

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Annual Financial Report

For the Year Ended June 30, 2017



Certified  
Public  
Accountants

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

**For the Year Ended June 30, 2017**

*Table of Contents*

|  | <i>Page</i> |
|--|-------------|
| <b>Independent Auditor’s Report</b> .....  | 1           |
| <b>Management’s Discussion and Analysis (Unaudited)</b> .....  | 3           |
| <b>Basic Financial Statements:</b>   |             |
| Statement of Fiduciary Net Position.....   | 11          |
| Statement of Changes in Fiduciary Net Position.....  | 12          |
| Notes to Basic Financial Statements.....   | 13          |
| <b>Required Supplementary Information (Unaudited):</b>   |             |
| Schedule of the Successor Agency’s Proportionate Share of the Net Pension Liability .....  | 35          |
| Schedule of the Contributions – Pension Plan.....  | 36          |
| Schedules of Funding Progress – Postemployment Healthcare Plan.....  | 37          |
| <b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on<br/>Compliance and Other Matters Based on an Audit of Financial Statements<br/>Performed in Accordance with <i>Government Auditing Standards</i></b> ..... | 39          |



## Independent Auditor's Report

Commission on Community Investment and Infrastructure  
Successor Agency to the Redevelopment Agency of the  
City and County of San Francisco  
San Francisco, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency), a component unit of the City and County of San Francisco, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Successor Agency's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Successor Agency as of June 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of the Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Successor Agency's internal control and compliance.



San Francisco, California  
October 23, 2017

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

As management of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco ("Successor Agency"), we offer readers of the Successor Agency's basic financial statements this narrative overview and analysis of the financial activities of the Successor Agency for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the Successor Agency's financial statements, which follow this section.

**Financial Highlights**

The Successor Agency's net position at June 30, 2017 was a deficit of \$388.8 million when compared to a deficit of \$377.0 million at June 30, 2016, an increase in deficit of \$11.8 million for fiscal year 2017.

The Successor Agency's additions for fiscal year 2017 were \$189.9 million compared to \$237.5 million for fiscal year 2016, a decrease of \$47.6 million. The decrease was mainly due to the decrease of \$34.6 million for developer payments, and \$19.0 million one-time net gain on the sale of the Jessie Garage for fiscal year 2016, offset by an increase of \$9.9 million for redevelopment property tax revenues.

The Successor Agency's deductions for fiscal year 2017 were \$201.7 million compared to \$189.1 million for fiscal year 2016, an increase of \$12.6 million. The increase was mainly due to the increases in affordable housing loan program costs of \$18.3 million, salaries and benefits of \$3.1 million due to the increase in employees, distribution of pledged revenue to Transbay Joint Power Authority of \$3.8 million due to the increase of property value of Transbay Joint Power Authority parcels, one-time transfer of land to developer of \$10.0 million, offset by a decrease in contracted services for Mission Bay North and South Project Area of \$16.0 million.

On September 20, 2016, the Successor Agency issued \$74.7 million of Tax Allocation Bonds Series 2016 D to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area.

On March 29, 2017, the Successor Agency issued \$89.8 million of Tax Allocation Bonds Series 2017 A to finance certain affordable housing projects of the Successor Agency within or of benefit to the Bayview Hunters Point Redevelopment Project Area.

On March 29, 2017, the Successor Agency issued \$19.9 million of Tax Allocation Bonds Series 2017 B to finance certain infrastructure projects of the Successor Agency within or of benefit to the Transbay Redevelopment Project Area.

On March 29, 2017, the Successor Agency also issued \$43.4 million of Tax Allocation Refunding Bonds Series 2017 C. Proceeds of \$22.0 million will be used to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. Remaining proceeds from the 2017 Series C Bonds were used to refund Tax allocation Bonds Series 2006 A, Series 2009 E, and Series 2011 E in the amount of \$3.2 million, \$5.0 million, and \$9.4 million, respectively.

**Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Successor Agency's basic financial statements. The Successor Agency's basic financial statements comprise two components: 1) basic financial statements and 2) notes to the basic financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements. These financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

**Financial Analysis**

The former Redevelopment Agency of the City and County of San Francisco ("Agency") and the Successor Agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues. In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable contractual commitments. Once redevelopment projects that are public facilities are completed by the Successor Agency, the Successor Agency will obtain approval to transfer these assets along with the responsibilities for their continued maintenance and operations to an appropriate public entity such as the City and County of San Francisco (City).

Net position may serve over time as a useful indicator of a government's financial position. At June 30, 2017, the Successor Agency has a deficit net position of \$388.8 million. Shown below is a schedule that summarizes the Successor Agency's net position held in trust:

Statement of Fiduciary Net Position  
(In thousands)

| <b>Assets</b>                           | <b>June 30, 2017</b> | <b>June 30, 2016</b> | <b>\$ Change</b>   |
|---|----------------------|----------------------|--------------------|
| Current and other assets                | \$ 609,451           | \$ 444,242           | \$ 165,209         |
| Capital assets                          | 152,462              | 165,221              | (12,759)           |
| <b>Total assets</b>                     | <b>761,913</b>       | <b>609,463</b>       | <b>152,450</b>     |
| <b>Deferred outflows of resources</b>   | <b>34,848</b>        | <b>31,242</b>        | <b>3,606</b>       |
| <b>Liabilities</b>                      |                      |                      |                    |
| Other liabilities                       | 38,557               | 41,878               | (3,321)            |
| Long-term liabilities                   | 1,140,578            | 967,995              | 172,583            |
| <b>Total Liabilities</b>                | <b>1,179,135</b>     | <b>1,009,873</b>     | <b>169,262</b>     |
| <b>Deferred inflows of resources</b>    | <b>6,475</b>         | <b>7,874</b>         | <b>(1,399)</b>     |
| <b>Total net position held in trust</b> | <b>\$ (388,849)</b>  | <b>\$ (377,042)</b>  | <b>\$ (11,807)</b> |

*Assets*

The Successor Agency's assets at June 30, 2017 were \$761.9 million when compared with \$609.5 million at June 30, 2016, an increase of \$152.4 million for fiscal year 2017 primarily due to the following:

- Decrease in unrestricted cash and investments of \$49.1 million, from \$294.5 million at June 30, 2016 to \$245.4 million at June 30, 2017. The decrease was mainly due to the decrease of receipt of developer payments for affordable housing projects.
- Increase in restricted cash and investments with trustees of \$209.9 million, from \$138.6 million at June 30, 2016 to \$348.5 million at June 30, 2017. The increase was mainly due to unspent proceeds from the issuance of Tax Allocation Bonds Series 2016 D, Series 2017 A, Series 2017 B, and Series 2017 C during the year.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

- Increase in interest and other receivables of \$3.4 million, from \$8.4 million at June 30, 2016 to \$11.8 million at June 30, 2017. The increase was mainly due to timing of the billing/receipt of developer payments.
- Decrease in capital assets of \$12.7 million, from \$165.2 million at June 30, 2016 to \$152.5 million at June 30, 2017. The decrease was due to the transfer of land in Transbay Project Area with book value of \$10.0 million to a developer, current year depreciation of \$4.9 million, offset by an increase of \$2.2 million in construction in progress.

***Liabilities***

The Successor Agency's liabilities at June 30, 2017 were \$1,179.1 million when compared with \$1,009.9 million at June 30, 2016, an increase of \$169.2 million for fiscal year 2017 primarily due to the following:

- Decrease in accounts payable of \$3.5 million, from \$21.8 million at June 30, 2016 to \$18.3 million at June 30, 2017. The decrease was mainly due to timing of the payment for eligible expenditures.
- Increase in long-term liabilities of \$172.6 million, from \$968.0 million at June 30, 2016 to \$1,140.6 million at June 30, 2017. The increase was mainly due to bond issuance of Tax Allocation Bonds Series 2016 D, Series 2017 A, Series 2017 B, and Series 2017 C during the year.

***Deferred Outflows and Inflows of Resources***

The Successor Agency's deferred outflows of resources at June 30, 2017 were \$34.8 million when compared with \$31.2 million at June 30, 2016, an increase of \$3.6 million for fiscal year 2017. The increase is mainly due to the increase in balances related to pension items of \$2.4 million, from \$1.5 million at June 30, 2016 to \$3.9 million at June 30, 2017.

