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

Annual Financial Report

For the Year Ended June 30, 2015

mgo | Certified Public Accountants

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

**For the Year Ended June 30, 2015**

***Table of Contents***

# 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, 2015, 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, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America

***Emphasis of Matter***

*Change in Accounting Principles*

As discussed in Note 1(m) to the financial statements, effective July 1, 2014, the Successor Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to these matters.

***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 GASB 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 30, 2015 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
October 30, 2015

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, 2015. 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, 2015 was a deficit of $425.4 million when compared to a deficit of $439.6 million at June 30, 2014, a decrease in deficit of $14.2 million for fiscal year 2015.

The Successor Agency's additions for fiscal year 2015 were $203.1 million compared to $194.4 million for fiscal year 2014, an increase of $8.7 million. The increase was mainly due to the increases of $12.7 million for developer payments and $2.0 million for hotel tax, offset by a decrease of $6.9 million for redevelopment property tax revenues.

The Successor Agency's deductions for fiscal year 2015 were $166.5 million compared to $163.6 million for fiscal year 2014, an increase of $2.9 million. The increase was mainly due to the increases in affordable housing loan program costs of $4.3 million, contracted service for Transbay Project Area of $2.6 million, distribution of pledged revenue to Transbay Joint Powers Authority of $2.5 million, reinstatement of Supplemental Education Revenue Augmentation Funds (SERAF) borrowing from the City and County of San Francisco (City) of $18.8 million, and transfer of capital assets to the City of $4.6 million offset by the decrease of contracted service for Mission Bay North and South Project Areas of $30.1 million.

On December 11, 2014, the Successor Agency issued two refunding bonds: 1) Tax Allocation Refunding Bonds Series 2014 B (2014 Series B Bonds) for $68.0 million and 2) Tax Allocation Refunding Bonds Series 2014 C (2014 Series C Bonds) for $75.9 million. Proceeds from the 2014 Series B Bonds were used to refund 2004 Series D, 2005 Series C, and 2006 Series A Bonds totaling to $64.8 million. Proceeds from the 2014 Series C Bonds including original issue premium of $8.7 million, and funds on hand from the refunded bonds in the amount of $2.2 million, were used to refund 1993 Series B, 1998 Series D, 2003 Series C, 2004 Series A, 2004 Series C, and 2005 Series A Bonds totaling to $84.5 million.

As of July 1, 2014, the Successor Agency adopted the provisions of GASB Statement Nos. 68 and 71 and restated the beginning net position in the amount of $22.4 million.

## 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.

## Financial Analysis

The former Redevelopment Agency of the City and County of San Francisco ("Agency") and Successor Agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues. In general, 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, 2015, Successor Agency has a deficit net position of $425.4 million. Shown below is a schedule that summarizes the Successor Agency's net position held in trust:

Statement of Fiduciary Net Position
(In thousands)

| **Assets** | **June 30, 2015** | **June 30, 2014** | **$ Change** |
|---|---|---|---|
| Current and other assets | $ 433,035 | $ 434,595 | $ (1,560) |
| Capital assets | 188,096 | 197,714 | (9,618) |
| **Total assets** | 621,131 | 632,309 | (11,178) |
| | | | |
| **Deferred outflows of resources** | 3,295 | 2,926 | 369 |
| | | | |
| **Liabilities** | | | |
| Other liabilities | 42,523 | 54,026 | (11,503) |
| Long-term liabilities | 999,519 | 1,020,846 | (21,327) |
| **Total Liabilities** | 1,042,042 | 1,074,872 | (32,830) |
| | | | |
| **Deferred inflows of resources** | 7,793 | - | 7,793 |
| | | | |
| **Total net position held in trust** | **$ (425,409)** | **$ (439,637)** | **$ 14,228** |

***Assets***

The Successor Agency's assets at June 30, 2015 were $621.1 million when compared with $632.3 million at June 30, 2014, a decrease of $11.2 million for fiscal year 2015 primarily due to the following:

- Increase in unrestricted cash and investments of $63.8 million, from $212.0 million at June 30, 2014 to $275.8 million at June 30, 2015. The increase was mainly due to the receipt of developer payments for affordable housing projects scheduled in future years.

- Decrease in restricted cash and investments with trustees of $53.7 million, from $204.2 million at June 30, 2014 to $150.5 million at June 30, 2015. The decrease was mainly due to the usage of Series 2014 A bond proceeds payment for Mission Bay North and South Redevelopment Projects.

- Decrease in interest and other receivables of $8.5 million, from $13.2 million at June 30, 2014 to $4.7 million at June 30, 2015. The decrease was mainly due to timing of the receipt of developer payments for affordable housing projects scheduled in future years.

- Decrease in capital lease receivables of $3.1 million, from $3.1 million at June 30, 2014 to $0 at June 30, 2015. The decrease was mainly due to the receipt of the remaining balance during the year.

- Decrease in capital assets of $9.6 million, from $197.7 million at June 30, 2014 to $188.1 million at June 30, 2015. The decrease was mainly due to current year depreciation of $5.6 million, and a transfer of land held for lease to the City of $4.6 million, offset by an increase of $0.6 in construction in progress.

***Liabilities***

The Successor Agency's liabilities at June 30, 2015 were $1,042.0 million when compared with $1,074.9 million at June 30, 2014, a decrease of $32.9 million for fiscal year 2015 primarily due to the following:

- Decrease in accounts payable of $12.4 million, from $31.7 million at June 30, 2014 to $19.3 million at June 30, 2015. The decrease was mainly due to timing of the payment for eligible expenditures.

- Decrease in long-term liabilities of $21.3 million, from $1,020.8 million at June 30, 2014 to $999.5 million at June 30, 2015. The decrease was mainly due to scheduled debt service payments paid during the year offset by the additions of the SERAF borrowing from the City and the net pension liability due to the adoption of the provisions of GASB Statement Nos. 68 and 71. At June 30, 2015, the SERAF borrowing from the City and the net pension liability were $16.0 million and $15.9 million, respectively.

