Development				
Mayor's Office	-	57	57	-
Social Services	342	2,014	2,014	-
	342	2,071	2,071	-
Community Health				
Community Health Network	873	1,098	1,098	-
Culture and Recreation				
Fine Arts Museums	-	147	147	-
Mayor's Office	-	66	66	-
Public Library	43	197	197	-
Recreation and Park Commission	80	432	432	-
	123	842	842	-
General Administration and Finance				
Administrative Services	-	9	9	-
Mayor's Office	-	10	10	-
Treasurer/Tax Collector	-	2,140	2,140	-
	-	2,159	2,159	-
General City Responsibilities				
Controller	-	46	46	-
Total Gift Fund	1,418	6,796	6,796	-
GOLF FUND				
Public Works, Transportation and Commerce				
Public Works	-	180	180	-
	-	180	180	-
Culture and Recreation				
Recreation and Park Commission	10,333	11,508	9,285	2,223
Total Golf Fund	10,333	11,688	9,465	2,223
HUMAN WELFARE FUND				
Human Welfare and Neighborhood Development				
Commission on Status of Women	194	230	230	-
Social Services	14,620	14,393	14,393	-
	14,814	14,623	14,623	-
Total Human Welfare Fund	14,814	14,623	14,623	-

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2006
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OPEN SPACE AND PARK FUND				
Public Works, Transportation and Commerce				
Public Works	-	532	532	-
Culture and Recreation				
Arts Commission	-	41	41	-
Recreation and Park Commission	27,746	27,911	25,683	2,228
	27,746	27,952	25,724	2,228
Total Open Space and Park Fund	27,746	28,484	26,256	2,228
PUBLIC LIBRARY FUND				
Public Works, Transportation and Commerce				
Public Works	-	26	26	-
Culture and Recreation				
ART Commission	-	12	12	-
Public Library	61,622	59,711	59,392	319
	61,622	59,723	59,404	319
Total Public Library Fund	61,622	59,749	59,430	319
PUBLIC PROTECTION FUND				
Public Protection				
District Attorney	5,249	5,162	5,162	-
Fire Department	383	4,165	4,165	-
Mayor's Office	2,537	2,795	2,795	-
Police Commission	26,143	28,436	28,322	114
Public Defender	169	213	213	-
Sheriff	2,472	4,916	4,916	-
Trial Courts	623	590	590	-
	37,576	46,277	46,163	114
Public Works, Transportation and Commerce				
Emergency Communications Department	54,077	55,421	55,286	135
Port	-	34	34	-
Public Works	-	253	253	-
Telecommunications and Information Services	-	18	18	-
	54,077	55,726	55,591	135
Human Welfare and Neighborhood Development				
Commission on Status of Women	-	66	66	-
Community Health				
Community Health	1,637	3,839	3,839	-
Culture and Recreation				
Recreation and Park	-	5	5	-
General Administration and Finance				
Administrative Services	-	58	58	-
Total Public Protection Fund	93,290	105,971	105,722	249

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
SPECIAL REVENUE FUNDS
Schedule of Expenditures by Department
Budget and Actual - Budget Basis *(Continued)*
Year ended June 30, 2006
(In Thousands)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND				
Public Protection				
Mayor's Office	-	50	50	-
Public Works, Transportation and Commerce				
Department of Building Inspection	-	3	3	-
Municipal Transportation Agency	-	386	386	-
Public Utilities Commission	-	127	127	-
Public Works	431	10,353	9,689	664
	431	10,869	10,205	664
Human Welfare and Neighborhood Development				
Mayor's Office	6,305	6,785	6,668	117
Culture and Recreation				
Arts Commission	-	39	39	-
Public Library	-	5	5	-
	-	44	44	-
General Administration and Finance				
City Planning	-	75	75	-
Total Public Works, Transportation and Commerce Fund	6,736	17,823	17,042	781
REAL PROPERTY FUND				
Public Works, Transportation and Commerce				
Public Works	-	20	20	-
Human Welfare and Neighborhood Development				
Rent Arbitration Board	-	17	17	-
General Administration and Finance				
Administrative Services	10,393	4,872	4,872	-
Total Real Property Fund	10,393	4,909	4,909	-
SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND				
Public Works, Transportation and Commerce				
Board of Supervisors	183,552	182,595	132,797	49,798
Total SF County Transportation Authority Fund	183,552	182,595	132,797	49,798
SENIOR CITIZENS' PROGRAM FUND				
Human Welfare and Neighborhood Development				
Social Services Department	6,907	5,986	5,999	(13)
Total Senior Citizens' Program Fund	6,907	5,986	5,999	(13)
WAR MEMORIAL FUND				
Public Works, Transportation and Commerce				
Public Works	-	490	490	-
Culture and Recreation				
War Memorial	10,558	9,989	9,866	123
Total War Memorial Fund	10,558	10,479	10,356	123
Total Special Revenue Funds With Legally Adopted Budgets	$ 757,394	$ 844,408	$ 779,553	$ 64,855

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Debt Service
June 30, 2006
(In Thousands)

	General Obligation Bond	Certificates of Participation	Other Bond Funds	Total
ASSETS				
Deposits and investments with City Treasury	$ 56,412	$ -	$ 41	$ 56,453
Deposits and investments outside City Treasury	-	9,325	-	9,325
Receivables:				
Property taxes and penalties	5,068	-	-	5,068
Interest and other	749	22	-	771
Total assets	$ 62,229	$ 9,347	$ 41	$ 71,617
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 6	$ -	$ -	$ 6
Deferred tax, grant and subvention revenues	4,632	-	-	4,632
Deferred credits and other liabilities	10,662	-	-	10,662
Total liabilities	15,300	-	-	15,300
Fund balances:				
Reserved for debt service	46,929	9,347	41	56,317
Total fund balances	46,929	9,347	41	56,317
Total liabilities and fund balances	$ 62,229	$ 9,347	$ 41	$ 71,617

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Debt Service
Year ended June 30, 2006
(In Thousands)

	General Obligation Bond	Certificates of Participation	Other Bond Funds	Total
Revenues:				
Property taxes	$ 134,981	$ -	$ -	$ 134,981
Interest and investment income	3,501	380	-	3,881
Rents and concessions	-	802	-	802
Intergovernmental:				
State	821	-	-	821
Total revenues	139,303	1,182	-	140,485
Expenditures:				
Current:				
Debt service:				
Principal retirement	73,270	7,160	6,530	86,960
Interest and fiscal charges	60,273	13,291	1,564	75,128
Total expenditures	133,543	20,451	8,094	162,088
Excess (deficiency) of revenues over (under) expenditures	5,760	(19,269)	(8,094)	(21,603)
Other financing sources (uses):				
Transfers in	7,464	18,276	8,094	33,834
Transfers out	(69)	-	(454)	(523)
Total other financing sources, net	7,395	18,276	7,640	33,311
Net change in fund balances	13,155	(993)	(454)	11,708
Fund balances at beginning of year	33,774	10,340	495	44,609
Fund balances at end of year	$ 46,929	$ 9,347	$ 41	$ 56,317

CITY AND COUNTY OF SAN FRANCISCO

DEBT SERVICE FUNDS

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget Basis

Year ended June 30, 2006

(In Thousands)

	General Obligation Bond Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 136,216	$ 136,216	$ 134,981	$ (1,235)
Interest and investment income	-	-	1,779	1,779
State	750	750	821	71
Total revenues	136,966	136,966	137,581	615
Expenditures:				
Debt service:				
Principal retirement	136,966	73,270	73,270	-
Interest and fiscal charges	-	71,160	52,215	18,945
Total expenditures	136,966	144,430	125,485	18,945
Excess (deficiency) of revenues over (under) expenditures	-	(7,464)	12,096	19,560
Other financing sources (uses):				
Transfers in	-	7,464	7,464	-
Total other financing sources (uses)	-	7,464	7,464	-
Net change in fund balances	-	-	19,560	19,560
Budgetary fund balance, July 1	-	33,386	33,386	-
Budgetary fund balance, June 30	$ -	$ 33,386	$ 52,945	$ 19,560

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CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Capital Projects

June 30, 2006

(In Thousands)

	City Facilities Improvement	Earthquake Safety Improvement	Fire Protection Systems Improvement	Moscone Convention Center
ASSETS				
Deposits and investments with City Treasury	$ 383,589	$ 3,605	$ 11,604	$ 7,543
Deposits and investments outside City Treasury	3,992	-	-	-
Receivables:				
Federal and state grants and subventions	-	56	-	-
Charges for services	-	-	-	-
Interest and other	1,758	25	82	68
Due from other funds	-	-	-	-
Due from component unit	-	-	-	-
Deferred charges and other assets	-	-	-	36
Total assets	$ 389,339	$ 3,686	$ 11,686	$ 7,647
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 27,510	$ 65	$ 267	$ -
Accrued payroll	154	29	5	-
Deferred tax, grant and subvention revenues	-	-	-	-
Due to other funds	3	-	-	12,496
Deferred credits and other liabilities	134	24	-	-
Total liabilities	27,801	118	272	12,496
Fund balances:				
Reserved for assets not available for appropriation	-	-	-	36
Reserved for encumbrances	298,075	254	349	93
Reserved for appropriation carryforward	47,698	2,928	1,109	(84)
Unreserved	15,765	386	9,956	(4,894)
Total fund balances	361,538	3,568	11,414	(4,849)
Total liabilities and fund balances	$ 389,339	$ 3,686	$ 11,686	$ 7,647

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Balance Sheet
Nonmajor Governmental Funds - Capital Projects *(Continued)*

June 30, 2006

(In Thousands)

	Public Library Improvement	Recreation and Park Projects	Street Improvement	Total
ASSETS				
Deposits and investments with City Treasury	$ 46,601	$ 63,912	$ -	$ 516,854
Deposits and investments outside City Treasury	-	-	-	3,992
Receivables:				
Federal and state grants and subventions	-	6,119	9,640	15,815
Charges for services	-	-	89	89
Interest and other	264	179	-	2,376
Due from other funds	-	-	3,427	3,427
Due from component unit	-	-	958	958
Deferred charges and other assets	-	-	-	36
Total assets	$ 46,865	$ 70,210	$ 14,114	$ 543,547
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 1,341	$ 6,766	$ 3,961	$ 39,910
Accrued payroll	88	337	836	1,449
Deferred tax, grant and subvention revenues	-	4,645	76	4,721
Due to other funds	-	-	5,463	17,962
Deferred credits and other liabilities	6	235	1,338	1,737
Total liabilities	1,435	11,983	11,674	65,779
Fund balances:				
Reserved for assets not available for appropriation	-	-	958	994
Reserved for encumbrances	7,534	30,832	7,905	345,042
Reserved for appropriation carryforward	37,516	28,903	-	118,070
Unreserved	380	(1,508)	(6,423)	13,662
Total fund balances	45,430	58,227	2,440	477,768
Total liabilities and fund balances	$ 46,865	$ 70,210	$ 14,114	$ 543,547

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Capital Projects

Year ended June 30, 2006

(In Thousands)

	City Facilities Improve-ment	Earthquake Safety Improve-ment	Fire Protection Systems Improve-ment	Moscone Convention Center
Revenues:				
Licenses, permits and franchises	$ -	$ -	$ -	$ -
Interest and investment income	15,599	150	519	406
Rents and concessions	-	-	-	-
Intergovernmental:				
Federal	-	859	-	-
State	-	-	-	-
Other	-	-	-	-
Charges for services	253	-	-	-
Other	-	-	-	-
Total revenues	15,852	1,009	519	406
Expenditures:				
Debt service:				
Interest and fiscal charges	-	-	-	-
Bond issuance costs	1,684	-	-	-
Capital outlay	63,160	166	3,330	100
Total expenditures	64,844	166	3,330	100
Excess (deficiency) of revenues over (under) expenditures	(48,992)	843	(2,811)	306
Other financing sources (uses):				
Transfers in	7,292	-	-	-
Transfers out	(55,106)	(1,900)	-	-
Issuance of bonds and loans				
Face value of bonds issued	185,120	-	-	-
Premium on issuance of bonds	8,347	-	-	-
Total other financing sources, net	145,653	(1,900)	-	-
Net change in fund balances	96,661	(1,057)	(2,811)	306
Fund balances at beginning of year	264,877	4,625	14,225	(5,155)
Fund balances at end of year	$ 361,538	$ 3,568	$ 11,414	$ (4,849)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Capital Projects *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Public Library Improvement	Recreation and Park Projects	Street Improvement	Total
Revenues:				
Licenses, permits and franchises	$ -	$ -	$ 51	$ 51
Interest and investment income	1,906	2,516	205	21,301
Rents and concessions	55	-	611	666
Intergovernmental:				
Federal	-	-	9,725	10,584
State	-	8,218	1,098	9,316
Other	-	-	20,748	20,748
Charges for services	-	17	-	270
Other	-	26	1,828	1,854
Total revenues	1,961	10,777	34,266	64,790
Expenditures:				
Debt service:				
Interest and fiscal charges	47	-	799	846
Bond issuance costs	249	-	-	1,933
Capital outlay	9,713	29,856	47,168	153,493
Total expenditures	10,009	29,856	47,967	156,272
Excess (deficiency) of revenues over (under) expenditures	(8,048)	(19,079)	(13,701)	(91,482)
Other financing sources (uses):				
Transfers in	-	2,244	11,976	21,512
Transfers out	(1,691)	-	-	(58,697)
Issuance of bonds and loans				
Face value of bonds issued	34,000	-	-	219,120
Premium on issuance of bonds	1,886	-	-	10,233
Total other financing sources, net	34,195	2,244	11,976	192,168
Net change in fund balances	26,147	(16,835)	(1,725)	100,686
Fund balances at beginning of year	19,283	75,062	4,165	377,082
Fund balances at end of year	$ 45,430	$ 58,227	$ 2,440	$ 477,768

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

Central Shops Fund -- Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

Finance Corporation -- Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

Reproduction Fund -- Accounts for printing, design and mail services required by various City departments and agencies.

Telecommunications and Information Fund -- Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city personnel. It also accounts for the related billings to various departments for specific services performed and operating support from the General Fund.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Net Assets
Internal Service Funds
June 30, 2006
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
Assets					
Current assets:					
Deposits and investments with City Treasury	$ 854	$ 277	$ 980	$ 5,832	$ 7,943
Deposits and investments outside City Treasury	-	25,133	-	-	25,133
Receivables:					
Charges for services	78	-	-	-	78
Interest and other	-	60	-	775	835
Due from other funds	-	268	-	-	268 (1)
Capital leases receivable	-	21,855	-	-	21,855
Deferred charges and other assets	-	-	-	149	149
Total current assets	932	47,593	980	6,756	56,261
Noncurrent assets:					
Capital leases receivable	-	210,947	-	-	210,947
Capital assets:					
Facilities and equipment, net of depreciation	1,949	-	149	2,377	4,475
Deferred charges and other assets	-	2,549	-	2	2,551
Total noncurrent assets	1,949	213,496	149	2,379	217,973
Total assets	$ 2,881	$ 261,089	$ 1,129	$ 9,135	$ 274,234
Liabilities					
Current liabilities:					
Accounts payable	$ 1,225	$ -	$ 246	$ 4,433	$ 5,904
Accrued payroll	371	-	71	1,161	1,603
Accrued vacation and sick leave pay	433	-	-	1,436	1,869
Accrued workers' compensation	-	-	-	216	216
Bonds, loans, capital leases, and other payables	-	20,550	-	122	20,672
Accrued interest payable	-	1,305	-	-	1,305
Due to other funds	195	-	-	73	268 (1)
Deferred credits and other liabilities	-	28,287	22	1,366	29,675
Total current liabilities	2,224	50,142	339	8,807	61,512
Noncurrent liabilities:					
Accrued vacation and sick leave pay	390	-	-	1,671	2,061
Accrued workers' compensation	-	-	-	889	889
Bonds, loans, capital leases, and other payables	-	210,947	-	61	211,008
Total noncurrent liabilities	390	210,947	-	2,621	213,958
Total liabilities	2,614	261,089	339	11,428	275,470
Net Assets					
Invested in capital assets, net of related debt	1,949	-	149	2,194	4,292
Unrestricted (deficit)	(1,682)	-	641	(4,487)	(5,528)
Total net assets (deficit)	$ 267	$ -	$ 790	$ (2,293)	$ (1,236)

Notes:

(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Assets - Proprietary Funds on page 34.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
Year ended June 30, 2006
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
Operating revenues:					
Charges for services	$ 20,495	$ -	$ 6,762	$ 71,686	$ 98,943
Rent and concessions	-	-	-	61	61
Total operating revenues	20,495	-	6,762	71,747	99,004
Operating expenses:					
Personal services	9,831	-	1,848	30,969	42,648
Contractual services	1,609	-	4,013	25,326	30,948
Materials and supplies	7,028	-	388	9,262	16,678
Depreciation and amortization	365	168	54	598	1,185
General and administrative	82	-	33	370	485
Services provided by other departments	1,278	-	348	3,208	4,834
Other	-	-	131	2,284	2,415
Total operating expenses	20,193	168	6,815	72,017	99,193
Operating income (loss)	302	(168)	(53)	(270)	(189)
Nonoperating revenues (expenses):					
Interest and investment income	-	7,966	-	-	7,966
Interest expense	(166)	(7,798)	(33)	(203)	(8,200)
Other, net	-	-	-	28	28
Total nonoperating revenues (expenses)	(166)	168	(33)	(175)	(206)
Income (loss) before transfers	136	-	(86)	(445)	(395)
Transfers in	400	-	33	203	636
Change in net assets	536	-	(53)	(242)	241
Total net assets (deficit) - beginning	(269)	-	843	(2,051)	(1,477)
Total net assets (deficit) - ending	$ 267	$ -	$ 790	$ (2,293)	$ (1,236)

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Cash Flows
Internal Service Funds
Year ended June 30, 2006
(In Thousands)

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecommunications & Information Fund	Total
Cash flows from operating activities:					
Cash received from customers	$ 20,417	$ 18,910	$ 6,763	$ 72,223	$ 118,313
Cash paid to employees for services	(9,703)	-	(1,841)	(30,724)	(42,268)
Cash paid to suppliers for goods and services	(9,579)	(3,465)	(5,196)	(40,890)	(59,230)
Net cash provided by (used in) operating activities	1,135	15,445	(274)	509	16,815
Cash flows from noncapital financing activities:					
Transfers in	400	-	33	203	636
Net cash provided by noncapital financing activities	400	-	33	203	636
Cash flows from capital and related financing activities:					
Bond sale proceeds	-	19,671	-	-	19,671
Acquisition of capital assets	(892)	-	(11)	(552)	(1,455)
Retirement of capital lease obligation	-	(18,910)	-	(411)	(19,321)
Bond issue costs paid	-	(319)	-	-	(319)
Interest paid on long term debt	-	(7,575)	-	-	(7,575)
Net cash used in capital financing activities	(892)	(7,133)	(11)	(963)	(8,999)
Cash flows from investing activities:					
Interest income received	-	773	-	-	773
Other investing activities	(166)	-	(33)	(203)	(402)
Net cash provided by (used in) investing activities	(166)	773	(33)	(203)	371
Increase (decrease) in cash and cash equivalents	477	9,085	(285)	(454)	8,823
Cash and cash equivalents - beginning of year	377	16,325	1,265	6,286	24,253
Cash and cash equivalents - end of year	$ 854	$ 25,410	$ 980	$ 5,832	$ 33,076
Reconciliation of operating income (loss) to net cash provided by operating activities.					
Operating income (loss)	$ 302	$ (168)	$ (53)	$ (270)	$ (189)
Adjustments for non-cash activities:					
Depreciation and amortization	365	168	54	598	1,185
Other	-	-	-	28	28
Changes in assets/liabilities:					
Receivables, net	(78)	18,910	-	(319)	18,513
Due from other funds	-	-	-	24	24
Accounts payable	418	-	(283)	(564)	(429)
Accrued payroll	62	-	7	149	218
Accrued vacation and sick leave pay	66	-	-	142	208
Accrued workers' compensation	-	-	-	(46)	(46)
Deferred credits and other liabilities	-	(3,465)	1	767	(2,697)
Total adjustments	833	15,613	(221)	779	17,004
Net cash provided by (used in) operating activities	$ 1,135	$ 15,445	$ (274)	$ 509	$ 16,815
Reconciliation of cash and cash equivalents to the combining statement of net assets:					
Deposits and investments with City Treasury	$ 854	$ 277	$ 980	$ 5,832	$ 7,943
Restricted deposits and investments outside City Treasury	-	25,133	-	-	25,133
Cash and cash equivalents at end of year on combining statement of cash flows	$ 854	$ 25,410	$ 980	$ 5,832	$ 33,076

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units.

