



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Financial Statements  
and Supplemental Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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## Independent Auditors' Report

The Honorable Mayor and Board of Supervisors,  
and San Francisco Municipal Transportation Agency Board of Directors  
City and County of San Francisco, California:

### Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund of the City and County of San Francisco, California (the City) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the SFMTA'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 U.S. generally accepted accounting principles; 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, and the City of San Francisco Portsmouth Plaza Parking Corporation, which represent 0.20% and 0.71%, respectively, of total assets and 0.11% and 0.93%, respectively, of net position as of June 30, 2018 and 2017, and 4.21% and 5.06%, respectively, of total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of San Francisco Uptown Parking Corporation, the City of San Francisco Japan Center Garage Corporation, and the City of San Francisco Portsmouth Plaza Parking Corporation, is based solely on the reports of the other auditors. 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. The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation, commissioned by the Department of Recreation and Parks were not audited in accordance with *Government Auditing Standards*.

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



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

### **Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2018 and 2017, and the changes in its financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of SFMTA are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of SFMTA. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

As discussed in Note 2(m) to the financial statements, in 2018, the SFMTA adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The July 1, 2017 beginning net position has been restated for the retrospective application of this new accounting guidance. Our opinion is not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 15 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SFMTA's basic financial statements. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplemental schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019 on our consideration of the SFMTA'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 solely 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 the effectiveness of the SFMTA's 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 SFMTA's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California  
February 28, 2019

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

We offer readers of the San Francisco Municipal Transportation Agency's (SFMTA) financial statements this narrative overview and analysis of the financial activities of the SFMTA for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements. All amounts, unless otherwise noted, are expressed in thousands of dollars.

### Financial Highlights

- The SFMTA's assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by \$3,521,653 and \$3,295,692 as of fiscal years ended June 30, 2018 and 2017, respectively.
- The SFMTA's total net position increased by \$225,961 in 2018 and increased by \$274,735 in 2017 over the prior fiscal year.
- Total net investment in capital assets were \$3,836,904 and \$3,223,499 at June 30, 2018 and 2017, respectively, an increase of 19% and an increase of 9.7% over the balance of \$3,223,499 and \$2,938,712 at June 30, 2017 and 2016, respectively.

### Overview of the Financial Statements

This discussion and analysis section is intended to serve as an introduction to the SFMTA's financial statements. The SFMTA oversees transit (Muni), bike and pedestrian programs, taxis, parking and traffic control operations in the City. The SFMTA applies Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and County of San Francisco, California (the City) and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in notes 1 and 2(a) (found on pages 21 and 22).

The statements of net position (found on pages 16 and 17) presents information on all of the SFMTA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net position is the residual of all other four elements presented in the statement of financial position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the SFMTA. The information of the SFMTA's financial position is presented as of June 30, 2018 and 2017.

The statements of revenues, expenses, and changes in net position (found on page 18) present information showing how the SFMTA's net position changed during the fiscal years ended June 30, 2018 and 2017. 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. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statements of cash flows (found on pages 19 and 20) presents information about the cash receipts and payments of the SFMTA during the fiscal years ended June 30, 2018 and 2017. This statement shows the effects on the SFMTA's cash balances of cash flows from operating, noncapital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the information in the statements of cash flows helps readers assess the SFMTA's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

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There are no known facts, decisions, or conditions that are expected to have a significant effect on net position or results of revenues, expenses, and other changes in net position.

**Notes to Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 21 through 62 of this report.

**Other Information**

The supplemental schedules found on pages 63 through 82 of this report are presented for the purpose of providing additional analysis and are not a required part of the financial statements.

**Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,521,653 at the close of the most recent fiscal year.

**Condensed Summary of Net Position**

June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Total current assets	\$ 1,029,773	1,185,962	1,083,976
Total restricted assets	339,872	110,370	86,597
Capital assets, net	<u>4,222,115</u>	<u>3,616,904</u>	<u>3,147,877</u>
Total assets	\$ <u>5,591,760</u>	<u>4,913,236</u>	<u>4,318,450</u>
Deferred outflows of resources	\$ <u>250,216</u>	<u>340,916</u>	<u>98,333</u>
Liabilities:			
Total current liabilities	\$ 348,740	286,197	390,861
Total noncurrent liabilities	<u>1,914,597</u>	<u>1,631,921</u>	<u>900,659</u>
Total liabilities	\$ <u>2,263,337</u>	<u>1,918,118</u>	<u>1,291,520</u>
Deferred inflows of resources	\$ <u>56,986</u>	<u>40,342</u>	<u>104,306</u>
Net position:			
Net investment in capital assets	\$ 3,836,904	3,223,499	2,938,712
Restricted	311,179	109,268	85,643
Unrestricted	<u>(626,430)</u>	<u>(37,075)</u>	<u>(3,398)</u>
Total net position	\$ <u><u>3,521,653</u></u>	<u><u>3,295,692</u></u>	<u><u>3,020,957</u></u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

### *Fiscal Year 2018*

During fiscal year 2018, current assets decreased by \$156.2 million or 13.2%. This decrease was in deposits and investments of \$277.5 million and prepaid asset of \$0.6 million offset by increase in receivables of \$117.6 million, and inventories of \$4.3 million. The decrease is mainly due to increase in restricted cash and investment with City Treasury for General Obligation and Revenue Bonds.