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

As of July 1, 2014, the Successor Agency adopted the provisions of GASB Statement Nos. 68 and 71. At June 30, 2015, the Successor Agency has deferred outflows and inflows of resources related to pension items in the amount of $1.6 million and $7.8 million, respectively.

The Successor Agency's net position increased by $14.2 million for fiscal year 2015. Key elements of the Successor Agency's additions and deductions are presented below:

Statement of Changes in Fiduciary Net Position
(In thousands)

| | Year Ended | | |
|---|---|---|---|
| **Additions** | **June 30, 2015** | **June 30, 2014** | **$ Change** |
| Redevelopment property tax revenues | $ 124,791 | $ 131,744 | $ (6,953) |
| Developer payments | 50,343 | 37,666 | 12,677 |
| Charges for services | 19,076 | 18,864 | 212 |
| Hotel tax | 5,102 | 3,085 | 2,017 |
| Investment income | 2,045 | 1,812 | 233 |
| Grants | 323 | 91 | 232 |
| Other | 1,426 | 1,133 | 293 |
| Total additions | 203,106 | 194,395 | 8,711 |
| **Deductions** | | | |
| Salaries and benefits | 6,853 | 7,389 | (536) |
| Operating expenses | 1,452 | 2,440 | (988) |
| Affordable housing loan program costs | 31,856 | 27,526 | 4,330 |
| Contracted services: | | | |
| Hunters Point Shipyard / Candlestick Point | 4,043 | 2,864 | 1,179 |
| Mission Bay North and South | 10,354 | 40,473 | (30,119) |
| Transbay | 3,891 | 1,253 | 2,638 |
| Yerba Buena Center | 4,423 | 3,469 | 954 |
| Other | 4,486 | 5,259 | (773) |
| Community based programs | 5,436 | 5,330 | 106 |
| Distribution of pledged revenue to Transbay Joint Powers Authority | 2,500 | 4 | 2,496 |
| Depreciation | 5,638 | 5,499 | 139 |
| Interest on debt | 57,183 | 57,059 | 124 |
| Reinstatement of SERAF borrowing from the City | 18,770 | - | 18,770 |
| Other | 4,974 | 5,044 | (70) |
| Intergovernmental transfer of capital assets to the City | 4,612 | - | 4,612 |
| Total deductions | 166,471 | 163,609 | 2,862 |
| Change in net position | 36,635 | 30,786 | 5,849 |
| Net position, beginning of year, as previously reported | (439,637) | (470,423) | 30,786 |
| Change in accounting principles | (22,407) | - | (22,407) |
| Net position, beginning of year, as restated | (462,044) | (470,423) | 8,379 |
| Net position, end of year | $ (425,409) | $ (439,637) | $ 14,228 |

***Additions***

The Successor Agency's additions to net position increased by $8.7 million, from $194.4 million for fiscal year 2014 to $203.1 million for fiscal year 2015 primarily due to the following:

- Decrease in redevelopment property tax revenues of $6.9 million, from $131.7 million for fiscal year 2014 to $124.8 million for fiscal year 2015. The decrease was mainly due to the decrease in pledged property tax revenue available for use in the Mission Bay North and South Project Areas.

- Increase in developer payments of $12.6 million, from $37.7 million for fiscal year 2014 to $50.3 million for fiscal year 2015. The increase was mainly due to the receipt of impact fees of $15.1 million from developers for Hunters Point shipyard housing offset by decrease of $2.5 million from developers for Transbay housing.

- Increase in hotel tax of $2.0 million, from $3.1 million for fiscal year 2014 to $5.1 million for fiscal year 2015. The increase was due to the increase in receipt of hotel tax used for related debt service payment.

***Deductions***

The Successor Agency's deductions to net position increased by $2.9 million, from $163.6 million for fiscal year 2014 to $166.5 million for fiscal year 2015 primarily due to the following:

- Decrease in contracted service for Mission Bay North and South Project Area of $30.1 million, from $40.5 million for fiscal year 2014 to $10.4 million for fiscal year 2015. The decrease was mainly due to prior year's increase in activities in the project areas that were funded by proceeds from the issuance of 2014 Series A Bonds and pledged property tax increment revenues.

- Increase in affordable housing loan program costs of $4.3 million, from $27.5 million for fiscal year 2014 to $31.8 million for fiscal year 2015. The increase was mainly due to the timing of housing project predevelopment and construction activities.

- Increase in distribution of pledged revenue to Transbay Joint Powers Authority of $2.5 million made during fiscal year 2015, from $0 in fiscal year 2014 to $2.5 million for fiscal year 2015.

- One-time reinstatement of SERAF borrowing from the City in the amount of $18.8 million. During the year ended June 30, 2015, the Oversight Board and the California Department of Finance (DOF) approved future repayments of the SERAF borrowing from the City for up to the maximum amount of $16.5 million plus accrued interest. During January 2015, the Successor Agency recorded the payable balance of $18.8 million, which was comprised of principal of $16.5 million and accrued interest of $2.3 million.

- Increase in Intergovernmental transfer of capital assets to the City of $4.6 million, from $0 million for fiscal year 2014 to $4.6 million for fiscal year 2015. The increase was due to transfer of land held for lease located at 200 Sixth Street the City pursuant to the Dissolution Law.

## Capital Assets and Debt Administration

### *Capital Assets*

As discussed above, at June 30, 2015, Successor Agency had capital assets aggregating to $188.1 million, a decrease of $9.6 million from fiscal year 2014. The decrease was mainly due to current year depreciation of $5.6 million, and a transfer of land held for lease to the City of $4.6 million, offset by an increase of $0.6 million in construction in progress at the Yerba Buena Center Project Area.

