



San Francisco County Transportation Authority

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



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San Francisco County Transportation Authority



Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Prepared by the Finance and Administration Division

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

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Introductory Section



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November 10, 2017

To the Members of the Governing Board of the San Francisco County Transportation Authority:



Plan, Fund, Deliver

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Francisco County Transportation Authority (Transportation Authority) for the fiscal year ended June 30, 2017. The financial statements are presented in conformity with generally accepted accounting principles and were audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe the controls and procedures are in place to ensure the accuracy of reported data, in all material respects, and the Transportation Authority's financial position is presented fairly.

Vavrinek, Trine, Day & Co. LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the Transportation Authority's financial statements for the year ended June 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

The Transportation Authority is also required to undergo an annual federal compliance audit in conformity with the provision of the Single Audit Act of 1984, and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The results of this audit can be found in the federal Compliance Section.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

COMMISSIONERS

Aaron Peskin
CHAIR

Katy Tang
VICE CHAIR

London Breed

Malia Cohen

Mark Farrell

Sandra Lee Fewer

Jane Kim

Hillary Ronen

Ashfa Safai

Jeff Sheehy

Norman Yee

Tilly Chang
EXECUTIVE DIRECTOR

Profile of the Government

San Francisco is the cultural, commercial, and financial center of Northern California. The consolidated city-county covers an area of about 47.9 square miles at the north end of the San Francisco Peninsula in the San Francisco Bay Area. The Transportation Authority, established in 1989 pursuant to the provisions of the Bay Area County Traffic and Transportation Funding Act (the “Act”) and by voter approval of Proposition B, is a sub-regional transportation planning and programming agency for the City and County of San Francisco (the “City”). Originally created to administer the proceeds of the retail transactions and use tax also approved by Proposition B, the City’s first local sales tax for transportation, the Transportation Authority has since been asked to take on several additional roles and responsibilities mandated by State law. On November 4, 2003, County voters approved Proposition K, adopting a new transportation expenditure plan referred to herein as the Expenditure Plan, which superseded Proposition B, and extended the existing one-half of one percent (½%) County-wide sales tax through April 1, 2034.

Pursuant to the Act, the Transportation Authority is a separate legal entity from the City, with its own staff, budget, operating rules, policies, board, and committee structure. The Transportation Authority’s borrowing capacity is separate and distinct from that of the City. The Transportation Authority does not own or operate any transit systems, but it coordinates with and provides funding to certain other agencies that do operate transit systems. The Transportation Authority’s mission is to make travel safer, healthier, and easier for all. We plan, fund, and deliver local and regional projects to improve travel choices for residents, commuters, and visitors throughout the city.

Since 1990, the Transportation Authority has been the designated Congestion Management Agency (CMA) for San Francisco. In this role, the Transportation Authority is responsible for developing and administering the Congestion Management Program. Through its CMA activities, the Transportation Authority leverages State and federal transportation dollars to complement Proposition K sales tax revenues, and performs project delivery oversight to assist with project implementation. The Transportation Authority also tracks transportation system performance to ensure that the City gets good value for its transportation investments, and it prepares the long-range San Francisco Transportation Plan to guide future investment decisions.

The Transportation Authority has also served as the San Francisco Program Manager for grants from the Bay Area Air Quality Management District’s Transportation Fund for Clean Air (TFCA) since 1990. In such role, the Transportation Authority approves funding for transportation projects that directly benefit air quality, through reduced motor vehicle emissions.

The Transportation Authority also serves as the administrator of Proposition AA, a \$10 annual vehicle registration fee on motor vehicles registered in the City, which was passed by City voters in November 2010. In such role, the Transportation Authority oversees the Proposition AA program and allocates funds to street repair and reconstruction, pedestrian safety, and transit reliability and mobility improvement projects. This fee is separate and apart from, and does not form any part of, the Sales Tax Revenues.

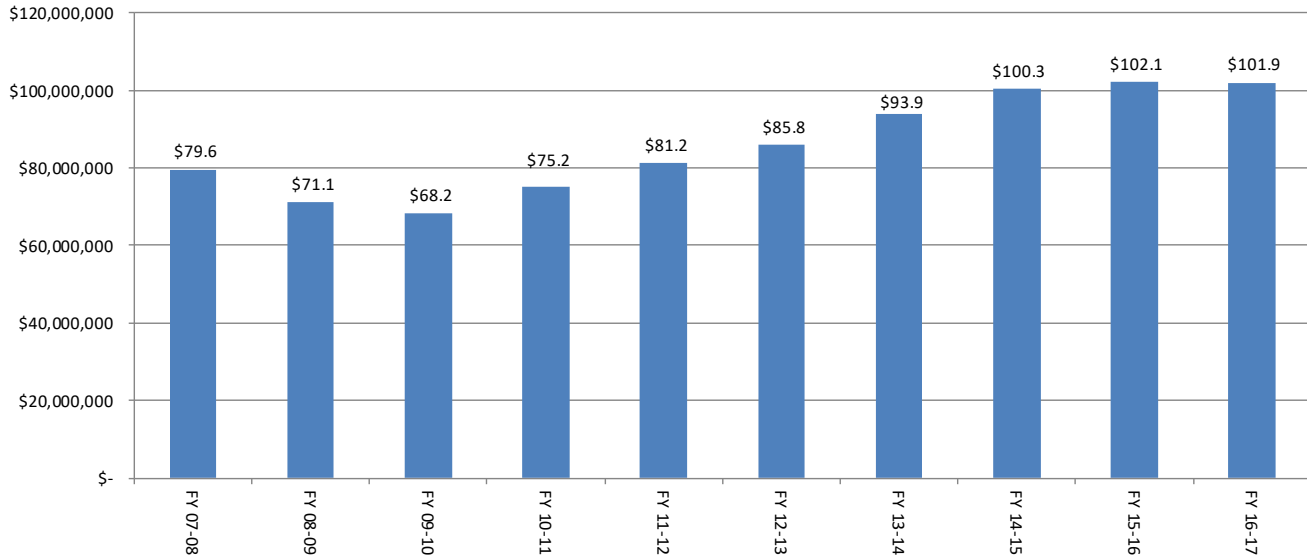
The Transportation Authority was also designated as the Treasure Island Mobility Management Agency (TIMMA) in 2014, and although TIMMA and the Transportation Authority share staff and a common board of commissioners, TIMMA’s functions (and its budget) are separate and apart from those of the Transportation Authority. TIMMA is charged with planning for sustainable mobility on Treasure Island, sponsoring the provisions of new ferry and regional bus service, on-island shuttle, bike share, and car share opportunities. In 2008, State legislation enabled TIMMA to implement congestion pricing to manage vehicle traffic as the island develops, and to fund the new transit and other mobility services.

The Transportation Authority governing board consists of the eleven members of the San Francisco Board of Supervisors, who act as Transportation Authority Commissioners (Board). Board members elect a chair every January. The chair appoints the members and chairs of the committees and serves as an ex-officio member on the committees. The Board is required to adopt an initial budget for the fiscal year no later than June 30th preceding the beginning of the fiscal year on July 1.

Major Revenue – Sales Tax

The Act, among other things, authorizes the board of supervisors of any county within the nine-county Bay Area to develop a countywide consensus on a proposed transportation expenditure plan to be submitted to the voters, following various local governmental approvals, as part of an ordinance imposing a retail transactions and use tax of either one-half of 1 percent or 1 percent in accordance with the provisions of the California Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251, et seq.) In accordance with the Act, on November 7, 1989, more than two-thirds of the voters of the City approved Proposition B, which authorized the formation of the Transportation Authority and imposed the Original Sales Tax, for a minimum period of twenty (20) years commencing April 1, 1990, for the purpose of funding the Transportation Authority’s Original Expenditure Plan (herein defined). The Original Sales Tax was extended on November 4, 2003 by 74.79% of the voters of the City voting on the measure (known as “Proposition K”) providing for the imposition of a retail transactions and use tax of one-half of one percent (½%) and the funding of the Transportation Authority’s Expenditure Plan. The Sales Tax will continue to be imposed and collected without interruption during the implementation of the Expenditure Plan for an initial period of thirty (30) years, beginning on April 1, 2004 and continuing through April 1, 2034.

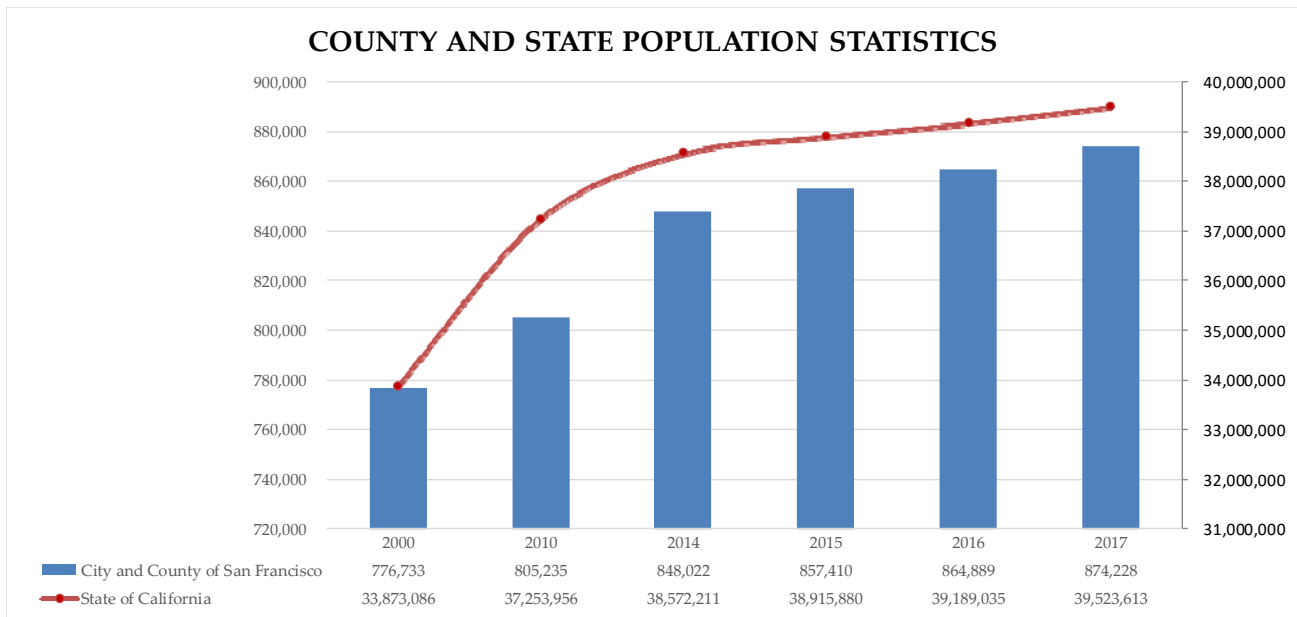
PROP K SALES TAX REVENUES 2008-2017



Local Economy (revenue drivers)

San Francisco’s economy is driven by various types of industries including financial services, tourism, and high technology and major factors affecting sales tax revenues including population, personal income, and unemployment rate.

During the past ten years, the estimated population of the City and County of San Francisco increased from 776,733 to 874,228 with an annual growth rate of 1.1% in 2017.



Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California November 2012. State of California, Department of Finance, E-4 Population for Cities, Counties, and State, 2011-2017, with 2010 Census Benchmark. Sacramento, California, May 2017.

In addition, the unemployment rate fell from 6.8% in 2012 to 3.3% in 2016.

ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE ¹

	2012	2013	2014	2015	2016
Civilian Labor Force					
County					
Employed	474,900	488,200	506,500	526,600	541,600
Unemployed	34,500	28,100	23,100	19,700	18,200
Total	509,400	516,300	529,600	546,300	559,800
Unemployment Rates					
County	6.8%	5.5%	4.4%	3.6%	3.3%
State	10.4%	8.9%	7.5%	6.2%	5.4%
United States	8.1%	7.4%	6.2%	5.3%	4.9%

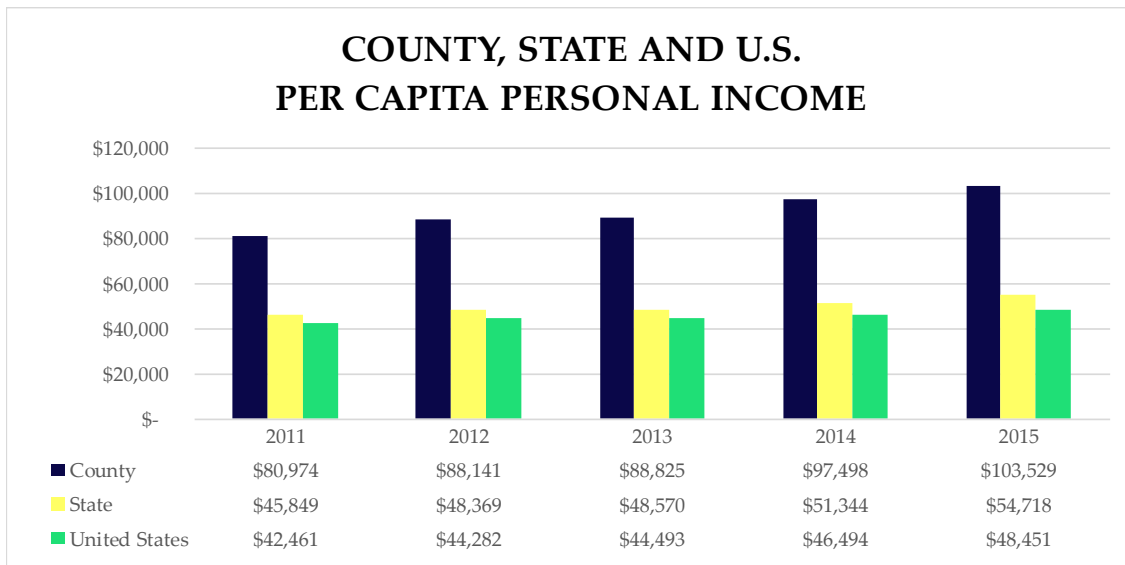
¹ March 2016 Benchmark report; not seasonally adjusted.

Source: California Employment Development Department, Labor Market Information

Division for the State and County; U.S.

U.S. Bureau of Labor, Department of Labor Statistic. Item may not add to totals due to rounding.

Also, the estimated per capita personal income for the City and County of San Francisco continuously increased from \$80,974 in 2011 to \$103,529 in 2015.



Source: United States and State - U.S. Bureau of Economic Analysis, "table SA1 - Personal Income Summary," (accessed September 28, 2017). County - U.S. Bureau of Economic Analysis, "Table CA1 - Personal Income Summary," (Accessed September 28, 2017). Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population.

The combined effects indicated more household income generated and more overall spending by the local economy, in general, for past years. Looking ahead, the strong fundamentals in San Francisco's economy is expected to support long term taxable sales and subsequent sales tax revenues for the Transportation Authority for the foreseeable future. San Francisco is a sought-after destination with a strong labor market and future population, and job growth is expected to increase the spending base in the City. From 2010 to 2015, the average increase of sales tax was approximately \$1.1 million for the past 5 years.

CITY AND COUNTY OF SAN FRANCISCO 2015 CALENDAR YEAR TAXABLE SALES³ (in thousands)

	2010	2011	2012	2013	2014	2015
Motor Vehicle and Parts Dealers	\$ 413,479	\$ 452,375	\$ 505,612	\$ 548,713	\$ 588,769	\$ 565,639
Home Furnishings Stores and Appliance Stores	679,446	732,495	825,268	880,330	938,256	1,010,769
Building Material, Garden Equipment and Supplies Dea	348,729	414,096	466,949	508,070	537,424	588,279
Food and Beverage Stores	617,920	651,528	698,890	740,746	782,750	830,061
Gasoline Stations	507,626	626,887	664,318	650,678	611,354	471,496
Clothing and Clothing Accessories Stores	1,499,912	1,701,395	1,886,746	2,040,734	2,168,822	2,163,743
General Merchandise Stores	700,755	768,818	804,628	897,608	864,009	825,300
Food Services and Drinking Places	2,812,995	3,120,655	114,723	3,750,056	4,104,185	4,441,352
Other Retail Group	1,390,896	1,471,647	4,916,138	2,480,682	2,037,646	2,136,115
Total Retail and Food Services	8,971,758	9,939,896	10,883,272	12,497,617	12,633,215	13,032,754
All other outlets ¹	4,471,363	4,950,632	5,070,334	5,224,609	5,836,514	5,839,079
TOTAL ALL OUTLETS ²	13,443,121	14,890,528	15,953,606	17,722,226	18,469,729	18,871,833

¹ Primary manufacturing and wholesale businesses.