The Successor Agency's deferred inflows of resources at June 30, 2017 were \$6.5 million when compared with \$7.9 million at June 30, 2016, a decrease of \$1.4 million for fiscal year 2017. The balance is related to pension items.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

The Successor Agency's net position decreased by \$11.8 million for fiscal year 2017. Key elements of the Successor Agency's additions and deductions are presented below:

Statement of Changes in Fiduciary Net Position  
(In thousands)

|  | <b>Year Ended</b>    |                      | <b>\$ Change</b>   |
|--|----------------------|----------------------|--------------------|
|  | <b>June 30, 2017</b> | <b>June 30, 2016</b> |                    |
| <b>Additions</b>                           |                      |                      |                    |
| Redevelopment property tax revenues        | \$ 129,233           | \$ 119,302           | \$ 9,931           |
| Developer payments                         | 30,129               | 64,780               | (34,651)           |
| Charges for services                       | 16,338               | 18,779               | (2,441)            |
| Hotel tax                                  | 4,946                | 5,022                | (76)               |
| Investment income                          | 2,286                | 1,632                | 654                |
| Grants                                     | -                    | 332                  | (332)              |
| Other                                      | 6,972                | 27,637               | (20,665)           |
| Total additions                            | <u>189,904</u>       | <u>237,484</u>       | <u>(47,580)</u>    |
| <b>Deductions</b>                          |                      |                      |                    |
| Salaries and benefits                      | 11,969               | 8,841                | 3,128              |
| Operating expenses                         | 1,006                | 1,626                | (620)              |
| Affordable housing loan program costs      | 66,021               | 47,738               | 18,283             |
| Contracted services:                       |                      |                      |                    |
| Hunters Point Shipyard / Candlestick Point | 6,650                | 5,134                | 1,516              |
| Mission Bay North and South                | 24,273               | 40,313               | (16,040)           |
| Transbay                                   | 3,200                | 3,257                | (57)               |
| Yerba Buena Center                         | 4,802                | 6,179                | (1,377)            |
| Other                                      | 6,321                | 8,592                | (2,271)            |
| Community based programs                   | 4,091                | 4,096                | (5)                |
| Distribution of pledged revenue to         |                      |                      |                    |
| Transbay Joint Powers Authority            | 5,398                | 1,632                | 3,766              |
| Depreciation                               | 4,949                | 5,543                | (594)              |
| Interest on debt                           | 52,947               | 52,204               | 743                |
| Transfer of land to developer              | 10,034               | -                    | 10,034             |
| Other                                      | 50                   | 3,962                | (3,912)            |
| Total deductions                           | <u>201,711</u>       | <u>189,117</u>       | <u>12,594</u>      |
| Change in net position                     | (11,807)             | 48,367               | (60,174)           |
| Net position, beginning of year            | <u>(377,042)</u>     | <u>(425,409)</u>     | 48,367             |
| Net position, end of year                  | <u>\$ (388,849)</u>  | <u>\$ (377,042)</u>  | <u>\$ (11,807)</u> |

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

***Additions***

The Successor Agency's additions to net position decreased by \$47.6 million, from \$237.5 million for fiscal year 2016 to \$189.9 million for fiscal year 2017 primarily due to the following:

- Increase in redevelopment property tax revenues of \$9.9 million, from \$119.3 million for fiscal year 2016 to \$129.2 million for fiscal year 2017. The increase was mainly due to the timing of projects, which impacted the pledged property tax revenues received.
- Decrease in charges for services of \$2.5 million, from \$18.8 million for fiscal year 2016 to \$16.3 million for fiscal year 2017. The decrease was mainly due to decrease in lease revenue in Yerba Buena Center.
- Decrease in developer payments of \$34.7 million, from \$64.8 million for fiscal year 2016 to \$30.1 million for fiscal year 2017. The decrease was due to the decrease of developer contributions for affordable housing projects.
- Decrease in other additions of \$20.6 million, from \$27.6 million for fiscal year 2016 to \$7.0 million for fiscal year 2017. The decrease was due to \$19.0 million one-time net gain on the sale of the Jessie Garage for fiscal year 2016.

***Deductions***

The Successor Agency's deductions to net position increased by \$12.6 million, from \$189.1 million for fiscal year 2016 to \$201.7 million for fiscal year 2017 primarily due to the following:

- Increase in salaries and benefit of \$3.2 million, from \$8.8 million for fiscal year 2016 to \$12.0 million for fiscal year 2017. The increase was mainly due to the hiring of employees for the increased project and administrative activities.
- Increase in affordable housing loan program costs of \$18.3 million, from \$47.7 million for fiscal year 2016 to \$66.0 million for fiscal year 2017. The increase was mainly due to the timing of housing project predevelopment and construction activities.
- Decrease in contracted services of \$18.3 million primarily due to the following:
  - Decrease in Mission Bay North and South Project Area of \$16.0 million, from \$40.3 million for fiscal year 2016 to \$24.3 million for fiscal year 2017. The decrease was mainly due to decrease in current year's activities in the project areas.
  - Increase in Hunter's Point of \$1.6, from \$5.1 million for fiscal year 2016 to \$6.7 million for fiscal year 2017. The increase was mainly due to increase in current year's activities in the project areas.
  - Decrease in Yerba Buena Center of \$1.4 million from \$6.2 million for fiscal year 2016 to \$4.8 million for fiscal year 2017. The decrease was mainly due to the sale of Jessie Square Garage in fiscal year 2016.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2017

- Decrease in Other of \$2.3 million from \$8.6 million for fiscal year 2016 to \$6.3 million for fiscal year 2017. The decrease was mainly due to the completion of elevator upgrades in a housing project in fiscal year 2016.
- Increase in the distribution of pledged revenue to Transbay Joint Powers Authority of \$3.8 million, from \$1.6 million for fiscal year 2016 to \$5.4 million in fiscal year 2017. The increase was mainly due to increase in property value of Transbay Joint Powers Authority parcels.
- A one-time transfer of land to developer during fiscal year 2017 for an affordable housing development project at the Transbay Project Area.

**Capital Assets and Debt Administration**

*Capital Assets*

As discussed above, at June 30, 2017, the Successor Agency had capital assets aggregating to \$152.5 million, a decrease of \$12.7 million from fiscal year 2016. The decrease was due to the transfer of land in Transbay Project Area with book value of \$10.0 million to a developer, current year depreciation of \$4.9 million, offset by an increase of \$2.2 million in construction in progress.

*Long-Debt Debt*

At June 30, 2017, the Successor Agency had long-term debt outstanding aggregating to \$1,116.6 million, an increase of \$166.5 million from fiscal year 2016. Below is a breakdown of the long-term debt is as follows (in thousands):

|   | <u>June 30, 2017</u>       | <u>June 30, 2016</u>     | <u>\$ Change</u>         |
|---|----------------------------|--------------------------|--------------------------|
| <b>Long-Term Debt</b>                       |                            |                          |                          |
| Bonds Payable                               |                            |                          |                          |
| Tax Allocation Bonds                        | \$ 970,381                 | \$ 804,659               | \$ 165,722               |
| Hotel Tax Revenue Bonds Series 2011         | 30,995                     | 34,260                   | (3,265)                  |
| South Beach Harbor Series 1986 Issue A      | -                          | 675                      | (675)                    |
| Subtotal - Bonds Payable                    | <u>1,001,376</u>           | <u>839,594</u>           | <u>161,782</u>           |
| Cal Boating Loans Payable                   | 6,630                      | 6,857                    | (227)                    |
| Accreted Interest Payable                   | 49,441                     | 42,215                   | 7,226                    |
| SERAF Borrowing From the Primary Government | 13,149                     | 14,602                   | (1,453)                  |
| Unamortized Premiums and Discounts          | <u>45,969</u>              | <u>46,833</u>            | <u>(864)</u>             |
| <b>Total Long-Term Debt</b>                 | <u><u>\$ 1,116,565</u></u> | <u><u>\$ 950,101</u></u> | <u><u>\$ 166,464</u></u> |

The increase was mainly due to bond issuance of Tax Allocation Bonds Series 2016 D, Series 2017 A, Series 2017 B, and Series 2017 C during the year.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2017

**Bond Ratings**

The table below shows the ratings for the Successor Agency's outstanding tax allocation bonds as of June 30, 2017:

| <u>Type of Tax Allocation Bonds</u> | <u>S &amp; P Ratings</u> |
|-------------------------------------|--------------------------|
| Mission Bay South                   | A-                       |
| Mission Bay North                   | A                        |
| Subordinate RPTTF                   | A+                       |
| Cross Collateralizd (Others)        | AA-                      |

**Revenues and Recognized Obligations Payment Schedule**

Pursuant to AB X1 26, the Successor Agency is required to adopt a Recognized Obligation Payments Schedule ("ROPS"). A ROPS, which lists all enforceable obligations due and payable during the six-month period, is prepared semi-annually and is the basis for the distribution of property tax revenues from the Redevelopment Property Tax Trust Fund.

The semi-annual Administrative Budget for Successor Agency is presented and approved by the Successor Agency governing board and Successor Agency's Oversight Board, and subsequently approved as part of the ROPS by the DOF.

**Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Successor Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Office of Community Investment and Infrastructure, One South Van Ness Avenue 5<sup>th</sup> Floor, San Francisco, California.