### *Long-Debt Debt*

At June 30, 2015, Successor Agency had long-term debt outstanding aggregating to $982.2 million, a decrease of $36.5 million from fiscal year 2014. Below is a breakdown of the long-term debt is as follows (in thousands):

| | June 30, 2015 | June 30, 2014 | $ Change |
|---|---|---|---|
| **Long-Term Debt** | | | |
| Bonds Payable | | | |
| Tax Allocation Bonds | $ 849,709 | $ 902,603 | $ (52,894) |
| Moscone Revenue Bonds Series 1992 | - | 1,426 | (1,426) |
| Hotel Tax Revenue Bonds Series 2011 | 37,470 | 40,635 | (3,165) |
| South Beach Harbor Series 1986 Issue A | 1,995 | 3,270 | (1,275) |
| Subtotal - Bonds Payable | 889,174 | 947,934 | (58,760) |
| Cal Boating Loans Payable | 7,075 | 7,283 | (208) |
| Accreted Interest Payable | 37,501 | 39,385 | (1,884) |
| Advances From the Primary Government | 23,212 | 21,670 | 1,542 |
| SERAF Borrowing From the Primary Government | 16,022 | - | 16,022 |
| Unamortized Premiums and Discounts | 9,193 | 2,382 | 6,811 |
| **Total Long-Term Debt** | **$ 982,177** | **$ 1,018,654** | **$ (36,477)** |

## Bond Ratings

The table below shows the ratings for the Successor Agency's outstanding tax allocation bonds as of June 30, 2015:

| Type of Tax Allocation Bonds | S & P Ratings |
|---|---|
| Mission Bay South | BBB+ |
| 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 5th Floor, San Francisco, California 94103.

**This page left intentionally blank.**

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

Statement of Fiduciary Net Position
June 30, 2015
(In Thousands)

| | | |
|---|---|---|
| **Assets** | | |
| Unrestricted cash and investments | $ | 275,805 |
| Restricted cash and investments with trustees | | 150,484 |
| Interest and other receivables | | 4,670 |
| Intergovernmental receivables (net of allowance for uncollectible amounts of $860) | | 352 |
| Notes and mortgages receivable (net of allowance for uncollectible amounts of $113,213) | | 1,724 |
| Capital assets: | | |
| Non-depreciable | | 55,402 |
| Depreciable, net of accumulated depreciation | | 132,694 |
| Total assets | | 621,131 |
| **Deferred outflows of resources** | | |
| Unamortized loss on refundings | | 1,722 |
| Pension items | | 1,573 |
| Total deferred outflows of resources | | 3,295 |
| **Liabilities** | | |
| Accounts payable | | 19,307 |
| Payable to the City | | 1,820 |
| Accrued interest payable | | 20,104 |
| Other liabilities | | 1,292 |
| Long-term obligations: | | |
| Due within one year | | 58,726 |
| Due in more than one year | | 924,923 |
| Net pension liability | | 15,870 |
| Total liabilities | | 1,042,042 |
| **Deferred inflows of resources** | | |
| Pension items | | 7,793 |
| **Net position held in trust** | $ | (425,409) |

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, 2015

(In Thousands)

| | | |
|---|---|---|
| **Additions:** | | |
| Redevelopment property tax revenues | $ | 124,791 |
| Developer payments | | 50,343 |
| Charges for services | | 19,076 |
| Hotel tax | | 5,100 |
| Investment income | | 2,045 |
| Grants | | 323 |
| Other | | 1,428 |
| Total additions | | 203,106 |
| **Deductions:** | | |
| Salaries and benefits | | 6,853 |
| Administrative and operating | | 1,452 |
| Affordable housing loan program costs | | 31,856 |
| Contracted services | | 27,197 |
| Community based programs | | 5,436 |
| Distribution of pledged revenue to Transbay Joint Powers Authority | | 2,500 |
| Depreciation | | 5,638 |
| Interest on debt | | 57,183 |
| Reinstatement of SERAF borrowing from the City | | 18,770 |
| Other | | 4,974 |
| Intergovernmental transfer of capital assets to the City | | 4,612 |
| Total deductions | | 166,471 |
| Change in net position | | 36,635 |
| Net position, beginning of year, as previously reported | | (439,637) |
| Change in accounting principles | | (22,407) |
| Net position, beginning of year, as restated | | (462,044) |
| **Net position, end of year** | $ | (425,409) |

See accompanying notes to basic financial statements.

## (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 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).

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

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 exist 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 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.

***(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.

(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:

| **Assets** | **Years** |
|---|---|
| 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, 2015, the Successor Agency disbursed $31,856 to the developers through this arrangement and recorded an allowance against these receivables. This allowance is recorded as deductions - affordable housing loan program costs in the financial statements. The Successor Agency also transferred fully allowed notes and mortgages receivable related to the 200 Sixth Street with gross value of $2,485 to the City as approved by the Oversight Board and received repayments of $158 on the fully allowed notes and mortgages receivable. At June 30, 2015, the gross value of the notes and mortgage receivable was $114,937 and the allowance for uncollectible amounts was $113,213.

### *(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:

| **Employee Service years** | **Maximum number of hours** |
|---|---|
| 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.

(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) George R. Moscone Convention Center***

The City is responsible for the construction management, operation, maintenance, repair and expansion of the George R. Moscone Convention Center, which has been partially financed with lease revenue bonds issued by the former Agency. The City has entered into a lease agreement with the former Agency whereby the City remits periodic lease rental payments to the former Agency to provide for the debt service of the former Agency's Moscone Convention Center Lease Revenue Bonds. The lease repayment terms mirror the debt service requirements of the corresponding lease revenue bonds. The bonds are special limited obligations of the Successor Agency and payable solely from the lease payments from the City. The bonds are fully repaid and the capital lease expired during the year ended June 30, 2015.