Trust Funds

Employees' Retirement System -- Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

Health Service System -- Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Assistance Program Fund -- Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

Deposits Fund -- Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

Payroll Deduction Fund – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

State Revenue Collection Fund -- Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

Tax Collection Fund -- Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

Transit Fund -- Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

Other Agency Funds -- Accounts for monies held as agent for a variety of purposes.

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Fiduciary Net Assets

Fiduciary Funds
Pension and Other Employee Benefit Trust Funds

June 30, 2006

(In Thousands)

	Pension Trust Fund Employees' Retirement System	Other Employee Benefit Trust Fund Health Service System	Total
ASSETS			
Deposits and investments with City Treasury	$ 1,979	$ 68,408	$ 70,387
Deposits and investments outside City Treasury:			
Cash and deposits	22,749	-	22,749
Short term bills and notes	943,168	-	943,168
Debt securities	3,669,902	-	3,669,902
Equity securities	7,197,575	-	7,197,575
Real estate	1,316,852	-	1,316,852
Venture capital	1,492,752	-	1,492,752
Receivables:			
Employer and employee contributions	10,408	13,298	23,706
Brokers, general partners and others	133,277	-	133,277
Interest and other	40,998	382	41,380
Invested securities lending collateral	2,040,873	-	2,040,873
Total assets	16,870,533	82,088	16,952,621
Liabilities			
Accounts payable	11,250	1,866	13,116
Estimated claims payable	-	8,888	8,888
Obligations under fixed coupon dollar reverse repurchase agreements	99,141	-	99,141
Payable to brokers	209,422	-	209,422
Securities lending collateral	2,040,873	-	2,040,873
Deferred credits and other liabilities	12,925	28,794	41,619
Total liabilities	2,373,511	39,548	2,413,059
Net Assets			
Held in trust for pension benefits and other purposes	$ 14,497,022	$ 42,540	$ 14,539,562

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds
Pension and Other Employee Benefit Trust Funds

Year ended June 30, 2006

(In Thousands)

	Pension Trust Fund Employees' Retirement System	Other Employee Benefit Trust Fund Health Service System	Total
Additions:			
Employees' contributions	$ 162,693	$ 70,535	$ 233,228
Employer contributions	126,533	404,707	531,240
Total contributions	289,226	475,242	764,468
Investment income:			
Interest	227,637	2,368	230,005
Dividends	144,493	-	144,493
Net increase/(decrease) in fair value of investments	1,337,830	(87)	1,337,743
Securities lending income	77,358	-	77,358
Fixed coupon dollar reverse repurchase agreement income	5,467	-	5,467
Total investment income	1,792,785	2,281	1,795,066
Less investment expenses			
Securities lending borrower rebates and expenses	(67,909)	-	(67,909)
Fixed coupon dollar reverse repurchase finance charges and expenses	(5,372)	-	(5,372)
Other expenses	(40,785)	-	(40,785)
Total investment expenses	(114,066)	-	(114,066)
Total additions, net	1,967,945	477,523	2,445,468
Deductions:			
Benefit payments	586,245	481,708	1,067,953
Refunds of contributions	8,719	-	8,719
Administrative expenses	11,222	-	11,222
Total deductions	606,186	481,708	1,087,894
Change in net assets	1,361,759	(4,185)	1,357,574
Net assets at beginning of year	13,135,263	46,725	13,181,988
Net assets at end of year	$ 14,497,022	$ 42,540	$ 14,539,562

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Combining Statement of Changes in Assets and Liabilities - Agency Funds

Year ended June 30, 2006

(In Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assistance Program Fund				
ASSETS				
Deposits and investments with City Treasury	$ 1,464	$ 31,989	$ 32,207	$ 1,246
Receivables:				
Interest and other	65	1	66	-
Total assets	$ 1,529	$ 31,990	$ 32,273	$ 1,246
LIABILITIES				
Accounts payable	$ 958	$ 5,777	$ 6,685	$ 50
Agency obligations	571	30,562	29,937	1,196
Total liabilities	$ 1,529	$ 36,339	$ 36,622	$ 1,246
Deposits Fund				
ASSETS				
Deposits and investments with City Treasury	$ 29,205	$ 42,444	$ 38,289	$ 33,360
Deposits and investments outside City Treasury	-	87	-	87
Receivables:				
Interest and other	-	43	19	24
Deferred charges and other assets	25,658	1,000	-	26,658
Total assets	$ 54,863	$ 43,574	$ 38,308	$ 60,129
LIABILITIES				
Accounts payable	$ 996	$ 20,292	$ 20,527	$ 761
Agency obligations	53,867	42,414	36,913	59,368
Total liabilities	$ 54,863	$ 62,706	$ 57,440	$ 60,129
Payroll Deduction Fund				
ASSETS				
Deposits and investments with City Treasury	$ 10,248	$ -	$ 4,232	$ 6,016
Receivables:				
Employer and employee contributions	29,925	5,226	-	35,151
Total assets	$ 40,173	$ 5,226	$ 4,232	$ 41,167
LIABILITIES				
Accounts payable	$ 33,768	$ 7,051	$ -	$ 40,819
Agency obligations	6,405	684	6,741	348
Total liabilities	$ 40,173	$ 7,735	$ 6,741	$ 41,167

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
State Revenue Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 681	$ 2,036	$ 2,111	$ 606
Deposits and investments outside City Treasury	-	10	-	10
Total assets	$ 681	$ 2,046	$ 2,111	$ 616
LIABILITIES				
Accounts payable	$ 318	$ 2,021	$ 2,066	$ 273
Agency obligations	363	2,044	2,064	343
Total liabilities	$ 681	$ 4,065	$ 4,130	$ 616
Tax Collection Fund				
ASSETS				
Deposits and investments with City Treasury	$ 53,295	$ 1,981,631	$ 1,998,782	$ 36,144
Receivables:				
Interest and other	99,122	108,776	98,452	109,446
Total assets	$ 152,417	$ 2,090,407	$ 2,097,234	$ 145,590
LIABILITIES				
Accounts payable	$ 770	$ 61,985	$ 57,678	$ 5,077
Agency obligations	151,647	1,447,706	1,458,840	140,513
Total liabilities	$ 152,417	$ 1,509,691	$ 1,516,518	$ 145,590
Transit Fund				
ASSETS				
Deposits and investments with City Treasury	$ 5,551	$ 46,764	$ 45,392	$ 6,923
Receivables:				
Interest and other	13	205	197	21
Total assets	$ 5,564	$ 46,969	$ 45,589	$ 6,944
LIABILITIES				
Accounts payable	$ 766	$ 12,809	$ 12,247	$ 1,328
Agency obligations	4,798	34,713	33,895	5,616
Total liabilities	$ 5,564	$ 47,522	$ 46,142	$ 6,944

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

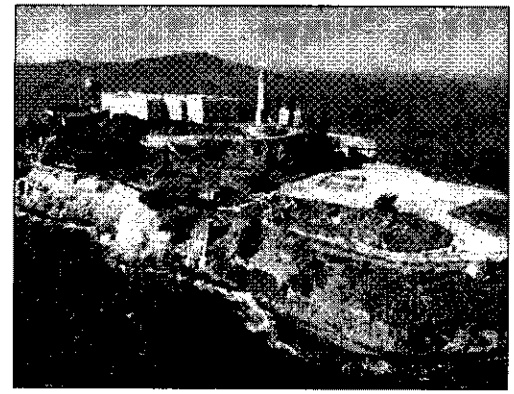
Combining Statement of Changes in Assets and Liabilities - Agency Funds *(Continued)*

Year ended June 30, 2006

(In Thousands)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Other Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 10,022	$ 110,824	$ 105,016	$ 15,830
Deposits and investments outside City Treasury	-	23	-	23
Receivables:				
Interest and other	154	233	160	227
Total assets	$ 10,176	$ 111,080	$ 105,176	$ 16,080
LIABILITIES				
Accounts payable	$ 6,942	$ 97,512	$ 99,216	$ 5,238
Agency obligations	3,234	101,048	93,440	10,842
Total liabilities	$ 10,176	$ 198,560	$ 192,656	$ 16,080
Total Agency Funds				
ASSETS				
Deposits and investments with City Treasury	$ 110,466	$ 2,215,688	$ 2,226,029	$ 100,125
Deposits and investments outside City Treasury	-	120	-	120
Receivables:				
Employer and employee contributions	29,925	5,226	-	35,151
Interest and other	99,354	109,258	98,894	109,718
Deferred charges and other assets	25,658	1,000	-	26,658
Total assets	$ 265,403	$ 2,331,292	$ 2,324,923	$ 271,772
LIABILITIES				
Accounts payable	$ 44,518	$ 207,447	$ 198,419	$ 53,546
Agency obligations	220,885	1,659,171	1,661,830	218,226
Total liabilities	$ 265,403	$ 1,866,618	$ 1,860,249	$ 271,772

Statistical Section



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

Sources:
Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in 2001; schedules presenting government-wide data include information beginning in that year.

NET ASSETS BY COMPONENT

Last Six Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year					
	2001 [1]	2002 [2]	2003 [3]	2004	2005	2006
Governmental activities						
Invested in capital assets, net of related debt.....	$ 779,698	$ 887,667	$ 983,834	$ 1,096,834	$ 1,159,696	$ 1,438,010
Restricted for:						
Cash and emergencies requirements by Charter [4]........	97,491	93,293	59,337	55,139	-	-
Reserve for rainy day....	-	-	-	-	48,139	121,976
Debt service....	10,855	12,135	7,795	9,996	46,575	53,076
Capital projects....	118,549	115,052	66,912	48,313	25,101	10,589
Community development....	181,264	135,308	158,591	163,875	208,532	71,207
Transportation Authority activities....	162,037	142,740	149,070	135,466	75,282	23,727
Other purposes....	153,838	219,351	133,233	122,265	138,224	148,071
Unrestricted (deficit)	(45,402)	(130,525)	(265,950)	(325,147)	(200,467)	(72,038)
Total governmental activities net assets...	$ 1,458,330	$ 1,475,021	$ 1,312,822	$ 1,306,741	$ 1,501,082	$ 1,794,618
Business-type activities						
Invested in capital assets, net of related debt.....	$ 2,970,198	$ 3,115,392	$ 3,273,449	$ 3,416,154	$ 3,391,450	$ 3,438,397
Restricted for:						
Debt service....	276,392	334,747	273,242	242,537	202,006	256,055
Capital projects....	189,103	141,154	147,693	128,387	161,231	148,957
Other purposes....	112,335	70,118	61,616	61,241	66,753	32,354
Unrestricted	578,675	568,599	542,813	464,658	446,039	536,670
Total business-type activities net assets..	$ 4,126,703	$ 4,230,010	$ 4,298,813	$ 4,312,977	$ 4,267,479	$ 4,412,433
Primary government						
Invested in capital assets, net of related debt.....	$ 3,749,896	$ 4,003,059	$ 4,257,283	$ 4,512,988	$ 4,551,146	$ 4,876,407
Restricted for:						
Cash and emergencies requirements by Charter....	97,491	93,293	59,337	55,139	-	-
Reserve for rainy day....	-	-	-	-	48,139	121,976
Debt service....	287,247	346,882	281,037	252,533	248,581	309,131
Capital projects....	307,652	256,206	234,605	176,700	186,332	159,546
Community development....	181,264	135,308	158,591	163,875	208,532	71,207
Transportation Authority activities....	162,037	142,740	149,070	135,466	75,282	23,727
Other purposes....	266,173	289,469	194,849	163,506	204,977	180,425
Unrestricted	533,273	438,074	276,863	139,511	245,572	464,632
Total primary activities net assets....	$ 5,585,033	$ 5,705,031	$ 5,611,635	$ 5,619,718	$ 5,768,561	$ 6,207,051

Notes:

(1) Trend data is only available for the last six fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.

(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.

(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

(4) The City's Charter was amended in November 2003 and replaced the reserve for cash and emergencies requirements by Charter with the reserve for rainy day.

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CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET ASSETS

Last Six Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year					
	2001 [1]	2002 [2]	2003 [3]	2004	2005	2006
Expenses						
Governmental activities:						
Public protection	$ 699,472	$ 717,552	$ 778,710	$ 727,580	$ 738,688	$ 780,642
Public works, transportation and commerce	309,171	317,778	287,910	169,179	213,335	272,397
Human welfare and neighborhood development	523,827	586,188	626,306	651,250	619,753	858,396
Community health	457,500	493,856	542,480	517,066	503,259	478,844
Culture and recreation	229,721	246,620	242,398	232,187	256,336	244,423
General administration and finance	107,318	156,770	186,144	183,258	152,850	167,490
General City responsibilities	109,804	55,551	53,026	73,530	59,024	49,054
Unallocated Interest on long-term debt	73,588	77,335	77,827	86,131	89,690	94,923
Total governmental activities expenses	2,510,401	2,651,650	2,794,801	2,640,181	2,632,935	2,946,169
Business-type activities:						
Airport	529,002	599,335	641,036	618,301	628,445	633,102
Transportation	468,753	528,725	628,180	660,650	711,733	695,593
Port	47,587	58,694	61,074	61,185	54,897	55,329
Water	145,858	165,362	186,579	206,211	197,848	213,584
Power	107,000	113,754	95,427	121,629	116,683	119,146
Hospitals	513,486	525,045	561,673	562,188	598,160	646,149
Sewer	149,687	159,896	153,845	150,586	160,650	160,701
Garages	34,155	32,274	-	-	-	-
Market	-	-	894	949	1,055	1,035
Total business-type activities expenses	1,995,528	2,183,085	2,328,708	2,381,699	2,469,471	2,524,639
Total primary government expenses	$ 4,505,929	$ 4,834,735	$ 5,123,509	$ 5,021,880	$ 5,102,406	$ 5,470,808
Program Revenues						
Governmental activities:						
Charges for services:						
Public protection	$ 43,051	$ 42,254	$ 44,291	$ 40,349	$ 54,805	$ 51,874
Public works, transportation and commerce	97,432	102,576	84,057	83,176	95,081	113,861
Human welfare and neighborhood development	12,742	20,292	26,349	23,931	21,375	29,181
Community health	29,999	36,176	41,906	38,933	44,850	52,183
Culture and recreation	57,191	47,116	44,629	53,369	64,614	64,720
General administration and finance	49,977	53,434	36,525	43,585	41,348	55,799
General City responsibilities	54,329	47,050	41,123	59,609	28,956	31,647
Operating Grants and Contributions	763,863	781,767	809,670	823,784	834,607	859,919
Capital Grants and Contributions	22,619	58,394	46,029	39,209	55,435	248,329
Total Governmental activities program revenues	1,131,203	1,189,059	1,174,579	1,205,945	1,241,071	1,507,513
Business-type activities:						
Charges for services:						
Airport	414,880	465,176	500,116	486,132	477,314	455,342
Transportation	113,196	107,455	155,656	186,390	187,913	210,692
Port	50,345	50,494	54,467	56,702	57,519	58,588
Water	149,917	147,216	170,253	168,260	184,835	201,833
Power	101,963	125,777	132,190	124,474	132,303	149,500
Hospitals	398,461	412,874	429,128	453,607	493,596	472,327
Sewer	141,770	134,595	134,745	137,806	148,888	164,703
Garages	37,589	35,645	-	-	-	-
Market	-	-	1,296	1,413	1,462	1,503
Operating Grants and Contributions	260,520	282,059	164,257	169,767	180,807	188,672
Capital Grants and Contributions	335,520	251,747	204,751	94,818	93,724	110,403
Total business-type activities program revenues	2,004,161	2,013,038	1,946,859	1,879,369	1,958,361	2,013,563
Total primary government program revenues	$ 3,135,364	$ 3,202,097	$ 3,121,438	$ 3,085,314	$ 3,199,432	$ 3,521,076
Net (expenses)/revenue						
Governmental activities	$(1,379,196)	$(1,462,591)	$(1,620,222)	$(1,434,236)	$(1,391,864)	$(1,438,656)
Business-type activities	8,633	(170,047)	(381,849)	(502,330)	(511,110)	(511,076)
Total primary government net expenses	$(1,370,565)	$(1,632,638)	$(2,002,071)	$(1,936,566)	$(1,902,974)	$(1,949,732)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(In Thousands)