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**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Statement of Fiduciary Net Position

June 30, 2017

(In Thousands)

**Assets**

|   |    |         |
|---|----|---------|
| Unrestricted cash and investments   | \$ | 245,413 |
| Restricted cash and investments with trustees   |    | 348,529 |
| Interest and other receivables  |    | 11,758  |
| Intergovernmental receivables   |    | 404     |
| Notes and mortgages receivable (net of allowance<br>for uncollectible amounts of \$174,963) |    | 1,724   |
| Other assets  |    | 1,623   |
| Capital assets:   |    |         |
| Non-depreciable   |    | 44,988  |
| Depreciable, net of accumulated depreciation  |    | 107,474 |
|   |    | 761,913 |
| Total assets  |    | 761,913 |

**Deferred outflows of resources**

|                                      |  |        |
|--------------------------------------|--|--------|
| Unamortized loss on refundings       |  | 30,965 |
| Pension items                        |  | 3,883  |
|                                      |  | 34,848 |
| Total deferred outflows of resources |  | 34,848 |

**Liabilities**

|                           |  |           |
|---------------------------|--|-----------|
| Accounts payable          |  | 18,321    |
| Payable to the City       |  | 560       |
| Accrued interest payable  |  | 18,451    |
| Other liabilities         |  | 1,225     |
| Long-term obligations:    |  |           |
| Due within one year       |  | 56,102    |
| Due in more than one year |  | 1,061,195 |
| Net pension liability     |  | 23,281    |
|                           |  | 1,179,135 |
| Total liabilities         |  | 1,179,135 |

**Deferred inflows of resources**

|               |  |       |
|---------------|--|-------|
| Pension items |  | 6,475 |
|               |  | 6,475 |

**Net position held in trust**

**\$ (388,849)**

See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2017

(In Thousands)

**Additions:**

|                                     |            |
|-------------------------------------|------------|
| Redevelopment property tax revenues | \$ 129,233 |
| Developer payments                  | 30,129     |
| Charges for services                | 16,338     |
| Hotel tax                           | 4,946      |
| Investment income                   | 2,286      |
| Other                               | 6,972      |
|                                     | 189,904    |
| Total additions                     | 189,904    |

**Deductions:**

|  |         |
|--|---------|
| Salaries and benefits  | 11,969  |
| Administrative and operating                                       | 1,006   |
| Affordable housing loan program costs                              | 66,021  |
| Contracted services  | 45,246  |
| Community based programs   | 4,091   |
| Distribution of pledged revenue to Transbay Joint Powers Authority | 5,398   |
| Depreciation   | 4,949   |
| Interest on debt   | 52,947  |
| Transfer of land to developer                                      | 10,034  |
| Other  | 50      |
|  | 201,711 |
| Total deductions   | 201,711 |

|                                  |                     |
|----------------------------------|---------------------|
| Change in net position           | (11,807)            |
| Net position, beginning of year  | (377,042)           |
| <b>Net position, end of year</b> | <b>\$ (388,849)</b> |

See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies**

**(a) General**

The Redevelopment Agency of the City and County of San Francisco (Agency) was a public body, corporate and politic, organized and existed under the Community Redevelopment Law of the State of California. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Project Area.”

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and the wind-down of redevelopment activity. On January 24, 2012, the Board of Supervisors of the City and County of San Francisco (City) elected to become the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency) and elected to retain the former Agency’s housing assets and functions, rights, powers, duties and obligations, effective February 1, 2012.

On June 27, 2012, the Dissolution Law was revised pursuant to Assembly Bill 1484 (AB 1484), in which the State clarified that successor agencies are separate political entities and that the successor agency succeeds to the organizational status of the former redevelopment agency with the legal authority to participate in redevelopment activities only to the extent that it is required to complete the work related to an approved enforceable obligation. Therefore, the Successor Agency is a separate public entity from the City, subject to the direction of an Oversight Board. However, the City remains the Housing Successor Agency. The Oversight Board is comprised of seven-member representatives from local government bodies: four representatives appointed by the Mayor of the City subject to confirmation by the Board of Supervisors of the City; and one appointee each from the San Francisco Community College District, the Bay Area Rapid Transit District, and the San Francisco Unified School District.

On October 2, 2012, the City’s Board of Supervisors created the Successor Agency Commission, commonly known as the Commission on Community Investment and Infrastructure (Commission), as the policy body of the Successor Agency and delegated to it the authority to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations and the authority to take actions that the Dissolution Law requires or allows on behalf of the Successor Agency. The Commission is comprised of five members appointed by the Mayor and confirmed by the Board of Supervisors, with two of the seats held by residents of the two supervisorial districts with the largest amounts of the Major Approved Development Projects.

In September 2015, the State passed the Senate Bill 107 (Bill) which contains additional provisions and provides specificity to existing law governing the dissolution of redevelopment agencies and the wind-down of their existing activities and obligations. The Bill includes specific language to the Successor Agency that facilitates the issuance of bonds or other indebtedness for the purposes of low and moderate income housing and various infrastructure in the City, by allowing the pledge of revenues available in the RPTTF that are not otherwise pledged, subject to the approval of the Oversight Board. The Bill also declares that the Mission Bay North, Mission Bay South, Hunters Point Shipyard Phase 1, Candlestick Point – Hunters Point Shipyard Phase 2, and Transbay projects are finally and conclusively approved as enforceable obligations.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). The Successor Agency is allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported as a fiduciary fund (private-purpose trust fund).

The financial statements present the Successor Agency and its component units, entities for which the Successor Agency is considered to be financially accountable. The City and County of San Francisco Redevelopment Financing Authority (Financing Authority) is a joint powers authority formed between the former Agency and the City to facilitate the long-term financing of the former Agency activities. The Commission serves as the governing board of the Financing Authority and the Financing Authority provides services entirely to the Successor Agency. A financial benefit or burden relationship exists between the Successor Agency and the Financing Authority and thus the Financing Authority is included as a blended component unit in the Successor Agency's financial statements.

**(b) Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

**(c) Basis of Accounting**

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**(d) Investments**

The Successor Agency's investments in municipal bonds are stated at fair value. Fair value has been obtained by using market quotes and reflects the values as if the Successor Agency were to liquidate the securities on that date. The Successor Agency's investments in the City's Treasurer's Pool and money market mutual funds are valued at amortized cost.

**(e) Restricted Cash and Investments with Fiscal Agents**

Certain proceeds of the former Agency's and the Successor Agency's bonds, and resources set aside for their repayment, are classified as restricted assets on the statement of fiduciary net position because they are maintained in separate accounts and their use is limited by applicable bond covenants or for debt service payments.

**(f) Capital Assets**

Capital assets are defined as assets with an initial, individual cost of more than \$5 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <b>Assets</b>              | <b>Years</b> |
|----------------------------|--------------|
| Furniture and Equipment    | 3-20         |
| Buildings and Improvements | 15-40        |

**(g) Notes and Mortgages Receivable**

During the process of selling land to developers and issuing mortgage revenue bonds, the Successor Agency may defer receipt of land sale proceeds and mortgage revenue bond financing fees from various private developers in exchange for notes receivable, which aids the developers' financing arrangements. The Successor Agency recognizes all revenues and interest on the above-described arrangements when earned, net of any amounts deemed to be uncollectible. During the year ended June 30, 2017, the Successor Agency disbursed \$66,021 to the developers through this arrangement and recorded an allowance against these receivables. This allowance is recorded as a deduction - affordable housing loan program costs in the financial statements. At June 30, 2017, the gross value of the notes and mortgage receivable was \$176,687 and the allowance for uncollectible amounts was \$174,963.

**(h) Accrued Vacation and Sick Leave**

It is the Successor Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when earned. For sick leave, all employees are allowed to accumulate up to 1,040 hours (130 days). For vacation, employees are allowed to accumulate up to the limit based on employees' service years as follows:

| <b>Employee<br/>Service years</b> | <b>Maximum<br/>number of hours</b> |
|-----------------------------------|------------------------------------|
| Less than 5 years                 | 320                                |
| Between 5 to 15 years             | 360                                |
| More than 15 years                | 400                                |

**(i) Redevelopment Property Tax Revenues**

Pursuant to the Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into the Successor Agency's Redevelopment Property Tax Trust Fund (RPTTF) administered by the City's Controller for the benefit of holders of enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the RPTTF to the extent not necessary to pay enforceable obligations of the Successor Agency, plus any unencumbered redevelopment cash and funds from asset sales are distributed by the City's Controller to the local agencies in the project area.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

Distributions are scheduled to be made twice each year on the following cycles:

| Distribution Dates | Covers Recognized Obligation Payment Schedules to be Paid |
|--------------------|---|
| January 2          | January 1 through June 30                                 |
| June 1             | July 1 through December 31                                |

The amounts distributed for Recognized Obligation Payment Schedules (ROPS) are forward looking to the next six month period.