***(k) 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.

***(l) 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.

***(m) Effects of New Pronouncements***

During the year ended June 30, 2015, the Successor Agency implemented the following Governmental Accounting Standards Board (GASB) Statements:

- In June 2012, the GASB issued a new standard, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB No. 27*, to improve the guidance for accounting for and reporting on the pensions that governments provide to their employees. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which clarified reporting for contributions made after the measurement date of the pension liability.

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

Key changes include:

- Separating the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in the financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

As of July 1, 2014, the Successor Agency adopted the provisions of GASB Statement Nos. 68 and 71 and restated the beginning net position in the amount of $22,407 to record the beginning deferred pension contributions and net pension liability. See Note 5 to the financial statements for details.

- In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement is intended to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. This statement provides guidance determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations; using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations; measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and reporting the disposal of government operations that have been transferred or sold. The implementation of this statement did not have a significant impact to the Successor Agency for the year ending June 30, 2015.

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

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this statement are effective for the Successor Agency's year ended ending June 30, 2016.

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

- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* This statement establishes requirements for those pensions and pension plans that are not administrated through a trust meeting specified criteria and thus are not covered by Statements Nos. 67 and 68. The requirements of this statement are effective for the Successor Agency's year ended ending June 30, 2016.

- 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. The requirements of this statement are effective for the Successor Agency's year ended ending June 30, 2017.

- 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 ended ending June 30, 2018.

- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement reduces the hierarchy of generally accepted accounting principles to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the account treatment for a transaction or other event is not specific with a source of authoritative GAAP. The requirements of this statement are effective for the Successor Agency's year ended ending June 30, 2016.

- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* This statement requires governments that enter into tax abatement agreements to disclose several information about the agreements. The requirements of this statement are effective for the Successor Agency's year ended ending June 30, 2017.

***(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.

(Dollars in thousands)

## (2) Cash and Investments

As of June 30, 2015, 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.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|
| 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 |

* 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.

(Dollars in thousands)

## (2) Cash and Investments (Continued)

The following is a summary of cash and investments as of June 30, 2015:

| | Weighted Average Maturities for Investments | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3 months to 1 year | 1 to 5 years | Total Fair Value | Credit Rating | % allocation |
| Unrestricted cash and investments: | | | | | | |
| Cash and investments with the City Treasury: | | | | | | |
| Municipal bonds | $ - | $ - | $ 1,995 | $ 1,995 | Not rated | 0.74% |
| Investment in the City Treasurer's pool | - | - | 268,471 | 268,471 | Not rated | 99.26% |
| Total cash and investments with the City Treasury | - | - | 270,466 | 270,466 | | 100.00% |
| Cash deposits in bank | | | | 5,339 | Not Applicable | |
| Total unrestricted cash and investments | - | - | 270,466 | 275,805 | | |
| Restricted cash and investments with trustees: | | | | | | |
| Money market mutual funds | 150,484 | - | - | 150,484 | Aaa | 100.00% |
| Total cash and investments | $ 150,484 | $ - | $ 270,466 | $ 426,289 | | |

**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 procession 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. At June 30, 2015, the Successor Agency's investment in the South Beach Harbor Bonds 1986 Issue A in the amount of $1,995 was exposed to custodial credit risk because they were separately managed by the City Treasury and registered in the name of the City.

### 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, 2015, the Successor Agency's deposits and investments in the Pool is $268,471 and the total amount invested by all public agencies in the Pool is $7.0 billion. The Successor Agency's investment in the Pool has a weighted average maturity of 1.5 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, 2015, the Pool consists of U.S. government and agency securities, state and local government agency obligations, negotiable certificates of deposit, medium term notes, 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) may be obtained by contacting the City's Controller's Office, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102.

(Dollars in thousands)

## (3) Capital Assets

The following is a summary of changes in capital assets for the year-ended June 30, 2015:

| | Balance July 1, 2014 | Additions | Deletions | Transfers | Balance June 30, 2015 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land held for lease | $ 59,381 | $ - | $ (4,612) | $ - | $ 54,769 |
| Construction in progress | 2,822 | 632 | - | (2,821) | 633 |
| Total capital assets not being depreciated | 62,203 | 632 | (4,612) | (2,821) | 55,402 |
| Capital assets being depreciated: | | | | | |
| Furniture and equipment | 8,144 | - | - | - | 8,144 |
| Building and improvements | 225,022 | - | - | 2,821 | 227,843 |
| Total capital assets being depreciated | 233,166 | - | - | - | 235,987 |
| Less accumulated depreciation for: | | | | | |
| Furniture and equipment | (8,076) | (17) | - | - | (8,093) |
| Building and improvements | (89,579) | (5,621) | - | - | (95,200) |
| Total accumulated depreciation | (97,655) | (5,638) | - | - | (103,293) |
| Total capital assets being depreciated, net | 135,511 | (5,638) | - | - | 132,694 |
| Total capital assets, net | $ 197,714 | $ (5,006) | $ (4,612) | $ - | $ 188,096 |

On June 2, 2014, the Oversight Board approved the transfer of land held for lease located at 200 Sixth Street and related loans receivable from the Successor Agency to the City pursuant to the Dissolution Law. On September 23, 2014, the City's Board of Supervisors approved the acceptance of the assets. On October 9, 2014, the Successor Agency transferred land in the amount of $4,612 to the City and was recorded as deductions – intergovernmental transfer of capital assets to the City on the financial statements.