	Fiscal Year									
	1997	1998	1999	2000 (1)	2001	2002 (2)	2003 (3)	2004 (4)	2005 (5)	2006
General Fund										
Reserved by charter for cash and emergency requirements	$ 69,656	$ 74,230	$ 80,076	$ 88,125	$ 97,491	$ 97,491	$ 59,337	$ -	$ -	$ -
Reserved for rainy day	-	-	-	-	-	-	-	56,139	48,139	121,976
Reserved for assets not available for appropriation	4,399	4,978	5,163	5,576	6,069	6,406	6,768	7,142	9,031	10,710
Reserved for encumbrances	45,666	49,707	43,602	32,808	37,743	52,735	43,195	42,501	57,762	38,159
Reserved for appropriation carryforward	31,677	40,253	50,284	74,051	77,060	61,716	28,880	35,754	36,198	124,009
Reserved for subsequent years' budgets	8,550	7,121	26,013	29,990	53,337	25,379	15,414	6,242	22,351	27,451
Unreserved	(11,500)	44,261	35,725	45,090	207,467	136,664	44,718	63,657	134,199	138,971
Total general fund	$ 148,650	$ 220,550	$ 240,863	$ 275,640	$ 479,167	$ 380,391	$ 196,312	$ 210,435	$ 307,680	$ 461,276
All other governmental funds										
Reserved for assets not available for appropriation	$ 60,419	$ 74,425	$ 54,054	$ 72,433	$ 51,548	$ 41,233	$ 25,906	$ 17,443	$ 17,683	$ 20,202
Reserved for debt service	24,734	28,676	34,785	27,694	63,308	36,548	33,866	18,600	45,540	57,429
Reserved for encumbrances	149,213	324,240	332,258	267,168	373,088	340,591	278,556	142,784	97,520	423,120
Reserved for appropriation carryforward	473,007	355,179	282,711	330,687	446,211	285,508	227,818	287,690	549,571	294,340
Reserved for subsequent years' budgets	-	-	1,660	3,520	9,664	18,604	8,004	8,005	8,004	8,004
Unreserved reported in:										
Special revenue funds	71,345	58,731	48,119	40,790	54,018	97,167	67,988	19,043	30,809	35,243
Capital projects funds	28,358	17,730	32,658	44,729	11,629	44,487	40,561	10,048	7,193	13,662
Permanent fund	-	-	-	-	4,064	4,433	4,227	3,326	3,856	2,308
Fiduciary funds	3,891	3,755	3,576	5,083	-	-	-	-	-	-
Total other governmental funds	$ 811,567	$ 862,736	$ 789,821	$ 792,104	$ 1,013,530	$ 868,571	$ 687,026	$ 507,139	$ 760,578	$ 654,308

Notes
(1) Through fiscal year 1999-2000, Expendable Trust Funds were reported as part of Fiduciary Fund Types. Due to the implementation of GASB Statement 34 in fiscal year 2000-2001, Expendable Trust Funds were reported as Special Revenue and Permanent Fund Types.
(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.
(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.
(4) The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.
(5) The change in reserved and unreserved fund balance in fiscal year 2005-2006 is explained in Management's Discussion and Analysis.

CITY AND COUNTY OF SAN FRANCISCO

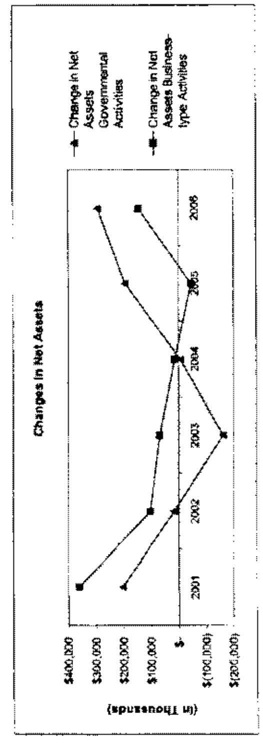
CHANGES IN NET ASSETS (Continued)

Last Six Fiscal Years

(accrual basis of accounting)

(In Thousands)

	Fiscal Year					
	2001 (1)	2002 (2)	2003 (3)	2004	2005	2006
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	$ 628,846	$ 697,703	$ 686,858	$ 723,786	$ 920,314	$ 1,016,220
Business taxes	277,822	274,848	276,651	264,832	292,783	323,153
Other local taxes	581,480	444,590	450,677	509,455	538,085	595,664
Interest and investment income	81,084	70,597	26,332	11,856	29,490	71,129
Other	115,695	115,943	196,496	170,163	47,153	56,022
Transfers - internal activities of primary government	(102,154)	(124,399)	(178,991)	(251,937)	(241,600)	(329,996)
Total governmental activities	1,582,773	1,479,282	1,458,023	1,428,155	1,586,205	1,732,192
Business-type activities:						
Interest and investment income	96,493	63,530	50,215	17,620	33,268	53,161
Other	28,779	85,425	188,446	237,692	237,102	272,873
Special item	126,014	-	33,000	9,245	(46,358)	-
Transfers - internal activities of primary government	102,154	124,399	178,991	251,937	241,600	329,996
Total business-type activities	353,440	273,354	450,652	516,494	465,612	656,030
Total primary government	$ 1,936,213	$ 1,752,636	$ 1,908,675	$ 1,944,649	$ 2,051,817	$ 2,388,222
Change in Net Assets						
Governmental activities	$ 203,575	$ 16,691	$ (162,199)	$ (6,081)	$ 194,341	$ 293,536
Business-type activities	362,073	103,307	68,803	14,164	(45,498)	144,954
Total primary government	$ 565,648	$ 119,998	$ (93,396)	$ 8,083	$ 148,843	$ 438,490



Notes:
(1) Trend data is only available for the last six fiscal years due to the implementation of GASB Statement 34 in fiscal year 2000-2001.
(2) Beginning fiscal year 2001-2002, the City established the San Francisco Finance Corporation Internal Service Fund to report the activities of the Finance Corporation because its sole purpose is to provide lease financing to the City. Previously, the operations of the Finance Corporation were accounted for in the debt service and capital project funds.
(3) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

(modified accrual basis of accounting)

(In Thousands)

	Fiscal Year									
	1997	1998	1999	2000 [1]	2001 [2]	2002 [3]	2003 [4]	2004	2005 [5]	2006
Revenues:										
Property taxes	$ 438,250	$ 476,912	$ 527,176	$ 544,210	$ 627,664	$ 687,150	$ 686,154	$ 721,437	$ 918,645	$ 1,008,151
Business taxes	201,210	223,647	229,906	267,918	277,822	274,848	276,651	264,832	292,763	323,153
Other local taxes	413,935	445,528	481,362	547,470	581,480	444,500	450,677	509,465	538,085	595,664
Licenses, permits and franchises	18,185	18,564	20,685	21,025	23,503	25,762	21,648	23,788	25,942	27,662
Fines, forfeitures and penalties	3,968	6,103	19,800	12,658	12,773	12,045	9,000	25,183	12,509	14,449
Interest and investment income	62,775	76,674	56,023	60,542	91,429	65,597	25,570	11,630	28,258	70,046
Rent and concessions	60,431	65,701	61,516	72,948	75,382	63,623	55,369	56,979	49,450	52,426
Intergovernmental:										
Federal	232,953	249,860	260,696	288,537	296,758	307,943	320,254	344,155	348,764	350,985
State	450,158	479,001	466,968	555,750	575,361	608,804	690,271	630,953	522,937	565,989
Other	536	195	2,562	4,695	6,245	33,924	24,823	18,259	25,763	23,500
Charges for services	136,405	167,658	161,689	185,733	215,412	225,547	221,663	217,647	241,750	253,994
Other	21,674	15,384	22,577	18,834	31,119	26,405	27,092	57,144	57,487	61,565
Total revenues	2,040,680	2,228,327	2,312,959	2,581,320	2,814,938	2,776,238	2,809,192	2,883,462	3,062,383	3,357,584
Expenditures										
Public protection	529,339	617,756	592,833	632,737	672,119	690,050	734,811	706,758	738,494	787,398
Public works, transportation and commerce	143,081	134,801	169,514	231,991	299,949	296,411	267,034	165,555	195,896	274,869
Human welfare and neighborhood development	384,962	415,636	522,487	515,007	557,242	613,133	670,670	662,948	644,899	697,102
Community health	390,649	430,501	455,162	434,386	454,975	484,825	524,771	512,914	501,050	471,741
Culture and recreation	184,377	189,743	266,879	204,081	233,863	238,326	252,477	273,163	239,022	256,979
General administration and finance	147,359	149,709	174,930	174,999	150,482	164,745	163,748	153,709	135,118	161,195
General City responsibilities	-	-	-	45,194	109,753	54,626	53,323	74,623	62,799	53,763
Debt service:										
Principal retirement	41,100	67,535	52,715	63,596	69,870	69,536	100,902	78,831	80,306	86,970
Interest and fiscal charges	57,916	48,017	56,823	60,650	68,367	68,111	64,243	61,866	61,524	75,975
Bond issuance costs	-	-	-	-	7,368	2,987	1,646	1,350	4,842	1,933
Capital outlay	220,331	218,401	244,070	188,793	170,472	276,662	248,928	165,872	130,224	153,493
Total expenditures	2,099,114	2,271,899	2,535,413	2,551,434	2,794,460	2,959,415	3,082,553	2,857,609	2,794,174	3,021,218
Excess (deficiency) of revenues over expenditures	(58,434)	(43,572)	(222,454)	29,886	20,478	(183,177)	(273,361)	25,853	268,209	336,366

(Continued)

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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-reimbursable	Exemptions [2]: Reimbursable	Exemptions [2]: Redevelopment Tax Increments	Total Taxable Assessed Value	Total Direct Tax Rate
1997 [3]...	$56,956,168	$2,680,912	$59,637,080	$2,260,394	$663,199	$3,126,655	$53,586,832	1.00%
1998 [3]...	59,010,846	2,585,594	61,596,440	2,331,980	668,877	3,343,618	55,251,965	1.00%
1999 [4]...	61,700,799	4,010,092	65,710,891	2,663,293	668,010	2,672,017	59,707,571	1.00%
2000 [4]...	66,859,683	4,384,155	71,243,838	2,783,904	666,747	2,844,489	64,948,698	1.00%
2001 [4]...	73,712,384	7,807,032	81,519,416	2,800,943	670,468	3,175,792	74,872,213	1.00%
2002 [4]...	88,866,299	4,686,951	93,553,250	3,129,961	665,145	5,291,437	84,466,707	1.00%
2003 [4]...	93,467,166	4,639,579	98,106,745	3,407,736	671,640	3,777,328	90,250,041	1.00%
2004 [4]...	99,878,960	3,848,851	103,727,811	3,706,357	689,558	3,892,143	95,439,753	1.00%
2005 [4]...	106,805,910	3,736,998	110,542,908	4,017,052	678,120	5,199,856	100,647,880	1.00%
2006 [4]...	114,767,252	3,465,752	118,233,004	4,246,112	657,834	6,453,299	106,875,759	1.00%

Source:
Controller, City and County of San Francisco

Notes:
(1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or $1/$100 of the assessed value, excluding the tax rate for debt service.
(2) Exemptions are summarized as follows:
(a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).
(b) Reimbursable exemptions arise from Article XIII(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)

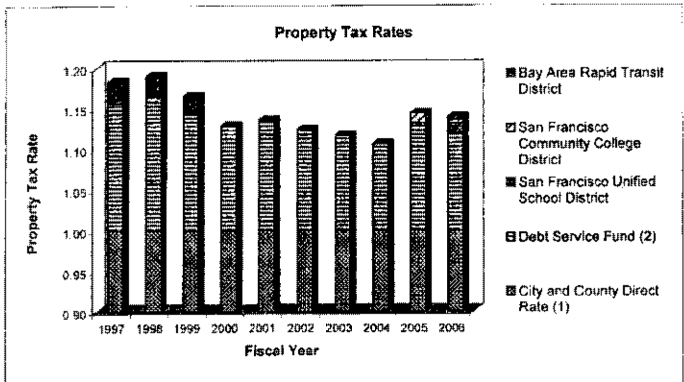
(In Thousands)

	1997	1998	1999	2000 [1]	2001 [2]	2002 [3]	2003 [4]	2004	2005 [5]	2006
Other financing sources (uses):										
Transfer in	211,913	297,031	275,205	340,880	261,957	267,107	226,520	204,660	271,553	224,523
Transfer out	(191,722)	(254,228)	(290,639)	(428,615)	(385,178)	(536,680)	(423,936)	(456,852)	(513,423)	(555,155)
Issuance of bonds and loans:										
Face value of bonds issued	112,108	574,542	200,450	94,909	394,040	249,985	71,310	116,645	346,225	219,120
Face value of loans issued	-	-	-	-	803	3,095	323	2,156	500	5,359
Premium on issuance of bonds	-	-	-	-	(2,773)	(238)	-	1,411	11,989	10,233
Payment to refunded bond escrow agent	(42,300)	(450,941)	(28,229)	-	-	(136,230)	-	(65,802)	(36,913)	-
Other financing sources - capital leases	-	237	-	-	-	92,373	33,520	6,165	4,542	6,882
Total other financing sources (uses)	89,999	166,641	156,787	7,174	268,849	(60,578)	(92,263)	(191,517)	82,473	(89,038)
Net change in fund balances	$ 31,565	$ 123,069	$ (65,667)	$ 37,080	$ 309,327	$ (243,755)	$ (365,624)	$ (165,764)	$ 350,682	$ 247,328
Debt service as a percentage of noncapital expenditures	5.27%	5.63%	4.78%	5.26%	5.55%	5.24%	5.89%	5.28%	5.51%	5.75%
Debt service as a percentage of total expenditures	4.72%	5.09%	4.32%	4.87%	5.21%	4.75%	5.41%	4.97%	5.25%	5.48%

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
1997	$ 1.00000000	$ 0.15637530	$ 0.00412470	$ -	$ 0.02250000	$ 1.1830
1998	1.00000000	0.16430174	0.00369826	-	0.02200000	1.1900
1999	1.00000000	0.14493925	0.00338075	-	0.01668000	1.1650
2000	1.00000000	0.12766122	0.00133878	-	-	1.1290
2001	1.00000000	0.13481356	0.00118644	-	-	1.1360
2002	1.00000000	0.12359506	0.00040494	-	-	1.1240
2003	1.00000000	0.11671113	0.00028887	-	-	1.1170
2004	1.00000000	0.10682335	0.00017665	-	-	1.1070
2005	1.00000000	0.12838968	0.00393518	0.01167514	-	1.1440
2006	1.00000000	0.12012547	0.01092226	0.00415227	0.00480000	1.1400



Notes:

(1) Proposition 13 allows each county to levy a maximum tax of $1 per $100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.

(2) On June 6, 1978, California voters approved a constitutional amendment to Article XIIIA of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIIIA (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.

CITY AND COUNTY OF SAN FRANCISCO
PRINCIPAL PROPERTY ASSESSEES
Current Fiscal Year and Nine Fiscal Years Ago
(In Thousands)

		Fiscal Year 2006			Fiscal Year 1997		
Assessee	Type of Business	Taxable Assessed Value [1]	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value [2][3]
Embarcadero Center Venture	Office, Commercial	$ 1,224,728	1	1.15%	$ 494,773	4	0.92%
Pacific Gas & Electric Company	Utilities	1,094,861	2	1.02	984,202	1	1.84
555 California Street Partners	Office, Commercial	795,000	3	0.74	562,090	3	1.05
EOP - One Market LLC	Office, Commercial	424,443	4	0.40	-		-
Marriott Hotel	Hotel	389,795	5	0.36	280,027	5	0.52
Post-Montgomery Associates	Office, Commercial	389,743	6	0.36	-		-
China Basin Ballpark Company LLC	Possessory Interest Stadium	383,007	7	0.36	-		-
Olympic View Realty LLC (Park Merced)	Apartment	342,426	8	0.32	-		-
SBC California (Formerly Pacific Bell)	Utilities	337,477	9	0.32	860,711	2	1.61
101 California Venture	Office, Commercial	281,980	10	0.26	234,000	7	0.44
ZML One Market Ltd Partnership	Office, Commercial				238,619	6	0.45
Viacom Cablevision	Cable TV, Possessory Interest, Personal Property				231,700	8	0.43
San Francisco Hilton Joint Venture	Hotel				211,888	9	0.40
L & B - 333 Bush Joint Venture	Office, Commercial				180,007	10	0.34
Total		$ 5,663,459		5.29%	$4,278,017		8.00%

Source: Assessor, City and County of San Francisco

Notes:

(1) Data for fiscal year 2005-2006 updated as of June 5, 2006.
(2) Assessed values for fiscal years 2005-2006 and 1996-1997 are from the tax rolls of calendar years 2005 and 1996, respectively.
(3) Reflects revised calculations due to GASB 44 implementation.

CITY AND COUNTY OF SAN FRANCISCO

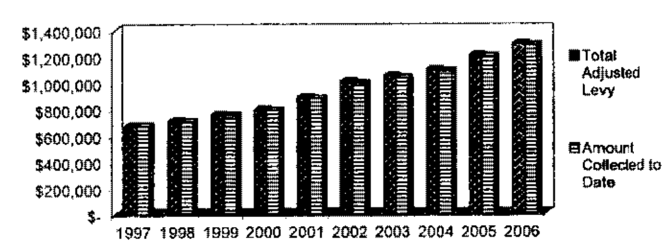
PROPERTY TAX LEVIES AND COLLECTIONS (1)(2)

Last Ten Fiscal Years

(In Thousands)

Fiscal Year	Total Adjusted Levy	Collected within the Fiscal Year of the Levy: Amount	Collected within the Fiscal Year of the Levy: Percentage of Original Levy	Collections in Subsequent Years (3)	Total Collections to Date: Amount	Total Collections to Date: Percentage of Adjusted Levy
1997	$ 671,657	$ 658,300	98.01%	$ 13,556	$ 671,856	100.03%
1998	709,852	697,755	98.30	8,917	706,672	99.55
1999	757,899	742,774	98.00	8,719	751,493	99.15
2000	799,385	784,984	98.20	6,153	791,137	98.97
2001	892,675	877,170	98.26	3,526	880,696	98.66
2002	1,010,960	985,838	97.52	7,366	993,204	98.24
2003	1,051,921	1,028,649	97.79	5,766	1,034,415	98.34
2004	1,100,951	1,079,354	98.04	9,092	1,088,446	98.86
2005	1,208,044	1,179,959	97.68	18,010	1,197,969	99.17
2006	1,291,491	1,263,396	97.82	17,524	1,280,920	99.18

Property Tax Levies and Collections



Source: Controller, City and County of San Francisco

Notes:

(1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District and San Francisco Redevelopment Agency.