**(j) Bond Premium, Discounts, and Loss on Refundings**

Premiums and discounts on debt instruments are reported as a component of long-term debt. Loss on refundings is reported as a component of deferred outflows of resources. The premiums, discounts, and loss on refundings are amortized as a component of the interest expense in a systematic and rational matter over the remaining life of the debt instrument.

**(k) Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Successor Agency's Pension Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by California Public Employees' Retirement System (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(l) Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of fiduciary net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (deduction) until then. At June 30, 2017, the Successor Agency reported pension items and loss on refundings as deferred outflows of resources.

In addition to liabilities, the statement of fiduciary net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (addition) until that time. At June 30, 2017, the Successor Agency reported pension items as deferred inflows of resources.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

**(m) Effects of New Pronouncements**

During the year ended June 30, 2017, the Successor Agency implemented the following Governmental Accounting Standards Board (GASB) Statements:

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (i) brief descriptive information; (ii) the gross dollar amount of taxes abated during the period; and (iii) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.
- In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments.
- In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, *The Financial Reporting Entity*, as amended.

The implementation of these statements did not have a significant impact to the Successor Agency for the year ended June 30, 2017.

The Successor Agency is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The requirements of this statement are effective for the Successor Agency's year ending June 30, 2018.
- In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The requirements of this statement are effective for the Successor Agency's year ending June 30, 2018.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies (Continued)**

- In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for the Successor Agency's year ending June 30, 2019.
- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The requirements of this statement are effective for the Successor Agency's year ending June 30, 2020.
- In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of the statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this statement are effective for the Successor Agency's year ending June 30, 2018.
- In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of the statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this statement are effective for the Successor Agency's year ending June 30, 2018.
- In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the Successor Agency's fiscal year ended June 30, 2021.

**(n) 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.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(2) Cash and Investments**

As of June 30, 2017, the Successor Agency follows the investment policy of the former Agency, which is governed by and is in compliance with the California Government Code (Code). On August 19, 2014, the Commission adopted an investment policy for the Successor Agency to reflect the use of the City Treasurer's Pool to manage the Successor Agency's funds. Investment of bond proceeds is limited to those investments permitted in the bond document or provided in the Code. Investments with trustees are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

The table below identifies the investment types that are authorized for the Successor Agency by the California Government Code 53601 or the Successor Agency's investment policy, where the policy is more restrictive. This table does not address investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the Successor Agency, rather than the general provisions of the California Government Code or the Successor Agency's investment policy.

| <u>Authorized Investment Type</u>                           | <u>Maximum<br/>Maturity</u> | <u>Maximum<br/>Percentage<br/>of Portfolio</u> | <u>Maximum<br/>Investment<br/>In One Issuer</u> |
|---|-----------------------------|--|---|
| U.S. Treasury Obligations                                   | 5 Years                     | None   | None  |
| Federal Agency or U.S. Government Sponsored                 |                             |  |   |
| Enterprise Obligations                                      | 5 Years                     | 85% *  | None  |
| State of California and Local Government Agency Obligations | 5 Years                     | 20% *  | 5% *  |
| Certificates of Deposit                                     | 13 months *                 | None   | None  |
| Negotiable Certificates of Deposits                         | 5 Years                     | 30%  | None  |
| Bankers' Acceptances  | 180 Days                    | 40%  | 30%   |
| Commercial Paper  | 270 Days                    | 25%  | 10%   |
| Medium-Term Notes   | 2 Years *                   | 15% *  | 10% *   |
| Repurchase Agreements                                       | 92 Days                     | None   | None  |
| Reverse Repurchase Agreements                               | 45 Days *                   | Not to exceed 75 million                       | None  |
| Money Market Funds  | N/A                         | None   | None  |
| State of California Local Agency Investment Fund (LAIF)     | N/A                         | None   | None  |
| City Treasurer's Pool                                       | N/A                         | None   | None  |
| Supranationals  | 5 Years                     | 30%  | None  |

\* Represents restriction in which the Successor Agency's investment policy is more restrictive than the California Code.

**Interest Rate Risk:** Refers to the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**Credit Risk:** Refers to the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(2) Cash and Investments (Continued)**

The following is a summary of cash and investments as of June 30, 2017:

|  | Weighted Average Maturities for Investments |                       |              | Total<br>Fair Value | Credit<br>Rating |
|--|---|-----------------------|--------------|---------------------|------------------|
|  | Less than 3<br>months                       | 3 months to<br>1 year | 1 to 5 years |                     |                  |
| Unrestricted cash and investments:             |   |                       |              |                     |                  |
| Cash and investments with the City Treasury:   |   |                       |              |                     |                  |
| Investment in the City's Treasurer's Pool      | \$ -  | \$ -                  | \$ 239,516   | \$ 239,516          | Not rated        |
| Cash deposits in bank                          |   |                       |              | 5,897               | Not Applicable   |
| Total unrestricted cash and investments        | -   | -                     | 239,516      | 245,413             |                  |
| Restricted cash and investments with trustees: |   |                       |              |                     |                  |
| Money market mutual funds                      | 348,529                                     | -                     | -            | 348,529             | Aaam             |
| Total cash and investments                     | \$ 348,529                                  | \$ -                  | \$ 239,516   | \$ 593,942          |                  |

**Custodial Credit Risk, Deposits:** Refers to the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires California banks and savings and loan associations to secure the Successor Agency's deposits not covered by federal deposit insurance by pledging government securities as collateral. The market value of pledged securities must equal to at least 110% of the Successor Agency's deposits. The Successor Agency does not have any exposure to custodial credit risk for deposits because the collateral is held at the pledging bank's trust department in the Successor Agency's name.

**Custodial Credit Risk, Investments:** Refers to the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the Successor Agency's investment policy do not contain a legal or policy requirement that would limit the exposure to custodial credit risk for investments.

**Fair Value Hierarchy**

The Successor Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The Successor Agency's investment in the City's Treasurer's Pool and money market mutual funds are exempt from fair value measurement disclosures.

**City's Treasurer's Pool**

The Successor Agency maintains deposits and investments with the City and County of San Francisco Treasury Pool (Pool). As of June 30, 2017, the Successor Agency's deposits and investments in the Pool is \$239,516 and the total amount invested by all public agencies in the Pool is \$8.6 billion. The Successor Agency's investment in the Pool has a weighted average maturity of 1.29 years. The City's Treasurer Oversight Committee (Committee) has oversight responsibility for the Pool. The value of the Successor Agency's shares in the Pool, which may be withdrawn, is based on the book value of the Successor Agency's percentage participation, which is different than the fair value of the Successor Agency's percentage participation in the Pool. At June 30, 2017, the Pool consists of U.S. government and agency securities, State

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(2) Cash and Investments (Continued)**

and local government agency obligations, negotiable certificates of deposit, medium term notes, commercial paper, supranationals, public time deposits, and money market funds as authorized by State statutes and the City's investment policy. Additional information regarding deposit, investment risks (such as interest rate, credit, and concentration of credit risks), and fair value hierarchy for the City's Treasurer's Pool may be obtained by contacting the City's Controller's Office, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102.

**(3) Capital Assets**

The following is a summary of changes in capital assets for the year-ended June 30, 2017:

|   | <u>Balance</u><br><u>July 1, 2016</u> | <u>Additions</u>  | <u>Deletions</u>   | <u>Transfers</u> | <u>Balance</u><br><u>June 30, 2017</u> |
|---|---------------------------------------|-------------------|--------------------|------------------|--|
| Capital assets not being depreciated:       |                                       |                   |                    |                  |  |
| Land held for lease                         | \$ 54,769                             | \$ -              | \$ (10,034)        | \$ -             | \$ 44,735                              |
| Construction in progress                    | 1,820                                 | 2,224             | -                  | (3,791)          | 253                                    |
| Total capital assets not being depreciated  | <u>56,589</u>                         | <u>2,224</u>      | <u>(10,034)</u>    | <u>(3,791)</u>   | <u>44,988</u>                          |
| Capital assets being depreciated:           |                                       |                   |                    |                  |  |
| Furniture and equipment                     | 8,144                                 | -                 | -                  | -                | 8,144                                  |
| Building and improvements                   | 202,052                               | -                 | -                  | 3,791            | 205,843                                |
| Total capital assets being depreciated      | <u>210,196</u>                        | <u>-</u>          | <u>-</u>           | <u>3,791</u>     | <u>213,987</u>                         |
| Less accumulated depreciation for:          |                                       |                   |                    |                  |  |
| Furniture and equipment                     | (8,104)                               | (9)               | -                  | -                | (8,113)                                |
| Building and improvements                   | (93,460)                              | (4,940)           | -                  | -                | (98,400)                               |
| Total accumulated depreciation              | <u>(101,564)</u>                      | <u>(4,949)</u>    | <u>-</u>           | <u>-</u>         | <u>(106,513)</u>                       |
| Total capital assets being depreciated, net | <u>108,632</u>                        | <u>(4,949)</u>    | <u>-</u>           | <u>3,791</u>     | <u>107,474</u>                         |
| Total capital assets, net                   | <u>\$ 165,221</u>                     | <u>\$ (2,725)</u> | <u>\$ (10,034)</u> | <u>\$ -</u>      | <u>\$ 152,462</u>                      |