(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, 2015:

| | Original Issue Amount | Final Maturity | Remaining Interest Rates | Balance, July 1, 2014 | Additions | Retirements | Balance, June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 1993B (1) | $ 57,934 | 2015 | Not Applicable | $ 4,599 | $ - | $ (4,599) | $ - | $ - |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment and Refunding Notes Series 1998C (1) | 12,915 | 2025 | 5.25% to 5.40% | 2,079 | - | (1,005) | 1,074 | - |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment and Refunding Notes Series 1998D (1) | 21,034 | 2025 | 5.20% | 15,529 | - | (3,660) | 11,869 | - |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2003A, B, C (1) | 144,435 | 2019 | 5.18% to 5.41% | 53,275 | - | (14,470) | 38,805 | 9,345 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2004A, C, D (1) | 136,610 | 2015 | Not Applicable | 95,875 | - | (95,875) | - | - |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects and Refunding Notes Series 2005A, B, C, D (1) | 88,610 | 2036 | 4.50% to 5.20% | 60,360 | - | (46,185) | 14,175 | 1,255 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2006A (1) | 50,731 | 2037 | 5.62% to 6.19% | 46,251 | - | (11,260) | 34,991 | 270 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2006B (1) | 34,150 | 2037 | 4.00% to 5.00% | 31,005 | - | (755) | 30,250 | 785 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2007A (1) | 118,285 | 2038 | 5.50% to 5.75% | 110,865 | - | (1,650) | 109,215 | 1,715 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Refunding Notes Series 2007B (1) | 94,115 | 2023 | 4.00% to 5.00% | 52,780 | - | (8,640) | 44,140 | 9,215 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2009A (1) | 75,000 | 2024 | 7.38% to 8.25% | 59,435 | - | (5,315) | 54,120 | 5,435 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009B (1) | 17,625 | 2039 | 5.00% to 6.63% | 14,430 | - | (940) | 13,490 | 1,045 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009C (1) | 25,715 | 2039 | 4.50% to 6.50% | 25,690 | - | (125) | 25,565 | 230 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009D (1) | 49,810 | 2039 | 5.00% to 6.63% | 46,625 | - | (800) | 45,825 | 840 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009E (1) | 72,565 | 2039 | 6.10% to 8.41% | 72,100 | - | (130) | 71,970 | 145 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2009F (1) | 6,610 | 2039 | 3.25% to 5.75% | 6,505 | - | (30) | 6,475 | 65 |

*(Continued on next page)*

(Dollars in thousands)

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

| | Original Issue Amount | Final Maturity | Remaining Interest Rates | Balance, July 1, 2014 | Additions | Retirements | Balance, June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2010A (1) | 40,055 | 2041 | 4.11% to 7.13% | $ 39,420 | $ - | $ (315) | $ 39,105 | $ 315 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2011A (1) | 22,370 | 2042 | 5.25% to 9.00% | 21,910 | - | (250) | 21,660 | 290 |
| Tax Allocation Revenue Bonds, San Francisco Redevelopment Project Series 2011B (1) | 16,020 | 2042 | 6.13% to 6.63% | 16,020 | - | - | 16,020 | - |
| Tax Allocation Revenue Bonds, Mission Bay North Redevelopment Project Series 2011C (1) | 27,335 | 2042 | 4.50% to 6.75% | 26,405 | - | (385) | 26,020 | 305 |
| Tax Allocation Revenue Bonds, Mission Bay South Redevelopment Project Series 2011D (1) | 36,485 | 2042 | 5.00% to 7.00% | 35,755 | - | (405) | 35,350 | 420 |
| Taxable Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2011E (1) | 9,455 | 2032 | 8.13% to 8.63% | 9,445 | - | - | 9,445 | - |
| Successor Agency Bonds: | | | | | | | | |
| Tax Allocation Revenue Bonds, Mission Bay South Redevelopment Project Series 2014A (1) | 56,245 | 2044 | 4.00% to 5.00% | 56,245 | - | - | 56,245 | 695 |
| Tax Allocation Refunding Bonds, San Francisco Redevelopment Project Series 2014B (1) | 67,955 | 2036 | 0.57% to 4.87% | - | 67,955 | - | 67,955 | 8,005 |
| Tax Allocation Refunding Bonds, San Francisco Redevelopment Project Series 2014C (1) | 75,945 | 2029 | 2.00% to 5.00% | - | 75,945 | - | 75,945 | 11,555 |
| Agency Revenue Bonds: | | | | | | | | |
| Moscone Convention Center Lease, Series 1992 (2) | 100,275 | 2015 | Not Applicable | 1,426 | - | (1,426) | - | - |
| Hotel Tax Revenue Bonds, Series 2011 (3) | 43,780 | 2025 | 4.00% to 5.00% | 40,635 | - | (3,165) | 37,470 | 3,210 |
| Financing Authority Refunding Bonds: | | | | | | | | |
| Refunding Bond 1986 Issue A (4) | 23,900 | 2017 | 3.50% | 3,270 | - | (1,275) | 1,995 | 1,320 |
| Subtotal Bonds Payable | | | | 947,934 | 143,900 | (202,660) | 889,174 | 56,460 |
| Unamortized issuance premiums | | | | 7,333 | 8,661 | (2,436) | 13,558 | - |
| Unamortized issuance discounts | | | | (4,951) | - | 586 | (4,365) | - |
| Subtotal Bonds Payable, including unamortized premium and discounts | | | | 950,316 | 152,561 | (204,510) | 898,367 | 56,460 |
| Accreted interest payable * | | | | 39,385 | 4,741 | (6,625) | 37,501 | - |
| Cal Boating loans payable (5) | | | | 7,283 | - | (208) | 7,075 | 218 |
| Advances from the primary government | | | | 21,670 | 3,837 | (2,295) | 23,212 | - |
| SERAF borrowing from the primary government | | | | - | 18,973 | (2,951) | 16,022 | 1,773 |
| Other postemployment benefit obligation | | | | 867 | 918 | (952) | 833 | - |
| Accrued vacation and sick leave | | | | 1,325 | 275 | (961) | 639 | 275 |
| Total long-term obligations | | | | $ 1,020,846 | $ 181,305 | $ (218,502) | $ 983,649 | $ 58,726 |

*Amount represents interest accretion on Capital Appreciation Bonds.