(2) Does not include SB-813 supplemental property taxes.

(3) Collections in subsequent years reflect assessment appeals reduction.

CITY AND COUNTY OF SAN FRANCISCO

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(In Thousands, except per capita amount)

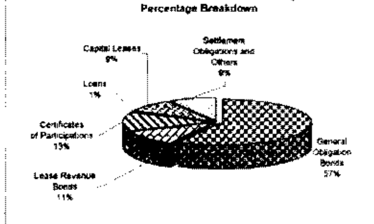
Governmental Activities

Fiscal Year	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participations	Loans	Capital Leases	Settlement Obligations and Others (1)(2)	Subtotal
1997	$ 758,985	$ 77,690	$ 89,492	$ 277	$ 1,795	$ -	$ 928,239
1998	807,300	111,935	89,456	256	3,787	-	1,012,734
1999	886,260	157,585	86,817	9,385	3,299	-	1,143,146
2000	911,625	151,165	91,926	17,313	2,507	-	1,174,536
2001	953,535	302,405	225,707	15,816	232,485	-	1,729,948
2002	917,220	293,810	259,360	13,007	226,541	54,820	1,764,758
2003	859,625	252,035	296,135	9,278	212,649	49,470	1,679,192
2004	844,350	245,680	290,635	9,515	194,815	94,275	1,679,270
2005	1,086,355	230,620	283,320	7,961	198,703	188,670	1,995,629
2006	1,232,205	231,265	276,160	12,377	190,279	182,955	2,125,241

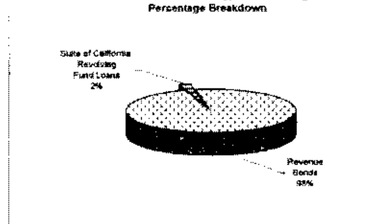
Business-Type Activities (1)(2)

Fiscal Year	Revenue Bonds	General Obligation Bonds	State of California - Revolving Fund Loans	Commercial Paper	Notes, Loans and Other Payables	Capital Leases	Subtotal	Total Primary Government	Percentage of Personal Income (4)	Per Capita (4)
1997	$ 2,815,169	$ 21,085	$ 183,921	$ -	$ 2,161	$ 5,798	$ 3,028,134	$ 3,956,373	12.32%	$ 5,279
1998	3,428,048	13,915	178,604	103,065	13,521	4,610	3,741,763	4,754,497	13.55	6,271
1999	4,116,131	6,430	167,730	199,776	11,492	2,137	4,503,695	5,646,841	14.39	7,367
2000	4,316,452	4,400	180,295	271,650	10,628	1,888	4,785,313	5,959,849	13.47	7,631
2001	4,501,515	3,200	193,597	472,541	12,267	779	5,183,899	6,913,847	15.61	8,788
2002	5,177,760	2,000	179,591	90,000	4,076	1,342	5,454,769	7,219,527	16.73	9,129
2003	5,284,535	800	165,125	-	29,592	4,210	5,484,262	7,163,454	16.24	9,045
2004	5,167,405	400	150,199	25,000	27,280	4,891	5,375,172	7,054,442	14.98	8,909
2005	5,084,426	-	134,783	80,000	24,529	4,754	5,328,492	7,324,121	14.61	9,214
2006	5,506,030	-	118,868	-	20,017	5,522	5,650,437	7,775,678	14.53	9,736

Fiscal Year 2006 Governmental Outstanding Debt Percentage Breakdown



Fiscal Year 2006 Business-Type Outstanding Debt Percentage Breakdown



Notes.

(1) Through fiscal year 1999-2000, business-type revenue bonds were reported net of deferred amount on discount and unamortized bond premium. Upon the implementation of GASB 34 in fiscal year 2000-2001, business type revenue bonds excluded deferred amount on refunding and unamortized bond premium.

(2) In fiscal year 2002-2003, in accordance with a Charter amendment, the City transferred its Parking and Traffic Department from governmental to business activities.

(3) Includes commercial paper issued in fiscal years 2003-2004 and 2004-2005 for San Francisco County Transportation Authority.

(4) See Demographic and Economic Statistics, page 198, for personal income and population data.

CITY AND COUNTY OF SAN FRANCISCO

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

(In Thousands, except per capita amount)

Fiscal Year	General Obligation Bonds (1)	Less: Amounts Restricted for Debt Service (1)	Total	Per Capita (2)
1997	$ 758,985	$ 520	$ 758,465	$ 1,012
1998	807,300	5,151	802,149	1,058
1999	886,260	10,323	875,937	1,143
2000	911,625	6,168	905,457	1,159
2001	953,535	14,809	938,726	1,193
2002	917,220	20,395	896,825	1,134
2003	859,625	13,304	846,321	1,069
2004	844,350	1,533	842,817	1,064
2005	1,086,355	33,774	1,052,581	1,324
2006	1,232,205	46,929	1,185,276	1,484

Notes:

(1) Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(2) Population data can be found in Demographic and Economic Statistics, page 198.

CITY AND COUNTY OF SAN FRANCISCO

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

(In Thousands)

	1997	1998	1999	2000	2001
Debt limit	$ 1,721,301	$ 1,777,934	$ 1,940,012	$ 2,053,798	$ 2,361,554
Total net debt applicable to limit	758,985	807,300	886,260	911,625	953,535
Legal debt margin	$ 962,316	$ 970,634	$ 1,053,752	$ 1,142,173	$ 1,408,019
Total net debt applicable to the limit as a percentage of debt limit	44.09%	45.41%	45.68%	44.39%	40.38%

	2002	2003	2004	2005	2006
Debt limit	$ 2,712,699	$ 2,840,970	$ 3,000,644	$ 3,195,776	$ 3,419,607
Total net debt applicable to limit	917,220	859,625	844,350	1,086,355	1,232,205
Legal debt margin	$ 1,795,479	$ 1,981,345	$ 2,156,294	$ 2,109,421	$ 2,187,402
Total net debt applicable to the limit as a percentage of debt limit	33.81%	30.26%	28.14%	33.99%	36.03%

Legal Debt Margin Calculation for Fiscal Year 2006

Total assessed value	$ 118,233,004
Less: non-reimbursable exemptions (1)	4,246,112
Assessed value (1)	$ 113,986,892
Debt limit (three percent of valuation subject to taxation (2))	$ 3,419,607
Debt applicable to limit:	
Less: general obligation bonds	1,232,205
Legal debt margin	$ 2,187,402

Source:

(1) Assessor, City and County of San Francisco

Note:

(2) City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.
"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

CITY AND COUNTY OF SAN FRANCISCO

DIRECT AND OVERLAPPING DEBT

June 30, 2006

District	Total General Debt Outstanding	Estimated Percentage Applicable to City and County [1]	Estimated Share of Overlapping Debt
Bay Area Rapid Transit District	$ 87,185,000	29.00%	$ 25,283,650
San Francisco Unified School District	180,445,000	100.00	180,445,000
San Francisco Community College District	272,480,000	100.00	272,480,000
Subtotal, overlapping debt			478,208,650
City and County of San Francisco direct debt			1,232,205,000
Total net direct and overlapping debt			$ 1,710,413,650
Population - 2006 [2]			798,680
			$ 2,141.55

Note: Overlapping districts are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping districts that is borne by the residents and businesses of the City. This process recognizes that, when considering the district's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the City's taxable assessed value that is within the district's boundaries and dividing it by the City's total taxable assessed value.

(2) Source: Department of Finance, State of California

CITY AND COUNTY OF SAN FRANCISCO

PLEDGED-REVENUE COVERAGE

Last Ten Fiscal Years

(In Thousands)

San Francisco International Airport [1]

Fiscal Year	Operating Revenues [2]	Less: Operating Expenses [3]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 264,851	$ 149,884	$ 114,967	$ 14,530	$ 61,921	$ 76,451	1.50
1998	295,150	165,929	129,221	15,520	68,956	84,476	1.53
1999	340,646	189,017	151,629	18,250	93,596	111,846	1.36
2000	403,281	197,175	206,106	19,835	138,413	158,248	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	493,082	235,765	257,317	70,630	221,208	291,838	0.88
2005	496,485	253,931	242,554	78,555	207,430	285,985	0.85
2006	480,673	267,387	213,286	79,125	199,419	278,544	0.77

(1) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the Airport Commission's 1991 Master Resolution which authorized the sale and issuance of these bonds.
(2) Operating revenues consist of Airport operating revenues and interest and investment income.
(3) In accordance with GASB Statement No. 44, Airport operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

San Francisco Water Department [4]

Fiscal Year	Gross Revenues [5]	Less: Operating Expenses [6]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 130,973	$ 91,477	$ 39,496	$ 9,225	$ 10,928	$ 20,153	1.96
1998	129,461	82,075	47,386	103,235	17,168	120,403	0.39
1999	138,576	105,494	33,082	6,440	13,918	20,358	1.63
2000	144,220	126,432	17,788	7,415	14,012	21,427	0.83
2001	149,917	127,707	22,210	6,956	14,411	21,367	1.04
2002	147,216	122,521	24,695	7,350	18,686	26,036	0.95
2003	170,253	136,093	34,160	11,789	21,655	33,444	1.02
2004	168,260	152,268	15,992	13,345	24,056	37,401	0.43
2005	184,835	136,341	48,494	14,055	23,658	37,713	1.29
2006	201,833	145,057	56,776	123,085	20,585	143,670	0.40

(4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(5) Gross revenue consists of charges for services, rental income and other income.
(6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

Municipal Transportation Agency

Fiscal Year	Base Rental Payment and Gross Meter Revenue Charges [7]	Less: Operating Expenses [8][9]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 13,670	$ 4,060	$ 9,610	$ 455	$ 1,699	$ 2,154	4.46
1998	12,938	4,850	8,088	480	1,668	2,148	3.77
1999	13,217	3,131	10,086	505	1,635	2,140	4.71
2000	13,906	4,768	9,138	1,240	1,552	2,792	3.27
2001	13,759	4,642	9,117	1,390	1,459	2,849	3.20
2002	13,354	5,351	8,003	1,440	1,437	2,877	2.78
2003	15,633	6,227	9,406	3,274	2,312	5,586	1.68
2004	25,604	10,430	15,174	4,943	2,854	7,797	1.95
2005	25,623	14,071	11,552	5,193	2,582	7,775	1.49
2006	31,116	14,960	16,156	5,471	2,317	7,788	2.07

(7) The Parking Authority leased North Beach, Moscone, and San Francisco General Hospital garages to the City. In return, the City pledged to pay off the debt service with its base (lease) rental payment. Gross Meter Revenue consists of revenues from all meters in San Francisco except the meters on Port and Airport properties.
(8) The annual budget for the Parking Program includes the Parking Authority that manages garages and the Parking Meter Program that maintains meters. The operating expense is the year-end total expenditures net of all debt service payments.
(9) Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses related to the pledged revenue stream do not include interest, depreciation or amortization expenses.

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

PLEDGED-REVENUE COVERAGE (Continued)

Last Ten Fiscal Years

(In Thousands)

San Francisco Wastewater Enterprise [10]

Fiscal Year	Gross Revenues [11]	Less: Operating Expenses [12]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 140,539	$ 62,908	$ 77,631	$ 25,905	$ 36,320	$ 62,225	1.25
1998	140,898	71,943	68,955	32,027	35,262	67,289	1.02
1999	142,974	71,985	70,989	33,864	34,965	68,829	1.03
2000	145,495	77,104	68,391	31,845	32,395	64,240	1.06
2001	141,770	79,902	61,868	35,270	31,109	66,379	0.93
2002	134,595	90,642	43,953	66,006	30,604	96,610	0.45
2003	134,745	90,808	43,937	69,871	15,820	85,691	0.51
2004	137,806	91,822	45,984	14,929	23,709	38,638	1.19
2005	148,888	101,490	47,398	15,413	21,937	37,350	1.27
2006	164,703	103,726	60,977	15,915	21,438	37,353	1.63

(10) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(11) Gross revenue consists of charges for services, rental income and other income.
(12) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest, depreciation or amortization.

Port of San Francisco [13]

Fiscal Year	Total Operating Revenues [14]	Less: Operating Expenses [15]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 39,191	$ 24,327	$ 14,864	$ 2,565	$ 2,857	$ 5,422	2.74
1998	40,947	24,431	16,516	2,675	2,740	5,415	3.05
1999	45,428	27,111	18,317	2,800	2,614	5,414	3.38
2000	49,127	29,052	20,075	2,930	2,472	5,402	3.72
2001	54,453	37,129	17,324	3,085	2,318	5,403	3.21
2002	53,740	47,759	5,981	3,235	2,156	5,391	1.11
2003	56,241	50,103	6,138	3,405	1,976	5,381	1.14
2004	57,782	49,707	8,075	3,595	1,719	5,314	1.52
2005	59,217	43,786	15,431	3,920	1,012	4,932	3.13
2006	61,581	44,893	16,688	3,390	554	3,944	4.23

(13) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.
(14) Total revenues consist of operating revenues and interest and investment income.
(15) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indenture, also excludes amortized dredging costs. For fiscal years 1996-1997, 1997-1998 and 1998-1999 operating expenses, as presented above, includes the debt service obligation of the State of California General Obligation Bonds of $314, $302, and $291, respectively. The State General Obligation Bonds were fully paid in fiscal year 1998-1999.

Total Business-type Activities

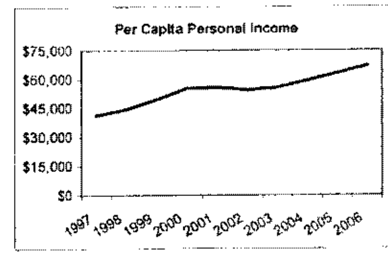
Fiscal Year	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage
1997	$ 589,224	$ 332,656	$ 256,568	$ 52,680	$ 113,725	$ 166,405	1.54
1998	619,394	349,228	270,166	153,937	125,794	279,731	0.97
1999	680,841	396,738	284,103	61,859	146,728	208,587	1.36
2000	756,029	434,531	321,498	63,265	186,844	250,109	1.29
2001	823,387	510,441	312,946	67,916	227,097	295,013	1.06
2002	845,593	532,572	313,021	105,321	266,546	371,867	0.84
2003	910,125	578,903	331,222	140,599	266,127	406,726	0.81
2004	883,134	539,992	343,142	107,442	273,546	380,988	0.90
2005	915,048	549,619	365,429	117,136	256,619	373,755	0.98
2006	939,906	576,023	363,883	226,986	244,313	471,299	0.77

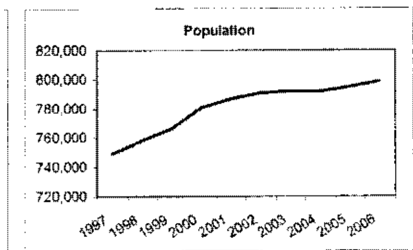
CITY AND COUNTY OF SAN FRANCISCO

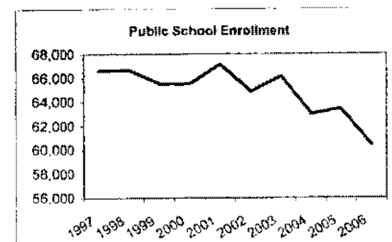
DEMOGRAPHIC AND ECONOMIC STATISTICS

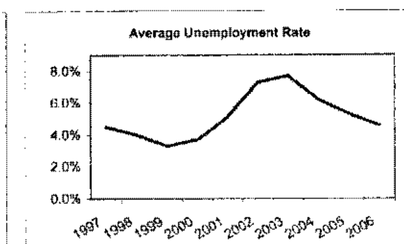
Last Ten Fiscal Years

Fiscal Year	Population [1]	Personal Income (In Thousands)	Per Capita Personal Income [2]	Median Age [3]	Public School Enrollment [4]	Average Unemployment Rate [5]
1997	749,406	$ 32,119,739	$ 41,290	37.8	66,604	4.5%
1998	758,210	35,093,406	44,518	37.9	66,679	4.0%
1999	766,471	39,232,364	49,695	38.7	65,540	3.3%
2000	780,974	44,251,095	55,272	39.1	65,519	3.7%
2001	786,719	44,287,708	55,816	37.3	67,152	5.1%
2002	790,846	43,147,238	54,369	38.3	64,870	7.3%
2003	791,977	44,107,952	55,720	38.3	66,141	7.7%
2004	791,797	47,084,795	59,398	39.2	63,009	6.2%
2005	794,850	50,465,466	63,140	39.4	63,421	5.3%
2006	798,680	53,513,713	67,064	N/A	60,450	4.6%









Sources:
(1) Data reflects the annual revisions by the State of California Department of Finance.
(2) State of California Employment Development Department.
(3) 2005 American Community Survey. N/A = Information is not available.
(4) San Francisco Unified School District (includes Child Center, Juvenile Center, etc.).
(5) Data reflects the annual revisions by the State of California Employment Development Department.