During the year ended June 30, 2017, the Successor Agency transferred land with book value of \$10,034 to a developer for an affordable housing development project at the Transbay Project Area. The transfer of the property was recorded as a deduction – transfer of land to developer on the financial statements.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(4) Long-Term Obligations**

**(a) Long-Term Obligations Summary**

The following is a summary of changes in long-term obligations for the year-ended June 30, 2017:

|  | <u>Original<br/>Issue Amount</u> | <u>Final<br/>Maturity</u> | <u>Remaining<br/>Interest Rates</u> | <u>Balance,<br/>July 1,<br/>2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance,<br/>June 30,<br/>2017</u> | <u>Due Within<br/>One Year</u> |
|--|----------------------------------|---------------------------|-------------------------------------|--------------------------------------|------------------|--------------------|---------------------------------------|--------------------------------|
| Tax Allocation Revenue Bonds, San Francisco Redevelopment and Refunding Notes Series 1998C (1) | \$ 12,915                        | 2025                      | 5.40%                               | \$ 1,074                             | \$ -             | \$ -               | \$ 1,074                              | \$ -                           |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment and Refunding Notes Series 1998D (1) | 21,034                           | 2025                      | 5.20%                               | 11,869                               | -                | -                  | 11,869                                | -                              |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2003A, B (1)         | 144,435                          | 2019                      | 5.25% to 5.41%                      | 20,715                               | -                | (7,020)            | 13,695                                | 7,380                          |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2006A (1)     | 50,731                           | 2037                      | 5.62% to 6.19%                      | 34,721                               | -                | (3,510)            | 31,211                                | 210                            |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2007A (1)     | 118,285                          | 2038                      | 5.50% to 5.75%                      | 107,500                              | -                | (1,835)            | 105,665                               | 1,890                          |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Refunding Notes Series 2007B (1)     | 94,115                           | 2023                      | 4.00% to 5.00%                      | 34,925                               | -                | (9,700)            | 25,225                                | 10,180                         |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2009A (1)    | 75,000                           | 2025                      | 8.00% to 8.25%                      | 48,685                               | -                | (5,905)            | 42,780                                | 6,460                          |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009B (1)             | 17,625                           | 2040                      | 5.00% to 6.63%                      | 12,445                               | -                | (1,095)            | 11,350                                | 1,155                          |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009E (1)     | 72,565                           | 2040                      | 6.62% to 8.41%                      | 71,825                               | -                | (5,130)            | 66,695                                | 160                            |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009F (1)             | 6,610                            | 2040                      | 4.00% to 5.75%                      | 6,410                                | -                | (85)               | 6,325                                 | 100                            |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2010A (1)    | 40,055                           | 2041                      | 4.75% to 7.13%                      | 38,790                               | -                | (400)              | 38,390                                | 390                            |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2011A (1)    | 22,370                           | 2042                      | 6.00% to 9.00%                      | 21,370                               | -                | (300)              | 21,070                                | 315                            |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2011B (1)            | 16,020                           | 2042                      | 6.13% to 6.63%                      | 16,020                               | -                | -                  | 16,020                                | -                              |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2011E (1)    | 9,455                            | 2017                      | Not Applicable                      | 9,445                                | -                | (9,445)            | -                                     | -                              |
| Successor Agency Bonds:  |                                  |                           |                                     |                                      |                  |                    |                                       |                                |
| Tax Allocation Revenue Bonds, Mission Bay South Redevelopment Projects Series 2014A (1)        | 56,245                           | 2044                      | 5.00%                               | 55,550                               | -                | (720)              | 54,830                                | 755                            |
| Tax Allocation Refunding Bonds, San Francisco Redevelopment Projects Series 2014B (1)          | 67,955                           | 2036                      | 1.68% to 4.87%                      | 59,950                               | -                | (7,170)            | 52,780                                | 7,625                          |
| Tax Allocation Refunding Bonds, San Francisco  |                                  |                           |                                     |                                      |                  |                    |                                       |                                |

*(Continued on next page)*

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(4) Long-Term Obligations (Continued)**

|   | <u>Original<br/>Issue Amount</u> | <u>Final<br/>Maturity</u> | <u>Remaining<br/>Interest Rates</u> | <u>Balance,<br/>July 1,<br/>2016</u> | <u>Additions</u>  | <u>Retirements</u> | <u>Balance,<br/>June 30,<br/>2017</u> | <u>Due Within<br/>One Year</u> |
|---|----------------------------------|---------------------------|-------------------------------------|--------------------------------------|-------------------|--------------------|---------------------------------------|--------------------------------|
| <i>(Continued from previous page)</i>   |                                  |                           |                                     |                                      |                   |                    |                                       |                                |
| Tax Allocation Refunding Bonds, San Francisco<br>Redevelopment Projects Series 2014C (1)                            | \$ 75,945                        | 2030                      | 4.00% to 5.00%                      | \$ 61,245                            | \$ -              | \$ (9,630)         | \$ 51,615                             | \$ 9,930                       |
| Tax Allocation Refunding Bonds, Mission Bay North<br>Redevelopment Projects Series 2016A (1)                        | 73,890                           | 2042                      | 3.00% to 5.00%                      | 73,890                               | -                 | -                  | 73,890                                | 540                            |
| Tax Allocation Revenue Bonds, Mission Bay South<br>Redevelopment Projects Series 2016B (1)                          | 45,000                           | 2044                      | 2.00% to 5.00%                      | 45,000                               | -                 | -                  | 45,000                                | 370                            |
| Tax Allocation Refunding Bonds, Mission Bay South<br>Redevelopment Projects Series 2016C (1)                        | 73,230                           | 2042                      | 2.00% to 5.00%                      | 73,230                               | -                 | -                  | 73,230                                | 630                            |
| Tax Allocation Revenue Bonds, Mission Bay South<br>Redevelopment Projects Series 2016D (1)                          | 74,652                           | 2044                      | 3.00% to 5.00%                      | -                                    | 74,652            | -                  | 74,652                                | -                              |
| Tax Allocation Revenue Bonds, Affordable<br>Housing Projects Series 2017A (1)                                       | 89,765                           | 2045                      | 2.19% to 4.38%                      | -                                    | 89,765            | -                  | 89,765                                | -                              |
| Tax Allocation Revenue Bonds, Transbay<br>Infrastructure Projects Series 2017B (1)                                  | 19,850                           | 2047                      | 5.00%                               | -                                    | 19,850            | -                  | 19,850                                | -                              |
| Tax Allocation Revenue and Refunding Bonds, Mission Bay<br>New Money and Refunding Housing Project Series 2017C (1) | 43,400                           | 2044                      | 1.45% to 4.38%                      | -                                    | 43,400            | -                  | 43,400                                | 2,235                          |
| Agency Revenue Bonds:   |                                  |                           |                                     |                                      |                   | -                  |                                       |                                |
| Hotel Tax Revenue Bonds, Series 2011 (2)  | 43,780                           | 2025                      | 5.00%                               | 34,260                               | -                 | (3,265)            | 30,995                                | 3,280                          |
| Financing Authority Refunding Bonds:  |                                  |                           |                                     |                                      |                   |                    |                                       |                                |
| Refunding Bond 1986 Issue A (3)   | 23,900                           | 2017                      | Not Applicable                      | 675                                  | -                 | (675)              | -                                     | -                              |
| Subtotal Bonds Payable  |                                  |                           |                                     | 839,594                              | 227,667           | (65,885)           | 1,001,376                             | 53,605                         |
| Unamortized issuance premiums   |                                  |                           |                                     | 49,781                               | 2,623             | (2,749)            | 49,655                                | -                              |
| Unamortized issuance discounts  |                                  |                           |                                     | (2,948)                              | (945)             | 207                | (3,686)                               | -                              |
| Subtotal Bonds Payable, including unamortized premium and discounts   |                                  |                           |                                     | 886,427                              | 229,345           | (68,427)           | 1,047,345                             | 53,605                         |
| Accreted interest payable *   |                                  |                           |                                     | 42,215                               | 7,226             | -                  | 49,441                                | -                              |
| Cal Boating loans payable (4)   |                                  |                           |                                     | 6,857                                | -                 | (227)              | 6,630                                 | 238                            |
| SERAF borrowing from the primary government   |                                  |                           |                                     | 14,602                               | 320               | (1,773)            | 13,149                                | 1,773                          |
| Other postemployment benefit obligation   |                                  |                           |                                     | 430                                  | 804               | (1,232)            | 2                                     | -                              |
| Accrued vacation and sick leave   |                                  |                           |                                     | 901                                  | 486               | (657)              | 730                                   | 486                            |
| Total long-term obligations   |                                  |                           |                                     | <u>\$ 951,432</u>                    | <u>\$ 238,181</u> | <u>\$ (72,316)</u> | <u>\$ 1,117,297</u>                   | <u>\$ 56,102</u>               |

\*Amount represents interest accretion on Capital Appreciation Bonds.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(4) Long-Term Obligations (Continued)**

Debt service payments for long-term obligations are made from the following sources:

- (1) Redevelopment property tax increment revenues from the Bayview Hunters Point, Western Addition, Rincon Point South Beach, Yerba Buena Center, India Basin, South of Market, Golden Gateway, Mission Bay South, Transbay and Mission Bay North project areas.
- (2) Hotel tax revenues from the occupancy of guest rooms in the hotels within the City.
- (3) South Beach Harbor Project cash reserves, property tax increment revenues and project revenues transferred from the capital projects fund.
- (4) South Beach Harbor Project revenues.