## (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) Capital lease payments from the City and existing debt service funds.
(3) Hotel tax revenues from the occupancy of guest rooms in the hotels within the City.
(4) South Beach Harbor Project cash reserves, property tax increment revenues and project revenues transferred from the capital projects fund.
(5) South Beach Harbor Project revenues (subordinated to Refunding Bonds 1986 Issue A).

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 December 11, 2014, the Successor Agency issued two refunding bonds: 1) Tax Allocation Refunding Bonds Series 2014 B (2014 Series B Bonds) for $67,955 and 2) Tax Allocation Refunding Bonds Series 2014 C (2014 Series C Bonds) for $75,945.

Proceeds from the 2014 Series B Bonds were used to partially or fully refund 2004 Series D, 2005 Series C, and 2006 Series A Bonds in the amount of $25,040, $29,355, and $10,430, respectively. The refunding resulted in net present value savings of $4,994 and an accounting loss of $339. The 2014 Series B Bonds bear fixed interest rates ranging from 0.57% to 4.87% and have a final maturity of August 1, 2035.

Proceeds from the 2014 Series C Bonds, including original issue premium of $8,661, and funds on hand from the refunded bonds in the amount of $2,231, were used to partially or fully refund 1993 Series B, 1998 Series D, 2003 Series C, 2004 Series A, 2004 Series C, and 2005 Series A Bonds in the amount of $4,600, $3,150, $4,350, $56,690, $5,880, and $9,865, respectively. The refunding resulted in net present value savings of $7,722 and an accounting loss of $275. The 2014 Series C Bonds bear fixed interest rates ranging from 2.00% to 5.00% and have a final maturity of August 1, 2029.

*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 2044, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1,570,841. The redevelopment property tax revenues recognized during the year ended June 30, 2015 was approximately $124,791 as against the total debt service payment of $98,791.

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

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 $48,132. The hotel tax revenue recognized during the year ended June 30, 2015 was $5,100 which equaled to the total debt service payment.

*Advances from the City*

In January 2003, the City and the former Agency entered into a Cooperation and Tax Increment Reimbursement Agreement. The City agreed to advance tax increment revenues to the former Agency for the debt service payments on the Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2003 B and C. The former Agency agreed to make reimbursement payments related to the Jessie Square Parking Garage and fully repay the advances by fiscal year 2018. In accordance with HSC section 34191.4(b)(3), interest shall be accrued quarterly at an annual rate of 3% on the principal balance due to the City. The City and the Successor Agency have continued to accrue interest at the State of California Local Agency Investment Fund (LAIF) rate as of June 30, 2015. For the year ended June 30, 2015, the City advanced $3,783 in property tax revenues to the Successor Agency for debt service payments. Interest in the amount of $54 was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of $2,295 to the City. At June 30, 2015, the outstanding payable balance was $23,212, which was comprised of principal of $22,489 and accrued interest of $723.

*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. The Successor Agency did not record a payable to the City due to the uncertainty on the enforceability of this obligation.

During the year ended June 30, 2015, the Oversight Board and the DOF approved future repayments of this obligation to the City for up to the maximum amount of $16,483 plus accrued interest. 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). During January 2015, the Successor Agency recorded the payable balance of $18,770, which was comprised of principal of $16,483 and accrued interest of $2,287.

For the year ended June 30, 2015, interest in the amount of $203 was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of $2,951 to the City. At June 30, 2015, the outstanding payable balance was $16,022, which was comprised of principal of $13,532 and accrued interest of $2,490.

(Dollars in thousands)

***(b) Repayment requirements***

As of June 30, 2015, the debt service requirements to maturity, excluding accrued vacation and sick leave, are as follows:

| | Tax Allocation Revenue Bonds | | Hotel Tax Revenue Bonds | |
|---|---|---|---|---|
| June 30, | Principal | Interest * | Principal | Interest |
| 2016 | $ 51,930 | $ 46,004 | $ 3,210 | $ 1,809 |
| 2017 | 51,195 | 43,448 | 3,265 | 1,680 |
| 2018 | 53,870 | 41,097 | 3,280 | 1,550 |
| 2019 | 60,595 | 38,488 | 4,610 | 1,386 |
| 2020 | 42,392 | 39,104 | 3,365 | 1,155 |
| 2021-2025 | 138,583 | 208,356 | 19,740 | 3,082 |
| 2026-2030 | 122,138 | 143,739 | - | - |
| 2031-2035 | 139,589 | 105,773 | - | - |
| 2036-2040 | 127,957 | 49,362 | - | - |
| 2041-2044 | 61,460 | 5,761 | - | - |
| TOTAL | $ 849,709 | $ 721,132 | $ 37,470 | $ 10,662 |

| | Refunding Bond 1986 Issue A | | California Deptartment of Boating and Waterway Loan | |
|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest |
| 2016 | $ 1,320 | $ 58 | $ 218 | $ 318 |
| 2017 | 675 | 12 | 227 | 309 |
| 2018 | - | - | 238 | 298 |
| 2019 | - | - | 248 | 288 |
| 2020 | - | - | 259 | 276 |
| 2021-2025 | - | - | 1,483 | 1,196 |
| 2026-2030 | - | - | 1,849 | 831 |
| 2031-2035 | - | - | 2,304 | 376 |
| 2036-2037 | - | - | 249 | 13 |
| TOTAL | $ 1,995 | $ 70 | $ 7,075 | $ 3,905 |

* Including payment of accreted interest.

(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, 2015.

## (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:

| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
|---|---|---|
| Benefit formula | 2.7% @ 55 | 2% @ 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 eligible compensation | 2.0% to 2.7% | 1.0% to 2.5% |
| Required employee contribution rates | 7% | 6.25% |
| Required employer contribution rates | 18.189% | 18.189% |

(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, 2015, the employer and employee contributions recognized as part of pension expense for the Plan were $591 and $342, respectively.