CITY AND COUNTY OF SAN FRANCISCO

PRINCIPAL EMPLOYERS

Current Year and Four Years Ago

Employer	Year 2005[1] Employees	Year 2005[1] Rank	Year 2005[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	28,253	1	6.71%	29,610	1	5.85%
University of California, San Francisco	19,138	2	4.55	13,835	2	2.95
Wells Fargo & Co.	7,581	3	1.80	6,366	5	1.36
San Francisco Unified School District	7,241	4	1.72	11,296	3	2.41
State of California	6,115	5	1.45	-	-	-
United States Postal Service	5,234	6	1.24	5,579	6	1.19
California Pacific Medical Center	5,000	7	1.19	4,500	10	0.96
PG&E Corporation	4,029	8	1.10	5,000	8	1.07
Gap, Inc	4,180	9	0.99	-	-	-
Kaiser Permanente	3,860	10	0.92	-	-	-
AT&T	-	-	-	5,200	7	1.11
SBC Communications	-	-	-	4,600	9	0.98
Charles Schwab & Co. Inc.	-	-	-	9,873	4	2.10
Total	91,231		21.67%	95,859		19.98%

Source: City and County of San Francisco employee count is obtained from the City's Controller's Office, based on fiscal year ending June 30, 2006 and June 30, 2001. All other data is obtained from San Francisco Business Times Book of Lists.

Note:
(1) The latest data as of calendar year 2005 is presented.

CITY AND COUNTY OF SAN FRANCISCO

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION[1]

Function	2000	2001	2002	2003	2004	2005	2006
Public Protection							
Fire Department	1,856	1,864	1,909	1,899	1,835	1,752	1,706
Police	2,742	2,785	2,748	2,688	2,669	2,616	2,664
Sheriff	896	892	921	920	937	929	944
Other	1,013	1,013	998	982	954	930	958
Total Public Protection	6,507	6,554	6,576	6,489	6,395	6,227	6,272
Public Works, Transportation and Commerce							
Municipal Transportation Agency	4,406	4,525	4,629	4,569	4,518	4,386	4,232
Airport Commission	1,517	1,578	1,537	1,306	1,214	1,203	1,248
Department of Public Works	1,004	1,066	1,081	1,077	1,053	1,059	1,035
Public Utilities Commission	1,376	1,404	1,411	1,513	1,589	1,513	1,573
Other	516	537	569	546	507	505	532
Total Public Works, Transportation and Commerce	8,819	9,109	9,227	9,011	8,881	8,666	8,620
Community Health							
Public Health	6,133	6,068	6,192	6,309	6,093	5,928	5,956
Total Community Health	6,133	6,068	6,192	6,309	6,093	5,928	5,956
Human Welfare and Neighborhood Development							
Human Services	1,706	1,807	1,724	1,744	1,735	1,697	1,663
Other	245	269	305	316	317	312	306
Total Human Welfare and Neighborhood Development	1,951	2,076	2,029	2,060	2,052	2,009	1,969
Culture and Recreation							
Recreation and Park Commission	1,010	998	1,014	976	1,001	954	916
Public Library	594	599	612	613	617	616	606
War Memorial	94	94	94	95	95	96	95
Other	124	120	130	149	156	149	200
Total Culture and Recreation	1,822	1,811	1,850	1,833	1,869	1,815	1,817
General Administration and Finance							
Administrative Services	417	426	420	401	405	383	378
City Attorney	316	334	329	321	319	308	321
Telecommunications and Information Services	314	352	333	324	313	276	261
Controller	161	165	156	155	141	170	179
Human Resources	209	211	215	213	188	172	151
Treasurer/Tax Collector	183	182	184	185	192	197	199
Mayor	145	77	75	72	56	51	48
Other	455	467	470	466	466	454	491
Total General Administration and Finance	2,200	2,214	2,182	2,137	2,080	2,011	2,028
General City Responsibility	-	2	3	4	4	4	3
Subtotal annually funded positions	27,432	27,834	28,059	27,843	27,374	26,660	26,665
Capital project funded positions	848	1,776	1,857	1,875	1,567	1,597	1,588
Total annually funded positions	28,280	29,610	29,916	29,718	28,941	28,257	28,253

Source: Controller, City and County of San Francisco

Note:
(1) Data represent budgeted and funded full-time equivalent positions.

CITY AND COUNTY OF SAN FRANCISCO

OPERATING INDICATORS BY FUNCTION

Function	Fiscal Year 2001	2002	2003	2004	2005	2006
Public Protection						
Fire and Emergency Communications						
Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile	N/A	N/A	N/A	8:09	7:59	8:01
Police						
Median time from dispatch to arrival on scene for highest priority calls	2:34	2:38	2:45	2:58	3:07	3:09
Number of homicides per 100,000 population	N/A	N/A	N/A	10.8	9.8	12.8
Percentage of San Franciscans who report feeling safe or very safe crossing the street	34%	42%	45%	45%	50%	N/A
Public Works, Transportation, and Commerce						
General Services Agency - Public Works						
Percentage of San Franciscans who rate cleanliness of neighborhood streets as good or very good	38%	44%	N/A	52%	49%	N/A
Number of blocks of City streets repaved	252	324	292	154	186	267
Municipal Transportation Agency						
Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good)	2.70	2.92	3.21	3.20	3.09	N/A
Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points	55.4%	71.9%	70.9%	68.3%	70.7%	69.2%
Percentage of scheduled service hours delivered	94.4%	97.8%	96.5%	97.2%	95.3%	92.7%
Airport						
Percent change in air passenger volume	-3.6%	-20.1%	-5.9%	5.3%	5.5%	1.5%
Human Welfare and Neighborhood Development						
Environment						
Percentage of total solid waste materials diverted in a calendar year	42%	46%	52%	63%	67%	67%
Culture and Recreation						
Recreation and Park						
Percentage of San Franciscans who rate the quality of the City's park grounds (landscaping) as good or very good	65%	64%	67%	67%	62%	N/A
Citywide percentage of park maintenance standards met for all parks inspected	N/A	N/A	N/A	N/A	N/A	83%
Public Library						
Percentage of San Franciscans who rate the quality of library staff assistance as good or very good	70%	77%	79%	81%	76%	N/A
Circulation of materials at San Francisco libraries	5,409,585	6,259,092	6,793,335	6,755,843	7,279,926	7,459,821
Asian and Fine Arts Museums						
Number of visitors to City-owned art museums (1)	962,090	453,117	727,437	763,242	696,271	1,546,617

Source: Controller, City and County of San Francisco

Notes
(1) Construction was completed for the new de Young Museum by the end of fiscal year 2004-2005, and the museum opened in October 2005.
N/A = Information is not available

CITY AND COUNTY OF SAN FRANCISCO

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

Function	Fiscal Year 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police protection (1)										
Number of stations	10	10	10	10	11	11	11	10	10	10
Number of police officers	2,002	2,187	2,180	2,229	2,321	2,449	2,388	2,170	2,180	2,070
Fire protection (2)										
Number of stations	41	41	43	45	45	45	45	45	45	48
Number of firefighters	1,458	1,559	1,586	1,654	1,804	1,800	1,795	1,690	1,675	1,333
Public works										
Mile of street (3)	851	945	945	989	989	1,044	1,252	1,050	1,050	1,051
Number of streetlights (4)	40,197	40,265	40,957	41,052	41,066	42,363	41,042	41,031	41,431	41,571
Water (4)										
Number of services	173,179	164,211	164,495	171,978	174,427	174,873	175,278	165,122	175,000	176,351
Average daily consumption (million gallons)	251.0	237.9	248.7	253.2	255.3	249.4	247.0	273.9	247.0	239.4
Mile of water mains	1,463	1,483	1,483	1,440	1,520	1,520	1,503	1,455	1,475	1,485
Sewers (4)										
Mile of collecting sewers	750	750	887.5	900	900	900	903	903	903	903
Mile of transport/storage sewers	150	150	18.5	18.5	18.5	15	15	15	15	15
Recreation and cultures										
Number of parks (5)	227	227	227	227	228	230	230	209	210	220
Number of libraries (6)	27	27	27	27	27	27	27	27	27	27
Number of library volumes (million) (6)	2.4	2.4	2.1	2.1	2.2	2.2	2.3	2.1	2.4	2.6
Public school education (7)										
Attendance centers	107	117	117	116	116	113	118	118	119	117
Number of classrooms	3,300	2,698	2,698	2,698	3,200	3,428	3,418	3,439	3,434	3,390
Number of teachers, full-time equivalent	4,065	3,242	2,094	2,671	3,260	3,272	3,362	3,138	3,171	3,103
Number of students	66,604	66,679	65,540	63,895	62,569	60,421	59,521	57,806	57,144	56,236

Sources
(1) Police Commission, City and County of San Francisco
(2) Fire Commission, City and County of San Francisco
(3) Department of Public Works, City and County of San Francisco
(4) Public Utilities Commission, City and County of San Francisco
(5) Parks and Recreation Commission, City and County of San Francisco
(6) Library Commission, City and County of San Francisco
(7) San Francisco Unified School District

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT, THE PROPERTY LEASE AND THE PROJECT LEASE

The following summary discussion of selected features of the Trust Agreement, the Property Lease and the Project Lease, all dated as of May 1, 2007, are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the office of the Controller of the City.

DEFINITIONS

"Additional Rental" means the amounts specified as such in the Project Lease.

"Administrative Code" means the San Francisco Administrative Code, as amended from time to time.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"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, but does not include Additional Rental.

"Base Rental Fund" means the fund of that name established pursuant to the Trust Agreement.

"Business Day" means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law to be closed in the State for commercial banking purposes or a day on which trading on the New York Stock Exchange is suspended for more than four hours or a day on which the New York Stock Exchange is closed for a state or national holiday.

"Certificate Payment Date" means, with respect to any Certificate, the September 1 date designated therein, which is the date on which the principal component of the Base Rental evidenced and represented thereby shall become due and payable.

"Certificate Year" shall have the meaning assigned to such term in the Tax Certificate.

"Certificates" means, collectively, the Series 2007A Certificates and the Taxable Series 2007B Certificates.

"City" means the City and County of San Francisco, and its successors and assigns.

"City Representative" means the Mayor, the Controller, the Director of Public Finance or any other official of the City designated and authorized by the Controller of the City to act on behalf of the City under or with respect to the Trust Agreement, the Property Lease, the Project Lease and all other agreements related thereto.

"Closing Date" means the date of original execution and delivery of the Certificates.

"Code" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such section.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the City, dated the Closing Date, as originally executed and as it may be amended from time to time.

"Costs of Delivery" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Property Lease, the Project Lease, the Certificates and the preliminary and final official statements pertaining to the Certificates; rating agency fees; appraisals and property condition report fees; escrow and title insurance fees; CUSIP Service Bureau charges; market study fees; financial advisory fees; legal fees and expenses of counsel with respect to the financing of the Project and with respect to the validation proceedings occurring in connection therewith; any computer and other expenses incurred in connection with the Certificates; the initial fees and expenses of the Trustee and any paying agent (including without limitation, origination fees and first annual fees payable in advance); and other fees and expenses incurred in connection with the execution and delivery of the Certificates or the implementation of the financing for the Project, to the extent such fees and expenses are approved by a City Representative.

"Costs of Issuance Fund" means the fund of that name established pursuant to the Trust Agreement.

"Credit Facility" means any letter of credit, line of credit, bond insurance policy, surety bond or other credit source deposited with the Trustee by the City to satisfy the Reserve Requirement.

"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.

"Depository" means DTC and its successors and assigns, or if (a) the then Depository resigns from its functions as securities depository of the Certificates, or (b) the City discontinues use of the Depository pursuant to the Trust Agreement, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Certificates and which is selected by the City.

"Director of Property" means the City's Director of Property or any successor officer of the City who performs substantially the same duties as the Director of Property performs as of the date of the Trust Agreement.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Electronic Notice" means notice given by The Bond Buyer Wire or Bloomberg Business News.

"Event of Default" means any one or more of the events described in the Trust Agreement.

"Facilities" means, initially, the existing office buildings located at One South Van Ness Avenue and 1650 Mission Street, together with all other improvements, structures and fixtures related thereto and located on the Site, and after completion of the Project, the improvements and structures acquired and constructed as the Project, together with all other works, property or structures located from time to time on the Site.

"Final Completion" or "Final Completion of the Project" means the acquisition and installation of improvements to and the substantial readiness of the Project (subject to minor architectural finish items e.g., 'punch list' items) as evidenced by the delivery of the Certificate of Final Completion.

"Financing Documents" mean the Trust Agreement, the Property Lease, the Project Lease and the Continuing Disclosure Certificate, including any amendments or supplements to any of the foregoing documents.

"Fiscal Year" means the fiscal year of the City being July 1 to the following June 30 or any subsequent fiscal year adopted by the City.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"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.

"Hazardous Substances" means any and all substances, wastes, pollutants and contaminants now or at any time after the date of the Project Lease included within such (or any similar) term under federal, state or local statute, ordinance, code or regulation now existing or hereinafter enacted or amended.

"Independent Counsel" means any outside attorney or firm of attorneys appointed by the City, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Insurance Policy" means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of the principal and interest payments represented by the Certificates.

"Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Interest Payment Date" means a date on which interest evidenced and represented by the Certificates becomes due and payable, being March 1 and September 1 in each year, commencing September 1, 2007 and continuing until the Certificate Payment Date or earlier prepayment date of the Certificates.

"Investment Earnings" means interest received in respect of the investment of money on deposit in any fund or account maintained under the Trust Agreement.

"Leased Property" means the Site and the Facilities, collectively.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Net Proceeds" means any net proceeds of insurance or condemnation proceeds paid with respect to the affected portion of the Leased Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

"Outstanding" when used as of any particular time with respect to any Certificate, means any Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(1) any Certificate paid in accordance with its terms;

(2) any Certificate theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(3) any Certificate for the payment or prepayment of which funds or Federal Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether prior to the Certificate Payment Date or prepayment date of such Certificate), provided that, if such Certificate is to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(4) any Certificate purchased by the City; and

(5) any Certificate in lieu of or in exchange for which another Certificate or other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"Owner" means the registered owner, as indicated in the Certificate Register, of any Certificate.

"Permitted Encumbrances" means (i) those liens, charges, security interests and encumbrances other than those existing on or prior to the Closing Date or on or prior to the date any property is substituted for the Leased Property or any portion thereof pursuant to the Project Lease which are covered by the exceptions and exclusions set forth in the title policies delivered pursuant to the Project Lease and expressly approved by the City, including the exceptions listed on Schedule B to the Pro Forma Policy, and (ii) any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed or materials furnished in connection with the Leased Property that are not due and payable or the amount, validity or application of which is being contested in accordance with 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 systemwide 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 the highest short-term letter and numerical ratings of Moody's and S&P;

(f) Savings accounts or money market deposits that are fully insured by FDIC;

(g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated in the highest rating category by Moody's and S&P, or (ii) such agreement is fully collateralized by Government Obligations or Government Certificates;

(h) Commercial paper of "prime" quality rated in the highest rating category by Moody's and S&P,

which commercial paper is limited to issuing corporations that are organized and operating within the United States;

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P; provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated A or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) above, 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 in the highest rating category by Moody's and S&P, including prerefunded municipal obligations.

In connection with the purchase of any Permitted Investment, the City may enter into agreements, including forward purchase agreements, with the seller thereof.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prepayment Notice" shall have the meaning assigned to such term in the Trust Agreement.

"Prepayment Price" means the principal amount represented by the Certificates, plus any applicable premium.

"Principal Office of the Trustee" means the corporate trust office of the Trustee located in San Francisco, California, or such other office that the Trustee may designate in writing to the City from time to time as the corporate trust office for purposes of the Trust Agreement.

"Pro Forma Policy" means the Pro Forma Title Insurance Policy prepared by the Title Company with respect to the Site.

"Project" means the acquisition and improvement of existing office buildings located at One South Van Ness Avenue and 1650 Mission Street and the improvement of an existing City-owned office building located at 30 Van Ness Avenue to be acquired, constructed or renovated on the Site, as the same may be amended, modified or supplemented from time to time in accordance with the Project Lease.

"Project Costs" means the contract price paid or to be paid to or at the direction of any contractor for the acquisition, construction, installation or improvement to, or rehabilitation of, the Project, and reimbursement to the City for any payments made for or in connection with the acquisition of or improvement to the Property by the City prior to or subsequent to the Closing Date.

"Project Fund" means the fund of that name established pursuant to the Trust Agreement.

"Project Lease" means that certain Project Lease dated as of May 1, 2007, by and between the Trustee and the City with respect to the Project, including any amendments or supplements thereto.

"Project Lease Event of Default" means the occurrence and continuation of any event specified in the Project Lease.

"Project Lease Term" means the term of the Project Lease as provided in the Project Lease.

"Project Lease Year" means the period from the Closing Date through February 29, 2008 and thereafter the period from each March 1 to and including the following February 28 or 29, as the case may be, during the Project Lease Term.

"Property Lease" means that certain Property Lease dated as of May 1, 2007, by and between the City and the Trustee with respect to the Leased Property, including any amendments or supplements thereto.

"Rating Agencies" means S&P, Fitch and/or Moody's, whichever then has a current rating on the Certificates.

"Rebate Fund" means the fund of that name established pursuant to the Trust Agreement.

"Record Date" means any Regular Record Date.

"Regular Record Date" means the close of business on the 15th day of the calendar month next preceding each Interest Payment Date, whether or not a Business Day.

"Rental Payments" means all Base Rental and Additional Rental payable under the Project Lease.

"Reserve Fund" means the fund of that name established pursuant to the Trust Agreement.

"Reserve Requirement" means, collectively, the Series 2007A Reserve Requirement and the Taxable Series 2007B Reserve Requirement.

"Risk Manager" means the Risk Manager of the City or any successor officer of the City performing substantially the same duties as the Risk Manager performs as of the date of the Project Lease.

"S&P" means Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Series 2007A Certificates" means the City and County of San Francisco Certificates of Participation, Series 2007A (City Office Buildings - Multiple Properties Project) authorized by the Trust Agreement and at any time Outstanding there under, which are executed and delivered by the Trustee pursuant to the Trust Agreement.

"Series 2007A Project Account" means the account of that name established under the Trust Agreement.

"Series 2007A Reserve Account" means the account of that name established under the Trust Agreement.

"Series 2007A Reserve Requirement" means, as of any date of calculation, the least of (i) 100% of the maximum annual principal and interest payable with respect to the Series 2007A 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 Series 2007A Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Series 2007A Certificates or (iii) 10% of the principal amount of Series 2007A Certificates originally executed and delivered.

"Sinking Account Installment" means the principal amount represented by the Certificates required to be paid on any Interest Payment Date pursuant to sinking account installment prepayments under the Trust Agreement.

"Site" means the real property, as described in Exhibit A to 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.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 dated the Closing Date and executed by the City.