The proceeds from the issuance of Financing Authority bonds were immediately loaned to the former Agency. Loan payments to the Financing Authority are equal to the debt service requirements of the underlying debt. The bonds are secured by property tax increment revenues. Since the loan transactions are entirely within the financial reporting entity, they have been eliminated in the financial statements.

*Issuance of Successor Agency Bonds*

Under the Dissolution Law, a successor agency is authorized to issue bonds to satisfy its obligations under certain enforceable obligations entered into by the former redevelopment agency prior to dissolution, subject to approval by the California Department of Finance (DOF). On December 24, 2013, the DOF released its letter approving the issuance bonds by the Successor Agency.

On September 20, 2016, the Successor Agency issued \$74,652 of Tax Allocation Bonds, Mission Bay South Redevelopment Project Series 2016 D (2016 Series D Bonds) to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. The 2016 Series D Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of August 1, 2043.

On March 29, 2017, the Successor Agency issued \$89,765 of Tax Allocation Bonds, Affordable Housing Projects Series 2017 A (2017 Series A Bonds) to finance certain affordable housing projects of the Successor Agency within or of benefit to the Bayview Hunters Point Redevelopment Project Area. The 2017 Series A Bonds bear fixed interest rates ranging from 2.19% to 4.38% and have a final maturity date of August 1, 2044.

On March 29, 2017, the Successor Agency issued \$19,850 of Tax Allocation Bonds, Transbay Infrastructure Projects Series 2017 B (2017 Series B Bonds) to finance certain infrastructure projects of the Successor Agency within or of benefit to the Transbay Redevelopment Project Area. The 2017 Series B Bonds bear fixed interest rates of 5.00% and have a final maturity date of August 1, 2046.

On March 29, 2017, the Successor Agency issued \$43,400 of Tax Allocation Refunding Bonds, Mission Bay New Money and Refunding Housing Projects Series 2017 C (2017 Series C Bonds). Proceeds of \$22,000 will be used to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. Remaining proceeds from the 2017 Series C Bonds were used to refund Tax Allocation Bonds Series 2006 A, Series 2009 E, and Series 2011 E in the amount of \$3,225, \$4,985, and \$9,445, respectively. The refunding resulted in net present value savings of \$2,176 and an accounting loss of \$3,054. The 2017 Series C Bonds bear fixed interest rates ranging from 1.45% to 4.38% and have a final maturity of August 1, 2043.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(4) Long-Term Obligations (Continued)**

*Pledged Revenues for Bonds*

The Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the redevelopment property tax revenues (i.e. former tax increment). These revenues have been pledged until the year 2047, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$1,716,206. The redevelopment property tax revenues recognized during the year ended June 30, 2017 was approximately \$129,233 as against the total scheduled debt service payment of \$84,121.

The Hotel Tax Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately \$38,168. The hotel tax revenue recognized during the year ended June 30, 2017 was \$4,946 which equaled to the total debt service payment.

*Supplemental Education Revenue Augmentation Funds Borrowing from the City*

During the year ended June 30, 2010, the former Agency borrowed \$16,483 from the Low and Moderate Income Housing Fund (LMIHF) as part of the funding to make a payment of \$28,733 to the Supplemental Education Revenue Augmentation Funds (SERAF) to meet the State's Proposition 98 obligations to schools. Upon the dissolution of the former Agency, the City elected to become the Housing Successor Agency and retain the former Agency's housing assets and functions, rights, powers, duties and obligations. Interest will be accrued quarterly at an annual rate of 3% on the principal balance due to the City in accordance with HSC Section 34191.4(b)(3). For the year ended June 30, 2017, interest in the amount of \$320 was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of \$1,773 to the City. At June 30, 2017, the outstanding payable balance was \$13,149, which was comprised of principal of \$9,987 and accrued interest of \$3,162.

**(b) Repayment requirements**

As of June 30, 2017, the debt service requirements to maturity, excluding accrued vacation and sick leave, are as follows:

| June 30,  | Tax Allocation Revenue Bonds |            | Hotel Tax Revenue Bonds |          | California Department of Boating and Waterway Loan |          |
|-----------|------------------------------|------------|-------------------------|----------|--|----------|
|           | Principal                    | Interest * | Principal               | Interest | Principal  | Interest |
| 2018      | \$ 50,325                    | \$ 43,357  | \$ 3,280                | \$ 1,550 | \$ 238   | \$ 298   |
| 2019      | 60,885                       | 41,820     | 4,610                   | 1,386    | 248  | 288      |
| 2020      | 61,797                       | 42,301     | 3,365                   | 1,155    | 259  | 276      |
| 2021      | 56,512                       | 40,696     | 3,510                   | 987      | 272  | 265      |
| 2022      | 54,316                       | 40,752     | 3,690                   | 812      | 283  | 253      |
| 2023-2027 | 170,893                      | 207,973    | 12,540                  | 1,283    | 1,620  | 1,059    |
| 2028-2032 | 153,858                      | 149,025    | -                       | -        | 2,019  | 661      |
| 2033-2037 | 159,270                      | 113,978    | -                       | -        | 1,691  | 178      |
| 2038-2042 | 136,522                      | 51,687     | -                       | -        | -  | -        |
| 2043-2047 | 66,003                       | 14,236     | -                       | -        | -  | -        |
| TOTAL     | \$ 970,381                   | \$ 745,825 | \$ 30,995               | \$ 7,173 | \$ 6,630   | \$ 3,278 |

\* Including payment of accreted interest.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(4) Long-Term Obligations (Continued)**

**(c) 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 that exceed related interest expenditures on the bonds must be remitted to the federal government on every fifth anniversary of each bond issue. The Successor Agency has evaluated each bond issue subject to the arbitrage rebate requirements and does not have a rebatable arbitrage liability as of June 30, 2017.

**(5) Pension Plan**

**(a) General Information about the Pension Plan**

**Plan Descriptions** – Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor agency assumed the former Agency’s Pension Plan. All qualified permanent and probationary employees are eligible to participate in the Successor Agency’s Pension Plan, cost-sharing, multiple employer defined benefit pension plans administered by CalPERS. Benefit provisions under the Plan are established by State statute and Successor Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

The State passed the California Employees’ Pension Reform Act (PEPRA) which became effective on January 1, 2013. PEPRA changes include the classification of active employees into two distinct classifications: classic members and new members. Classic members represent active members hired before January 1, 2013, and retain the pension plan benefits in effect. New members are active members hired on or after January 1, 2013, and are subject to PEPRA.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specific by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, are summarized as follows:

|   | Prior to<br>January 1, 2013 | On or after<br>January 1, 2013 |
|---|-----------------------------|--------------------------------|
| Hire date   |                             |                                |
| Benefit formula   | 2.0% @ 55                   | 2.0% @ 62                      |
| Benefit vesting schedule                                      | 5 years service             | 5 years service                |
| Benefit payments  | monthly for life            | monthly for life               |
| Retirement age  | 50-55                       | 52-67                          |
| Monthly benefits, as a percentage of<br>eligible compensation | 2.0% to 2.7%                | 1.0% to 2.5%                   |
| Required employee contribution rates                          | 6.886%                      | 6.5%                           |
| Required employer contribution rates                          | 26.518%                     | 7.082%                         |

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(5) Pension Plan (Continued)**

**Contributions** – The Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Successor Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the Successor Agency’s actuarially determined contractually required contribution was \$970.

**(b) Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

The Successor Agency’s net pension liability is measured as the proportionate share of the net pension liability of the cost-sharing plan. The net pension liability is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Successor Agency’s proportion of the net pension liability was actuarial determined as of the valuation date. The Successor Agency’s proportionate share of the net pension liability for the Plan was 0.26905% or \$23,281, an increase of \$6,718 from prior year.