² Items may not add to totals due to rounding

³ The State Board of Equalization's taxable sales reporting methodology changes in 2015; see Table B-6 for 2010-2014 Taxable Sales.

Source: California State Board of Equalization, Taxable Sales in California Report (annual report for 2010-2014). Effectively, July 1, 2017, the CDTFA is the successor to, and vested with nearly all of the duties, powers, and responsibilities of, the State Board of Equalization. The State Board of Equalization's taxable sales reporting methodology changed in 2015; Numbers recognized to fit between new and old methodology.

Major Capital Project Expenditures

In Fiscal Year 2016-17, the Transportation Authority continued to allocate Prop K sales tax, Prop AA vehicle registration fees, Transportation Fund for Clean Air (TFCA) funds and grants from federal, state, and regional to provide project delivery and support to partially or fully fund a wide variety of programs and projects that improve the safety and efficiency of the multi-modal transportation network in San Francisco.

The largest project in the Prop K Expenditure Plan, the Transbay Transit Center/Caltrain Downtown Extension (TTC/DTX) project will transform downtown San Francisco and regional transportation well into the 21st Century. The project consists of three elements: building a new multimodal terminal (TTC); extending commuter rail service 1.3 miles from its current terminus at Fourth and King streets to the TTC with accommodations for future high-speed rail (DTX); and creating a transit-friendly neighborhood with 3,000 new homes (35% affordable) and mixed-use commercial development. As of June 2017, the Transportation Authority has allocated \$195.8 million in Prop K funds to the project, in addition to State Transportation Improvement Program (STIP) and federal One Bay Area Grant (OBAG) program funds.

The Transportation Authority, working jointly with the Treasure Island Development Authority (TIDA) on the development of the Interstate-80/Yerba Buena Island (YBI) Interchange Improvement Project, substantially completed Phase 1 of this landmark project when it opened the new westbound on- and off-ramps on Saturday, October 22, 2016. Funded with Federal Highway Bridge Program, state Proposition 1B Local Bridge Seismic Retrofit Account, and TIDA local match funds, the new westbound on- and off- ramps (on the east side of YBI) connect to the new eastern span of the San Francisco Oakland Bay Bridge. Phase 2 of the YBI Interchange Improvement project, the YBI West-Side Bridges Retrofit project, will include the seismic retrofit of five bridge structures and the replacement of three bridge structures along Treasure Island Road. In 2017, the Transportation Authority continued to make progress on the project, which included advancing additional environmental technical analysis associated with the Value Engineering Alternative. This phase of the project will improve seismic performance, simplify construction efforts, and minimize maintenance cost. Detailed designs for the project are scheduled for completion in late 2019. The project is currently anticipated to start construction in early 2020 with completion targeted in mid-2021.

In 2016, the San Francisco Municipal Transportation Agency (SFMTA) continued the ambitious fleet replacement program it initiated in 2014 to fully replace its light rail vehicle (LRV) fleet, as well as its rubber tire fleet of motor coaches and trolleybuses. Since its inception, the Prop K program has committed \$485 million as local matching funds for replacement and expansion of SFMTA's transit fleet, of which \$372.2 million has been allocated for specific purchases. A substantial number of new motor coaches, trolley buses and paratransit vehicles are already in service and the new LRVs are expected to be in service in fall 2017. There is no other single investment that has such a direct influence on day-to-day transit service reliability. The Transportation Authority has allocated \$131 million and committed an additional \$28 million toward SFMTA's \$1.2 billion contract with Siemens USA for purchase of new LRVs. The SFMTA has been awarded over \$85 million over two cycles for the purchase of new LRVs, providing strong leveraging to the Prop K investment. With \$270 million in Prop K support—\$66 million of which was allocated in 2017—the SFMTA plans procurements totaling \$1.3 billion of 424 diesel electric hybrid motor coaches and 278 electric trolley coaches through its current contracts with New Flyer, Inc. All of these vehicles will be in service by 2020. As of September 30, 2017, SFMTA had placed in service 265 of the motor coaches as well as 60 new trolleybuses.

The SFMTA has an ongoing Central Control and Communications (C3) program to expand and modernize its transportation central control capabilities and facilities. In addition, the C3 program will provide the systems necessary to enable the SFMTA to reach its strategic objectives of improving transit reliability, accommodating current operational needs, and satisfying future needs, including the Central Subway—all crucial elements of the SFMTA's Strategic Plan. The C3 program has three main components: 1) Near-term improvements to the existing Operations Control Center (OCC), 2) A new Transportation Management Center, 3) Integrated Systems

Development project, which will provide a communications, monitoring, and control platform in the Muni Metro subway.

Work on all three components is nearing completion. Prop K has contributed \$19.9 million toward design and construction of a new, \$32.1 million Transportation Management Center, which expands OCC operational capabilities and consolidates other command and control functions that are currently separated, including the Transit Line Management Center, Power Control Center, SFgo Traffic Management Center, and the Security Division. In November 2016, with the installation of the new on-board communications system, the transition of vehicle status information to the new Transportation Management Center began. It is expected to be complete by December 2017.

Funding the Projects

Since 2004, the Transportation Authority has administered the Prop K program primarily on a pay-as-you-go basis, with the use of short-term debt instruments to meet cash flow needs. Issuing debt facilitates delivery of projects and benefits to the public sooner than would be possible using pay-as-you-go funding. In April 2017, in order to meet the multi-year funding needs of large projects and expansion program, the Board authorized the issuance a long-term bond later in September 2017.

Earlier in October 2017 before issuing the Bonds, Fitch Ratings upgraded the Transportation Authority's senior limited sales tax revenue bonds with a rating of AAA (highest rating possible), while S&P Global Ratings upgraded the issuer rating from AA to AA+ with a stable financial outlook. S&P cited the Transportation Authority's strong debt coverage and revenue performance as well as its capacity for payment of financial commitments for the upgrade. It also cited the size and diversity of the economic base that generates San Francisco's half-cent sales tax for transportation.

On November 2, 2017, the Series 2017 Bonds were issued by the Transportation Authority under and pursuant to the authority granted under the Act, the Ordinance and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 (Section 53580-53589.5) of the Government Code of the State of California, and other applicable law. The total face amount is \$248,540,000 and matures April 1, 2034. The Series 2017 Bonds will be repaid through sales tax collection in subsequent years. The Transportation Authority will use the proceeds of the Series 2017 Bonds to (i) finance a portion of the costs of and costs incidental to, or connected with, the construction, acquisition and improvement of certain transit, street and traffic facilities and other transportation projects, including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees and working capital, all as described in the Expenditure Plan adopted pursuant to the Act, (ii) repay a portion of the outstanding amount of a revolving loan and a promissory note evidencing the Transportation Authority's payment obligation thereunder, (iii) pay capitalized interest on a portion of the Series 2017 Bonds and (iv) pay costs of issuance of the Series 2017 Bonds.

Relevant Financial Policies

The Transportation Authority has adopted a comprehensive set of financial policies.

Fiscal Policy is designed to guide decisions pertaining to internal fiscal management, including day-to-day operations, annual budget development and sales tax revenue allocation requirements of the Transportation Authority.

Investment Policy is created to organize and formalize investment-related activities, and to set out policies and procedures that enhance opportunities for prudent and systematic investment of Transportation Authority assets.

Debt Policy is to organize and formalize debt issuance-related policies and procedures for the Transportation Authority and to establish a systematic debt policy.

Awards and Acknowledgements

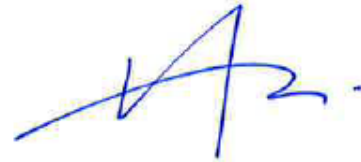
The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to local governments for their comprehensive annual financial report (CAFR). This is the first year that the Transportation Authority has applied for this prestigious award. In order to be awarded a Certificate of Achievement, the local government agency had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements. The preparation of this report would not have been possible without the skill, effort, and dedication of the finance staff, Henry Pan, Krista Gan, Lily Yu, and Lina Plotnikoff. We wish to thank Tilly Chang, Executive Director, and all the divisions for their assistance in providing the data necessary to prepare this report. Credit also is due to the Board of Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the Transportation Authority's finances.

Respectfully submitted,



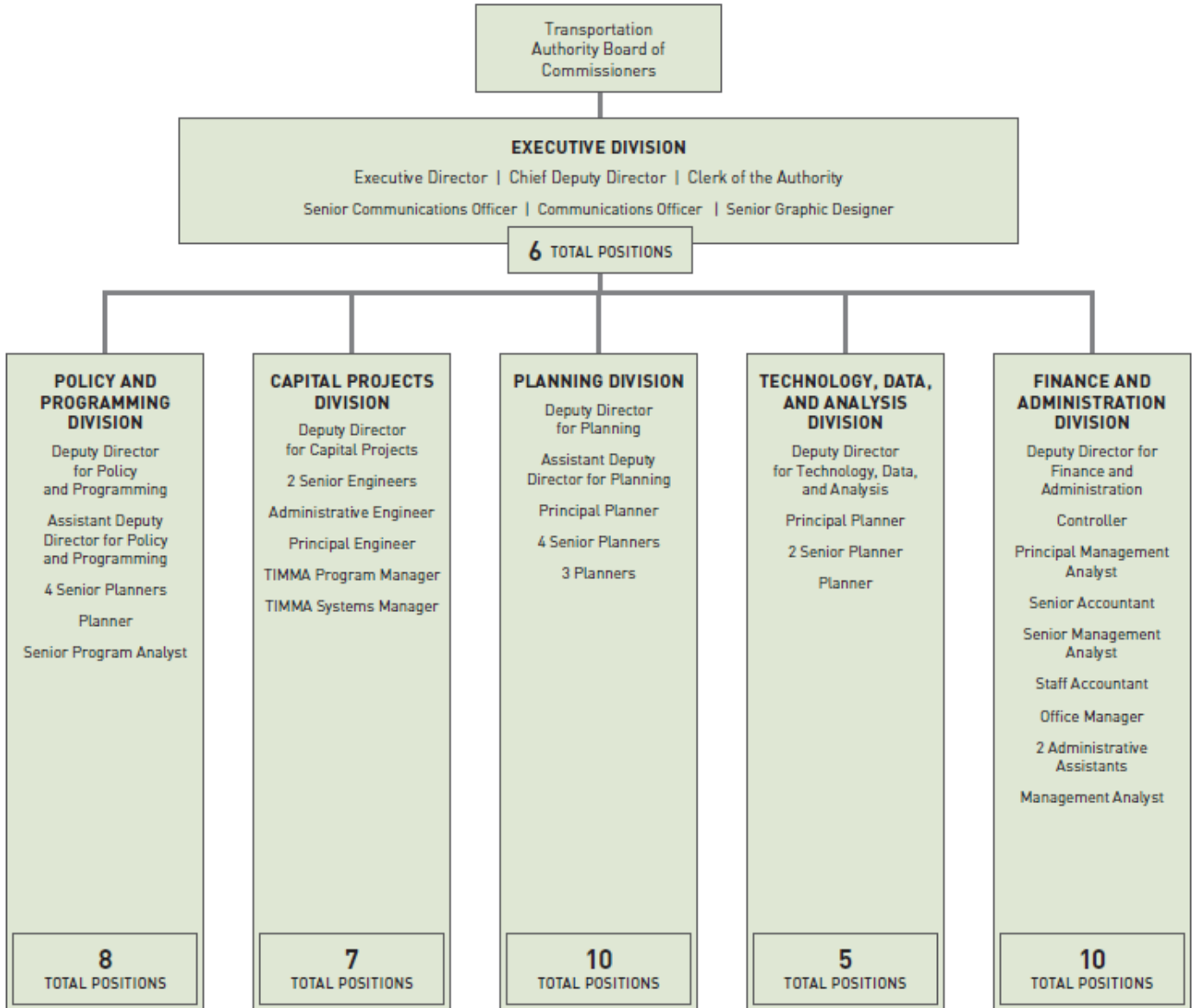
Cynthia Fong, CPA, CGMA
Deputy Director for Finance and Administration



Kalman Hui, CPA
Controller

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Organizational Chart



Commissioners and Officials

As of June 30, 2017

Commissioners:

Aaron Peskin – Board Chair
Katy Tang – Vice Chair
London Breed
Malia Cohen
Mark Farrell
Sandra Lee Fewer
Jane Kim
Hillary Ronen
Ahsha Safai
Jeff Sheehy
Norman Yee

Executive Director:

Tilly Chang

Chief Deputy Director:

Maria Lombardo

Deputy Directors:

Cynthia Fong – Finance and Administration
Anna LaForte – Policy and Programming
Eric Cordoba – Capital Projects
Jeff Hobson – Planning
Joe Castiglione – Technology, Data, and Analysis



Financial Section



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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
San Francisco County Transportation Authority
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco County Transportation Authority (Transportation Authority), a component unit of the City and County of San Francisco, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Transportation Authority'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Transportation Authority, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Transportation Authority's basic financial statements. The introductory section, the statistical section, the supplementary information such as the agency fund statement of changes in assets and liabilities and the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the agency fund statement of changes in assets and liabilities are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and agency fund statement of changes in assets and liabilities are fairly stated in all material respects, in relation to the financial statements taken as a whole.

The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2017 on our consideration of the Transportation Authority'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 Transportation Authority's internal control over financial reporting and compliance.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California

November 3, 2017

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

The annual financial report of the San Francisco County Transportation Authority (Transportation Authority) presents a discussion and analysis of the Transportation Authority's financial performance during the year ended June 30, 2017. The Transportation Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of the Transportation Authority's governmental activities exceeded its assets and deferred outflows at the close of fiscal year 2016-17 by \$102 million. Of the net position, \$1.9 million was for investment in capital assets, \$16.2 million was restricted for transportation projects, and a negative balance of \$120.1 million was unrestricted deficit. A major factor to consider in reviewing the statement of net position is that the Transportation Authority does not hold or retain title for the projects it constructs or for the vehicles and system improvements that it purchases with sales tax program funds, congestion management agency programs funds, transportation funds for clean air program funds, vehicle registration fee for transportation improvements program funds, and Treasure Island Mobility Management Agency. The reporting of the Revolving Credit Agreement, without a corresponding asset, results in the net deficit. Furthermore, debt financing has been used to enable the acceleration of projects for the benefit of San Francisco residents and taxpayers. Cash, deposits, and investments increased by \$11.3 million as compared to the prior year due to an additional Revolving Credit Agreement drawdown of \$46 million during FY 2016-17. Other non-cash assets (assets other than cash, deposits, and investments) decreased by \$15.4 million as compared to the prior year, due to close-out of the intergovernmental loan receivable and decrease in program receivables.
- The Transportation Authority's total net position decreased by \$39.3 million during the year ended June 30, 2017, as compared to a decrease of \$41.6 million in the prior year.
- Sales tax revenues decreased by \$215 thousand from the prior year. Investment income increased by \$390 thousand, mainly due to interest revenue recognized from payoff of intergovernmental loan with the Treasure Island Development Authority (TIDA). Transportation improvement expenses decreased by \$85.3 million during the year ended June 30, 2017, largely due to a one-time milestone payment of \$95.4 million at substantial completion of construction activities for the Presidio Parkway project in prior year. The remaining is due to a combination of increased activities for the San Francisco Municipal Railway's Electrification, Transit Vehicle Replacement and Renovation, Rehabilitation, Upgrade and Replacement of Existing Facilities, and Guideways as compared to prior year.
- The Transportation Authority had positive governmental fund balances of \$28.5 million. Of this amount, \$82 thousand is nonspendable for prepaid costs and deposits, \$18.9 million is unassigned in the Sales Tax Program, \$431 thousand restricted for transportation projects in the Transportation Fund for Clean Air Program, and \$9.1 million restricted for transportation projects in the Vehicle Registration Fee for Transportation Improvements Program. The Transportation Authority's governmental funds balances decreased by \$11.9 million in comparison with the prior year.
- In December 2016, the Transportation Authority paid \$21 million to the tax-exempt, three-year Revolving Credit Agreement. In April 2017, the Transportation Authority borrowed an additional \$46 million. As of June 30, 2017, \$139.7 million of the Revolving Credit balance was outstanding at an interest rate of 1.036%.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Transportation Authority's basic financial statements which comprise of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the basic financial statements. Additional supplementary information is included, in addition to the basic financial statements.

Government-wide Financial Statements

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

The *statement of net position* is designed to provide information about the financial position of the Transportation Authority as a whole, including all of its capital assets, deferred outflows/inflows of resources, and long-term liabilities, on a full accrual basis of accounting similar to the accounting model used by private sector firms.