"Tax-Exempt" means, with respect to interest on, or with respect to, any obligations of a state or local government, including the Series 2007A Certificates, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Taxable Series 2007B Certificates" means the City and County of San Francisco Certificates of Participation, Taxable Series 2007B (City Office Buildings - Multiple Properties Project) authorized under the Trust Agreement and at any time

Outstanding thereunder, which are executed and delivered by the Trustee under the Trust Agreement.

"Taxable Series 2007B Project Account" means the account of that name established under the Trust Agreement.

"Taxable Series 2007B Reserve Account" means the account of that name established under the Trust Agreement.

"Taxable Series 2007B Reserve Requirement" means the amount set forth in the Trust Agreement.

"Treasurer" means the Treasurer of the City and County of San Francisco.

"Trust Agreement" means the Trust Agreement by and between the City and the Trustee, including any amendments or supplements thereto.

"Trustee" means Deutsche Bank National Trust Company, a national banking association, duly organized and existing under and by virtue of the laws of the United States, acting in its capacity as such under the Trust Agreement, or any successor appointed as provided therein.

"Written Certificate," "Written Direction" or "Written Request" means an instrument in writing signed on behalf of the City by a City Representative.

THE TRUST AGREEMENT

Moneys Held in Trust

The money and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the purposes specified in the Trust Agreement, and such money and investments, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of (i) the City, (ii) the Trustee, or (iii) any Owner or beneficial owner of any Certificate.

Funds and Accounts

The Trust Agreement establishes the following funds and accounts to be held by the Trustee: the Costs of Issuance Fund, the Project Fund, the Base Rental Fund, the Reserve Fund and the Rebate Fund.

Establishment and Application of Costs of Issuance Fund. There is established under the Trust Agreement in trust a special fund designated as the "Costs of Issuance Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement.

There shall be deposited in the Costs of Issuance Fund those portions of the proceeds of the Certificates required to be deposited therein under the Trust Agreement. The Trustee shall disburse money from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Delivery, in each case, promptly after receipt of, and in accordance with, a Written Request of a City Representative. Any amounts remaining in the Costs of Issuance Fund on the earlier of the date on which a City Representative has notified the Trustee in writing that all Costs of Delivery have been paid or the date twelve months from the Closing Date shall be transferred by the Trustee to the Base Rental Fund, provided that such transfer has been approved in writing by a City Representative, and the Cost of Issuance Fund shall then be closed.

Establishment and Application of Project Fund. There is established under the Trust Agreement in trust a special fund designated as the "Project Fund," (and within such Project Fund, special trust accounts designated as the "Series 2007A Project Account" and the "Taxable Series 2007B Project Account") which fund shall be deemed held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement. There shall be deposited in the Series 2007A Project Account and the Taxable Series 2007B Project Account those portions of the proceeds of the Certificates required to be deposited therein pursuant to the Trust Agreement.

The Trustee shall, from time to time, disburse money from the Project Fund to pay Project Costs, as provided in the Trust Agreement, in each case promptly after receipt of, and in accordance with, a Written Request of the City. Each officer of the City required to execute such Written Request shall have full authority to execute such Written Request without any further approval of the Board of Supervisors of the City.

If, after payment by the Trustee of all requisitions theretofore tendered to the Trustee under the provisions of the Trust Agreement, and delivery to the Trustee of a Written Certificate of the City to the effect that all Project Costs have been paid, there shall remain any balance of money in the Project Fund, all money so remaining shall be transferred first to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and thereafter to the Base Rental Fund.

Notwithstanding any other provision of the Trust Agreement, the City may, in its sole discretion and at any time, direct the Trustee to transfer moneys on deposit in the Project Fund representing investment earnings on amounts therein to the Base Rental Fund if the City determines, in its sole discretion that such moneys will not be needed for the improvement of the Project. The Trustee shall make such transfer upon the receipt of a request executed by a City Representative directing it to make such transfer.

Establishment and Application of Base Rental Fund.

(a) *Base Rental Fund.* There is established under the Trust Agreement in trust a special fund designated as the "Base Rental Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement. The Base Rental Fund shall be maintained by the Trustee until all required Base Rental is paid in full pursuant to the terms of the Project Lease, or until such earlier date as there are no Certificates Outstanding. The Trustee shall deposit in the Base Rental Fund (i) all Base Rental payments, (ii) all amounts, if any, required to be deposited in the Base Rental Fund pursuant to the Project Lease, (iii) all investment earnings required to be deposited therein pursuant to the provisions of the Trust Agreement, (iv) all amounts required to be deposited pursuant to paragraph (b) below and (v) that portion of the proceeds of the Certificates required to be deposited therein pursuant to the Trust Agreement.

Moneys from the proceeds of the Certificates deposited in the Base Rental Fund and earnings thereon shall be credited as amounts due as Base Rental from the City as set forth in the Trust Agreement. Any additional amounts in the Base Rental Fund shall also be credited to the Base Rental until expended.

Payments of Base Rental received by the Trustee under the Project Lease shall be net of amounts in the Reserve Fund in excess of the Reserve Requirement on each succeeding Interest Payment Date and net of amounts on deposit in the Base Rental Fund that are available for the payment of interest and principal with respect to the Certificates. These amounts shall be deposited into the Base Rental Fund, as appropriate, based upon Exhibit B of the Project Lease, as adjusted pursuant to the terms thereof.

Moneys held in the Base Rental Fund, other than as provided in paragraph (b) below, shall be applied by the Trustee to the payment of (i) interest due and payable with respect to the Certificates on each Interest Payment Date and (ii) principal or Sinking Account Installment, if any, due and payable with respect to the Certificates on each Interest Payment Date. In the event insufficient amounts are available in the Base Rental Fund or otherwise to pay interest and principal represented by the Certificates when due, available amounts shall be allocated proportionately among the Certificates based on the amount of interest and principal then due with respect to each Certificate.

(b) Any net proceeds of insurance or awards in respect of a taking under the power of eminent domain not required to be used for repair or replacement of the Project or Leased Property, as applicable, and, under the terms of the Trust Agreement, required to be deposited into the Base Rental Fund, any amounts required to be transferred to the Base Rental Fund pursuant to the Trust Agreement, and any other amounts provided for the prepayment of Certificates in accordance with the Trust Agreement, shall be deposited by the Trustee in the Base Rental Fund. The Trustee shall, on the scheduled prepayment date withdraw from the Base Rental Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Certificates to be prepaid on such date.

(c) All delinquent Base Rental payments received pursuant to the Project Lease and any proceeds of rental interruption insurance received by the Trustee shall be deposited into the Base Rental Fund. All proceeds of rental interruption insurance and delinquent Base Rental payments so received shall be applied first to the payment of overdue installments of interest, then to the payment of overdue installments of principal and then to make up any deficiency in the Reserve Fund. Commencing September 1, 2007, any amounts remaining in the Base Rental Fund on each Interest Payment Date which are not required for the payment of principal of or interest with respect to the Certificates on such Interest Payment Date shall be, first, transferred as directed in writing by a City Representative to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, retained in such Fund unless the City otherwise directs, in writing, that such amount be remitted to the City (except that any remaining money representing delinquent Base Rental payments and any proceeds of rental interruption insurance shall remain on deposit in the Base Rental Fund until expended).

Establishment and Application of Reserve Fund.

(a) There is established under the Trust Agreement in trust a special fund designated as the "Reserve Fund" (and within such Reserve Fund, special trust accounts designated as the "Series 2007A Reserve Account" and the "Taxable Series 2007B Reserve Account"), together with such accounts therein as the City may request the Trustee to establish, which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement. There shall be deposited in the Series 2007A Reserve Account and the Taxable Series 2007B Reserve Account those portions of the proceeds of the Certificates required to be deposited therein pursuant to the Trust Agreement.

(b) The Reserve Fund (or the applicable account therein) shall be maintained by the Trustee until the applicable Base Rental is paid in full pursuant to the Project Lease or until there are no longer any Series 2007A Certificates or Taxable Series 2007B Certificates Outstanding (as applicable); provided, however, that the final Base Rental payment may, at the City's option, be paid from the Reserve Fund (or the applicable account therein).

A Credit Facility in the amount of the Reserve Requirement may be substituted for all or a portion of the funds held by the Trustee in the Reserve Fund (or the applicable account therein) by the City at any time, provided that with respect to any such substitution (i) such substitution shall not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates (and the City shall notify each Rating Agency prior to making any such substitution), and (ii) the Trustee shall receive prior to any such substitution becoming effective an opinion of Independent Counsel stating that such substitution will not 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 Bonds. 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.

(c) 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 (pro rata from the Series 2007A Reserve Account and the Taxable Series 2007B Reserve Account based on aggregate principal amount of each series of Certificates then Outstanding) for credit to the Base Rental Fund an amount sufficient to make up such deficiency. 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.

(d) For purposes of determining the amount on deposit at any time in the Reserve Fund, the Trustee shall value all Permitted Investments on or before each March 1 and September 1 at the greater of cost or market value. In making any such valuations under the Trust Agreement, the Trustee may utilize and rely upon securities pricing services that may be available to it, including those within its regular accounting system. Any moneys in the Reserve Fund in excess of the Reserve Requirement (pro rata based on aggregate principal amount of each series of Certificates then Outstanding) on each March 1 and September 1, commencing September 1, 2007, and at such other time or times as directed by the City in a written order signed by a City Representative and delivered to the Trustee, 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 therefor, or transferred to such other fund as may be designated in such written order.

Establishment and Application of Rebate Fund

There is established under the Trust Agreement in trust a special fund designated the "Rebate Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. Amounts received by the Trustee as Additional Rental with respect to any rebate requirement as set forth in written instructions of a City Representative in accordance with the provisions of the Tax Certificate shall be deposited in the Rebate Fund. Amounts on deposit in the Rebate Fund shall only be applied to payments made to the United States of America in accordance with written instructions of a City Representative or returned to the City as directed in writing by a City Representative.

Surplus

After (a) (i) payment or prepayment or provision for payment or prepayment of all amounts due with respect to the Certificates and payment of all fees and expenses to the Trustee, or (ii) defeasance of the Certificates pursuant to the Trust Agreement, and (b) the transfer of any additional amounts required to be deposited into the Rebate Fund pursuant to a Written Request from a City Representative in accordance with the Tax Certificate, any amounts remaining in any of the funds, accounts or subaccounts established under the Trust Agreement (except for the Rebate Fund) and not required for such purposes shall after payment of any amounts due to the Trustee as evidenced by a Written Certificate of a City Representative, be remitted to the City and used for any lawful purpose thereof; provided, however, that in the event of defeasance, amounts shall not be remitted to the City until the City has delivered or caused to be delivered an opinion of

Independent Counsel to the effect that remission of such amounts to the City shall not affect the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates. Investment Earnings on amounts on deposit in all funds, accounts or subaccounts established under the Trust Agreement shall be applied as provided therein.

Additional Rental

In the event the Trustee receives Additional Rental pursuant to the Project Lease, the Trustee shall establish a separate fund for such Additional Rental and deposit any such amounts therein and such Additional Rental shall be applied by the Trustee solely to the payment of any costs in respect of which such Additional Rental was received, and shall not be commingled in any way with any other funds received by the Trustee pursuant to the Project Lease or the Trust Agreement. Notwithstanding the foregoing, to the extent such Additional Rental was paid to replenish amounts on deposit in the Reserve Fund or for deposit into the Rebate Fund, such amounts shall be deposited into such funds.

Application of Insurance Proceeds

If the Leased Property or any portion thereof shall be damaged or destroyed, the City shall make an election either to prepay Certificates or to repair or replace the Leased Property or affected portion thereof in accordance with the provisions of the Project Lease. Notwithstanding the provisions of the Project Lease, a City Representative shall, within 180 days of the occurrence of the event of damage or destruction (unless such time period is extended at the option of the City), notify the Trustee in writing of its election. The proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Leased Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund (the "Special Fund") and made available for and, to the extent necessary, shall be applied to the prepayment of Certificates in accordance with the Trust Agreement or applied to the cost of repair or replacement of the Leased Property or the affected portion thereof, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any insurance, including the proceeds of any self-insurance, remaining after the Leased Property or any portion thereof which was damaged or destroyed is restored to and made available to the City in substantially the same condition and fair rental value as that which existed prior to the damage or destruction or the prepayment, or provision for the prepayment, of Certificates as required in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the applicable account in the Reserve Fund to the extent that the amount therein is less than the applicable Reserve Requirement. 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 after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to the maximum amount of Base Rental payments becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it 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.

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 eminent domain provisions set forth in the Project Lease 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 in the Trust Agreement, in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the applicable account in the Reserve Fund to the extent that the amount therein is less than the applicable Reserve Requirement. 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.

Title Insurance

Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property or any portion thereof for the benefit of the Owners shall be applied and disbursed by the Trustee as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental payable by the City under the Project Lease, upon written direction of the City such proceeds shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Amounts not required to be so deposited shall, if there is first delivered to the Trustee a written certificate of a City Representative to the effect that the annual fair rental value of the Leased Property, notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental becoming due under the Project Lease in the then current Project Lease Year or any subsequent Project Lease Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts shall be transferred 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.

(b) If any portion of the Leased Property has been affected by such title defect, and if the City certifies in writing that such title defect will result in an abatement of Base Rental payable by the City under the Project Lease, then upon written direction of the City either (i) the Trustee on behalf of the City shall use the insurance proceeds to remove the title defect, or (ii) the Trustee shall, if not notified in writing by a City Representative within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, deposit such proceeds in the Base Rental Fund, and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

(c) Any excess proceeds with respect to title insurance remaining after application pursuant to the terms of the Trust Agreement shall be paid to the City to be used for any lawful purpose.

Investments

Money held by the Trustee in any fund or account under the Trust Agreement shall be invested by the Trustee in Permitted Investments, pending application as provided therein, solely at the Written Direction of a City Representative, shall be registered in the name of the Trustee, if registrable, for the benefit of the Owners, and shall be held by the Trustee. A City Representative shall, where applicable, direct the Trustee prior to 12:00 p.m. Pacific time on the Business Day prior to the date any Permitted Investment matures or is redeemed as to the reinvestment of the proceeds thereof. Money held in any fund, account, or subaccount under the Trust Agreement may be commingled for purposes of investment only; provided, however, that each fund, account, or subaccount held by the Trustee thereunder shall be accounted for separately. If a City Representative shall fail to provide the Trustee with Written Direction with respect to any moneys subject to investment, the Trustee shall, nevertheless, invest such moneys in Permitted Investments listed in clause (a) that mature on the day prior to the next Interest Payment Date or in Permitted Investments described in clause (d) of the definition thereof, whichever yield is greater on the date of such investment; provided, however, that with respect to funds on deposit in the Reserve Fund, absent Written Direction to the Trustee, the Trustee shall, nevertheless, invest such moneys in Permitted Investments listed in clauses (a), (d) or (h), which (i) will mature on the day prior to the next Interest Payment Date; and (ii) bears the highest net yield.

The Trustee understands and acknowledges that any investments and reinvestments shall be made after giving full consideration to the time at which funds are required to be available under the Trust Agreement and to the highest yield practicably obtainable giving due regard to the safety of such funds and the date upon which such funds will be required for the uses and purposes required by the Trust Agreement; provided, however, that investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity not greater than five years. The Trustee may act as agent in the making or disposing of any investment. The Trustee shall not invest any moneys held under the Trust Agreement in Permitted Investments offered by or through the Trustee or its affiliates unless (1) the Trustee determines such investment is consistent with the investment restrictions contained therein, (2) all fees charged are reasonable, and (3) a City Representative expressly consents in writing to the investment of the funds in the specific Permitted Investment. The foregoing consent must be received for each specific investment; blanket consents shall have no effect. All consents must be express and in writing and signed by a City Representative.

For the purpose of determining the amount in any fund or account under the Trust Agreement other than the Reserve Fund, all Permitted Investments shall be valued on or before each March 1 and September 1 at the greater of cost or market value. All Permitted Investments on deposit in the Reserve Fund shall be valued on or before each March 1 and September 1.

The Trustee shall deposit, as and when received, all Investment Earnings on amounts on deposit in all funds, accounts and subaccounts maintained by it under the Trust Agreement with respect to the Certificates as follows (i) all Investment Earnings on amounts on deposit in the Base Rental Fund and the applicable account in the Project Fund shall be retained therein; (ii) all Investment Earnings on amounts on deposit in the Reserve Fund shall be transferred to the Base Rental Fund, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund; (iii) all Investment Earnings on amounts on deposit in the Rebate Fund shall be retained therein; and (iv) all Investment Earnings on amounts on deposit in the Costs of Issuance Fund shall be retained therein; in each case, until such moneys are expended or such funds are closed as provided in the Trust Agreement.

Trustee

The Trust Agreement describes the Trustee and its duties, the procedures for its removal, resignation and compensation, and procedures for the appointment of any successor Trustee. In carrying out its duties under the Trust Agreement, the Trustee shall use the same degree of care and skill in its exercise as a prudent person would exercise or use in the conduct of such person's own affairs.

The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Trust Agreement, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or any substantial portion thereof or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City and to the Owners. Upon receiving such notice of resignation, the City shall appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment, other than pursuant to court order.

The Trustee must be a corporation, banking association or trust company doing business and having a corporate trust office in California and (i) having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authority or (ii) a wholly-owned subsidiary of a bank, trust company or bank holding company meeting on an aggregate basis the tests set out in clause (i) above. If such corporation, banking association, or trust company publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such corporation, banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Trust Agreement, the Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement.

Amendments to Trust Agreement

The Trust Agreement may be amended in writing by agreement between the parties, 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, or (e) 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 of the Trust Agreement, upon the opinion of Independent Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of the 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 of the Trust Agreement or any supplement thereto, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the amendment provisions of 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, or (d) 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.

Certain Covenants

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 required to be complied with, kept, observed and performed by it.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental, and such accounting records shall be available for inspection by the City or any Owner or his agent duly authorized in writing with prior notice at reasonable hours and under reasonable conditions.

Tax Matters. In order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the City covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code. In furtherance of this covenant, the City agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate. The Trustee agrees to comply with any written instructions received from a City Representative which such City Representative indicates must be followed in order to comply with the Tax Certificate. The Trustee shall have no duty or responsibility to enforce compliance by the City of such covenant or the terms of the Tax Certificate.