For the year ended June 30, 2017, the Successor Agency recognized pension expense of \$3,900. At June 30, 2017, the Successor Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date  | \$ 970                            | \$ -                             |
| Difference between expected and actual experience   | 31                                | 7                                |
| Change in assumptions   | -                                 | 294                              |
| Net differences between projected<br>and actual earnings on plan investments                              | 1,531                             | -                                |
| Changes in employer's proportion  | 1,351                             | 2,935                            |
| Differences between the employer's contribution<br>and the employer's proportionate share of contribution | -                                 | 3,239                            |
| <b>Total</b>  | <b>\$ 3,883</b>                   | <b>\$ 6,475</b>                  |

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(5) Pension Plan (Continued)**

At June 30, 2017, the Successor Agency reported \$970 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30, | Deferred<br>Outflows/(Inflows)<br>of Resources |
|---------------------|--|
| 2018                | \$ (2,556)                                     |
| 2019                | (1,942)  |
| 2020                | 539  |
| 2021                | 397  |
| Total               | \$ (3,562)                                     |

**Actuarial Assumptions** - The total pension liability in the June 30, 2015 actuarial valuation, which was rolled forward to June 30, 2016, was determined using the following actuarial methods and assumptions:

|                                  |   |
|----------------------------------|---|
| Valuation Date                   | June 30, 2015   |
| Measurement Date                 | June 30, 2016   |
| Actuarial Cost Method            | Entry-Age Normal Cost Method  |
| Actuarial Assumptions:           |   |
| Discount Rate                    | 7.65%   |
| Inflation                        | 2.75%   |
| Payroll Growth                   | 3.00%   |
| Projected Salary Increase        | Varies by Entry Age and Services  |
| Investment Rate of Return        | 7.65% Net of Pension Plan Investment Expenses,<br>includes Inflations.  |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until<br>Purchasing Power Allowance Floor on Purchasing<br>Power applies, 2.75% thereafter. |
| Mortality                        | Derived using CalPERS Membership Data<br>for all Funds. (1)   |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(5) Pension Plan (Continued)**

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

| <u>Asset Class</u>            | <u>New Strategic<br/>Allocation</u> | <u>Real Return<br/>Year 1-10 (a)</u> | <u>Real Return<br/>Year 11+ (b)</u> |
|-------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| Global Equity                 | 51.00%                              | 5.25%                                | 5.71%                               |
| Global Fixed Income           | 20.00%                              | 0.99%                                | 2.43%                               |
| Inflation Sensitive           | 6.00%                               | 0.45%                                | 3.36%                               |
| Private Equity                | 10.00%                              | 6.83%                                | 6.95%                               |
| Real Estate                   | 10.00%                              | 4.50%                                | 5.13%                               |
| Infrastructure and Forestland | 2.00%                               | 4.50%                                | 5.09%                               |
| Liquidity                     | 1.00%                               | -0.55%                               | -1.05%                              |
| Total                         | <u>100.00%</u>                      |                                      |                                     |

(a) An expected inflation of 2.50% used for this period

(b) An expected inflation of 3.00% used for this period

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(5) Pension Plan (Continued)**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the Successor Agency's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the Successor Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

|   | Decrease Rate - 1%<br>(6.65%) | Current Discount<br>Rate (7.65%) | Decrease Rate + 1%<br>(8.65%) |
|---|-------------------------------|----------------------------------|-------------------------------|
| Proportionate Share of<br>Net Pension Liability | \$ 37,564                     | \$ 23,281                        | \$ 11,478                     |

**Pension Plan Fiduciary Net Position** – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95811.

**(6) Postemployment Healthcare Plan**

*Plan Description* – Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor Agency assumed the former Agency's postemployment healthcare plan. The Successor Agency sponsors a single-employer defined benefit plan providing other postemployment benefits (OPEB) to employees who retire directly from the former Agency and/or the Successor Agency. The Successor Agency participates in the California Employers' Retiree Benefit Trust (CERBT) Fund. CERBT is administered by CalPERS and is an agent multiple-employer trust. CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95811.

*Funding Policy* – The contribution requirements of the plan members and the Successor Agency are established by and may be amended by the Successor Agency. The Successor Agency intends to fund plan benefits through the CERBT by contributing at least 100% of the annual required contribution.

*Annual Other Postemployment Benefit Cost and Net Obligation* – The Successor Agency's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period not to exceed thirty years. Annual OPEB Cost (AOC) equals the plan's ARC, adjusted for historical differences between the ARC and amounts actually contributed. Based on the July 1, 2015 actuarial valuation, the Successor Agency's ARC for the year ended June 30, 2017 is the sum of (a) normal cost of \$74 and (b) level dollar amortization of the July 1, 2015 UAAL of \$739.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(6) Postemployment Healthcare Plan (Continued)**

The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2017, and the changes in the net OPEB obligation:

|  |         |
|--|---------|
| Annual required contribution               | \$ 813  |
| Interest on OPEB obligation                | 30      |
| Adjustment to annual required contribution | (39)    |
| Annual OPEB cost (expense)                 | 804     |
| Contributions made                         | (1,232) |
| Decrease in net OPEB obligation            | (428)   |
| Net OPEB obligation, beginning of year     | 430     |
| Net OPEB obligation, end of year           | \$ 2    |

Three-year historical trend information for the annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <u>Fiscal Year<br/>Ended</u> | <u>Annual<br/>OPEB Cost<br/>(AOC)</u> | <u>Percentage<br/>of AOC<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------|---------------------------------------|--|--------------------------------|
| 6/30/2015                    | \$ 918                                | 104%   | \$ 833                         |
| 6/30/2016                    | 796                                   | 151%   | 430                            |
| 6/30/2017                    | 804                                   | 153%   | 2                              |

*Funded Status and Funding Progress*—The funded status of the plan of the Successor Agency as of July 1, 2015, the plan's most recent actuarial valuation date, was as follows:

|   |           |
|---|-----------|
| Actuarial accrued liability (AAL)                 | \$ 10,998 |
| Actuarial value of plan assets                    | 2,833     |
| Unfunded actuarial accrued liability (UAAL)       | \$ 8,165  |
| Funded ratio (actuarial value of plan assets/AAL) | 25.8%     |
| Covered payroll (active plan members)             | \$ 4,261  |
| UAAL as a percentage of covered payroll           | 191.6%    |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes of the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(6) Postemployment Healthcare Plan (Continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The annual required contribution for the year ended June 30, 2017 and the funding status of the plan was determined based on the July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include: (a) investment return and discount rate of 7%; (b) healthcare cost trend rate of 4%; (c) inflation rate of 2.75%; (d) payroll growth of 2.75%; and (e) 2014 CalPERS active mortality table for miscellaneous employees. The Successor Agency's initial and residual UAAL is being amortized as a level dollar amount over closed 30 years and open 22 years, respectively.

**(7) Mortgage Revenue Bonds and Other Conduit Debt**

In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds have been issued by the former Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Successor Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners. All of the mortgage revenue bonds issued by the former Agency were transferred to the City upon the dissolution of the former Agency. At June 30, 2017, the Successor Agency had outstanding community district facility bonds totaling \$188.6 million.

**(8) Commitments and Contingent Liabilities**

**(a) Insurance, Claims and Litigation**

The Successor Agency obtained coverage for personal injury, automobile liability, public official errors and omissions and employment practices liability with limits of \$10,000 per occurrence (\$5,000 for employment practices liability) and a \$25 deductible per occurrence.

The Successor Agency has been named as defendant in several legal actions. In the opinion of the Successor Agency's management and legal counsel, the outcome of these actions will not have a material adverse effect on the financial position of the Successor Agency.

**(b) Operating Leases**

The Successor Agency has entered into operating leases for its office sites and a Master Lease Option Agreement (through the City) with the Port of San Francisco (Port), which contains several lease options for various real property sites located in the Rincon Point South Beach Project Area. As of June 30, 2017, the Successor Agency has exercised several of the lease options.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2017  
(Dollars in thousands)

**(8) Commitments and Contingent Liabilities (Continued)**

Total future minimum operating lease payments are as follows:

| Year ending June 30: |    |        |  |
|----------------------|----|--------|--|
| 2018                 | \$ | 870    |  |
| 2019                 |    | 870    |  |
| 2020                 |    | 870    |  |
| 2021                 |    | 870    |  |
| 2022                 |    | 870    |  |
| 2023-2027            |    | 4,351  |  |
| 2028-2032            |    | 4,351  |  |
| 2033-2037            |    | 4,351  |  |
| 2038-2042            |    | 4,351  |  |
| 2043-2047            |    | 4,351  |  |
| 2048-2051            |    | 1,958  |  |
|                      |    |        |  |
|                      | \$ | 28,063 |  |

Total rent payments for operating leases totaled \$1,403 for the year ended June 30, 2017.