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

Both of these government-wide financial statements distinguish functions of the Transportation Authority that are principally supported by receipt of sales taxes, vehicle registration fees, and other sources of government grants. The only governmental activity of the Transportation Authority is transportation improvement. The Transportation Authority does not have any business-type activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Transportation Authority, like other state and local governments, uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements.

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

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

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

The Transportation Authority maintains five governmental funds organized according to their source of funding. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the: (A) General Fund, referred to as Sales Tax Program, (B) Congestion Management Agency Programs, (C) Transportation Fund for Clean Air Program, (D) Vehicle Registration Fee for Transportation Improvements Program, and (E) Treasure Island Mobility Management Agency. Each of these funds is considered a major fund.

Fiduciary fund is used to account for resources held for the benefit of parties outside the Transportation Authority. The Transportation Authority is acting solely as a fiduciary administrator for the San Francisco Municipal Transportation Agency's (MUNI) Third Street Light Rail Project's Owner-Controlled Insurance Program (OCIP) escrow account, and has no responsibility for managing the OCIP claims management or settlement.

Notes to the Basic Financial Statements

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

Other Information

The other information is presented concerning the Transportation Authority's Owner-Controlled Insurance Program Fund Statement of Changes in Assets and Liabilities and the Schedule of Expenditures of Federal Awards (SEFA). The Owner-Controlled Insurance Program Fund Statement of Changes in Assets and Liabilities present changes in the Transportation Authority's sole fiduciary account. The SEFA presents expenditures of all federally funded programs during the year ended June 30, 2017.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Transportation Authority's statement of net position shows liabilities and deferred inflows exceeded its assets and deferred outflows by \$102 million at June 30, 2017. Cash, deposits, and investments increased by \$11.3 million, due to an additional Revolving Credit Agreement drawdown of \$46 million during FY 2016-17. Other assets decreased by \$15.4 million, as compared to the prior year, mainly due to the close-out of the intergovernmental loan receivable with TIDA and decrease in project billing receivables. Other assets mainly include \$18.4 million in sales tax receivables, \$17.3 million in outstanding program, and all other receivables (including amounts due from the City and County of San Francisco.)

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 1
Condensed Statement of Net Position (in thousands)

	For the Year Ended		\$ Change	% Change
	June 30, 2017	June 30, 2016		
Assets:				
Cash, deposits, and investments	\$ 48,441	\$ 37,190	\$ 11,251	30.3%
Other assets	35,813	51,196	(15,383)	-30.0%
Capital assets	1,924	2,224	(300)	-13.5%
Total assets	86,178	90,610	(4,432)	-4.9%
Deferred outflows of resources - Pension related	1,254	761	493	64.8%
Liabilities:				
Other liabilities	187,489	152,314	35,175	23.1%
Long-term liabilities	1,766	1,288	478	37.1%
Total liabilities	189,255	153,602	35,653	23.2%
Deferred inflows of resources - Pension related	204	449	(245)	-54.6%
Net Position:				
Investment in capital assets	1,924	2,224	(300)	-13.5%
Restricted for transportation improvement	16,189	15,657	532	3.4%
Unrestricted deficit	(120,140)	(80,561)	(39,579)	-49.1%
Total net position	\$ (102,027)	\$ (62,680)	\$ (39,347)	-62.8%

The Transportation Authority's unrestricted deficit of \$120 million is due to the additional borrowing from the Revolving Credit Agreement, which will be eliminated with the issuance of a tax-exempt sales tax revenue bond in the Fall 2017. The Transportation Authority's outstanding commitments are described in Note 14 of the basic financial statements. The major increase in other liabilities are related to additional Revolving Credit Agreement drawdown of \$46 million, to pay for Prop K capital project expenditure incurred. The \$1.9 million in investment in capital assets (net of accumulated depreciation) is comprised mostly of Board-approved investments in the Transportation Authority's workspace, such as leasehold improvements, furniture, and equipment. The Transportation Authority currently uses these capital assets to provide services; consequently, these assets are not available for future spending. The Transportation Authority issues debt to finance sales tax sponsors' projects and programs, and these transportation facilities are owned and maintained by the sponsors. As a result, the facilities are recorded as an asset of the receiving agency. However, the related debt issued to finance these projects remains as a liability (e.g. Revolving Credit Agreement) of the Transportation Authority.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 2
Condensed Statement of Activities (in thousands)

	For the Year Ended		\$ Change	% Change
	June 30, 2017	June 30, 2016		
Revenues:				
General:				
Sales tax	\$ 101,922	\$ 102,137	\$ (215)	-0.2%
Vehicle registration fee	4,550	5,362	(812)	-15.1%
Investment income	773	383	390	101.8%
Other	205	221	(16)	-7.2%
Program operating grants and contributions	<u>15,255</u>	<u>97,263</u>	<u>(82,008)</u>	<u>-84.3%</u>
Total revenues	<u>122,705</u>	<u>205,366</u>	<u>(82,661)</u>	<u>-40.3%</u>
Expenses:				
Transportation improvement	160,953	246,208	(85,255)	-34.6%
Interest	<u>1,099</u>	<u>794</u>	<u>305</u>	<u>38.4%</u>
Total expenses	<u>162,052</u>	<u>247,002</u>	<u>(84,950)</u>	<u>-34.4%</u>
Change in net position	(39,347)	(41,636)	2,289	-5.5%
Net position, beginning of year	<u>(62,680)</u>	<u>(21,044)</u>	<u>(41,636)</u>	<u>-197.9%</u>
Net position, end of year	<u>\$ (102,027)</u>	<u>\$ (62,680)</u>	<u>\$ (39,347)</u>	<u>-62.8%</u>

The Transportation Authority's net position decreased \$39.3 million for the year ended June 30, 2017. During the period, sales tax revenues decreased by \$215 thousand or 0.2% as compared to the prior year. Investment income increased by \$390 thousand, due to interest revenue recognized for close out of intergovernmental loan with TIDA. Program revenues decreased by \$82 million, due to the one-time revenue receipt of \$75 million for the substantial completion of construction activities for the Presidio Parkway project from the Golden Gate Bridge, Highway and Transportation District in the prior year. Transportation improvement expenses decreased by \$85.3 million, largely due to the one-time milestone payment in the amount of \$95.4 million for Presidio Parkway project to the California Department of Transportation in the prior year.

FINANCIAL ANALYSIS OF THE TRANSPORTATION AUTHORITY'S FUNDS

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

Governmental Funds

The focus of the Transportation Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Transportation Authority's financing requirements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 3
Condensed Balance Sheet (in thousands)

	June 30, 2017					Total	June 30, 2016	\$ Change	% Change
	Sales Tax Program	Congestion Management Agency Programs	Transportation Fund For Clean Air Program	Vehicle Registration Fee For Transportation Improvements Program	Treasure Island Mobility Management Agency				
Assets:									
Cash, deposits, & investments	\$ 38,103	\$ -	\$ 806	\$ 9,532	\$ -	\$ 48,441	\$ 37,189	\$ 11,252	30.26%
Other assets	24,709	12,724	754	1,118	1,345	40,650	63,938	(23,288)	-36.42%
Total assets	\$ 62,812	\$ 12,724	\$ 1,560	\$ 10,650	\$ 1,345	\$ 89,091	\$ 101,127	\$ (12,036)	-11.90%
Liabilities:									
Current and other liabilities	\$ 40,171	\$ 6,633	\$ 767	\$ 1,554	\$ 1,135	\$ 50,260	\$ 47,985	\$ 2,275	4.74%
Deferred inflows of resources:									
Unavailable revenues	3,636	6,091	362	-	210	10,299	12,760	(2,461)	-19.29%
Fund balances (deficits):									
Nonspendable	82	-	-	-	-	82	82	-	0.00%
Restricted									
Transportation improvement	-	-	431	9,096	-	9,527	7,370	2,157	29.27%
Unassigned	18,923	-	-	-	-	18,923	32,930	(14,007)	-42.54%
Total fund balances	19,005	-	431	9,096	-	28,532	40,382	(11,850)	-29.34%
Total Liabilities, Deferred Inflows of Resources, and Fund Balances									
	\$ 62,812	\$ 12,724	\$ 1,560	\$ 10,650	\$ 1,345	\$ 89,091	\$ 101,127	\$ (12,036)	-11.90%

On June 30, 2017, the Transportation Authority's governmental funds reported combined ending fund balances of \$28.5 million, a decrease of \$11.9 million as compared to the prior year. The total fund balances are composed of a balance of \$82 thousand nonspendable for prepaid costs and deposits, and a balance of \$9.5 million restricted for the transportation projects, with the remaining amounts reported as unassigned fund balance in the Sales Tax Program.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Table 4
Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances (in thousands)

	For the Year Ended June 30, 2017								
	Sales Tax Program	Congestion Management Agency Programs	Transportation Fund For Clean Air Program	Vehicle Registration Fee For Transportation Improvements Program	Treasure Island Mobility Management Agency	Total	Year Ended June 30, 2016	\$ Change	% Change
Revenues:									
Sales tax	\$ 102,237	\$ -	\$ -	\$ -	\$ -	\$ 102,237	\$ 99,530	\$ 2,707	2.7%
Vehicle registration fee	-	-	-	4,550	-	4,550	5,362	(812)	-15.1%
Investment income	768	-	2	4	-	774	383	391	102.1%
Program revenues	127	15,054	753	-	1,468	17,402	94,092	(76,690)	-81.5%
Other	69	-	-	-	-	69	85	(16)	-18.8%
Total revenues	103,201	15,054	755	4,554	1,468	125,032	199,452	(74,420)	-37.3%
Expenditures:									
Transportation improvement	141,913	14,406	718	2,435	1,311	160,783	246,284	(85,501)	-34.7%
Debt service	22,099	-	-	-	-	22,099	20,794	1,305	6.3%
Total expenditures	164,012	14,406	718	2,435	1,311	182,882	267,078	(84,196)	-31.5%
Excess (deficiency) of revenues over (under) expenditures	(60,811)	648	37	2,119	157	(57,850)	(67,626)	9,776	-14.5%
Other financing sources (uses):									
Transfers in	805	-	-	-	-	805	5,495	(4,690)	-85.4%
Transfers out	-	(648)	-	-	(157)	(805)	(5,495)	4,690	-85.4%
Proceeds from revolving credit agreement	46,000	-	-	-	-	46,000	-	46,000	N/A
Total other financing sources	46,805	(648)	-	-	(157)	46,000	-	46,000	N/A
Net change in fund balances	(14,006)	-	37	2,119	-	(11,850)	(67,626)	55,776	-82.5%
Fund balances, beginning of year	33,011	-	394	6,977	-	40,382	108,008	(67,626)	-62.6%
Fund balances, end of year	\$ 19,005	\$ -	\$ 431	\$ 9,096	\$ -	\$ 28,532	\$ 40,382	\$ (11,850)	-29.3%

Total revenues for the Transportation Authority's activities totaled \$125 million in fiscal year 2016-17, a decrease of \$74.4 million from fiscal year 2015-16. As compared to the prior year, sales tax revenues increased by \$2.7 million, primarily due to a change in the revenue recognition period from 90 days to 60 days after the fiscal year ended. Investment income increased by \$391 thousand, due to interest revenue recognized for close out of intergovernmental loan with TIDA. Program revenues decreased by \$76.7 million, due to a combination of the one-time milestone revenue received from the Golden Gate Bridge, Highway and Transportation District for the Presidio Parkway project and a decrease of federal and state reimbursements for the YBI Project. Expenditures for the Transportation Authority's activities totaled \$182.9 million, a decrease of \$84.2 million from fiscal year 2015-16. For the year ended June 30, 2017, expenditures for governmental funds exceeded revenues by \$11.9 million. Other aspects of the individual program activities are discussed in the government-wide analysis above.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

BUDGETARY ANALYSIS AND HIGHLIGHTS AND ECONOMIC FACTORS

In addition, Total Revenues and Transfers In were less than the final budgetary estimates by \$15.7 million, mainly due to lower sales tax revenue and program revenues from the YBI project. There is no issue with the availability of these revenues, only the fiscal year of when these revenues are accounted for, and it does not affect the viability of the projects or grants. Actual expenditures and transfers out were less than budgetary estimates by \$85.2 million. This amount includes a positive favorable variance of \$81.3 million in capital project costs. This lower capital spending is principally from sponsors, funded by the Sales Tax Program and Vehicle Registration Fee for Transportation Improvements Program, whose major capital project costs were less than anticipated for fiscal year 2016-17; their practice of billing other sources (e.g. bonds, federal funds) first and project delays often associated with the coordination with other agencies. Additional information on the Transportation Authority's budgetary comparison schedules for all programs can be found on pages 53 through 57 of this report.

	Agency-wide			
	Budget Amounts			Positive (Negative) Variance Final to Actual
	Original	Final	Actual	
Revenues and Transfers In				
Sales tax	\$ 108,219,139	\$ 108,219,139	\$ 102,237,230	\$ (5,981,909)
Vehicle registration fee	4,834,049	4,834,049	4,550,482	(283,567)
Investment income	334,706	334,706	773,032	438,326
Program revenues				
Federal	8,691,312	18,274,363	13,582,691	(4,691,672)
State	793,245	2,098,692	1,315,361	(783,331)
Regional and other	2,876,107	5,363,679	2,504,128	(2,859,551)
Other revenues	46,545	67,252	69,738	2,486
Transfers in from other funds	1,464,979	2,328,201	804,813	(1,523,388)
Total Revenues and Transfers In	<u>127,260,082</u>	<u>141,520,081</u>	<u>125,837,475</u>	<u>(15,682,606)</u>
Expenditures and Transfers Out				
Administrative operating costs	9,301,333	10,007,905	7,868,082	2,139,823
Transportation improvement	219,943,351	234,226,947	152,917,980	81,308,967
Debt service				
Principal	21,000,000	21,000,000	21,000,000	-
Interest	960,000	1,326,667	1,098,535	228,132
Transfers out to other funds	1,464,979	2,328,201	804,813	1,523,388
Total Expenditures and Transfers Out	<u>252,669,663</u>	<u>268,889,720</u>	<u>183,689,410</u>	<u>85,200,310</u>
Other Financing Sources (Uses)				
Proceeds from debt	25,000,000	46,335,835	46,000,000	(335,835)
Change in Fund Balance	(100,409,581)	(81,033,804)	(11,851,935)	69,181,869
Fund Balance - Beginning	40,382,935	40,382,935	40,382,935	-
Fund Balance - Ending	<u>\$ (60,026,646)</u>	<u>\$ (40,650,869)</u>	<u>\$ 28,531,000</u>	<u>\$ 69,181,869</u>

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Year Ended June 30, 2017

CAPITAL ASSETS

The Transportation Authority's investment in capital assets as of June 30, 2017, amounted to \$1.9 million (net of accumulated depreciation). This investment in capital assets includes leasehold improvements, furniture, and equipment. Additional information on the Transportation Authority's capital assets can be found in Note 5 on page 37 of this report.

REVOLVING CREDIT AGREEMENT

On June 11, 2015, the Transportation Authority substituted its \$200,000,000 commercial paper notes (Limited Tax Bonds), Series A and B with a three-year \$140,000,000, tax-exempt, Revolving Credit Agreement. In the month of December 2015, Fitch Ratings reaffirmed issuer ratings for the Transportation Authority with "AA+." The Revolving Credit Agreement will be repaid from sales tax revenues. As of June 30, 2017, the Transportation Authority has \$139.7 million of the Revolving Credit balance outstanding. Additional information on the Transportation Authority's Revolving Credit Agreement can be found in Note 7 on page 40 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Transportation Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the San Francisco County Transportation Authority, Attention: Deputy Director for Finance and Administration, 1455 Market Street, 22nd Floor, San Francisco, California, 94103.