The restricted assets increased by \$229.5 million or 207.9%, attributable to increase of \$185.4 million in capital project support from the City's General Obligation Bonds, \$94.1 million in Revenue Bonds, \$1.3 million in funds held by trustee, and \$0.3 million in receivable from development fees and interests offset by decrease of \$51.6 million in collections levied from Transit Impact Development fees (TIDF).

The capital assets increased by \$605.2 million or 16.7%, mainly from construction in progress account of \$263.7 million for the Central Subway Project, procurement of new revenue vehicles, and other projects. The remaining \$341.5 million is for rail replacement, system upgrade, facility improvement, street improvement, and various infrastructure work.

Total noncurrent liabilities increased by \$282.7 million or 17.3%. The increase was due to OPEB liability of \$394.7 million, workers' compensation of \$7.9 million, estimated claims of \$7 million, and vacation and sick leave pay of \$0.7 million. The increase is offset by decrease in debt payable of \$7.7 million and net pension liability (NPL) of \$119.9 million primarily due to the actual investment returns on plan assets exceeding projected returns. See additional information in note 9a.

The SFMTA's net position increased by \$226 million or 6.9% compared to the prior year. The increase in net position is attributable to increases in operating revenues, capital contributions and net transfers and decrease in operating expenses, offset by decrease in nonoperating revenues and restatement reduction to the beginning net position with the implementation of GASB Statement No. 75 on post-employment benefits.

The largest portion of the \$3,521.7 million SFMTA's net position as of June 30, 2018 reflects its \$3,837 million net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these capital assets of \$6,130 million is offset by accumulated depreciation of \$1,908 million and related debt of \$385 million. More information on capital assets can be found in note 5 on page 30. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted assets include deposits, investments, and receivables.

### *Fiscal Year 2017*

During fiscal year 2017, current assets increased by \$102 million or 9.4%. This increase was in deposits and investments of \$109 million offset by decrease in receivables of \$4 million, inventories of \$2.9 million, and \$0.1 million in prepaid asset. The increase is mainly due to cash proceeds from new bond issuance.

The restricted assets increased by \$23.8 million or 27.5%, attributable to more collections levied from TIDF of \$21.9 million and an increase of \$2.4 million in funds held by trustee offset by decrease of \$0.5 million in receivable from development fees.



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Total noncurrent liabilities increased by \$731.3 million or 81.2%. The increase was due to net pension liability (NPL) of \$526.6 million primarily due to the impact of changes in benefits, the updated citywide Supplemental COLA assumptions and amortization of deferred outflows/inflows, debt payable of \$179.2 million primarily due to the issuance of revenue bonds, OPEB liability of \$26.3 million, workers' compensation of \$3 million, and vacation and sick leave pay of \$0.8 million. The increase is offset by estimated claims of \$4.6 million.

The capital assets increased by \$469 million or 14.9%, mainly from construction in progress account of \$292 million for the Central Subway Project, procurement of new revenue vehicles, and other projects. The remaining \$177 million is from various infrastructure work and street improvement projects net of assets disposed and depreciation.

The SFMTA's net position increased by \$274.7 million or 9.1% compared to the prior year. The increase in net position is attributable to increases in operating and nonoperating revenues, capital contributions and net transfers, offset by increase in operating expenses.

The largest portion of the \$3,296 million SFMTA's net position as of June 30, 2017 reflects its \$3,223 million net investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, intangibles, and construction in progress). The value of these capital assets of \$5,428 million is offset by accumulated depreciation of \$1,811 million and related debt of \$394 million. More information on capital assets can be found in note 5 on page 31. The SFMTA uses these assets to provide services.

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(Dollars in thousands, unless otherwise noted)

The remainder of the SFMTA's net position is composed of restricted and unrestricted net assets. The restricted assets include deposits, investments, and receivables.

