

December 29, 2005

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

Ladies and Gentlemen:

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

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

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

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

Our CAFR is divided into the following sections:

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

The Financial Section includes the MD&A, Basic Financial Statements, notes to the Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary, and other funds. Also included in this section is the independent auditors' report on the Basic Financial Statements.

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

Profile of San Francisco's Government



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

social services, planning, tax collection and many others.

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

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

Budgetary Process

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

San Francisco's Local Economy and Economic Development

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

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

ⁱ Source: United States Census Bureau

ⁱⁱ Source: San Francisco Quarterly Economic Briefing, April 2003

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

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

Commercial Real Estate

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

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

Residential Property, Housing and Property Tax

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

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

ⁱⁱⁱ Source: California Employment Development Department

^{iv} Source: Cushman & Wakefield, Inc., Marketbeat Mid-Year 2005

^v Source: Newmark, Office Market Report, Second Quarter, 2004

^{vi} Source: Cushman & Wakefield, Inc., Marketbeat Mid-Year 2005

^{vii} Source: California Association of Realtors

^{viii} Source: Sedway Group, July 2005

^{ix} Source: Assessor-Recorder, City and County of San Francisco

^x Source: San Francisco Quarterly Economic Briefing, April 2003

^{xi} Source: U.S. Census Bureau Housing Vacancy Survey Third Quarter 2003

^{xii} Source: RealFacts, Quarterly 2004-2005

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

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

Travel and Tourism

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



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

Hotel Development on Municipal Transportation Authority (MTA) Land

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

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

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

Biotech, Stem Cell Research, and Mission Bay Development

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

^{xiii} Source: PKFConsulting

^{xiv} Source: Moscone Center Administrative Office

^{xv} Source: San Francisco International Airport, June 2005

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

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



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

Hunters Point Shipyard Redevelopment Project

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

Port of San Francisco



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

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

Transportation and Infrastructure

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

^{xvi} Source: Building and Construction Trades Council of San Francisco, April 2005

^{xvii} Source: Building and Construction Trades Council of San Francisco, April 2005

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

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

Replacing the Central Freeway

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

Rebuilding the Hetch Hetchy Water System (Hetch Hetchy)

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



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

Homeless Housing Outreach Efforts

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

^{xviii} Source: Municipal Transportation Agency

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

Affordable Housing and Homeownership Program

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

Working Families Tax Credit Program

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

Laguna Honda Hospital



In 1999, the voters of San Francisco approved a \$299 million general obligation bond measure to support construction of "a health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital." The project plan included constructing 1,200 beds in four buildings. Total cost of construction was estimated at approximately \$401 million, to be supported by the bonds, an allocation of tobacco settlement funds, and interest earnings. In the last six years, construction costs have escalated considerably and in May 2005, cost estimates were increased to over \$600 million for completion. While the City has identified other funding sources that can help meet these future costs, there are also discussions taking place that

would reduce the size of the hospital and provide alternative, community-based care for the same population. The hospital will be built to modern environmental and seismic standards and will provide for a technologically advanced and flexible facility serving the City's growing need for rehabilitation facilities and residential care. In March 2005, bids were made for the first phase of the replacement project and the new facilities are scheduled to open in 2011.

Emergency Preparedness

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

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

311 Call Center

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

Museums and Cultural Facilities

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



Golden Gate Park is the site of both the de Young Museum and the Academy of Sciences. The de Young Museum includes a 293,000 square foot main building, a sculpture garden, and a unique copper-clad observation tower that rises 144 feet above the treetops of Golden Gate Park, designed by the architects Herzog & de Meuron and Fong & Chan. This new facility houses more than double the previous gallery space for exhibition of the de Young's collections of American art from the 17th to 20th

centuries and art of the native Americas, Africa and the Pacific. Across the concourse, the City's Academy of Sciences closed in December 2003 for construction and relocated its 18 million-specimen collection to a temporary exhibit and research facility at 10th and Howard Street in downtown San Francisco. The construction of the new Academy of Sciences, supported by a local bond issue, state funding, and private gifts, will cost approximately \$370 million, with a 2008 opening planned. The Academy's aquarium, planetarium and natural history collection will be housed in a new building that incorporates green design principals including a "living roof" of landscaped areas, glass facings and a piazza blending it with the park surroundings.

Library Improvement Program

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

City Services

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

- San Franciscans feel safer walking alone in their neighborhoods this year than in any prior survey year. Half of survey respondents feel safe or very safe both day and night; another third feel safe in the daytime but not at night; and one in six feels less than safe at both times. Feelings of safety crossing the street have also improved.
- MUNI's approval ratings are down slightly in some areas, including the convenience of routes and timeliness and reliability. Muni's performance is still rated higher than it was in years 1997-2001.

- As in previous years, almost half of survey respondents, choose "fair" in assessing how well local government provides services overall.
- Residents of the southeast and Supervisorial District 6 feel less safe than those in the rest of the City. In many categories, southeast residents rate City services lower than other City residents, but overall as of July 2005, violent crimes in the City have dropped by 10% as compared to the prior year.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

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

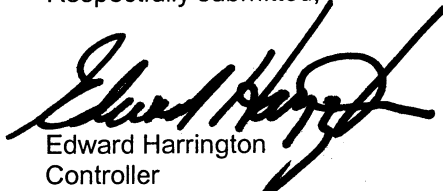
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Acknowledgments

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

Respectfully submitted,



Edward Harrington
Controller



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