BASIC FINANCIAL STATEMENTS

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Statement of Net Position

June 30, 2017

ASSETS

Cash in bank	\$ 12,487,800
Deposits and investments with City Treasurer	35,953,308
Sales tax receivable	18,414,066
Vehicle registration fee receivable	887,308
Interest receivable from City and County of San Francisco	33,698
Program receivables	14,197,765
Receivable from the City and County of San Francisco	1,967,574
Other receivables	230,695
Prepaid costs and deposits	81,580
Capital assets, net of accumulated depreciation	1,923,785
Total Assets	<u><u>86,177,579</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows from pension activities	<u>1,253,928</u>
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LIABILITIES

Accounts payable	11,928,386
Accounts payable to the City and County of San Francisco	33,314,043
Accrued salaries and taxes	181,066
Revolving credit agreement	139,664,165
Unearned rent abatement	810,780
Unearned leasehold incentive	1,085,034
Accrued compensated absences	505,326
Net pension liability	1,765,415
Total Liabilities	<u><u>189,254,215</u></u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows from pension activities	<u>204,373</u>
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NET POSITION

Investment in capital assets	1,923,785
Restricted for transportation improvement	16,189,389
Unrestricted deficit	(120,140,255)
Total Net Position	<u><u>\$ (102,027,081)</u></u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Statement of Activities

For the Year Ended June 30, 2017

	<u>Total</u>	<u>Transportation Improvement</u>	<u>Interest</u>
EXPENSES	\$ 162,053,155	\$ 160,954,620	\$ 1,098,535
PROGRAM REVENUES			
Operating grants and contributions	15,255,413	15,255,413	-
Net program revenue (expense)	<u>(146,797,742)</u>	<u>\$ (145,699,207)</u>	<u>\$ (1,098,535)</u>
GENERAL REVENUES			
Sales tax	101,922,012		
Vehicle registration fees	4,550,482		
Investment income	773,032		
Other	205,367		
Total general revenues	<u>107,450,893</u>		
CHANGE IN NET POSITION	(39,346,849)		
Net position, beginning of year	(62,680,232)		
Net position, end of year	<u>\$ (102,027,081)</u>		

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Governmental Funds Balance Sheet
June 30, 2017

	<u>Special Revenue Funds</u>		
	<u>Sales Tax Program</u>	<u>Congestion Management Agency Programs</u>	<u>Transportation Fund for Clean Air Program</u>
ASSETS			
Cash in bank	\$ 2,149,839	\$ -	\$ 806,453
Deposits and investments with the City Treasurer	35,953,308	-	-
Sales tax receivable	18,414,066	-	-
Vehicle registration fee receivable	-	-	-
Interest receivable from the City & County of San Francisco	33,698	-	-
Program receivables			
Federal	-	10,268,802	-
State	-	1,566,464	-
Regional and other	1,242,655	347,911	753,824
Receivables from the City & County of San Francisco	100,000	540,016	-
Other receivables	-	-	-
Due from other funds	4,836,603	-	-
Prepaid costs and deposits	81,580	-	-
Total Assets	\$ 62,811,749	\$ 12,723,193	\$ 1,560,277
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 8,273,844	\$ 2,904,602	\$ 198,015
Accounts payable to the City & County of San Francisco	31,715,929	79,941	153,361
Accrued salaries and taxes	181,066	-	-
Due to other funds	-	3,648,063	415,777
Total liabilities	40,170,839	6,632,606	767,153
Deferred Inflows of Resources			
Unavailable revenues	3,635,921	6,090,587	362,454
Total deferred inflows of resources	3,635,921	6,090,587	362,454
Fund Balances			
Nonspendable	81,580	-	-
Restricted	-	-	430,670
Unassigned	18,923,409	-	-
Total Fund Balances	19,004,989	-	430,670
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 62,811,749	\$ 12,723,193	\$ 1,560,277

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

Special Revenue Funds		
Vehicle Registration Fee for Transportation Improvements Program	Treasure Island Mobility Management Agency	Total Governmental Funds
\$ 9,531,508	\$ -	\$ 12,487,800
-	-	35,953,308
-	-	18,414,066
887,308	-	887,308
-	-	33,698
-	12,995	10,281,797
-	-	1,566,464
-	5,114	2,349,504
-	1,327,558	1,967,574
230,695	-	230,695
-	-	4,836,603
-	-	81,580
\$ 10,649,511	\$ 1,345,667	\$ 89,090,397

\$ 106,622	\$ 445,303	\$ 11,928,386
1,364,812	-	33,314,043
-	-	181,066
82,736	690,027	4,836,603
1,554,170	1,135,330	50,260,098
-	210,337	10,299,299
-	210,337	10,299,299
-	-	81,580
9,095,341	-	9,526,011
-	-	18,923,409
9,095,341	-	28,531,000
\$ 10,649,511	\$ 1,345,667	\$ 89,090,397

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position

June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because of the following items:

Total fund balances on the governmental funds balance sheet:	\$	28,531,000
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		1,923,785
Long-term receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds:		
Program receivables		8,006,033
Sales tax receivable		2,293,266
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Revolving credit agreement		(139,664,165)
Unearned leasehold incentive		(1,085,034)
Unearned rent abatement		(810,780)
Accrued compensated absences		(505,326)
Net pension liability and deferred inflows or outflows related to pension		(715,860)
Net position of governmental activities	<u>\$</u>	<u>(102,027,081)</u>

The accompanying notes are an integral part of these financial statements.

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Governmental Funds

Statement of Revenues, Expenditures, and

Changes in Fund Balances

For the Year Ended June 30, 2017

	Special Revenue Funds		
	Sales Tax Program	Congestion Management Agency Programs	Transportation Fund for Clean Air Program
REVENUES			
Sales tax	\$ 102,237,230	\$ -	\$ -
Vehicle registration fee	-	-	-
Investment income	767,726	-	1,601
Program revenues			
Federal	-	13,376,962	-
State	-	1,315,361	-
Regional and other	127,327	361,867	752,241
Other revenues	69,488	250	-
Total Revenues	103,201,771	15,054,440	753,842
EXPENDITURES			
Current - transportation improvement			
Personnel expenditures	2,764,486	2,083,936	39,686
Non-personnel expenditures	2,265,361	89,478	-
Capital project costs	136,836,012	12,232,941	677,852
Capital outlay	48,448	-	-
Debt service			
Principal	21,000,000	-	-
Interest and fiscal charges	1,098,535	-	-
Total Expenditures	164,012,842	14,406,355	717,538
Excess (Deficiency) of Revenues Over (Under) Expenditures	(60,811,071)	648,085	36,304
OTHER FINANCING SOURCES (USES)			
Transfers in	804,813	-	-
Transfers out	-	(648,085)	-
Proceeds from revolving credit agreement	46,000,000	-	-
Total Other Financing Sources (Uses)	46,804,813	(648,085)	-
NET CHANGE IN FUND BALANCES	(14,006,258)	-	36,304
Fund Balances - Beginning	33,011,247	-	394,366
Fund Balances - Ending	\$ 19,004,989	\$ -	\$ 430,670

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

Vehicle Registration Fee for Transportation Improvements Program	Treasure Island Mobility Management Agency	Total Governmental Funds
\$ -	\$ -	\$ 102,237,230
4,550,482	-	4,550,482
3,705	-	773,032
-	205,729	13,582,691
-	-	1,315,361
-	1,262,693	2,504,128
-	-	69,738
4,554,187	1,468,422	125,032,662
197,425	398,299	5,483,832
55	29,356	2,384,250
2,238,688	884,039	152,869,532
-	-	48,448
-	-	21,000,000
-	-	1,098,535
2,436,168	1,311,694	182,884,597
2,118,019	156,728	(57,851,935)
-	-	804,813
-	(156,728)	(804,813)
-	-	46,000,000
-	(156,728)	46,000,000
2,118,019	-	(11,851,935)
6,977,322	-	40,382,935
\$ 9,095,341	\$ -	\$ 28,531,000

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Change in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because of the following items:

Net change in fund balances on the governmental funds statement of revenues, expenditures and changes in fund balances:	\$ (11,851,935)
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In the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, net position increases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year:

Capital asset additions	48,448
Depreciation expense	(349,076)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds statements:

Amortization in leasehold incentive	135,629
Change in deferred inflows related to unavailable project revenues	(2,146,767)
Change in deferred inflows related to unavailable sales tax revenues	(315,218)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments:

(25,000,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Rent expense	(8,786)
Pension expenses	159,889
Compensated absences	(13,220)
Other post employment benefits	(5,813)

Change in net position of governmental activities	<u>\$ (39,346,849)</u>
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The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Owner-Controlled Insurance Program Fund
Statement of Assets and Liabilities
June 30, 2017

ASSETS

Deposits with escrow agent	\$ 356,148
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LIABILITIES

Due to City and County of San Francisco	\$ 356,148
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The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 1 - REPORTING ENTITY AND BACKGROUND

The San Francisco County Transportation Authority (Transportation Authority) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax were set forth in the San Francisco County Transportation Expenditure Plan, which was approved as part of Proposition B. The Transportation Authority was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990.

The Transportation Authority has its own governing board, consisting of the eleven members of the Board of Supervisors of the City and County of San Francisco (City), acting as the Board of Commissioners of the Transportation Authority (the Board). Pursuant to Governmental Accounting Standards Board (GASB) standards, the financial statements of the Transportation Authority are included in the City's basic financial statements. Nonetheless, the Transportation Authority is governed by an administrative code separate from that of the City's, and the agency operates as a special-purpose government agency under State law, separate and distinct from the City. The City's Mayor does not have oversight control over the Transportation Authority. The ordinance that created the Transportation Authority empowers it to independently issue debt in order to finance transportation projects in the San Francisco County Transportation Expenditure Plan. The Transportation Authority's borrowing capacity is separate and distinct from that of the City.

Component units are legally separate organizations for which the Transportation Authority is financially accountable. Component units may include organizations that are fiscally dependent on the Transportation Authority in that the Transportation Authority approves their budget, the issuance of their debt, or the levying of their taxes. In addition, component units are other legally separate organizations for which the Transportation Authority is not financially accountable, but the nature and significance of the organization's relationship with the Transportation Authority is such that exclusion would cause the Transportation Authority's financial statements to be misleading or incomplete. For financial reporting purposes, the Treasure Island Mobility Management Authority (TIMMA) has a financial and operational relationship, which meets the criteria set forth in accounting principles generally accepted in the United States of America for inclusion in the financial statements, as a component unit, using the blended presentation method, as if it were part of the Transportation Authority's operations, because the governing board of the component unit is the same as the governing board of the Transportation Authority, and management has operational responsibility for the entity.

Sales Tax Program

The Transportation Authority was originally formed by voter approval of Proposition B on November 7, 1989, which allowed the Transportation Authority to levy a county-wide one-half of one percent sales tax (the Sales Tax) that would sunset in 2010, for transportation projects and programs geared toward improving the City's transportation system. On November 4, 2003, San Francisco voters approved Proposition K with a 74.7% affirmative vote, amending the City Business and Tax Code to extend the county-wide one-half of one percent sales tax, and to replace the 1989 Proposition B Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts).

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 1 - REPORTING ENTITY AND BACKGROUND, (Continued)

Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project-Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the Transportation Authority Board may adopt an updated Expenditure Plan any time after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the Transportation Authority directs the use of the Sales Tax and may spend up to \$485.2 million per year and may issue up to \$1.88 billion in bonds secured by the Sales Tax.

Congestion Management Agency Programs

On November 6, 1990, the Transportation Authority was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming, and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the Transportation Authority is responsible for establishing the City's priorities for state and federal transportation funds, and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

One of the Transportation Authority's responsibilities as the CMA is to develop a long-range countywide transportation plan (the San Francisco Transportation Plan, formerly known as the Countywide Transportation Plan) to guide transportation system development and investment over the next 30 years. The plan is consistent with the broader policy framework of the City's General Plan and particularly its Transportation Element. The San Francisco Transportation Plan further develops and implements the City's General Plan principles by identifying needed transportation system improvements, based on technical review of system performance; extensive public and agency input on key issues and needs; and analysis of policies, financial opportunities, and constraints. In December 2013, the Transportation Authority Board adopted the first update to the plan. Adoption of the 2017 update is expected this fall.

Major programs and projects under the CMA include:

Interstate-80/Yerba Buena Island Interchange Improvement Project and Yerba Buena Bridge Structures (collectively known as the YBI Project): The Treasure Island Development Authority (TIDA) has requested that the Transportation Authority, in its capacity as the CMA, be the lead agency for the YBI Project. Since 2009, the Transportation Authority has been working jointly with TIDA, the Mayor's Office of Economic and Workforce Development (OEWD), and the California Department of Transportation (Caltrans) in securing the approval of an Environmental Impact Report/Environmental Impact Statement (EIR/EIS) for the project. The scope of the YBI Project includes two major components: 1) the YBI Ramps Improvement Project (Ramps Project), which includes constructing new westbound on- and off-ramps (on the east side of YBI) to the new Eastern Span of the San Francisco-Oakland Bay Bridge (SFOBB); and 2) seismic retrofit of the existing YBI West Side Bridges Project on the west side of the island, a critical component of island traffic circulation leading to and from the SFOBB.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 1 - REPORTING ENTITY AND BACKGROUND, (Continued)

YBI Ramps Project: Caltrans issued the Federal Record of Decision in November 2011. The Final EIR/EIS was certified by the Transportation Authority Board in December 2011. The Transportation Authority completed preparation of the Final Plans, Specifications, and Estimate documents for the project in March 2013 and awarded a construction contract to Golden State Bridge Inc. in December 2013. Construction activities started in January 2014. The project is substantially complete, the new ramps were opened to the traveling public on October 22, 2016, final local road tie-work is being completed, and the project is approximately 97% complete, as of June 30, 2017.

YBI West-Side Bridges Project: These bridge structures are a vital component of the YBI traffic circulation system and also serve as an important part of the on- and off-ramp system to Interstate-80 and the SFOBB. Seismic Strategy Reports for all eight bridge structures were approved by the Caltrans Structures Department in December 2011. The approved reports indicated that five of the bridge structures should be retrofitted in place, while three of the bridge structures were recommended for replacement. Separate environmental documents, Categorical Exclusions per the National Environmental Policy Act and Categorical Exemptions per the California Environmental Quality Act, for each of the eight bridges were approved in December 2012. As part of continued preliminary engineering and design efforts, and as required by federal funding, the Transportation Authority prepared a Value Engineering Analysis (VA) Report, which was approved by Caltrans in November 2014. The VA Report made various recommendations to reduce overall project risk and cost. The recommended VA Report Alternative estimated at \$66 million will save approximately \$9 million compared to the environmentally approved alternative estimated at \$75 million, and will also improve seismic performance, simplify construction efforts, and minimize maintenance cost. Additional preliminary engineering and environmental analysis is 90% complete as of June 30, 2017; preliminary design efforts are approximately 30% complete. All work necessary to prepare the required technical analysis is being performed in accordance with current Caltrans and Federal Highway Administration policies and procedures.

Freeway Corridor Management Study: The San Francisco Freeway Corridor Management Study (FCMS) is a performance-based assessment of strategies for improving the performance of, and managing the growth in demand for travel on, US-101 and I-280 freeways in San Francisco. The FCMS focuses on near and mid-term recommendations for implementation in the next five to ten years. The need for a FCMS was identified in the 2013 San Francisco Transportation Plan, which forecasts a continued increase in demand for travel by San Francisco residents, visitors, or workers to and from the downtown, eastern neighborhoods, and peninsula / South Bay. The FCMS is working on a preliminary assessment of options to extend Managed Lanes into San Francisco. Carpool lanes are the most well-known form of Managed Lanes, and are already in operation on US-101 from Morgan Hill to Redwood City, covering about 42 miles along the Peninsula.

Transportation Fund for Clean Air (TFCA) Program

On June 15, 2002, the Transportation Authority was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the TFCA program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD), come from a \$4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the Transportation Authority recommends projects that benefit air quality by reducing motor vehicle emissions.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 1 - REPORTING ENTITY AND BACKGROUND, (Continued)

Proposition AA Administrator of County Vehicle Registration Fee

On November 2, 2010, San Francisco voters approved Proposition AA with a 59.6% affirmative vote, authorizing the Transportation Authority to collect an additional \$10 annual vehicle registration fee on motor vehicles registered in San Francisco, and to use the proceeds to fund transportation projects identified in the San Francisco County Transportation Expenditure Plan. Revenue collection began in May 2011.

Proposition AA revenues must be used to fund projects from the following three programmatic categories. The percentage allocation of revenues, designated for each category over the 30-year Expenditure Plan period, is shown in parenthesis following the category name.

Street Repair and Reconstruction (50%) – giving priority to streets with bicycle and transit networks, and to projects that include complete streets elements such as curb ramps, bicycle infrastructure, pedestrian improvements, and other measures to slow or reduce traffic.

Pedestrian Safety (25%) – including crosswalk improvements, sidewalk repair or upgrade, and pedestrian countdown signals and lighting.

Transit Reliability and Mobility Improvements (25%) – including transit stop improvements, consolidation and relocation, transit signal priority, traffic signal upgrades, travel information improvements, and parking management projects.