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:

(a) the City fails to deposit any required Base Rental payment with the Trustee; or

(b) 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 clause (a) above, 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 payment Event of Default specified in the Trust Agreement, 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.

Provisions Relating to the Insurance Policy

Insurer Provisions. The provisions set forth under this heading "Provisions relating to the Insurance Policy" and further set forth in the Trust Agreement shall apply notwithstanding anything to the contrary set forth in the Trust Agreement while the Insurance Policy is outstanding and the Insurer is not in default of any of its payment obligations under the Insurance Policy.

Permitted Investments. Permitted Investments shall be valued by the Trustee as frequently as deemed necessary by the Insurer, but not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date. Investments purchased with funds on deposit in the debt service reserve fund shall have a term to maturity of not greater than five years.

Reserve Fund Requirements.

(a) Deficiencies caused by a drawing on the Reserve Fund shall be replenished by the City from Additional Rental within 12 months of the date of the related deficiency.

(b) Any Credit Facility provided in lieu of a cash deposit into the Reserve Fund, other than the one provided by the Insurer, shall conform to the requirements set forth in the Trust Agreement.

Prepayment Notices. Notice of any prepayment of Certificates shall either (i) explicitly state that the proposed prepayment is conditioned on there being on deposit in the Base Rental Fund on the prepayment date sufficient money to pay the full prepayment price of the Certificates to be redeemed, or (ii) be sent only if sufficient money to pay the full prepayment price of the Certificates to be redeemed is on deposit in the Base Rental Fund.

Default-Related Provisions.

(a) The Trustee shall, to the extent there are no other available funds held under the Trust Agreement, use the remaining funds in the Project Fund to pay principal of or interest with respect to the Certificates in the event of a payment default; provided, however, that this provision may be waived in the discretion of the Insurer.

(b) In determining whether a payment default has occurred or whether a payment with respect to the Certificates has been made under the Trust Agreement, no effect shall be given to payments made under the Insurance Policy.

(c) The Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee within 30 days of the Trustee's knowledge thereof.

(d) For all purposes of the provisions set forth in the Trust Agreement, except the giving of notice of default to Certificateholders, the Insurer shall be deemed to be the sole holder of the Certificates it has insured for so long as it has not failed to comply with its payment obligations under the Insurance Policy.

(e) The Insurer shall be included as a party in interest and as a party entitled to (i) notify the City, the Trustee or any receiver of the occurrence of an event of default and (ii) request the Trustee or any receiver to intervene in judicial proceedings that affect the Certificates or the security therefor. The Trustee or any receiver shall be required to accept notice of default from the Insurer.

Amendments and Supplements. Any amendment or supplement to the Trust Agreement, the Project Lease or the Property Lease shall be subject to the prior written consent of the Insurer. Any rating agency rating the Certificates shall receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Defeasance Provisions. Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing) shall be used to effect defeasance of the Series 2007A Certificates unless the Insurer otherwise approves. In the event of an advance refunding, the City shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the prepayment, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the prepayment relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Payments under the Insurance Policy.

(a) If, on the third day preceding any Interest Payment Date there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest with respect to the Certificates due on such date, the Trustee shall immediately notify the Insurer and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by such Interest Payment Date, the City has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the Insurer and to the Fiscal Agent the registration books for the Certificates maintained by the Trustee. In addition:

(i) The Trustee shall provide the Insurer with a list of the Certificateholders entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy and shall make arrangements for the Insurer and its Fiscal Agent (1) to mail checks or drafts to Certificateholders entitled to receive full or partial interest payments from the Insurer and (2) to pay principal of the Certificates surrendered to the Fiscal Agent by the Certificateholders entitled to receive full or partial principal payments from the Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the Insurer pursuant to (i) above, notify Certificateholders entitled to receive the payment of principal of or interest with respect to the Certificates from the Insurer (1) as to the fact of such entitlement, (2) that the Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Certificateholder is entitled to receive full payment of principal from the Insurer, such Certificateholder must tender his Certificate with the instrument of transfer in the form provided on the Certificate executed in the name of the Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Certificateholder is entitled to receive partial payment of principal from the Insurer, such Certificateholder must tender his Certificate for payment first to the Trustee, which shall note on such Certificate the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Certificateholder subject to the terms of the Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest with respect to a Certificate has been recovered from a Certificateholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Insurer, notify all Certificateholders that in the event that any Certificateholder's payment is so recovered, such Certificateholder will be entitled to payment from the Insurer to the extent of such recovery, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from Certificateholders, and the dates on which such payments were made.

(c) The Insurer shall, to the extent it makes payment of principal of or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Certificateholders of such Certificates and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Certificateholders of such Certificates. Notwithstanding anything in the Trust Agreement or the Certificates to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Insurer to the extent that the Insurer is a subrogee with respect thereto.

Defeasance

If all Certificates shall be paid and discharged as provided in the Trust Agreement, then all obligations of the Trustee and the City under the Trust Agreement with respect to all Certificates shall cease and terminate, except only (i) the obligation of the Trustee to pay or cause to be paid to the Owners thereof all sums due with respect to the Certificates and to register, transfer and exchange Certificates under the Trust Agreement, (ii) the obligation of the City to pay the amounts owing to the Trustee under the Trust Agreement and (iii) the obligation of the City to comply with the provisions of the Trust Agreement relating to rebate and tax covenants. Any funds held by the Trustee at the time of such termination which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative and any excess shall be paid to the City.

(a) Any Certificate or portion thereof in an Authorized Denomination shall be deemed no longer Outstanding under the Trust Agreement if paid or discharged in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal and interest with respect to such Certificates which have become due and payable;

(ii) by depositing with the Trustee, in trust, cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Obligations) which, together with the amounts then on deposit in the Base Rental Fund and the Reserve Fund and dedicated to this purpose is fully sufficient to pay when due all principal of, premium, if any, and interest due with respect thereto; or

(iii) by depositing with the Trustee, in trust, Defeasance Securities in such amount as in the written opinion of a certified public accountant will, together with the interest to accrue on such Defeasance Securities without the need for reinvestment, be fully sufficient to pay when due all principal, premium, if any, and interest with respect to such Certificate to the Certificate Payment Date or earlier prepayment date thereof, notwithstanding that such Certificates shall not have been surrendered for payment.

(b) Notwithstanding the foregoing, no deposit under clauses (a)(ii) or (a)(iii) above shall be deemed a payment of such Certificates until the earlier to occur of:

(i) proper notice of prepayment of such Certificate shall have been previously given in accordance with the Trust Agreement to the Owners thereof or, in the event such Certificate is not by its terms subject to prepayment within the next 45 days of making the deposit under clauses (ii) and (iii) of subsection (a) above, a City Representative shall have given the Trustee irrevocable written instructions to mail by first-class mail, postage prepaid, notice to the Owners of such Certificate as soon as practicable stating that the deposit required by clauses (ii) and (iii) of subsection (a) above, as applicable, has been made with the Trustee and that such Certificate is deemed to have been paid and further stating such prepayment date or dates upon which money will be available for the payment of the principal and accrued interest thereon; or

(ii) the Certificate Payment Date of such Certificates.

(c) Any funds held by the Trustee at the time of the first to occur of the events described above with respect to all Certificates, which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative.

PROPERTY LEASE

Lease of Leased Property

Under the Property Lease the City leases the Site to the Trustee, together with all buildings and improvements thereon (collectively, the "Leased Property"), subject (i) to the terms of the Property Lease and any and all covenants, reservations, exceptions and other matters that are of record and (ii) to Permitted Encumbrances. The City also grants to the Trustee such rights of ingress and egress to the Site as the Trustee may require in order to fulfill its obligations under the Property Lease and under the Project Lease.

Ownership

The City represents that it is the sole owner of and holds fee title to the Leased Property, subject to Permitted Encumbrances.

Term

(a) The Property Lease shall commence on the earlier of the Closing Date or the date of recordation of the Property Lease in the official records of the City and end on the earlier to occur of (i) September 1, 2040, or (ii) the termination of the Project Lease.

(b) Upon termination of the Property Lease, all of the Trustee's interest in the Leased Property shall vest with the City.

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 by the Project Lease 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.

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.

Expiration

The Trustee agrees, upon the expiration of the Property Lease, to quit and surrender the Leased Property together with all improvements thereon; it being the understanding of the parties to the Property Lease that upon termination of the Property Lease title to the Leased Property shall vest in the City free and clear of any interest of the Trustee or any assignee of the Trustee.

Taxes

The City covenants and agrees to pay any and all taxes and assessments, if any, levied or assessed upon the Leased Property and all buildings and improvements thereon.

Eminent Domain

If the whole or any part of the Leased Property shall be taken under the power of eminent domain, the interest of the Trustee shall be recognized and is determined to be the aggregate amount of unpaid Base Rental payments under the Project Lease through the remainder of its term (excluding any contingent or potential liabilities), and any eminent domain proceeds shall be paid to the Trustee, as assignee of the interest of the Trustee under the Property Lease, in accordance with the terms of the Project Lease and the Trust Agreement.

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 thereunder and shall be entitled to all of the rights and privileges granted under any such assignment.

Partial Invalidity

If any one or more of the terms, provisions, promises, covenants or conditions of the Property Lease shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of the Property Lease shall not be affected and shall be valid and enforceable to the fullest extent permitted by law.

THE PROJECT LEASE

Project Lease Term; Transfer of Title To City

Under the Project Lease the Trustee leases the Leased Property to the City, and the City leases the Leased Property from the Trustee and agrees to pay the Base Rental and the Additional Rental as provided therein for the right to use and occupy the Leased Property, all on the terms and conditions set forth in the Project Lease.

The term of the Project Lease shall begin on the Closing Date and end on the earliest of (a) September 1, 2040, or (b) at such earlier date as the Certificates and all other amounts due thereunder and under the Trust Agreement shall have been paid or provision for their payment shall have been made in accordance with the Trust Agreement, or (c) the date of termination of the Project Lease due to casualty or condemnation in accordance with its terms; provided, however, that to the extent permitted by law, if Base Rental has been abated in any year in accordance with the Project Lease or has otherwise gone unpaid in whole or in part, the term of the Project Lease shall end on the earlier of September 1, 2050 or the date on which no Certificates remain outstanding and all Additional Rental has been paid.

Upon the termination of the Project Lease (other than as provided in the eminent domain or default provisions thereof), all of the Trustee's right, title and interest with respect to the Leased Property, and any improvements thereon or additions thereto, shall be transferred directly to the City or, at the option of the City, to any assignee or nominee of the City, in accordance with the provisions of the Project Lease, free and clear of any interest of the Trustee. Upon such termination, the Trustee shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Rent

Rental Payments. Under the Project Lease, the City agrees, subject to the terms thereof, 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 set forth below, such amounts constituting the aggregate rent payable under the Project Lease.

Base Rental. The City agrees to pay, from any legally available funds, aggregate Base Rental in the amounts set forth under the caption "Base Rental" in Exhibit B to the Project Lease, which constitutes the principal and interest represented by the Certificates. The Base Rental consists of annual rental payments with principal and interest components, the interest components being paid semiannually as interest on the principal components computed on the basis of a 360-day year composed of twelve 30-day months. The Base Rental payable by the City shall be paid in arrears and shall be due on March 1 and September 1 in each year and payable on each February 25 and August 25 during the Project Lease Term, commencing August 25, 2007. Base Rental payable on August 25 and the following February 25 shall be for the period from March 1 of the prior year to February 28 or 29, as the case may be, of the current year; provided, however, that the aggregate Base Rental payable on August 25, 2007 and February 25, 2008 shall be for the period from the Closing Date to February 29, 2008.

The City shall deposit the Base Rental with the Trustee for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the next succeeding Business Day. In no event shall the amount of Base Rental payable exceed the aggregate amount of principal and interest required to be paid or prepaid on the corresponding Interest Payment Date as represented by the Outstanding Certificates, according to their tenor.

Notwithstanding any other provision of the Project Lease, the City shall receive a credit for any Base Rental payment if and to the extent (i) moneys are on deposit in the Base Rental Fund held under the Trust Agreement (or will be transferred from the Capitalized Interest Account or the Reserve Fund to the Base Rental Fund pursuant to the Trust Agreement) and are available for the payment of Base Rental evidenced by the Certificates or (ii) investment earnings on Permitted Investments will be deposited in or credited to the Base Rental Fund on or after a Base Rental payment date but on or prior to the applicable Interest Payment Date.

Additional Rental. In addition to the Base Rental, the City agrees to pay as Additional Rental all of the following:

(i) All taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Leased Property or upon any interest of the Trustee or the Owners therein or in the Project Lease;

(ii) Insurance premiums, if any, on all insurance required under the provisions of the Project Lease;

(iii) All fees, costs and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee and any paying agent in connection with the Trust Agreement;

(iv) Amounts required to be deposited in the Rebate Fund in accordance with the Tax Certificate;

(v) Any other fees, costs or expenses incurred by the Trustee in connection with the execution, performance or enforcement of the Project Lease or any assignment of the Project Lease or of the Trust Agreement or any of the transactions contemplated thereby or related to the Leased Property;

(vi) Amounts required to replace, maintain and repair the Leased Property pursuant to the Project Lease;

(vii) Amounts required to replenish any deficiencies in the applicable Reserve Account to satisfy the applicable Reserve Requirement; and

(viii) Amounts required to pay or reimburse the Insurer for any and all charges, fees, costs, and expenses that the Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security the Project Lease or under the Trust Agreement or the Property Lease; (ii) the pursuit of any remedies under the Project Lease, under the Trust Agreement or the Property Lease, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the Project Lease, the Trust Agreement or the Property Lease; (iv) the violation by the City of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Insurer to cure defaults of the City under the Project Lease, the Trust Agreement or the Property Lease; or (vi) any litigation or other dispute in connection with the Project Lease, the Trust Agreement or the Property Lease, or the transactions contemplated by the Project Lease or thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Project Lease, the Trust Agreement or the Property Lease. Such payment obligations of the City to the Insurer shall survive discharge and termination of the Project Lease.

Amounts constituting Additional Rental payable under the Project Lease shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 30 days after notice in writing from the Trustee to the City stating the amount of Additional Rental then due and payable and the purpose thereof.

Budget

The City covenants under the Project Lease to take such action as may be necessary to include all Rental Payments due in its annual budget and to make the necessary annual appropriations for all such Rental Payments, subject to 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.

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, 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. 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 Lease.

Pursuant to the Project Lease, Base Rental is calculated on an annual basis, and rental abatement shall also be calculated on an annual basis taking into account the entire twelve month period commencing March 1, within which the damage or destruction occurs. If at any time it shall be necessary to calculate rental abatement, for purposes of calculation for any twelve month period commencing March 1 and ending February 28 or 29, as the case may be, the total amount of Base Rental payable within such twelve-month period shall be divided by 360 days and consist of twelve 30-day months. The maximum amount of daily rental abatement for such twelve-month period shall not exceed the result of such calculation. The maximum amount of daily abatement for any period of less than twelve months shall be calculated in a manner consistent with the preceding two sentences.

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.

Replacement, Maintenance and Repairs

The City shall, at its own expense and as determined and specified by the Director of Real Estate, during the Project Lease Term maintain the Leased Property, or cause the same to be maintained, in good order, condition and repair. The City shall replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City that would result in an abatement of Rental Payments or any portion thereof pursuant to the Project Lease; provided, however, that the City shall not be required to repair or replace any such portion of the Leased Property pursuant to the Project Lease if there shall be applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds 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 thereof such that the resulting Rental Payments payable pursuant to the Project Lease 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 with respect to all Certificates to remain Outstanding and all other amounts due under the Project Lease and under the Trust Agreement, to the extent it is due and payable in such Project Lease Year.

The City shall provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Leased Property. It is understood and agreed that in consideration of the payment by the City of the Rental Payments provided for in the Project Lease, the City is entitled to use and occupy the Leased Property and the Trustee shall have no obligation to incur any expense of any kind or character in connection with the management, operation or maintenance of the Leased Property during the Project Lease Term. The Trustee shall not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Leased Property. The City expressly waives the right to make repairs or to perform maintenance of the Leased Property at the expense of the Trustee and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the California Civil Code relating thereto.

The City shall keep the Leased Property free and clear of all liens, charges, security interests and encumbrances other than (i) those existing on or prior to the Closing Date or on or prior to the date any property is substituted for the Leased Property or any portion thereof pursuant to the Project Lease which are covered by the exceptions and exclusions set forth in the title policies delivered pursuant to the Project Lease, as applicable, and expressly approved by the City, including the exceptions listed on Schedule B to the Pro Forma Policy, and (ii) any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed or materials furnished in connection with the Leased Property that are not due and payable or the amount, validity or application of which is being contested in accordance with the Project Lease (collectively, the "Permitted Encumbrances").

Taxes, Other Governmental Charges and Utility Charges

The City contemplates that the Leased Property will be used for a governmental purpose of the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to the Leased Property. Nevertheless, the City agrees to pay during the Project Lease Term, as the same respectively become due, all taxes (except for income or franchise taxes of the Trustee), utility charges and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property; provided, however, that with respect to any governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Project Lease is in effect; and provided further, that the City may contest in good faith the validity or application of any tax, utility charge or governmental charge in any reasonable manner that, in the opinion of Independent Counsel does not adversely affect the right, title and interest of the Trustee in and to any portion of the Leased Property or its rights or interests under the Project Lease or subject any portion of the Leased Property to loss or forfeiture. Any such taxes or charges shall constitute Additional Rental under the Project Lease and shall be payable directly to the entity assessing such taxes or charges.

Insurance

The City shall maintain or cause to be maintained, throughout the Project Lease Term (but during the period of construction of the Project only if such insurance is not provided by the contractor under the construction contract for the Project):

(1) General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Leased Property. Said policy or policies shall provide coverage in the following minimum amount: $5,000,000 combined single limit for bodily and personal injury and property damage per occurrence. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City.

(2) 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), but in no event less than the replacement cost of the Leased Property. 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.

(3) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates or the replacement cost of the Leased Property; 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.

(4) 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 March 1 of each year, commencing March 1, 2008, 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 (2) and (3) above. Such insurance shall not be subject to any deductible.

(5) 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.

(6) Builders' risk insurance in an amount equal to the replacement cost of the improvements relating to the Project, which insurance shall be outstanding until Final Completion of the Project.