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

As of June 30, 2015, the Successor Agency's reported total net pension liability of $15,870 for its proportionated shares of the net pension liability. 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 0.25504% or $15,870 as of June 30, 2014, a decrease of $7,128 from $22,998 as of June 30, 2013.

For the year ended June 30, 2015, the Successor Agency recognized pension expense of $281. At June 30, 2015, the Successor Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 598 | $ - |
| Adjustment due to differences in proportions | - | 1,415 |
| Differences between the employer's contributions and the employer's proportionate share of contributions | 975 | - |
| Net differences between projected and actual earnings on pension plan investments | - | 6,378 |
| Total | $ 1,573 | $ 7,793 |

(Dollars in thousands)

## (5) Pension Plan (Continued)

At June 30, 2015, the Successor Agency reported $598 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, 2016. 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 Outflows/(Inflows) of Resources |
|---|---|
| 2016 | $ (1,752) |
| 2017 | (1,752) |
| 2018 | (1,720) |
| 2019 | (1,594) |
| Total | $ (6,818) |

**Actuarial Assumptions -** The total pension liabilities in the June 30, 2013 actuarial valuations, which were rolled forward to June 30, 2014, were determined using the following actuarial assumptions:

| | |
|---|---|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry age normal cost method |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.30% to 14.20% depending on Age, Service, and Type of Employment |
| Investment Rate of Return | 7.5% net of pension plan investment and administrative expenses, includes inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds |

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period from 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

**Discount Rate –** The discount rate used to measure the total pension liability was 7.50 percent. 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 run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report named “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB Statement No. 68 section.

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

According to GASB Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The difference in calculation between a 7.50 percent rate and a 7.65 percent rate was not material to the Successor Agency's financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it changes its methodology.

The long-term expected rate of return on pension plan investments of 7.50% 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 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.

(Dollars in thousands)

## (5) Pension Plan (Continued)

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. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Year 1-10 (a) | Real Return Year 11+ (b) |
|---|---|---|---|
| Global Equity | 47.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 12.00% | 6.83% | 6.95% |
| Real Estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Total | 100.00% | | |

(a) An expected inflation of 2.50% used for this period
(b) An expected inflation of 3.00% used for this period

**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 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

| | Decrease Rate - 1% (6.50%) | Current Discount Rate (7.50%) | Decrease Rate + 1% (8.50%) |
|---|---|---|---|
| Proportionate Share of Net Pension Liability | $ 30,294 | $ 15,870 | $ 3,899 |

**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 95814.

(Dollars in thousands)

## (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 95814.

*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 June 30, 2013 actuarial valuation, the Successor Agency's ARC for the year ended June 30, 2015 remained the same as the ARC for the year ended June 30, 2014 and is the sum of (a) normal cost of $110 and (b) level dollar amortization of the June 30, 2013 UAAL of $822.

The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2015, and the changes in the net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 932 |
| Interest on OPEB obligation | 63 |
| Adjustment to annual required contribution | (77) |
| Annual OPEB cost (expense) | 918 |
| Contributions made | (952) |
| Decrease in net OPEB obligation | (34) |
| Net OPEB obligation, beginning of year | 867 |
| Net OPEB obligation, end of year | $ 833 |

## (6) Postemployment Healthcare Plan (Continued)

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 (in thousands):

| Fiscal Year Ended | Annual OPEB Cost (AOC) | Percentage of AOC Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2013 | $ 1,306 | 77% | $ 1,221 |
| 6/30/2014 | 912 | 139% | 867 |
| 6/30/2015 | 918 | 104% | 833 |

*Funded Status and Funding Progress*–The funded status of the plan of the Successor Agency as of June 30, 2013, the plan's most recent actuarial valuation date, was as follows (in thousands):

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 11,378 |
| Actuarial value of plan assets | 2,154 |
| Unfunded actuarial accrued liability (UAAL) | $ 9,224 |
| Funded ratio (actuarial value of plan assets/AAL) | 18.9% |
| Covered payroll (active plan memebers) | $ 4,048 |
| UAAL as a percentage of covered payroll | 227.9% |

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.

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, 2015 and the funding status of the plan was determined based on the June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include: (a) investment return and discount rate of 7.25% with a 5 year smoothing with 20% corridor for the actuarial value of plan assets; (b) healthcare cost trend rate of 4%; (c) inflation rate of 3.0%; (d) payroll growth of 3.0%; and (e) 2009 CalPERS 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 24 years, respectively.

(Dollars in thousands)

## (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, 2015, the Successor Agency had outstanding community district facility bonds totaling $197.9 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, 2015, the Successor Agency has exercised several of the lease options.

Total future minimum operating lease payments are as follows:

| Year ending June 30: | | |
|---|---|---|
| 2016 | $ | 1,311 |
| 2017 | | 870 |
| 2018 | | 870 |
| 2019 | | 870 |
| 2020 | | 870 |
| 2021-2025 | | 4,351 |
| 2026-2030 | | 4,351 |
| 2031-2035 | | 4,351 |
| 2036-2040 | | 4,351 |
| 2041-2045 | | 4,351 |
| 2046-2050 | | 4,351 |
| 2051 | | 217 |
| | $ | 31,114 |

Total rent payments for operating leases totaled $1,373 for the year ended June 30, 2015.

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

### *(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, 2015.

### *(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, 2015, the Successor Agency received $2,500 from a developer and distributed the funds to the TJPA. The payment was recorded as deduction – distribution of pledged revenue to TJPA on the financial statements.

### *(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, 2015, the Successor Agency had outstanding encumbrances totaling $80,742.