In 2012, the Transportation Authority Board approved the first Proposition AA Strategic Plan, including the specific projects that could be funded within the first five years (i.e., fiscal years 2012/13 to 2016/17). This past May, the Transportation Authority Board approved the 2017 Prop AA Strategic Plan and programmed revenues for projects over the five-year period, covering fiscal years 2017/18 to 2021/22. The Proposition AA program is a pay-as-you-go program.

Treasure Island Mobility Management Agency (TIMMA) Component Unit

The Treasure Island Transportation Management Act of 2008 (AB 981) authorizes the creation or designation of a Treasure Island-specific transportation management agency. On April 1, 2014, the City's Board of Supervisors approved a resolution designating the Transportation Authority as the Treasure Island Mobility Management Agency (TIMMA) to implement the Treasure Island Transportation Implementation Plan in support of the Treasure Island/Yerba Buena Island Development Project. In September 2014, Governor Brown signed Assembly Bill 141, establishing TIMMA as a legal entity distinct from the Transportation Authority to help firewall the Transportation Authority's other functions. The eleven members of the Transportation Authority Board act as the Board of Commissioners for TIMMA. The Transportation Authority financial statements include TIMMA as a blended special revenue fund component unit.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Government-wide Financial Statements – The statement of net position and statement of activities display information about the Transportation Authority. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are normally supported by taxes, grants, and other revenues.

The statement of activities presents a comparison between direct expenses and program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Transportation Authority's funds. The Transportation Authority reports activities of each of its five funds: *General Fund*; *Congestion Management Agency Programs*; *Transportation Fund for Clean Air Program*; *Vehicle Registration Fee for Transportation Improvements Program*; and *Treasure Island Mobility Management Agency* as major funds.

The Transportation Authority uses the following funds:

General Fund – The General Fund, also referred to as the Sales Tax Program, accounts for the one-half of one percent sales tax revenues required by the November 2003 Proposition K. These revenues are for restricted expenditures in support of the Expenditure Plan, which includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety; 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives. This fund also accounts for the general administration of the Transportation Authority functions in support of the Proposition K Expenditure Plan. The major source of revenue for this fund is the Sales Tax.

Special Revenue Funds – Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund:

Congestion Management Agency Programs – The Congestion Management Agency Fund accounts for resources accumulated and payments made for developing a congestion management program and construction of major capital improvements. Major sources of revenue are federal, state, and regional grants.

Transportation Fund for Clean Air Program – San Francisco has a \$4 per vehicle registration fee to support projects of the BAAQMD. Of the total collections, BAAQMD passes 40% of the proceeds to the Transportation Authority. Through this program, the Transportation Authority recommends projects that benefit air quality by reducing motor vehicle emissions. The Transportation Fund for Clean Air accounts for this activity. The major source of revenue for this fund is \$4 vehicle registration fees on automobiles registered in the Bay Area.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Vehicle Registration Fee for Transportation Improvements Program Fund – This fund accounts for the November 2010 Proposition AA Vehicle Registration Fee (VRF) for Transportation Improvements Program. Collection of the \$10 per year, per vehicle registration. Fee started in the first week of May 2011. The VRF proceeds are used to fund transportation projects identified in the Proposition AA Expenditure Plan. The major source of revenue for this fund is vehicle registration fees.

Treasure Island Mobility Management Agency Fund – The Treasure Island Transportation Management Act of 2008 (AB 981) authorizes the creation or designation of a Treasure Island-specific transportation management agency. On April 1, 2014, the City’s Board of Supervisors approved a resolution designating the Transportation Authority as the TIMMA to implement the Treasure Island Transportation Implementation Plan in support of the Treasure Island/Yerba Buena Island Development Project. In September 2014, Governor Brown signed Assembly Bill 141, establishing TIMMA as a legal entity distinct from the Transportation Authority to help firewall the Transportation Authority’s other functions. The major sources of revenue are federal, state, and regional grants.

Fiduciary Fund – Fiduciary or agency funds are trust funds used to account for the assets held by the Transportation Authority, under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Transportation Authority’s programs. The Transportation Authority’s fiduciary fund is an agency fund which accounts for assets held as an agent for the San Francisco Municipal Railway’s (MUNI) Owner-Controlled Insurance Program (OCIP) for the Third Street Light Rail Project.

The Transportation Authority does not retain ownership of the assets produced in relation to capital improvements to which it provides funding. Capital improvements are recorded on the financial statements of the managing agency during construction and upon completion.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales tax amounts are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible, within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so, have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Fund Balances – Governmental Funds

Under the terms of grant agreements, the Transportation Authority funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Transportation Authority's policy to first exhaust the most restricted cost-reimbursement grant resources to such programs.

Investments

The Transportation Authority records investment transactions on the trade date. Investments are reported at fair value. Fair value is defined as the amount that the Transportation Authority could reasonably expect to receive for an investment in a current sale, between a willing buyer and seller, and is generally measured by quoted market prices.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Investment Valuations

The Transportation Authority recognizes the fair value measurement of its investments on a recurring basis, based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Transportation Authority's investments in the City and County of San Francisco Investment Pool are uncategorized because deposits to and from the pool are made on the basis of \$1 and not at fair value.

Sales Tax Revenue and Receivables

The Transportation Authority recognizes taxpayer-assessed revenues, net of estimated refunds, in the accounting period in which they become susceptible to accrual, which means when the revenues become both measurable and available to finance expenditures of the current fiscal period on the fund level financial statements.

Sales tax receivables on the fund level financial statements represent sales tax receipts in the 60 days subsequent to the Transportation Authority's fiscal year-end, relating to the prior year's sales activity. Additional amounts are accrued for on the government-wide financial statements, representing fourth quarter adjustments from the Board of Equalization. The Transportation Authority has contracted with the California State Board of Equalization for collection and distribution of the sales tax. The Board of Equalization receives an administrative fee for providing this service. The Transportation Authority records sales tax revenues net of such fees. Effective July 1, 2017, the CDTFA became the successor to the Board of Equalization and became vested with nearly all of the duties, powers and responsibilities of the Board of Equalization.

Vehicle Registration Fees and Receivables

The Transportation Authority recognizes vehicle registration fees in the accounting period in which they become susceptible to accrual, which means when the revenues become both measurable and available to finance expenditures of the current fiscal period.

Vehicle registration fees receivables represent vehicle registration fee receipts in the 60 days subsequent to the Transportation Authority's fiscal year-end relating to the prior year's registration activity. The Transportation Authority has contracted with the California Department of Motor Vehicles for collection and distribution of the vehicle registration fees. The Department of Motor Vehicles receives an administrative fee for providing this service. The Transportation Authority records vehicle registration fee revenues net of such fees.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital Assets

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. The Transportation Authority capitalizes assets with a purchase price of \$5,000 and above. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide financial statements.

The estimated useful lives are as follows:

Leasehold improvements	13 years
Furniture	5 years
Computer equipment	3 years

The cost of normal maintenance and repairs that do not add to the value of the asset nor materially extend its life, is not capitalized. For the government-wide statements, improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Pensions

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

Compensated Absences

The Transportation Authority reports compensated absences for accrued vacation, compensatory time-off, and floating holidays. Transportation Authority employees have a vested interest in accrued compensated absences and the time will eventually either be used or paid by the Transportation Authority. Generally, employees earn and use their current compensated absence hours with a small portion being accrued or unused each year. As this occurs, the Transportation Authority incurs an obligation to pay for these unused hours. This liability is recorded in the government-wide statement of net position to reflect the Transportation Authority's obligation to fund such costs from future operations. A liability is recorded in the governmental funds balance sheet when it is due and payable. Sick leave benefits do not vest and no liability is recorded. At June 30, 2017, the Transportation Authority beginning balance for compensated absences was \$492,106 and during the year ended June 30, 2017, the Transportation Authority accrued \$484,217 and paid \$470,997 and the ending balance was \$505,326.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGIFICANT ACCOUNTING POLICIES, (Continued)

Fund Equity/Net Position

In the government-wide statements, equity is classified as net position and displayed in three components:

Investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Transportation Authority currently does not have any outstanding notes or other borrowings that are attributable to capital assets.

Restricted net position – consists of net position with constraints placed on the use by either (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – all other net position that does not meet the definition of “restricted” or “investment in capital assets.”

Governmental funds report fund balance in classifications, based primarily on the extent to which the Transportation Authority is bound, to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2017, fund balances for governmental funds are classified as follow:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Unassigned Fund Balance – is the residual classification for the Sales Tax Program and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Use of Estimates

The preparation of basic financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

New Accounting Principles

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The Transportation Authority has not determined the effect of this pronouncement.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 78 – In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the fiscal year 2016-17. This pronouncement did not have an impact on the financial statements of the Transportation Authority.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The Transportation Authority has not determined the effect of this pronouncement.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The Transportation Authority has not determined the effect of this pronouncement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The Transportation Authority has not determined the effect of this pronouncement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The Transportation Authority has not determined the effect of this pronouncement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The Transportation Authority has not determined the effect of this pronouncement.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Transportation Authority's deposits may not be returned to it. The Transportation Authority does not have a policy for custodial credit risk on deposits. As of June 30, 2017, the carrying amount of the Transportation Authority's deposits was \$12,487,800 and the bank balance was \$12,638,111. The difference between the bank balance and the carrying amount represents outstanding checks and deposits. Of the bank balance, \$750,000 was covered by federal depository insurance and \$11,888,111 was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code.

Under the California Government Code, a financial institution is required to secure deposits in excess of Federal Deposit Insurance Corporation limits made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent.

Investments - For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Transportation Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Transportation Authority does not have a policy regarding custodial credit risk on investments. As of June 30, 2017, the Transportation Authority's investments are not exposed to custodial credit risk. The notes to the basic financial statements of the City provide more detailed information concerning deposit and investment risks associated with the City's pool of cash and investments at June 30, 2017.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS, (Continued)

Investments Authorized by the Transportation Authority's Investment Policy

The table below identifies the investment types that are authorized for the Transportation Authority by the California Government Code 53601 or the Transportation Authority's Investment Policy, where the policy is more restrictive in the area of reverse repurchase agreements, which are not allowed, and certificates of deposits, which must be in financial institutions located in California and may not exceed 10% of the Transportation Authority's portfolio.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Notes, Bonds, or Bills	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
Federal Agency or U.S. Government Sponsored Enterprise Obligations	5 Years	None	None
Repurchase Agreements	1 Year	None	None
State of California Obligations or any local agency within the State	5 Years	None	None
Notes or Bonds of Other U.S. States	5 Years	None	None
Bankers' Acceptances	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Medium-Term Notes	5 Years	30%	None
FDIC Insured and Fully Collateralized Certificates of Deposit**	1 Year	10%	None
Negotiable Certificates of Deposits	5 Years	30%	None
State of California Local Agency Investment Fund (LAIF)	N/A	None	None
California Asset Management Program	N/A	None	None
Insured Savings and Money Market Accounts	N/A	None	None
City and County of San Francisco Treasury Pool	N/A	None	None
Shares of Beneficial Interest (Money Market Funds)	N/A	20%	10%

** More restrictive than California Government Code.

The Transportation Authority maintains deposits and investments with the City and County of San Francisco Treasury Pool (Pool). The Pool is not registered with the SEC. As of June 30, 2017, the Transportation Authority's deposits and investments in the Pool are approximately \$36 million, and the total amount invested by all public agencies in the Pool is approximately \$8.6 billion. The City's Treasurer Oversight Committee (Committee) has oversight responsibility for the Pool. The value of the Transportation Authority's shares in the Pool, which may be withdrawn, is based on the book value of the Transportation Authority's percentage participation, which is different than the fair value of the Transportation Authority's percentage participation in the Pool.

The Transportation Authority's investments on June 30, 2017, consisted of pooled cash with the City and County of San Francisco, having a weighted average maturity of 1.29 years. At June 30, 2017, the Pool consists of U.S. government and agency securities, state and local government agency obligations, negotiable certificates of deposit, medium term notes, and public time deposits 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, California 94102.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 4 - INTERFUND TRANSACTIONS

Due to/Due from

The composition of interfund balances as of June 30, 2017, is as follows:

	Payable to:				Total
	Congestion Management Agency Programs	Transportation Fund for Clean Air Program	Vehicle Registration Fee for Transportation Improvements Program	Treasure Island Mobility Management Agency	
<u>Receivable from:</u>					
Sales Tax Program	\$ 3,648,063	\$ 415,777	\$ 82,736	\$ 690,027	\$ 4,836,603

The outstanding receivables from the Sales Tax Program result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers

During the fiscal year, the Sales Tax Program received a transfer of \$648,085 from the CMA Programs Fund and \$156,728 from the TIMMA Fund which are a reimbursement for unpaid subsidies.

NOTE 5 - CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2017, is as follows:

	Balance July 1, 2016	Additions	Retirement	Balance June 30, 2017
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,023,624	\$ -	\$ -	\$ 3,023,624
Furniture and equipment	890,753	48,448	(53,404)	885,797
Total capital assets, being depreciated	3,914,377	48,448	(53,404)	3,909,421
Less accumulated depreciation for:				
Leasehold improvements	927,525	232,900	-	1,160,425
Furniture and equipment	762,439	116,176	(53,404)	825,211
Total accumulated depreciation	1,689,964	349,076	(53,404)	1,985,636
Total capital assets, net	\$ 2,224,413	\$ (300,628)	\$ -	\$ 1,923,785

Depreciation expense for the current year amounted to \$349,076, and was allocated to the transportation improvement expense on the statement of activities.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 6 - TRANSACTIONS WITH THE CITY AND COUNTY OF SAN FRANCISCO

Receivables from the City and County of San Francisco consist of the following at June 30, 2017:

Receivables from the following City Department/Agency	Purpose	Total
Department of Public Works	Better Market Street Environmental Impact Report Travel Demand	\$ 47,153
Municipal Transportation Agency: Municipal Railway	19th Avenue M-Ocean View SF-CHAMP Travel Demand Forecasting Model Transportation Studies and Survey - Alemany, Student Transportation Study, and Lombard Street Treasure Island Parking Plan Report	4,327 100,000 156,594 92,483
Office of Economic & Workforce Development	Late Night Transportation	6,676
Planning Department	San Francisco Long-Range Transportation Planning Program Travel Demand Modeling Assistance	46,569 125,000
Treasure Island Development Authority	Treasure Island Transportation Implementation Plan Yerba Buena Island Ramps Improvement Project	1,235,075 153,697
Total receivables from the City and County of San Francisco		<u>\$ 1,967,574</u>

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 6 - TRANSACTIONS WITH THE CITY AND COUNTY OF SAN FRANCISCO, (Continued)

Payables to the City and County of San Francisco consist of the following at June 30, 2017:

Payables to the following City Department	Purpose	Total
Department of Environment	Clean Air Programs	\$ 26,614
Department of Public Health	Clean Air Programs	2,288
Department of Public Works	Street Resurfacing	1,254,552
Department of Technology	Board Meeting Boardcast	23,509
Mayor's Office of Housing	Hunters View Transit Connection	383,722
Municipal Transportation Agency:		
Department of Parking & Traffic		
	Balboa Park BART/MUNI Station Access Improvements	\$ 37,282
	Bicycle Circulation/Safety	124,086
	Clean Air Programs	150,851
	New Signals and Signs	882,772
	Pedestrian and Bicycle Facility Maintenance	65,734
	Pedestrian Circulation/Safety	285,604
	Pedestrian Safety	402,721
	Signals and Signs	1,093,065
	Street Repair and Reconstruction	459,652
	Traffic Calming	215,515
	Transportation/Land Use Coordination	155,701
	Upgrades to Major Arterials (including 19th Avenue)	18,013
		<u>3,890,996</u>
Municipal Railway		
	Balboa Park BART/MUNI Station Access Improvements	152,939
	Guideways	11,172,810
	Other Transit Enhancements	55,977
	Paratransit	224,803
	Purchase of Additional Light Rail Vehicles for Muni Light Rail Lines	1,329,105
	Rapid Bus Network including Real Time Transit Information	1,126,447
	Rehabilitation, Upgrade and Replacement of Existing Facilities	2,427,497
	Signals and Signs	3,591
	Transit Reliability and Mobility Improvements	9,448
	Transit Vehicle Replacement and Renovation	11,032,163
	Transportation/Land Use Coordination	13,974
	Visitacion Valley Watershed Area Projects	76,995
		<u>\$ 27,625,749</u>
	Total Municipal Transportation Agency	31,516,745
Office of Economic & Workforce Development	Workforce Development for Presidio Parkway	8,918
Office of the City Attorney	Legal Services	12,516
Planning Department	Geary Bus Rapid Transit Outreach	85,179
		<u>85,179</u>
	Total payable to the City and County of San Francisco	<u>\$ 33,314,043</u>

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 6 - TRANSACTIONS WITH THE CITY AND COUNTY OF SAN FRANCISCO, (Continued)

The Transportation Authority reimbursed the City and County of San Francisco for the following transportation and capital program expenditures made on its behalf during the year ended June 30, 2017:

<u>Expenditures incurred by the following City Department/Agency</u>	<u>Total</u>
Department of Environment	\$ 72,492
Department of Public Health	8,008
Department of Public Works	6,909,180
Mayor's Office of Housing	614,418
Municipal Transportation Agency-DPT	18,186,719
Municipal Transportation Agency-MUNI	108,349,249
Office of Economic & Workforce Development	22,170
Office of the City Attorney	12,515
Planning Department	175,673
San Francisco Unified School District	52,500
	<u>\$ 134,402,924</u>

During fiscal year 2016-17, the Transportation Authority incurred capital expenditures of \$101.0 million, which were paid to departments within the City, of which \$95.1 million was expended on San Francisco Municipal Transportation Agency projects. San Francisco Municipal Transportation Agency projects include \$80.7 million on Transit Vehicle Replacement and Renovation, Paratransit, Rapid Bus Network, Guideways, Upgrade and Replacement of Existing Facilities Projects, and \$14.4 million on various Signals and Signs, Pedestrian, and Corridor Improvement projects.

