

MOODY'S ASSIGNS A2 TO SAN FRANCISCO'S 2006A LEASE REVENUE BONDS

APPROXIMATELY \$10 MILLION OF DEBT AFFECTED

San Francisco City & County Fin. Corp., CA
San Francisco (City & County of) CA
Municipality
California

Moody's Rating

Issue	Rating
Lease Revenue Bonds, Series 2006A	A2
Sale Amount	\$10,135,000
Expected Sale Date	03/21/06
Rating Description	Lease Revenue Bonds

NEW YORK, March 20, 2006 -- Moody's Investors Service has assigned an A2 rating to the San Francisco Finance Corporation's 2006A series of lease revenue bonds. The bonds represent the City and County of San Francisco's annual equipment borrowing and are secured by a typical general fund lease between the city and the Finance Corporation. The A2 rating therefore primarily reflects the strength of the city's pledge to budget and appropriate lease payments so long as it has use and possession of the leased assets. The leased assets include a wide range of equipment and vehicles for various city departments (principally the Fire, Recreation & Parks, and Public Works departments). The rating also significantly reflects the city's general credit strengths, notably including its overall improved general fund financial position, strong socio-economic profile, and a moderate debt burden not materially affected by this small financing. The city's general obligation rating is Aa3 and our outlook for this and the city's other general fund related ratings is stable.

CONTINUED IMPROVEMENT IN GENERAL FUND FINANCES; MANAGEABLE NEAR-TERM PRESSURES

San Francisco's fiscal circumstances continue to improve. Fiscal 2005 ended with a budgetary surplus rather than the initially projected small draw on reserves. The fiscal 2006 budget is expected to result in a \$137 million budgetary surplus (absent supplemental appropriations). The estimated fiscal 2007 baseline budget gap is almost inconsequential (\$12.5 million) compared to the projected \$3.3 billion general fund operating budget. Key revenue sources are growing, with real estate related revenues again significantly outperforming budget assumptions. And for the moment expenditure pressures (e.g., excess overtime spending, high energy costs) appear quite manageable.

In the near future the city may experience somewhat more acute fiscal pressures as the bulk of its labor agreements expire at fiscal year-end and various interests line up to request a share of the current budget surplus. Longer term, a possibly quite large unfunded OPEB liability (as yet undetermined by the city) will likely result in additional funding pressure, and the real estate market is showing some signs of cooling, potentially constricting this recent key source of surplus revenue.

While the city's fiscal 2005 operating surplus (GAAP basis) was notable and resulted in a more than doubling of the city's unreserved fund balance (\$134 million vs. \$64 million), the city's overall reserve position remains below average for the rating level. However, the city's sound history of initial budget conservatism and comprehensive mid-year budget monitoring allows San Francisco to operate successfully with somewhat less in the way of reserves than would be typical of an Aa3 rated municipality. Also, a number of the city's fund balance reservations (e.g., "rainy day", "subsequent years' budgets", "appropriation carryforward") provide more year-to-year fiscal stability than those of many municipalities with less wide-ranging reserve policies.

CURRENT OFFERING IS CONSISTENT WITH PRIOR EQUIPMENT FINANCINGS

The current transaction represents the city's annual, pooled equipment financing, and key legal covenants in the lease and indenture are consistent with prior issues. Most notably, the debt service reserve defined in the supplemental indenture is expected to be 10% of the bonds' principal, and the lease agreement includes a covenant to purchase rental interruption insurance in an amount equal to one year of lease payments. Rental payments are due to the trustee 15 days in advance of the debt service payments on the bonds.

The bonds are being issued under a blanket voter authorization for such lease financings up to \$20 million, increased annually by 5%. The current, adjusted limit is \$41.6 million, of which \$23.4 million has already been utilized. The rate of retirement of the current offering is appropriately short given the nature of the equipment, with the full issue retired in five years. Gross, annual lease payments for the current offering peak at a little less than \$3.1 million, representing a de minimus, one-tenth-of-one-percent of general fund revenues and income.

The city is not legally obligated to make the full lease payments until the property acquisition has been completed. Moody's believes this risk is sufficiently mitigated by the city's provision of capitalized interest beyond the anticipated acquisition dates and the city's demonstrated practices with regard to lease payments and property acquisition. For those pieces of equipment not yet received by the city, interest has been capitalized for two months beyond the anticipated acquisition date. A small portion (7%) of the total equipment purchases is expected to be delivered prior to the April 5 closing of the current transaction, so no provision is made for capitalized interest for this portion. The final equipment acquisition is projected to occur on January 1, 2007, and interest is capitalized through March 1, 2007 for this particular acquisition. The first full debt service payment not including any capitalized interest is expected to be on October 1, 2007.

PROPERTY TAX BASE GROWTH CONTINUES, MODERATING DEBT BURDEN

The city's assessed valuation growth maintained a strong upward trend in fiscal 2006 (+6.7%), which is basically the same as in the prior year (+6.6%). The recent five-year average annual growth rate was 7.7%, which is comparable to the state average over this period for cities. Though the assessed valuation increase has been driven in part by the rapid increase in home prices, and more recently by significant commercial property turnover, Moody's expects that the effect of a market downturn on the city's AV would likely be

relatively moderate and lagged by a few years, given the constraints imposed on AV growth by Proposition 13.

As of fiscal 2005, San Francisco's overall debt burden jumped to 2.0% from only 1.7% the prior year, reflecting both its own GO debt issuance and that of overlapping entities. Nevertheless, it remains right about average for California cities and is below the city's 2.3% debt burden of the late 1990s.

San Francisco's authorized but unissued G.O. debt is now a fairly modest \$346 million. Some relative weakness in its debt profile is suggested only by San Francisco's overall debt per capita figure, which as of fiscal 2005 was already well above the typical level for counties (\$2,720 vs. \$1,200).

STRONG SOCIO-ECONOMIC PROFILE

As of the 2000 Census, San Francisco was at the high end of the distribution of incomes for its rating category. Income growth over the prior decade was particularly strong in San Francisco, with the percentage increase in median family and per capita incomes exceeding that of all the California counties in Moody's Major Metropolitan and Emerging Middle groups. With the weaker economy in recent years, San Francisco's relative gains have likely been eroded, but its overall socio-economic profile should remain a credit positive. We do note, however, that San Francisco retains a broad spectrum of incomes, which results in median family income levels substantially below those in the surrounding, more suburbanized Bay Area counties.

OUTLOOK:

Our outlook for San Francisco's long-term ratings is stable, primarily reflecting the city's recent fiscal improvement, counterbalanced by likely fiscal pressures over the next several years.

ANALYSTS:

Eric Hoffmann, Analyst, Public Finance Group, Moody's Investors Service
Dari Barzel, Backup Analyst, Public Finance Group, Moody's Investors Service

CONTACTS:

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Copyright 2006, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN

CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human

or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Moody's Investors Service Pty Limited does not hold an Australian financial services licence under the Corporations Act. This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.