### *(f) Long Range Property Management Plan*

On May 29, 2013, the DOF granted a Finding of Completion for the Successor Agency. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF has verified that the Successor Agency does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. The receipt of the Finding of Completion allows the Successor Agency to submit a Long Range Property Management Plan (PMP) to the Oversight Board and the DOF for approval. The PMP addresses the disposition and use of real properties held by the Successor Agency and must be submitted within 6 months of receipt of the Finding of Completion.

(Dollars in thousands)

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

On July 22, 2013, the Successor Agency submitted Part 1 of the PMP to request approval for the disposition of the property located at 706 Mission Street with a book value of $0. On October 4, 2013, the DOF approved Part 1 of the PMP. The property will be transferred in accordance with the terms and closing conditions of the 706 Mission Purchase and Sale Agreement in fiscal year 2016. The Commission and the Oversight Board approved on November 19, 2013 and November 25, 2013, respectively, the submission of the remaining PMP and the updated Housing Asset Transfer list to the DOF to review and approve the transfer of assets to the City. The Successor Agency received feedback and comments on the submitted PMP from the DOF during September 2015. The Successor Agency will make revisions to the PMP, obtain approval from the Commission and the Oversight Board, and resubmit the PMP to DOF for final approval by December 2015.

## (9) Rental Income

### *(a) 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, 2015:

| Year ending June 30: | | |
|---|---|---|
| 2016 | $ | 4,660 |
| 2017 | | 4,362 |
| 2018 | | 4,287 |
| 2019 | | 4,153 |
| 2020 | | 4,034 |
| 2021-2025 | | 20,652 |
| 2026-2030 | | 22,148 |
| 2031-2035 | | 23,612 |
| 2036-2040 | | 19,782 |
| 2041-2045 | | 21,069 |
| 2046-2050 | | 7,121 |
| | $ | 135,880 |

For the year ended June 30, 2015, operating lease rental income from noncancelable operating leases was $11,761. Within the operating lease rental income, $6,562 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, 2015, the leased assets had a net book value of $40,350.

## (9) Rental Income (Continued)

### *(b) Capital Lease*

The former Agency has entered into a capital lease with the City for use of land and facility space pertaining to the George R. Moscone Convention Center. The lease repayment terms mirror the debt service requirements of the corresponding lease revenue bonds that were issued by the former Agency to finance the construction and expansion of the George R. Moscone Convention Center. The capital lease is recorded as a receivable and the corresponding lease revenue bonds are recorded as liabilities of the Successor Agency. The principal portion of the lease payments is recorded as a reduction of the capital lease receivable, and the principal payments on the lease revenue bonds are recorded as a reduction of the debt. The interest portion of the lease is recognized as rental income, and the interest payments on the lease revenue bonds are recognized as interest expense. The capital lease expired during the year ended June 30, 2015.

The lease agreement for the George R. Moscone Convention Center provides for deferred base rental payments commencing in May 1996 for $870 per year until the termination date of the lease during fiscal year 2018. Deferred base rental represents a portion of the fair rental value of the project, which has been deferred by the agreement, to a date when monies are anticipated to be available. During the year ended June 30, 2015, the Successor Agency received the four remaining annual payments totaled to $3,480 paid in advance by the City.

## (10) Related Party Transactions

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

At June 30, 2015, the Successor Agency has a payable to the City in the amount of $1,820 which consists of $948 for Jessie Square cost reimbursements and $872 for other 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 $8,574 for the year ended June 30, 2015, have been included in various deductions line items on the financial statements.

## (11) Subsequent Event

### Passage of Senate Bill 107 (the Bill)

In September 2015, the State passed the 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**

Required Supplementary Information (Unaudited)

Schedule of the Successor Agency's Proportionate Share of the Net Pension Liability

As of June 30, 2015

Last 10 years *

(Dollars In Thousands)

| Measurement period | 2013-14 |
|---|---|
| Proportion of net pension liability | 0.25504% |
| Proportionate share of the net pension liability | $ 15,870 |
| Covered-employee payroll | $ 6,695 |
| Proportionate share of the net pension liability as a percentage of covered-employee payroll | 237.04% |
| CalPERS Miscellaneous Plan's fiduciary net position as a percentage of total pension liability | 81.15% |

**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 June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.
Changes in assumptions - There were no change in benefits.

* Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only two 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
As of June 30, 2015
Last 10 years *
(Dollars In Thousands)

| Fiscal year | 2013-14 | | 2014-15 | |
|---|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ | 591 | $ | 598 |
| Contractually in relation to the actuarially determined contributions | | (591) | | (598) |
| Contribution deficiency (excess) | $ | - | $ | - |
| Covered-employee payroll | $ | 6,695 | $ | 6,477 |
| Contributions as a percentage of covered-employee payroll | | 8.83% | | 9.23% |

**Notes to Schedule:**

The actuarial methods and assumptions used to determine the fiscal year 2014-15 contribution rates are as follows:

| | |
|---|---|
| Valuation date: | 6/30/2012 |
| Actuarial Cost Method | Entry age normal cost method |
| Amortization Method | Level percent of payroll |
| Asset Valuation Method | 15 year smoothed market |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.30% to 14.20% depending on Age, Service, and Type of Employment |
| Investment Rate of Return | 7.5% net of pension plan investment and administrative expenses, includes inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds |

* Fiscal year 2015 was the first year of implementation of GASB Statement No. 68, therefore only one year of information is 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)

**Schedule of Funding Progress**

| Actuarial valuation date | Actuarial value of assets (a) | Actuarial accrued liability (AAL) entry age (b) | Unfunded AAL (UAAL) (b-a) | Funded ratio (a/b) | Covered payroll (c) | UAAL as a % of covered payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2009 | $ 493 | $ 13,790 | $ 13,297 | 3.6% | $ 10,515 | 126.5% |
| 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% |

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

Certified
Public
Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

# 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, 2015, 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 30, 2015.

***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

Walnut Creek, California
October 30, 2015