NOTE 7 - REVOLVING CREDIT AGREEMENT

On June 11, 2015, the Transportation Authority substituted its \$200,000,000 commercial paper notes (Limited Tax Bonds), Series A and B with a \$140,000,000 tax-exempt revolving credit agreement (Revolving Credit Agreement). The commercial paper notes provided a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan. The Revolving Credit Agreement expires June 8, 2018, and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. The interest payments are due the first business day of the each month and the outstanding principal payment is required to be paid at the end of the agreement on June 8, 2018. The Revolving Credit Agreement is secured by a first lien gross pledge of the Transportation Authority's sales tax. The beginning balance was \$114,664,165 as of July 1, 2016. The Transportation Authority paid \$21,000,000 of the outstanding balance and on December 1, 2016, borrowed an additional \$46,000,000 on April 10, 2017. As of June 30, 2017, \$139,664,165 of the Revolving Credit Agreement balance was outstanding, with an interest rate of 1.036%. Interest and principal is paid by the Sales Tax Fund.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS

General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Transportation Authority's Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Transportation Authority resolution. CalPERS acts as a common investment and administrative agent for its participating member employers. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial reports may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, California 95811.

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 or 52, depending on the hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statute and may be amended by the Transportation Authority's contract with the employees.

The Plan provisions and benefits in effect on June 30, 2017, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 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 percent of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.88%	6.56%

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS, (Continued)

Contributions

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 both Plans are 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 Transportation Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions were \$293,492.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the Transportation Authority's reported net pension liability for its proportionate shares of the collective net pension liability is \$1,765,415.

The Transportation Authority's net pension liability is measured as the proportionate share of the collective Plan's net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The Transportation Authority's proportion of the net pension liability was based on the Transportation Authority's share of contributions to the pension plan, relative to the projected contributions of all participating employers, actuarially determined. The Transportation Authority's proportionate share of the net pension liability as of June 30, 2016, and 2017 was as follows:

Proportion - June 30, 2016	0.01877%
Proportion - June 30, 2017	0.02040%
Change	<u><u>-(0.00163)%</u></u>

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS, (Continued)

For the year ended June 30, 2017, the Transportation Authority recognized a pension expense of \$133,603. On June 30, 2017, the Transportation Authority 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	\$ 293,492	\$ -
Contributions in excess of proportionate share	135,268	-
Changes in assumptions	-	(115,947)
Difference in expected and actual experience	12,255	(2,808)
Adjustment due to differences in proportions	209,447	(85,618)
Net differences between projected and actual earnings on plan investments	603,466	-
Total	\$ 1,253,928	\$ (204,373)

Reported as deferred outflows of resources related to contributions subsequent to the measurement date is \$293,492, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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 Ending June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 183,639
2019	155,478
2020	260,641
2021	156,305
	\$ 756,063

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS, (Continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015, actuarial valuations were determined using the following actuarial assumptions for the collective miscellaneous plans:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.65% (1)
Mortality	(2)

- (1) Net of pension plan investment and administrative expenses, includes inflation.
- (2) The probabilities of mortality are based on the 2014 CalPERS experience study for the period from 1997 to 2011.

All other actuarial assumptions used in the June 30, 2015, valuation were based on the results of a 2014 actuarial experience study for the period 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 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report titled "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS, (Continued)

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

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations, as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

Asset Class	Current Target Allocation	(1) Real Return Years 1 - 10	(2) Real Return Years 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
	<u>100.0%</u>		

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 8 - PENSION PLANS, (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Transportation Authority’s proportionate share of the net pension liability, as well as what the Transportation Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.65%	7.65%	8.65%
Net Pension Liability	\$ 2,978,423	\$ 1,765,415	\$ 762,924

Pension Plan Fiduciary Net Position

Detailed information about the Plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The Transportation Authority’s defined benefit postemployment healthcare plan provides healthcare benefits to eligible employees and their surviving spouses. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 50 and meeting program vesting requirements, or being converted to disability status and retiring directly from the Transportation Authority. Dental and vision benefits are not available to retirees.

The Transportation Authority is a contracting agency under the Public Employees’ Medical and Hospital Care Act (PEMHCA), which is administered by CalPERS for the provision of healthcare insurance programs for both active and retired employees. The Transportation Authority participates in the California Employers’ Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to prefund other postemployment benefits through CalPERS. The financial statements for CERBT may be obtained by writing the California Public Employees’ Retirement System, Constituent Relations Office, CERBT (OPEB), P.O. Box 242709, Sacramento, California 94229-2709 or by calling 888-225-7377.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS, (Continued)

Funding Policy

The contribution requirements of plan members and the Transportation Authority are established and may be amended by the Board. As of June 30, 2017, the Transportation Authority contributed \$194,687, or 97.1%, of the annual required contribution (ARC) to the CERBT.

The Transportation Authority is required to contribute to the ARC, per the board's approved policy, 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 liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost

The Transportation Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Transportation Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation to CERBT.

Annual required contribution	\$ 200,500
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	200,500
Contributions made	(194,687)
Increase (Decrease) in net OPEB obligation	5,813
Net OPEB obligation (asset) - beginning of year	(5,813)
Net OPEB obligation (asset) - end of year	\$ -

The Transportation Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
June 30, 2015	\$ 138,000	\$ 138,000	100.0%
June 30, 2016	200,700	206,513	102.9%
June 30, 2017	200,500	194,687	97.1%

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS, (Continued)

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial value of plan assets	\$ 1,170,500
Actuarial accrued liability (AAL)	2,042,300
Unfunded actuarial accrued liability (UAAL)	<u>\$ 871,800</u>
Funded ratio (actuarial value of plan assets/AAL)	57.3%
Covered payroll (active plan members)	\$ 3,929,800
UAAL as a percentage of covered payroll	22.2%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of certain 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 schedule of funding progress, presented as required supplementary information following the notes to 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 liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce effects of short-term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with long-term perspective of the calculations.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS, (Continued)

In the June 30, 2015, actuarial valuation, the entry age normal actuarial cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age of hire) and assumed exit (maximum retirement age). The actuarial assumptions assume an investment rate of 7.00% representing the long-term rate of investment return on investments with CERBT of 7.28%, net a 0.28% margin for adverse deviations. The assumed annual healthcare trend rates for non-Medicare benefits started at 8.00%, then grades down to 7.00% in plan year starting July 1, 2016 to an ultimate rate of 4.00% by plan year beginning July 1, 2029. The assumed annual healthcare trend rates for Medicare benefits were 6.25% in the first year, then 4.50% per the next year, 4.25% the following two years and 4.00% the years thereafter. All discount and trend rates included an assumed 3.0% general inflation assumption. The actuarial value of CERBT assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. CERBT's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis using an assumed aggregate payroll increase of 3.25% per year and a static 20-year period beginning fiscal year 2013-14. The remaining years in the amortization period is 17 years as of June 30, 2017.

NOTE 10 - OPERATING LEASES

The Transportation Authority leases its office space under an operating lease agreement. In December 2011, the Transportation Authority executed a 13-year workspace lease for its office, located at 1455 Market Street, with a 5-year extension option. The term of the lease commenced on July 1, 2012, and expires on June 30, 2025. Under the lease agreement, the landlord granted the Transportation Authority a rent abatement, totaling \$522,112 for the period July 1, 2012, through November 30, 2012, and from July 1, 2013, through October 31, 2013, and provided a leasehold allowance credit in the amount of \$1,763,180. During the year ended June 30, 2017, the Transportation Authority expended \$783,168 towards its office lease and recorded an office lease expense of \$791,954 and an amortization expense of \$8,786 on the statement of activities.

The Transportation Authority also leases two copier machines under an operating lease agreement. The Transportation Authority entered into a 3-year lease agreement with monthly payments of \$1,970, plus applicable taxes, commencing on May 11, 2017. During the year ended June 30, 2017, total copier expenses were \$19,684.

The following is a schedule of future minimum lease obligations as of June 30, 2017:

Year Ending June 30,	Office Lease	Copier Leases	Total
2018	\$ 807,642	\$ 23,640	\$ 831,282
2019	832,116	23,640	855,756
2020	856,590	19,700	876,290
2021	881,064	-	881,064
2022	905,538	-	905,538
2023-2025	2,863,458	-	2,863,458
Total future minimum lease obligations	\$ 7,146,408	\$ 66,980	\$ 7,213,388

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 11 - ADMINISTRATIVE EXPENSE LIMITATIONS

In accordance with California Public Utilities Code, Section 131107, not more than one percent of the Transportation Authority's annual net amount of revenues, raised by the sales tax, may be used to fund the salaries and benefits of the staff of the Transportation Authority in administering the Proposition K Expenditure Plan. For the year ended June 30, 2017, revenues, staff salaries, and fringe benefits for administering the Proposition K Expenditure Plan for the Sales Tax Program were as follows:

Revenues	\$ 102,237,230
Expenditures:	
Salaries	634,156
Fringe benefits	22,264
Total	<u>\$ 656,420</u>
Percentage of revenue	0.64%

Personnel expenditures of \$2,764,486 were reported in the Sales Tax Program, of which \$656,420 was related to general administration of the Proposition K Expenditure Plan, and \$2,108,066 was related to planning and programming, which includes monitoring and oversight of Proposition K funded projects.

NOTE 12 - RISK MANAGEMENT

The Transportation Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Transportation Authority manages and finances these risks by purchasing commercial insurance. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the Transportation Authority's commercial insurance coverage in any of the past three years.

NOTE 13 - OWNER-CONTROLLED INSURANCE PROGRAM

In February 2002, the Transportation Authority entered into a trust agreement with Chartis Insurance (formerly American Insurance Group) and J.P. Morgan Chase Bank, N.A. on behalf of MUNI to act as the fiduciary administrator for the aggregate deductible loss pool supporting MUNI's Third Street Light Rail Project's Owner-Controlled Insurance Program (OCIP). The Third Street Light Rail Project OCIP is an umbrella insurance program that provides commercial general liability, excess liability, workers' compensation, pollution liability, and railroad liability coverage for those Third Street Light Rail Project construction contracts included in the program. The escrow account for the aggregate deductible loss pool was established for \$4,621,400 at the inception of the OCIP, and is used to pay claims as determined by the City's Office of the City Attorney, MUNI, and Chartis Insurance. The Transportation Authority is acting solely as a fiduciary administrator for the escrow account, and has no responsibility for managing the OCIP claims, management, or settlement. As of June 30, 2017, the Transportation Authority has \$356,148 in escrow accounts to fund claims related to MUNI's Third Street Light Rail Project.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Financial Statements

June 30, 2017

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Commitments

The Transportation Authority's outstanding commitments totaled \$590,209,671 at June 30, 2017. This amount is comprised of \$567,236,393 in remaining capital project appropriations. Sponsors receive appropriations for the entire project (awards), but cannot be reimbursed faster than the amount allocated annually. At June 30, 2017, the Transportation Authority has \$15,283,097, \$6,594,329, and \$1,095,852 encumbered in the Sales Tax Program, the Congestion Management Agency Programs, and the Treasure Island Mobility Management Agency Program, respectively, on various Transportation Authority contracts held with private consulting and construction companies, and cooperative agreements with governmental entities.

NOTE 15 – SUBSEQUENT EVENT

Bond Issuance

On November 2, 2017, the Senior Sales Tax Revenue Bonds (Series 2017) are being issued by the Transportation Authority. The total face amount is \$248,540,000 and maturing April 1, 2034 with interest rate ranging from 3.0% to 4.0%. The Series 2017 Bonds will be repaid through sales tax collection in subsequent years. The Transportation Authority will use the proceeds of the Series 2017 Bonds to (i) finance a portion of the costs of and costs incidental to, or connected with, the construction, acquisition and improvement of certain transit, street and traffic facilities and other transportation projects, including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees and working capital, all as described in the Expenditure Plan adopted pursuant to the Act, (ii) repay a portion of the outstanding amount of a revolving loan and a promissory note evidencing the Transportation Authority's payment obligation thereunder, (iii) pay capitalized interest on a portion of the Series 2017 Bonds and (iv) pay costs of issuance of the Series 2017 Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and
Actual –Sales Tax Program
For the Year Ended June 30, 2017

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance Final to Actual</u>
	<u>Original</u>	<u>Final</u>		
Revenues and Transfers In				
Sales tax	\$ 108,219,139	\$ 108,219,139	\$ 102,237,230	\$ (5,981,909)
Investment income	329,206	329,206	767,726	438,520
Program revenues				
Regional and other	99,670	1,444,005	127,327	(1,316,678)
Other revenues	42,212	67,012	69,488	2,476
Transfers in from other funds	-	-	804,813	804,813
Total Revenues and Transfers In	<u>108,690,227</u>	<u>110,059,362</u>	<u>104,006,584</u>	<u>(6,052,778)</u>
Expenditures and Transfers Out				
Administrative operating costs	6,285,912	6,975,512	5,029,847	1,945,665
Transportation improvement	201,997,327	203,443,386	136,884,460	66,558,926
Debt service				
Principal	21,000,000	21,000,000	21,000,000	-
Interest	960,000	1,326,667	1,098,535	228,132
Transfers out to other funds	1,464,979	2,328,201	-	2,328,201
Total Expenditures and Transfers Out	<u>231,708,218</u>	<u>235,073,766</u>	<u>164,012,842</u>	<u>71,060,924</u>
Other Financing Sources (Uses)				
Proceeds from debt	25,000,000	46,335,835	46,000,000	(335,835)
Change in Fund Balance	(98,017,991)	(78,678,569)	(14,006,258)	64,672,311
Fund Balance - Beginning	33,011,247	33,011,247	33,011,247	-
Fund Balance - Ending	<u>\$ (65,006,744)</u>	<u>\$ (45,667,322)</u>	<u>\$ 19,004,989</u>	<u>\$ 64,672,311</u>

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and
Actual – Congestion Management Agency Programs Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Positive (Negative) Variance
	Original	Final		Final to Actual
Revenues and Transfers In				
Program revenues				
Federal	\$ 8,691,312	\$ 18,030,714	\$ 13,376,962	\$ (4,653,752)
State	793,245	2,098,692	1,315,361	(783,331)
Regional and other	1,025,113	1,593,350	361,867	(1,231,483)
Other revenues	4,333	240	250	10
Transfers in from other funds	1,383,788	2,282,133	-	(2,282,133)
Total Revenues and Transfers In	11,897,791	24,005,129	15,054,440	(8,950,689)
Expenditures and Transfers Out				
Administrative operating costs	2,380,606	2,205,158	2,173,414	31,744
Transportation improvement	9,517,185	21,799,971	12,232,941	9,567,030
Transfers out to other funds	-	-	648,085	(648,085)
Total Expenditures and Transfers Out	11,897,791	24,005,129	15,054,440	8,950,689
Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and
Actual – Transportation Fund for Clean Air Program
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Positive (Negative) Variance
	Original	Final		Final to Actual
Revenues and Transfers In				
Investment income	\$ 2,500	\$ 2,500	\$ 1,601	\$ (899)
Program revenues				
Regional and other	751,324	751,324	752,241	917
Total Revenues and Transfers In	753,824	753,824	753,842	18
Expenditures and Transfers Out				
Administrative operating costs	44,765	37,566	39,686	(2,120)
Transportation improvement	1,158,590	1,158,590	677,852	480,738
Total Expenditures and Transfers Out	1,203,355	1,196,156	717,538	478,618
Change in Fund Balance	(449,531)	(442,332)	36,304	478,636
Fund Balance - Beginning	394,366	394,366	394,366	-
Fund Balance - Ending	\$ (55,165)	\$ (47,966)	\$ 430,670	\$ 478,636