All policies of insurance required under clauses (2), (3), (4) and (5) above shall name the City and the Trustee as the insured parties and shall provide that all proceeds thereunder shall be payable to the Trustee pursuant to a lender's loss payable endorsement substantially in accordance with the form approved by the Risk Manager, and all amounts so paid to the Trustee shall be applied as provided in the Trust Agreement. All policies of insurance required under clauses (1), (2), (3) and (5) may provide for a deductible amount that is commercially reasonable (as determined by the Risk Manager).

All policies of insurance required by the Project Lease shall be in a form or forms certified by the Risk Manager (as provided below) to be in compliance with the requirements of the Project Lease. The City shall pay when due the premiums for all insurance policies required by the Project Lease. All insurance under the Project Lease shall be primary to any other insurance available to the City, and shall apply separately to each insured against whom claim is made or suit is brought and shall provide that the Trustee shall be given 30 days' notice of cancellation (10 days if for nonpayment of premium) or intended non-renewal. All insurance required to be maintained pursuant to the Project Lease may be maintained either separately or as a part of any insurance carried by the City, but if maintained as part of other insurance carried by the City, shall specifically identify the Leased Property as being covered by such insurance, the amount of coverage applicable to the Leased Property, and the amount of the deductible applicable to the Leased Property. All insurance must be provided by a commercial insurer rated "A-, VIII" or higher by A.M. Best Company.

The City shall certify in writing to the Trustee by no later than March 1 of each year, commencing March 1, 2008, that there is in effect the insurance or self-insurance required by the Project Lease. The Risk Manager will also, at that time, file the written recommendation required by the Project Lease if no earthquake insurance has been obtained by the City, and shall also certify that the insurance the City has obtained pursuant to the Project Lease is in a form or forms which are in compliance with the requirements of the Project Lease.

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; provided that (i) any such alternative risk management program has been approved as reasonable and appropriate risk management by the Risk Manager, and (ii) any reserves set aside for such program shall be certified at least annually on each March 1, commencing March 1, 2008, as to their adequacy by the Risk Manager in a certificate delivered to the Trustee. In addition, any of the Mayor, Controller, Director of Real Estate or Director of Public Finance of the City may, if in the best interests of the City, approve such other types of insurance, including any increases in the insurance coverage required by the Project Lease, upon the recommendation of the Risk Manager, or in connection with obtaining or maintaining any rating on the Certificates.

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, 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.

Liens

The City promptly shall pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Property and that may be secured by any mechanic's, materialman's or other lien against the Leased Property, or the interest of the Trustee therein, and shall cause each such lien to be fully discharged and released; provided, however, that the City or the Trustee (i) may contest in good faith any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the City shall forthwith pay and discharge such judgment or lien, or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty or forfeiture.

Acquisition, Construction and Renovation of the Project

The Trustee agrees to acquire, construct and renovate, or cause the acquisition, construction and renovation of, the Project pursuant to the plans and specifications submitted to and approved by the City, as the same may be amended from time to time by the City. The Trustee appoints the City as its agent for the purposes of construction, renovation, installation and equipping, as necessary, of the Project. The City, as agent of the Trustee, shall use its best efforts to cause the construction, renovation and installation to be performed diligently to the end that the Project will be substantially completed in accordance with the aforesaid plans and specifications on or prior to March 31, 2010. The City shall cause the acquisition, construction, renovation, installation or improvement to the Project to be completed in accordance with any applicable requirements of governmental authorities and law. Upon Final Completion of the Project, the City shall promptly deliver to the Trustee a Certificate of Final Completion, in the form attached to the Project Lease, stating that the Project has been completed and is being fully used and occupied by the City.

Application of Insurance Proceeds.

General. Proceeds of insurance, if any, received in respect of destruction of or damage to any portion of the Leased Property by fire or other casualty or event, or proceeds of, earthquake insurance, if such earthquake insurance is obtained, shall be paid to the Trustee for application in accordance with the provisions of the Trust Agreement. If there is an abatement of Rental Payments pursuant to the Project Lease as a result of such casualty or event, and the City elects pursuant to the provisions of the Trust Agreement to apply such insurance proceeds and such other sums as are deposited pursuant to such section to the prepayment of Certificates rather than to the replacement or repair of the destroyed or damaged portion of the Leased Property, then the Project Lease shall terminate with respect to the destroyed or damaged portion of the Leased Property as of the later of the date of such election by the Trustee or the date the amount required by the Trust Agreement is received by the Trustee and in either case, after payment of any Additional Rental owed under the Project Lease. If the City elects, pursuant to the Trust Agreement, to apply such proceeds to the repair or replacement of the portion of the Leased Property that has been damaged or destroyed and 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 repair or replacement of such portion of the Leased Property.

Title Insurance. In accordance with the provisions of the Trust Agreement, proceeds of title insurance received with respect to the Leased Property shall be paid to the Trustee for application.

Eminent Domain

Total Condemnation. 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.

Partial Condemnation. 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.

Prepayment of Rental Payments

The City may prepay, or cause to be prepaid, all or any portion of the principal component of Base Rental payments then unpaid as provided under "THE CERTIFICATES – Prepayment of the Series 2007A Certificates" and "– Prepayment of the Series 2007B Certificates."

Additions and Improvements; Removal

The City shall have the right during the Project Lease Term to make any additions or improvements to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the Leased Property, so long as the fair rental value of the Leased Property is not thereby materially reduced. Title to all fixtures, equipment or personal property placed by the City on the Leased Property shall remain in the City to the extent that such items may be removed from the Site without damage. Title to any personal property, improvements or fixtures placed on any portion of the Leased Property by any sublessee or licensee of the City shall be controlled by the sublease or license agreement between such sublessee or licensee and the City, which sublease or license agreement shall not be inconsistent with the Project Lease.

Default

Events of Default. The following shall be events of default under the Project Lease: (i) the City shall fail to deposit with the Trustee any Base Rental payment required to be so deposited pursuant to the Project Lease 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 in the Project Lease. Any reentry 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 under the Project Lease 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, in no event shall the Trustee have the right to accelerate the payment of any Base Rental under the Project Lease.

Each and every remedy of the Trustee or any assignee of the rights of the Trustee under the Project Lease is cumulative and the exercise of one remedy 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 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, 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 to the Project Lease or to the Property Lease 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) A fair market appraisal from the Director of Real Estate setting forth the annual fair rental value and the fair replacement value of the Leased Property and/or improvements that will constitute the Leased Property or any portion thereof after such addition, release or substitution and evidencing that such fair replacement value is equal to or greater than the principal amount of the Certificates then Outstanding; provided that no such appraisal shall be necessary for the release from the Project Lease and the Property Lease, following Final Completion of the Project, of portions of the Site and the improvements thereon, other than the Project and the portion of the Site directly under the Project; it being the intent of the parties to the Project Lease that following Final Completion, the Leased Property shall consist solely of the Project and the portion of the Site upon which the Project is located;

(v) In the case of the addition or substitution of property for the then existing Leased Property, a CLTA Owner's 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 property subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted property and as will not result in an abatement of Base Rental payments payable by the City under the Project Lease;

(vi) 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;

(vii) (i) 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 (ii) 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;

(viii) A certificate of a City Representative stating that the useful life of the property that will constitute the Leased Property after such addition, release or substitution meets or exceeds the remaining term of the Certificates; and

(ix) A certificate of the Director of Real Estate stating the useful life of the property that will constitute the Leased Property after such addition, release or substitution and that such property is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such property in the manner intended by the City).

APPENDIX E

FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the CITY AND COUNTY OF SAN FRANCISCO (the "City") in connection with the execution and delivery of $__________ City and County of San Francisco Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project) (the "2007A Certificates") and $__________ of Certificates of Participation, Taxable Series 2007B (City Office Buildings – Multiple Properties Project) (the "Series 2007B Certificates" and together with the Series 2007A Certificates, the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2007 (the "Trust Agreement"), between the City and County of San Francisco (the "City"), and Deutsche Bank National Trust Company, as trustee (the "Trustee").

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 ("SEC") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms 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); or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Central Post Office" means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the SEC as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

"City Representative" shall mean the Controller of the City or another City official designated by the Controller and authorized to act on behalf of the City under or with respect to this Disclosure Certificate.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City, which has filed with the City 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.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the SEC are set forth at: http://www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original purchasers of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Report.

(a) The City shall, or, if the City is no longer acting as Dissemination Agent, the City shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (currently June 30), commencing with the report for the 2006-2007 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of its Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the City's fiscal year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the City (if the Dissemination Agent is other than the City) shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the City's Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection.

(c) If the Dissemination Agent is unable to verify that the Annual Report of the City is available to provide to Repositories by the date required in subsections (a) and (b) of this Section, the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(2) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(e) The Annual Report and/or any notice to be provided under Section 5(b) of this Disclosure Certificate may be filed with each Repository solely by transmitting the Annual Report or notice to the Central Post Office unless the SEC has withdrawn the interpretative advisements letter to the Central Post Office dated September 7, 2004.

SECTION 4. Content of Annual Report.

The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The amount of Certificates Outstanding under the Trust Agreement, the balance of the Reserve Fund and the status of completion and construction of the Project.

(c) Summaries of the following:

(1) budgeted general fund revenues and appropriations;

(2) assessed valuation of taxable property in the City; and

(3) ad valorem property tax levy and delinquency rate.

(d) A schedule of the aggregate annual debt service with respect to tax-supported indebtedness of the City and a summary of authorized, but unissued, tax-supported indebtedness of the City.

(e) A schedule of lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) 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 Certificate calls;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions or events adversely affecting the tax-exempt status of the Certificates;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;

(9) unscheduled draws on credit enhancements reflecting financial difficulties;

(10) substitution of credit or liquidity providers, or their failure to perform; and

(11) release, substitution or sale of property securing repayment of the 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, or cause to have filed, a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment 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. City Representative; Dissemination Agent. The City Representative shall have the authority to act on behalf of the City under or with respect to this Disclosure Certificate. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate, provided that the amendment or waiver, in the opinion of the City Attorney, is permitted by the Rule.

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 hereunder to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee, pursuant to the Trust Agreement, may (and, at the request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Certificates, shall), or any 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 only be instituted in a Federal or State court located in the City and County of San Francisco, State of California. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, 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.

SECTION 13. Severability. Any provision of this Disclosure Certificate found to be prohibited by law shall not be effective only to the extent of such prohibition, and shall not invalidate the remainder of this Disclosure Certificate.

Date: __________, 2007

CITY AND COUNTY OF SAN FRANCISCO

By: ______________________________

Edward M. Harrington, Controller

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Participant: City and County of San Francisco

Name of Certificate Issue: ______________________________

Date of Delivery: _____________, 2007

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the City's Continuing Disclosure Certificate dated ________, 2007. The City anticipates that the Annual Report will be filed by ____________ ________.

Dated: _______________

____
on behalf of the City and County of San Francisco
as Dissemination Agent

cc: City and County of San Francisco

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption "– General" below has been provided by DTC (as defined below). Neither the City nor the Trustee makes any representations as to the accuracy or the completeness of such information. The beneficial owners of the Certificates should confirm the following information with DTC, the Direct Participants (as defined below) or the Indirect Participants (as defined below).

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE CERTIFICATES UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE CERTIFICATES; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE CERTIFICATES; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF CERTIFICATES; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 2005 Bond will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the 2005 Bond documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates of a single maturity 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. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures.

Redemption proceeds, distributions, and dividend payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of 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 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.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City, the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2005 Bond certificates are required to be printed and delivered. The City and the Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2005 Bond bonds will be printed and delivered to DTC.

No Assurance Regarding DTC Practices

The information under the subcaption "– General" above concerning DTC and DTC's book-entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES. EACH PERSON FOR WHOM A PARTICIPANT ACQUIRES AN INTEREST IN THE CERTIFICATES, AS NOMINEE, MAY DESIRE TO MAKE ARRANGEMENTS WITH SUCH PARTICIPANT

TO RECEIVE A CREDIT BALANCE IN THE RECORDS OF SUCH PARTICIPANT, AND MAY DESIRE TO MAKE ARRANGEMENTS WITH SUCH PARTICIPANT TO HAVE ALL COMMUNICATIONS TO DTC, WHICH MAY AFFECT SUCH PERSON, FORWARDED IN WRITING BY SUCH PARTICIPANT AND TO RECEIVE NOTIFICATION OF ALL INTEREST PAYMENTS.

THE City WILL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE CERTIFICATES. NO ASSURANCE CAN BE GIVEN BY THE AUTHORITY THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES RECEIVED AS THE REGISTERED OWNER OF THE CERTIFICATES TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

Risks of Book-Entry System

The City makes no assurance, and the City shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Certificates.

In addition, Beneficial Owners of the Certificates may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Certificates since such distributions will be forwarded by the Trustee to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Certificates can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Certificates to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Certificates, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Authority as registered owners of the Certificates, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX G

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINION

________, 2007

Board of Supervisors
City and County of San Francisco
San Francisco, California

$152,120,000 Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project)	$1,580,000 Certificates of Participation, Taxable Series 2007B (City Office Buildings – Multiple Properties Project)

Ladies and Gentlemen:

We have acted as co-special counsel in connection with the execution and delivery of $152,120,000 aggregate principal amount of City and County of San Francisco Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project) (the "Series 2007A Certificates") and $1,580,000 of City and County of San Francisco Certificates of Participation, Taxable Series 2007B (City Office Buildings – Multiple Properties Project) (the "Series 2007B Certificates" and together with the Series 2007A Certificates, the "Certificates"). In such connection, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of the opinions rendered below. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Project Lease.

In rendering the opinions set forth below, we have relied upon, among other things, certain representations and covenants made in connection with this transaction, including in the Trust Agreement and the Tax Certificate as to Arbitrage and the Provisions of Section 103 and 141-150 of the Internal Revenue Code of 1986, executed by the City, dated as of the date hereof (the "Tax Certificate"). In addition to the foregoing, we have examined and relied upon opinions of the City Attorney, counsel to the Trustee and counsel to each of the City's tenants (each, a "501(c)(3) Tenant," as described below) that is or will upon the delivery of the Certificates be occupying a portion of the Leased Property, regarding the current qualification of each 501(c)(3) Tenant as an organization described in Section 501(c)(3) of the Code (as defined below) and the use of the facilities financed with the proceeds of the Certificates in activities that are not considered unrelated trade or business activities of such 501(c)(3) Tenant within the meaning of Section 513 of the Code, certificates of the City, the Trustee, each 501(c)(3) Tenant, and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. 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 above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Project 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 Series 2007A Interest Portion (as defined below) to be included in gross income for federal income tax purposes.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, the default judgment rendered on March 29, 2007, by the Superior Court of the County of San Francisco in the action entitled City and County of San Francisco v. All Persons, No. 459804, filed January 22, 2007, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring or changes in law or interpretation after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events or changes in law or interpretation occur or any other matters come to our attention after the date hereof. In addition, we call attention to the fact that the rights and obligations under the Certificates, the Property Lease, the Project Lease, the Trust Agreement 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 a city and county 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 or interests in any of the real or personal property described in or subject to the lien of the Property Lease, the Project 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. Finally, we undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Certificates and express no opinion relating thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City is a charter city and county, organized and existing under its Charter and the Constitution and laws of the State of California.

2. The Property Lease, the Project 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.

3. The obligation of the City to make 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, and does not constitute a debt of the City or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

4. 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.

5. The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the execution and delivery of the Certificates for the portion of each Base Rental payment designated as and constituting interest paid by the City under the Project Lease and received by the registered owners of the Series 2007A Certificates (the "Series 2007A Interest Portion") to be and remain excludable from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the Series 2007A Interest Portion to be included in gross income for Federal income tax purposes retroactive to the date of delivery of the Certificates. The City has covenanted in the Trust Agreement and the Tax Certificate to comply with the applicable requirements of the Code in order to maintain the exclusion of the Series 2007A Interest Portion from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the City and each 501(c)(3) Tenant have made certain representations and certifications in or attached to the Trust Agreement and the Tax Certificate, as applicable. We are also relying on the opinion of Sutter Health Office of the General Counsel, counsel to the California Pacific Medical Center, a 501(c)(3) Tenant, and the opinion of Titchell, Maltzman, Mark & Ohleyer, P.C., counsel to The Herbst Foundation, Inc., a 501(c)(3) Tenant, as to all matters concerning the status of each such 501(c)(3) Tenant as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code and as to matters relating to unrelated trades or businesses under Section 513 of the Code. We have not independently verified the accuracy of those certificates and representations or the opinions of their counsel.

Under existing law and assuming compliance with the aforementioned covenants and the accuracy of the aforementioned representations and certifications, the Series 2007A Interest Portion is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. We are also of the opinion the portion of the Project Lease allocable to the Series 2007A Certificates is not a "private activity bond" within the meaning of Section 141(a) of the Code and, therefore, the Series 2007A Interest Portion of each Base Rental payment is not a specific item of tax preference for purposes of the Code's alternative minimum tax liability, although we observe that the Series 2007A Interest Portion of each Base Rental payment received by or allocated to a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

6. The portion of each Base Rental payment due under the Project Lease designated as and comprising interest and received by the Owners of the Series 2007B Certificates (the "Series 2007B Interest Portion") is included in gross income for federal income tax purposes.

7. Under existing law, the portion of each Base Rental payment due and payable under the Lease designated as and comprising interest and received by or allocated to the Owners of the Certificates is exempt from personal income taxes of the State of California under present state law.

Except as stated in opinion paragraphs 5, 6 and 7, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Certificates. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Certificates, or the interest thereon, if any action is taken after the date hereof with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

This opinion is rendered solely to and for the benefit of the person to whom it is addressed in connection with the matter described above; accordingly, it may not be quoted or otherwise delivered to or relied upon by any other person (including, without limitation, any person who acquires the Certificates from the Holder) or used for any other purpose without our prior written consent. Our engagement with respect to this matter does not extend beyond the date hereof, and we disclaim any obligation to update this opinion letter.

Respectfully submitted,

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APPENDIX H

SPECIMEN INSURANCE POLICY

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FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:		**Policy Number:**	
		Control Number:	0010001
Bonds:		**Premium:**	

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

---

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

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FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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T 800·352·0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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FGIC

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125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

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