**(c) Pending Transfer of Assets and Operations to the Port**

A portion of the Rincon Point South Beach Project Area is within the Port Area and the Successor Agency held leasehold interests to certain Port properties. The Successor Agency and the Port have negotiated a memorandum of agreement for the transfer of certain assets and operations of the Rincon Point South Beach Project to the Port. While the agreement has been approved by Port Commission, the Successor Agency's Commission and Oversight Board, and the DOF before June 30, 2015, the assets and operations were not transferred to the Port as of June 30, 2017.

**(d) Transbay Transit Center Agreements**

In July 2003, the City, the Transbay Joint Powers Authority (TJPA), and the State of California acting through its Department of Transportation (Caltrans) entered into the Transbay Transit Terminal Cooperative Agreement (Cooperative Agreement) in which Caltrans agreed to transfer approximately 10 acres of State-owned property in and around the then-existing Transbay Terminal to the City and the TJPA to help fund the development of the Transbay Transit Center (TTC). The Cooperative Agreement requires that the TJPA sell certain State-owned parcels and use the revenues from the sales and the net tax increments to finance the TTC.

In 2008, the City and the former Agency entered into a binding agreement with the TJPA that irrevocably pledges all sales proceeds and net tax increments from the State-owned parcels to the TJPA for a period of 45 years (Pledge Agreement). At the same time, the City, the TJPA and the former Agency entered into an Option Agreement which grants options to the former Agency to acquire the State-owned parcels, arrange for development of the parcels, and distribute the net tax increments to the TJPA to use for the TTC. During the year ended June 30, 2017, the Successor Agency distributed \$5,398 to the TJPA. The payment was recorded as a deduction – distribution of pledged revenue to TJPA on the financial statements.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(Dollars in thousands)

**(8) Commitments and Contingent Liabilities (Continued)**

*(e) Encumbrances*

The Successor Agency uses encumbrances to control expenditure commitments for the year. Encumbrances represent commitments related to executed contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of funds are encumbered to allocate a portion of applicable appropriations. Encumbrances still open at period end are not accounted for as expenses and liabilities. At June 30, 2017, the Successor Agency had outstanding encumbrances totaling \$46,589.

**(9) Rental Income**

*Noncancelable Operating Leases*

The Successor Agency has noncancelable operating leases within project areas. The terms of these leases will expire in fiscal year 2050. The Successor Agency also has three noncancelable operating subleases at Pier 40 in the South Beach Harbor project area. The terms of these leases will expire in fiscal year 2023.

The following is a schedule by years of minimum future rental income to be received on the leases (excluding variable rents calculated as a percentage of retail sales) as of June 30, 2017:

| <u>Year ending June 30:</u> |           |                |
|-----------------------------|-----------|----------------|
| 2018                        | \$        | 3,716          |
| 2019                        |           | 3,596          |
| 2020                        |           | 3,582          |
| 2021                        |           | 3,590          |
| 2022                        |           | 3,633          |
| 2023-2027                   |           | 18,047         |
| 2028-2032                   |           | 18,172         |
| 2033-2037                   |           | 19,198         |
| 2038-2042                   |           | 20,292         |
| 2043-2047                   |           | 18,515         |
| 2048-2050                   |           | 1,482          |
|                             | <u>\$</u> | <u>113,823</u> |

For the year ended June 30, 2017, operating lease rental income from noncancelable operating leases was \$10,260. Within the operating lease rental income, \$6,506 represents contingent rental income received. The lease rental income was recorded as a component of charges for services on the financial statements. At June 30, 2017, the leased assets had a net book value of \$34,850.

**(10) Related Party Transactions**

*(a) Due to the City and County of San Francisco*

At June 30, 2017, the Successor Agency has a payable to the City in the amount of \$560 for services provided. The balance is recorded as payable to the City on the financial statements.

*(b) Payments to the City and County of San Francisco*

A variety of City departments provide administrative services to the Successor Agency and charge amounts designed to recover costs. These charges, totaling \$12,557 for the year ended June 30, 2017, have been included in various deductions line items on the financial statements.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**  
Required Supplementary Information (Unaudited)  
Schedule of the Successor Agency's Proportionate Share of the Net Pension Liability  
As of June 30, 2017  
Last 10 Years \*  
(Dollars In Thousands)

| Fiscal year   | 2014-15   | 2015-16   | 2016-17   |
|---|-----------|-----------|-----------|
| Measurement period  | 2013-14   | 2014-15   | 2015-16   |
| Proportion of net pension liability   | 0.25504%  | 0.24131%  | 0.26905%  |
| Proportionate share of the net pension liability  | \$ 15,870 | \$ 16,563 | \$ 23,281 |
| Covered payroll   | \$ 3,962  | \$ 3,427  | \$ 3,769  |
| Proportionate share of the net pension liability as<br>a percentage of covered payroll            | 400.56%   | 483.31%   | 617.70%   |
| CalPERS Miscellaneous Plan's fiduciary net position<br>as a percentage of total pension liability | 80.43%    | 78.40%    | 74.06%    |

**Notes to Schedule:**

Change in benefit terms - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions - The discount rate was changed from 7.50 percent (net of administrative expense) in 2015 to 7.65% in 2016.

\* Fiscal year 2014-15 was the first year of implementation of GASB Statement No. 68, therefore only three years of information are shown.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Required Supplementary Information (Unaudited)

Schedule of Contributions - Pension Plan

June 30, 2017

Last 10 Years \*

(Dollars In Thousands)

| Fiscal year   | 2013-14  | 2014-15  | 2015-16  | 2016-17  |
|---|----------|----------|----------|----------|
| Contractually required contribution (actuarially determined)          | \$ 591   | \$ 598   | \$ 828   | \$ 970   |
| Contractually in relation to the actuarially determined contributions | (591)    | (598)    | (828)    | (970)    |
| Contribution deficiency (excess)                                      | \$ -     | \$ -     | \$ -     | \$ -     |
| Covered payroll   | \$ 3,962 | \$ 3,427 | \$ 3,769 | \$ 5,042 |
| Contributions as a percentage of covered payroll                      | 14.92%   | 17.45%   | 21.97%   | 19.24%   |

**Notes to Schedule:**

The actuarial methods and assumptions used to determine the fiscal year 2016-17 contribution rates are as follows:

|                           |   |
|---------------------------|---|
| Valuation date:           | 6/30/2014   |
| Actuarial Cost Method     | Entry age normal cost method  |
| Asset Valuation Method    | Actuarial value of assets   |
| Inflation                 | 2.75%   |
| Salary Increases          | Varies by entry age and services  |
| Payroll Growth            | 3.00%   |
| Investment Rate of Return | 7.50%, net of pension plan investment and administrative expenses,<br>includes inflation.   |
| Retirement Age            | The probabilities of retirement are based on the 2014 CalPERS<br>Experience Study for the period 1997 to 2011.  |
| Mortality                 | The probabilities of mortality are based on the 2014 CalPERS Experience<br>Study for the period from 1997 to 2011. Pre-retirement and Post-<br>retirement mortality rates include 5 years of projected mortality<br>improvement using Scale AA published by the Society of Actuaries. |

\* Fiscal year 2014-15 was the first year of implementation of GASB Statement No. 68, therefore only four years of information are shown.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY AND COUNTY OF SAN FRANCISCO**

Required Supplementary Information (Unaudited)  
Schedule of Funding Progress - Postemployment Healthcare Plan  
(In Thousands)

| Actuarial<br>valuation<br>date | Actuarial<br>value of<br>assets<br>(a) | Actuarial<br>accrued<br>liability<br>(AAL)<br>entry age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>ratio<br>(a/b) | Covered<br>payroll<br>(c) | UAAL<br>as a %<br>of covered<br>payroll<br>((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 6/30/2011                      | \$ 1,856                               | \$ 14,390  | \$ 12,534                          | 12.9%                    | \$ 4,185                  | 299.5%   |
| 6/30/2013                      | 2,154                                  | 11,378   | 9,224                              | 18.9%                    | 4,048                     | 227.9%   |
| 7/1/2015                       | 2,833                                  | 10,998   | 8,165                              | 25.8%                    | 4,261                     | 191.6%   |

See Note 6 to the basic financial statements for actuarial assumptions and other information related to the schedule of funding progress.

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**Independent Auditor’s Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Commission on Community Investment and Infrastructure  
Successor Agency to the Redevelopment Agency of the  
City and County of San Francisco  
San Francisco, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency), a component unit of the City and County of San Francisco, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Successor Agency’s basic financial statements, and have issued our report thereon dated October 23, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Successor Agency’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Successor Agency’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Macias Gini & O'Connell LLP*

San Francisco, California  
October 23, 2017