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and
Actual – Vehicle Registration Fee for Transportation Improvements Program Fund
For the Year Ended June 30, 2017

	Budget Amounts		Actual	Positive (Negative) Variance Final to Actual
	Original	Final		
Revenues and Transfers In				
Vehicle registration fee	\$ 4,834,049	\$ 4,834,049	\$ 4,550,482	\$ (283,567)
Investment income	3,000	3,000	3,705	705
Total Revenues and Transfers In	<u>4,837,049</u>	<u>4,837,049</u>	<u>4,554,187</u>	<u>(282,862)</u>
Expenditures and Transfers Out				
Administrative operating costs	245,859	216,703	197,480	19,223
Transportation improvement	6,533,249	6,533,249	2,238,688	4,294,561
Total Expenditures and Transfers Out	<u>6,779,108</u>	<u>6,749,952</u>	<u>2,436,168</u>	<u>4,313,784</u>
Change in Fund Balance	(1,942,059)	(1,912,903)	2,118,019	4,030,922
Fund Balance - Beginning	6,977,322	6,977,322	6,977,322	-
Fund Balance - Ending	<u>\$ 5,035,263</u>	<u>\$ 5,064,419</u>	<u>\$ 9,095,341</u>	<u>\$ 4,030,922</u>

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and
Actual – Treasure Island Mobility Management Agency Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Positive (Negative) Variance
	Original	Final		Final to Actual
	Revenues and Transfers In			
Program revenues				
Federal	\$ -	\$ 243,649	\$ 205,729	\$ (37,920)
Regional and other	1,000,000	1,575,000	1,262,693	(312,307)
Transfers in from other funds	81,191	46,068	-	(46,068)
Total Revenues and Transfers In	1,081,191	1,864,717	1,468,422	(396,295)
Expenditures and Transfers Out				
Administrative operating costs	344,191	572,966	427,655	145,311
Transportation improvement	737,000	1,291,751	884,039	407,712
Transfers out to other funds	-	-	156,728	(156,728)
Total Expenditures and Transfers Out	1,081,191	1,864,717	1,468,422	396,295
Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedules of Funding Progress and Employer Contributions –
Other Postemployment Benefits
For the Year Ended June 30, 2017

Postemployment Healthcare Benefits

The Schedule of Funding Progress presented below provides a consolidated snapshot of the Transportation Authority's ability to meet current and future liabilities with the plan assets. The most recent actuarial valuation was performed as of June 30, 2015.

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(C) Unfunded AAL (UAAL) (Excess Assets) [(B) - (A)]	(D) Funded Ratio [(A) / (B)]	(E) Covered Payroll	(F) UAAL as a Percentage of Covered Payroll [(C) / (E)]
June 30, 2015	\$ 1,170,500	\$ 2,042,300	\$ 871,800	57.3%	\$ 3,929,800	22.2%
June 30, 2013	759,600	1,124,100	364,500	67.6%	3,253,400	11.2%
June 30, 2011	405,000	671,000	266,000	60.4%	3,251,000	8.2%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
June 30, 2015	\$ 138,000	\$ 138,000	100.0%
June 30, 2016	200,700	206,513	102.9%
June 30, 2017	200,500	194,687	97.1%

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of the Proportionate Share of the Net
Pension Liability
For the Year Ended June 30, 2017

	<u>2015 ⁽¹⁾</u>	<u>2016 ⁽¹⁾</u>	<u>2017 ⁽¹⁾</u>
Proportion of the net pension liability	0.04834%	0.01877%	0.02040%
Proportionate share of the net pension liability	\$ 1,299,087	\$ 1,288,393	\$ 1,765,415
Covered payroll	\$ 3,263,808	\$ 3,684,025	\$ 3,643,778
Proportionate share of the net pension liability as a percentage of covered payroll	39.80%	34.97%	48.45%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	79.82%	78.40%	74.06%

(1) Historical information is required only for measurement periods for which GASB Statement No. 68 is applicable.

Notes to schedule:

Changes in assumptions: The discount rate was changed from 7.50% to 7.65% in 2016 fiscal year.

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Schedule of Pension Contributions
For the Year Ended June 30, 2017

	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾
Actuarially determined contributions	\$ 365,402	\$ 399,937	\$ 280,199	\$ 293,492
Contributions in relation to the actuarially determined contributions	(365,402)	(399,937)	(280,199)	(293,492)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,263,808	\$ 3,684,025	\$ 3,643,778	\$ 4,202,141
Contributions as a percentage of covered payroll	11.20%	10.86%	7.69%	6.98%

(1) Historical information is available only for measurement periods for which GASB Statement No. 68 is applicable.

See notes to required supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Required Supplementary Information

For the Year Ended June 30, 2017

NOTE 1 - BUDGETS AND BUDGETARY DATA

Comparisons with financial results for the current fiscal period for all the funds are presented as required supplementary information and include, in addition to actual expenditures, amounts that have been appropriated for projects and programs. Unexpended capital budget appropriations are carried forward to subsequent years. The budget represents a process through which policy decisions are made, implemented and controlled. Appropriations may be adjusted during the year with the approval of the Transportation Authority. Accordingly, the legal level of budgetary control by the Transportation Authority is the program (fund) level. Budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTE 2 - SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS

A cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The schedules present information to illustrate changes in the Transportation Authority's proportionate share of the net pension liability and employer contributions over a ten-year period when the information is available.

SUPPLEMENTARY INFORMATION

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Owner-Controlled Insurance Program Fund –
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Deposits with escrow agent	\$ 356,148	\$ -	\$ -	\$ 356,148
LIABILITIES				
Due to City and County of San Francisco	\$ 356,148	\$ -	\$ -	\$ 356,148

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

<u>Program Description</u>	<u>Catalog of Federal Domestic Assistance</u>	<u>Grant No.</u>	<u>Expenditures July 1, 2016 through June 30, 2017</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Transportation				
Federal Highway Administration:				
Highway Research and Development Program				
<i>Passed through - Metropolitan Transportation Commission</i>				
Strategic Highway Research Plan	20.200	SHRP2L-6084(192)	\$ 66,481	\$ -
Travel Model Research	20.200	ATF5512L-6084(184)	81,843	-
Total Highway Research and Development Program			<u>148,324</u>	<u>-</u>
Highway Planning and Construction				
<i>Passed through - Metropolitan Transportation Commission</i>				
Surface Transportation Plan (STP): Transportation				
Planning and Programming	20.205	C002683	889,140	-
STP: Treasure Island Mobility Management	20.205	N/A	4,617	-
<i>Passed through - State of California Department of Transportation</i>				
Bart Travel Smart Rewards	20.205	VPPL-6272(043)	183,574	116,461
eFleet: Carsharing Electrified	20.205	CML-6272(033)	111,834	87,026
Integrated Public Private Partnership Travel				
Demand Management Program (TDM)	20.205	CML-6272(034)	1,576	-
Treasure Island Mobility Management	20.205	VPPL-6272(041)	12,995	-
Yerba Buena Island - Reconstruct Existing				
Westbound On and Off Ramps on East Side of				
Yerba Buena Island	20.205	BRLS-6272(023)	8,346,118	-
Yerba Buena Island Viaduct Structure #1	20.205	STPLZ-6272(024)	3,361	-
Yerba Buena Island Viaduct Structure #2	20.205	STPLZ-6272(026)	1,259,631	-
Yerba Buena Island Viaduct Structure #4	20.205	STPLZ-6272(028)	6,535	-
Yerba Buena Island Viaduct Structure #7A	20.205	STPLZ-6272(030)	3,246	-
Yerba Buena Island Viaduct Structure #7B	20.205	STPLZ-6272(031)	6,579	-
Yerba Buena Island Viaduct Structure #8	20.205	STPLZ-6272(032)	3,939	-
Total Highway Planning and Construction Cluster			<u>10,833,145</u>	<u>203,487</u>
Total Federal Highway Administration			<u>10,981,469</u>	<u>203,487</u>
Federal Transit Administration:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
<i>Passed through - State of California Department of Transportation</i>				
San Francisco Freeway Performance Initiative Study	20.505	74A0843	77,200	-
South of Market Freeway Ramp Intersection				
Safety Improvement Study	20.505	74A0921	10,575	-
Total Federal Transit Administration			<u>87,775</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 11,069,244</u>	<u>\$ 203,487</u>

See notes to supplementary information

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Notes to Supplementary Information

For the Year Ended June 30, 2017

NOTE 1 – AGENCY FUND – OWNER-CONTROLLED INSURANCE PROGRAM FUND

Agency funds are used to account for short-term custodial collections on resources on behalf of another individual, entity, or government. The Owner-Controlled Insurance Program Fund issued to account for accounts for assets held as an agent for the San Francisco Municipal Railway's (MUNI) Owner-Controlled Insurance Program (OCIP) for the Third Street Light Rail Project.

NOTE 2 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the San Francisco County Transportation Authority, a component unit of the City and County of San Francisco California, under programs of the federal government for the year ended June 30, 2017. Funds received under the various grant programs have been recorded in the CMA Programs and TIMMA special revenues funds of the Transportation Authority. The Transportation Authority utilizes the modified accrual method of accounting for governmental funds. The Schedule has been prepared accordingly. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Transportation Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Transportation Authority. The Transportation Authority has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



Statistical Section



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STATISTICAL SECTION

This part of the Transportation Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the Transportation Authority's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the Transportation Authority's most significant local revenue source, the sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Transportation Authority's current level of outstanding debt and the Transportation Authority's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules present information to help the reader understand the environment within which the Transportation Authority's financial activities take place.

Operating Information

These schedules contain service data to help the reader understand how the information in the government's financial report relates to the services the Transportation Authority provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules was derived from the Transportation Authority's relevant Basic Financial Statements.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Financial Trends – Net Position by Component
Last Ten Years

	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental Activities:										
Investment in capital assets	\$ 1,923,785	\$ 2,224,413	\$ 2,518,580	\$ 2,804,523	\$ 3,007,890	\$ 3,149,433	\$ 395,515	\$ 623,499	\$ 869,503	\$ 703,488
Restricted										
Debt service	-	-	-	342,674	300,214	311,431	309,352	313,059	302,030	387,660
Capital projects	16,189,389	15,656,533	13,486,451	12,153,268	10,623,833	6,393,430	1,076,453	1,652,482	2,213,169	1,305,019
Unrestricted	(120,140,255)	(80,561,178)	(37,049,305)	(51,234,240)	(75,081,998)	(53,659,568)	(15,011,862)	(41,801,210)	(13,502,741)	(2,409,159)
Total Governmental Activities Net Position	\$ (102,027,081)	\$ (62,680,232)	\$ (21,044,274)	\$ (35,933,775)	\$ (61,150,061)	\$ (43,805,274)	\$ (13,230,542)	\$ (39,212,170)	\$ (10,118,039)	\$ (12,992)

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Financial Trends – Changes in Net Position
Last Ten Fiscal Years

	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
EXPENSES										
Governmental activities:										
Transportation improvement	\$ 160,954,620	\$ 246,207,732	\$ 130,290,251	\$ 90,771,643	\$ 119,740,927	\$ 158,484,831	\$ 125,790,164	\$ 128,498,012	\$ 99,726,154	\$ 101,092,761
Interest	1,098,535	794,172	1,468,189	1,354,423	1,483,229	2,685,265	2,626,206	1,271,876	1,924,902	4,071,824
Total Expenses	162,053,155	247,001,904	131,758,440	92,126,066	121,224,156	161,170,096	128,416,370	129,769,888	101,651,056	105,164,585
REVENUES										
Program revenues:										
Operating grants and contributions	15,255,413	97,263,152	42,080,284	17,587,975	12,703,163	42,020,095	50,558,540	30,115,787	16,383,343	7,142,643
Total Revenues	15,255,413	97,263,152	42,080,284	17,587,975	12,703,163	42,020,095	50,558,540	30,115,787	16,383,343	7,142,643
Net (Expense) / Revenue	(146,797,742)	(149,738,752)	(89,678,156)	(74,538,091)	(108,520,993)	(119,150,001)	(77,857,830)	(99,654,101)	(85,267,713)	(98,021,942)
GENERAL REVENUES										
Governmental activities:										
Sales tax	101,922,012	102,136,600	100,278,511	93,930,566	85,753,558	81,164,517	75,172,298	68,164,315	71,132,080	79,555,917
Vehicle Registration	4,550,482	5,362,050	4,862,063	4,881,668	4,724,408	4,861,548	691,753	-	-	-
Investment income	773,032	383,456	462,845	637,677	20,730	1,823,823	1,358,730	2,395,155	4,027,239	6,542,086
Other	205,367	220,688	315,222	304,466	677,510	725,381	26,616,677	500	3,347	687,309
Total General Revenues	107,450,893	108,102,794	105,918,641	99,754,377	91,176,206	88,575,269	103,839,458	70,559,970	75,162,666	86,785,312
Governmental Activities Change in Net Position	\$ (39,346,849)	\$ (41,635,958)	\$ 16,240,485	\$ 25,216,286	\$ (17,344,787)	\$ (30,574,732)	\$ 25,981,628	\$ (29,094,131)	\$ (10,105,047)	\$ (11,236,630)

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Financial Trends – Fund Balances – Governmental Funds
Last Ten Fiscal Years

	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011*	2010	2009	2008
Sales Tax Program										
Nonspendable	\$ 81,580	\$ 81,580	\$ 136,760	\$ 249,102	\$ 81,580	\$ 912,451	\$ -	\$ -	\$ -	\$ -
Restricted	-	32,929,667	99,455,392	342,674	300,214	311,431	309,352	-	-	-
Reserved	-	-	-	-	-	-	-	12,997,521	4,094,619	10,553,158
Unassigned	18,923,409	-	-	(56,765,333)	(78,892,781)	(84,181,113)	(35,505,050)	-	-	-
Unreserved	-	-	-	-	-	-	-	(83,020,361)	(29,241,584)	(14,870,649)
Total Sales Tax Program	<u>19,004,989</u>	<u>33,011,247</u>	<u>99,592,152</u>	<u>(56,173,557)</u>	<u>(78,510,987)</u>	<u>(82,957,231)</u>	<u>(35,195,698)</u>	<u>(70,022,840)</u>	<u>(25,146,965)</u>	<u>(4,317,491)</u>
All Other Governmental Funds										
Restricted	9,526,011	7,371,688	8,418,895	11,782,031	10,623,833	6,393,430	1,076,453	-	-	-
Reserved	-	-	-	-	-	-	-	6,431,281	6,770,398	5,704,083
Unassigned	-	-	-	-	-	-	-	-	-	-
Unreserved	-	-	-	-	-	-	-	(4,778,799)	(4,959,871)	(4,399,064)
Total All Other Governmental Funds	<u>\$ 9,526,011</u>	<u>\$ 7,371,688</u>	<u>\$ 8,418,895</u>	<u>\$ 11,782,031</u>	<u>\$ 10,623,833</u>	<u>\$ 6,393,430</u>	<u>\$ 1,076,453</u>	<u>\$ 1,652,482</u>	<u>\$ 1,810,527</u>	<u>\$ 1,305,019</u>

* In fiscal year 2011, the Transportation Authority adopted the provisions of GASB Statement No. 54 which required a change to the presentation of fund balances.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Financial Trends – Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years

	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
REVENUES										
Sales tax	\$ 102,237,230	\$ 99,528,116	\$ 100,278,511	\$ 93,930,566	\$ 85,753,558	\$ 81,164,517	\$ 75,172,298	\$ 68,164,315	\$ 71,132,080	\$ 79,555,917
Vehicle registration fee	4,550,482	5,362,050	4,862,063	4,881,668	4,724,408	4,861,548	691,753	-	-	-
Investment income	773,032	383,456	462,845	637,677	20,730	1,823,823	1,028,840	2,065,265	3,697,349	6,212,196
Program revenues	17,402,180	94,091,288	43,576,403	15,469,707	36,535,228	30,020,895	58,839,489	14,162,505	6,514,366	8,905,696
Project Funds and other revenues	69,738	85,059	179,593	168,837	541,881	725,381	26,616,677	500	3,347	687,309
Leasehold incentives	-	-	-	-	1,763,180	-	-	-	-	-
Total Revenues	125,032,662	199,449,969	149,359,415	115,088,455	129,338,985	118,596,164	162,349,057	84,392,585	81,347,142	95,361,118
EXPENDITURES										
Current - transportation improvement										
Personnel expenditures	5,483,832	5,321,186	5,687,882	5,211,708	5,106,574	4,920,019	4,566,167	4,299,005	3,604,137	2,908,562
Non-personnel expenditures	2,384,250	2,175,819	2,308,971	1,984,933	1,838,738	1,647,628	2,109,618	1,723,030	2,810,782	2,120,199
Capital project costs	152,869,532	238,735,052	122,103,000	82,846,542	112,066,150	148,669,765	118,795,953	122,132,594	93,331,287	95,863,613
Capital outlay	48,448	51,852	52,965	195,221	167,647	3,118,043	-	-	-	-
Debt service										
Principal	21,000,000	20,000,000	-	-	-	-	-	-	-	-
Interest and fiscal charges	1,098,535	794,172	1,468,189	1,354,423	1,483,229	2,685,265	2,626,206	1,271,876	1,924,902	4,071,824
Total Expenditures	182,884,597	267,078,081	131,621,007	91,592,827	120,662,338	161,040,720	128,097,944	129,426,505	101,671,108	104,964,198
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(57,851,935)	(67,628,112)	17,738,408	23,495,628	8,676,647	(42,444,556)	34,251,113	(45,033,920)	(20,323,966)	(9,603,080)
OTHER FINANCING SOURCES (USES)										
Transfers in	804,813	5,494,966	1,299,593	8,849,095	2,741,417	3,094,318	2,071,598	1,880,959	11,350,455	654,463
Transfers out	(804,813)	(5,494,966)	(1,299,593)	(8,849,095)	(2,741,417)	(3,094,318)	(2,071,598)	(1,880,959)	(11,350,455)	(654,463)
Proceeds from revolver credit agreement	46,000,000	-	134,664,165	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	46,000,000	-	134,664,165	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(11,851,935)	(67,628,112)	152,402,573	23,495,628	8,676,647	(42,444,556)	34,251,113	(45,033,920)	(20,323,966)	(9,603,080)
Fund Balances - Beginning	40,382,935	108,011,047	(44,391,526)	(67,887,154)	(76,563,801)	(34,119,245)	(68,370,358)	(23,336,438)	(3,012,472)	6,590,608
Fund Balances - Ending	\$ 28,531,000	\$ 40,382,935	\$ 108,011,047	\$ (44,391,526)	\$ (67,887,154)	\$ (76,563,801)	\$ (34,119,245)	\$ (68,370,358)	\$ (23,336,438)	\$ (3,012,472)
Debt Service as a Percentage of										
Noncapital Expenditures	13.75%	8.44%	1.13%	1.50%	1.25%	1.73%	2.09%	0.99%	1.93%	4.04%

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Revenue Capacity – Sales Tax Rates

Last Ten Fiscal Years

Fiscal Year Ended June 30:	Sales Tax Rate	Sales Tax Revenue	Annual Growth	Total Taxable Sales in San Francisco County (in thousands)
2017	0.5%	\$ 101,922,012	-0.21%	* \$ 20,384,402
2016	0.5%	102,136,600	1.85%	* 20,427,320
2015	0.5%	100,278,511	6.76%	18,871,834
2014	0.5%	93,930,566	9.54%	18,469,729
2013	0.5%	85,753,558	5.65%	17,094,163
2012	0.5%	81,164,517	7.97%	15,953,605
2011	0.5%	75,172,298	10.28%	14,890,527
2010	0.5%	68,164,315	-4.17%	13,443,121
2009	0.5%	71,132,080	-10.59%	12,633,575
2008	0.5%	79,555,917	3.44%	14,837,689

* Amount was estimated based on the sales tax collected

Source: California Board of Equalization taxable sales on a calendar basis. Effective July 1, 2017, the CDTFA became the successor to the Board of Equalization and became vested with nearly all of the duties, powers and responsibilities of the Board of Equalization.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Revenue Capacity – Principal Sales Tax Payers By Segment For The County
Year One and Ten

		2015 *	
		Total	
Principal Revenue Payers	Rank	Taxable Sales in San Francisco County (in thousands)	Percentage of Taxable Sales
All Other Outlets	1	\$ 5,839,079	30.94%
Food Services and Drinking Places	2	4,441,352	23.53%
Clothing and Clothing Accessories Stores	3	2,163,743	11.47%
Other Retail Group	4	2,136,115	11.32%
Home Furnishings and Appliance Stores	5	1,010,769	5.36%
Food and Beverage Stores	6	830,061	4.40%
General Merchandise Stores	7	825,300	4.37%
Building Material and Garden Equipment and Supplies Dealers	8	588,279	3.12%
Motor Vehicle and Parts Dealers	9	565,639	3.00%
Gasoline Stations	10	471,496	2.50%
		\$ 18,871,833	
		2008	
		Total	
Principal Revenue Payers	Rank	Taxable Sales in San Francisco County (in thousands)	Percentage of Taxable Sales
All Other Outlets	1	\$ 5,033,053	33.92%
Eating and drinking places	2	2,749,584	18.53%
Other retail stores	3	2,094,512	14.12%
Apparel stores	4	1,228,156	8.28%
General merchandise stores	5	1,169,571	7.88%
Service stations	6	625,727	4.22%
Home furnishings and appliances	7	616,325	4.15%
Food stores	8	501,880	3.38%
Building materials	9	411,392	2.77%
Motor vehicles and parts	10	407,489	2.75%
		\$ 14,837,689	

* 2015 is the latest information available.

Source: California State Board of Equalization. Effective July 1, 2017, the CDTFA became the successor to the Board of Equalization and became vested with nearly all of the duties, powers and responsibilities of the Board of Equalization.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Debt Capacity – Ratios of Outstanding Debt

Last Ten Fiscal Years

Fiscal Year Ended June 30:	Revolver Loan	Commercial Papers	Debt of Per- Capita	Total Debt as a % of Personal Income
2017	\$ 139,664,165	\$ -	\$ 160	*
2016	114,664,165	-	131	136.49%
2015	134,664,165	-	156	163.94%
2014	-	135,000,000	158	174.80%
2013	-	150,006,000	178	205.89%
2012	-	150,000,000	182	212.54%
2011	-	150,000,000	185	237.71%
2010	-	150,000,000	186	260.33%
2009	-	150,000,000	184	269.98%
2008	-	150,000,000	186	257.74%

* Information not available

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Debt Capacity – Legal Debt Margin Information
Last Ten Fiscal Years

The Transportation Authority does not have a legal debt limit.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Debt Capacity – Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year Ended June 30:	Available Revenue	Annual Debt Service			Total	Coverage
	Sales Tax Revenue	Principal	Interest			
2017	\$ 101,922,012	\$ 21,000,000	\$ 1,098,535	\$ 22,098,535	4.6	
2016	102,136,600	20,000,000	794,172	20,794,172	4.9	
2015	100,278,511	-	1,468,189	1,468,189	68.3	
2014	93,930,566	-	1,354,423	1,354,423	69.4	
2013	85,753,558	-	1,483,229	1,483,229	57.8	
2012	81,164,517	-	2,685,265	2,685,265	30.2	
2011	75,172,298	-	2,626,206	2,626,206	28.6	
2010	68,164,315	-	1,271,876	1,271,876	53.6	
2009	71,132,080	-	1,924,902	1,924,902	37.0	
2008	79,555,917	-	4,071,824	4,071,824	19.5	

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Demographic and Economic Information – Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year Ended June 30:	Population	Total Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2017	874,228	*	*	*
2016	876,799	\$ 84,010,283	\$ 95,815	3.4%
2015	864,816	82,143,355	94,984	4.0%
2014	852,469	77,233,279	90,600	5.2%
2013	841,138	72,858,445	86,619	6.5%
2012	825,863	70,573,974	85,455	8.1%
2011	812,826	63,102,121	77,633	9.2%
2010	805,235	57,619,120	71,556	9.7%
2009	815,358	55,559,545	68,141	7.4%
2008	808,001	58,199,006	72,028	4.6%

* Information not available

Source: California Department of Finance for 2017 and City and County of San Francisco Comprehensive Annual Financial Report for years prior.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Demographic and Economic Information – Principal Employers
One and Ten Years Ago

Employer	2015*		
	Rank	Number of Employees	Percentage of Total City Employment
City and County of San Francisco	1	28,846	5.35%
University of California, San Francisco	2	24,304	4.51
San Francisco Unified School District	3	9,483	1.76
Wells Fargo & Co.	4	8,245	1.53
California Pacific Medical Center, Pacific Campus	5	6,000	1.11
Salesforce	6	5,870	1.09
Kaiser Permanente	7	5,249	0.97
PG&E Corp.	8	4,381	0.81
Gap Inc.	9	4,268	0.79
Dignity Health	10	2,550	0.47
Total		<u>99,196</u>	

* Most recent information available

Employer	2008		
	Rank	Number of Employees	Percentage of Total City Employment
City and County of San Francisco	1	15,618	6.25%
University of California, San Francisco	2	11,550	4.27
Wells Fargo & Co.	3	11,441	2.04
California Pacific Medical Center, Pacific Campus	4	7,000	1.55
State of California	5	5,607	1.41
Charles Schwab & Co. Inc.	6	5,000	1.08
United States Postal Service	7	4,389	1.07
PG&E Corp.	8	4,249	1.02
Gap, Inc.	9	4,000	0.98
San Francisco State University	10	4,315	0.90
Total		<u>73,169</u>	

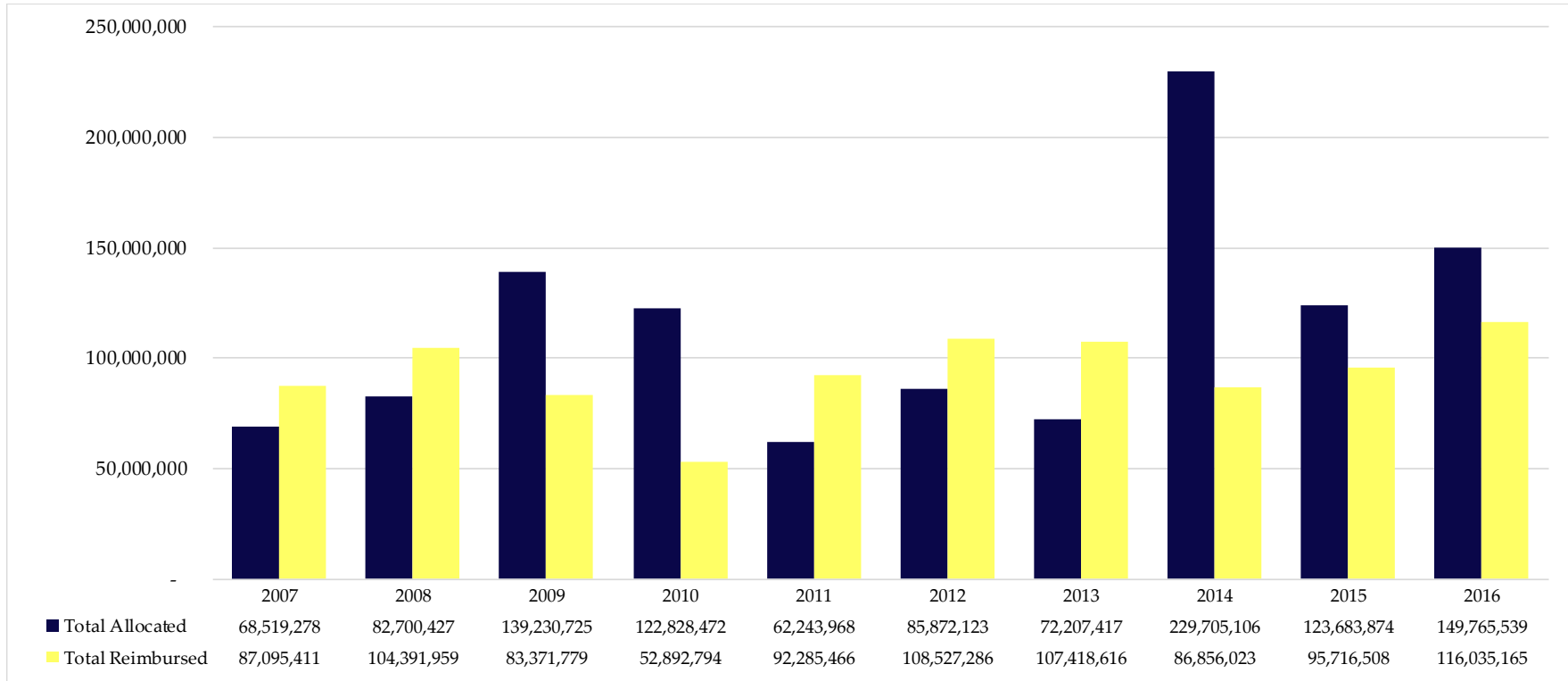
Source: San Francisco Center for Economic Development and San Francisco Business Journals, January 1, 2016 for the 2015 year and the City and County of San Francisco Comprehensive Annual Financial Report for 2008.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Operating Information – Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

Function	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Capital Project	4.00	4.00	4.00	4.00	3.00	4.00	4.00	2.00	2.00	1.00
Executive	6.00	6.00	6.00	5.00	3.00	3.00	3.00	3.00	3.00	2.00
Finance and Administration	8.00	6.00	8.00	5.00	6.00	6.00	6.00	5.00	7.00	7.00
Planning	8.00	7.00	9.00	8.00	7.00	9.00	8.00	9.00	7.00	6.00
Policy and Programming	8.00	7.00	6.00	8.00	9.00	9.00	10.00	8.00	9.00	7.00
Technology, Data and Analysis	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00
Total Employees	38.00	34.00	37.00	33.00	31.00	34.00	34.00	30.00	31.00	25.00

Source: Finance and Administration Division

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
 Operating Information – Project Funding Allocations and Actual Reimbursements
 Last Ten Fiscal Years



Source: San Francisco County Transportation Authority's Annual Report from 2007 to 2016. Calendar year basis for data presented.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Operating Information – Capital Asset Statistics
Last Ten Fiscal Years

	Fiscal Year Ending June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Capital assets										
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,440
Leasehold improvements	3,023,624	3,023,624	3,023,624	3,023,624	2,992,404	2,933,570	1,230,985	1,230,985	1,230,985	930,626
Furniture and equipment	885,797	890,753	961,989	909,024	770,577	703,027	518,554	510,479	789,130	888,550
Total capital assets	3,909,421	3,914,377	3,985,613	3,932,648	3,762,981	3,636,597	1,749,539	1,741,464	2,020,115	1,851,616
Less accumulated depreciation										
Leasehold improvements	1,160,425	927,525	694,626	461,727	230,185	-	904,952	729,097	553,242	398,841
Furniture and equipment	825,211	762,439	772,407	666,398	524,906	487,164	449,072	388,868	597,370	749,287
Total accumulated depreciation	1,985,636	1,689,964	1,467,033	1,128,125	755,091	487,164	1,354,024	1,117,965	1,150,612	1,148,128
Total capital assets, net	\$ 1,923,785	\$ 2,224,413	\$ 2,518,580	\$ 2,804,523	\$ 3,007,890	\$ 3,149,433	\$ 395,515	\$ 623,499	\$ 869,503	\$ 703,488

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Compliance Section



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
San Francisco County Transportation Authority
San Francisco, California

We have audited, in accordance with the 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 governmental activities, each major fund and the aggregate remaining fund information of the San Francisco County Transportation Authority (Transportation Authority), a component unit of the City and County of San Francisco, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Transportation Authority's basic financial statements, and have issued our report thereon dated November 3, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Transportation Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transportation Authority'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 Transportation Authority'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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transportation Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 3, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

Board of Commissioners
San Francisco County Transportation Authority
San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited the San Francisco County Transportation Authority's (Transportation Authority), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Transportation Authority's major federal program for the year ended June 30, 2017. The Transportation Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of Transportation Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Transportation Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Transportation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transportation Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transportation Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 3, 2017

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Summary of Auditor's Results
For the Year Ended June 30, 2017

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>None</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>None</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>None</u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Financial Statement Findings
For the Year Ended June 30, 2017

None reported.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Federal Awards Findings and Questioned Costs
For the Year Ended June 30, 2017

None reported.

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017

None reported.

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San Francisco County Transportation Authority

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