**Condensed Summary of Revenues, Expenses, and Changes in Net Position**

Years ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Total operating revenues	\$ 515,549	503,638	499,234
Total nonoperating revenues, net	196,301	264,441	206,529
Capital contributions:			
Federal	341,111	240,784	288,481
State and others	<u>181,215</u>	<u>212,656</u>	<u>131,257</u>
Total capital contributions	<u>522,326</u>	<u>453,440</u>	<u>419,738</u>
Net transfers	<u>618,951</u>	<u>461,909</u>	<u>452,990</u>
Total revenues and net transfers	<u>1,853,127</u>	<u>1,683,428</u>	<u>1,578,491</u>
Expenses:			
Total operating expenses	<u>1,294,145</u>	<u>1,408,693</u>	<u>1,100,234</u>
Change in net position	<u>558,982</u>	<u>274,735</u>	<u>478,257</u>
Net position at beginning of year			
Beginning of year, as previously reported	3,295,692	3,020,957	2,542,700
Cumulative effect of accounting changes	<u>(333,021)</u>	<u>—</u>	<u>—</u>
Beginning of year as restated	<u>2,962,671</u>	<u>3,020,957</u>	<u>2,542,700</u>
Total net position – ending	\$ <u><u>3,521,653</u></u>	<u><u>3,295,692</u></u>	<u><u>3,020,957</u></u>

*Fiscal Year 2018*

Total revenue and net transfers for the year ended June 30, 2018 were \$1,853.1 million, an increase of \$169.7 million or 10.1%, compared to the prior fiscal year. This is due to increases in operating revenues, capital contributions, and net transfers, offset by decrease in nonoperating revenues.

Operating revenue increased by \$11,911 or 2.4% compared to prior year. This is due to increase in passenger fares revenue of \$6,394 or 3.3%, charges for services by \$3,055 or 10.5%, penalties by \$2,270 or 2.3%, advertising revenue by \$1,516 or 7%, permits revenue by \$836 or 5.1%, and rental income by \$675 or 9.1%. These increases are offset by decrease of parking fees by \$1,633 or 1.2% and taxi revenues by \$1,202 or 63.4%. Passenger fares increase is mainly due to new class pass issued for SF State students. The increase in charges for services is primarily due to increase in tow surcharge fees. Increase in parking fines is mainly due

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to increased rates in fiscal year 2018. The decrease in parking fees is mainly due to decline in parking meter collections.

The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, development fees, and interest income. Nonoperating revenue decreased by \$68,140 or 25.8%, mostly from federal operating grants, development fees, and loss on disposal of assets, which were offset by increase in state and other operating grants, and interest and investment income.

Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was an increase in capital expenditures incurred and billable to the grantors in fiscal year 2018 compared to the prior year mostly related to LRV and Trolley Vehicles procurement, Central Subway, and other miscellaneous projects. This resulted in the increase in capital contribution by \$68,886 or 15.2% when compared to fiscal year 2017.

Net transfers increased by \$157,042 or 34% in fiscal year 2018 due to increases of \$148,201 in capital project support from the City's General Obligation Bonds and \$37,312 in transfers from the City's General Fund for revenue baseline subsidy, in lieu of parking tax and Population-based allocation. This increase is offset by \$28,471 decrease in transfers from other City departments.

Total operating expenses for the year ended June 30, 2018 were \$1,294,145, a decrease of \$114,548 or 8.1% compared to the prior year. The resulting net decrease comprises trend changes from various expense categories. Personnel service costs decrease of \$153,591 or 15.5%, attributable to reduction of retirement cost associated with GASB Statement No. 68. Decrease in contractual services by \$3,123 or 2.3% was attributable to decrease in facilities and equipment maintenance services. Materials and supplies decreased by \$2,426 or 3.3%. Other operating expenses decreased by \$2,396 or 10.5% with less noncapitalizable cost compared to prior year. The offsetting increases are in the following categories: general and administrative, depreciation, and services from other City departments. General and administrative costs net increase is \$24,249 or 132.1% mainly due to increase in claim liability per actuarial study. Depreciation expense increased by \$20,625 or 14.1% with more assets capitalized. Services from other City departments increased by \$2,114 or 3.1% mainly from major increase in financial systems replacement project.

### *Fiscal Year 2017*

Total revenue and net transfers for the year ended June 30, 2017 were \$1,683 million, an increase of \$105 million or 6.7%, compared to the prior fiscal year. This is due to increases in operating and nonoperating revenues, capital contributions, and net transfers.

Operating revenue increased by \$4,404 or 0.9% compared to prior year. This is due to increase in charges for services by \$7,001 or 31.7%, permits revenue by \$2,399 or 17.2%, parking fines and penalties by \$5,025 or 5.5%, parking fees by \$1,196 or 0.9%, and advertising revenue by \$99 or 0.5%. These increases are offset by decrease of taxi revenues by \$1,498 or 44.1%, \$9,488 or 4.6% in passenger fares revenue, and slight decrease in rental income by \$330 or 4.3%. The increase in charges for services is primarily due to increase in tow surcharge fees. Permits revenue increased due to increase in rates and number of permit issuance for residential parking. Increase in parking fines is mainly due to increased rates in fiscal year 2017. The decrease in taxi revenue is due to fewer sales of taxi medallions. Passenger fares decrease is mainly due to 3% decline in ridership.

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The nonoperating revenue includes operating support received from other sources, primarily federal and state operating grants, development fees, and interest income. Nonoperating revenue increased by \$57,912 or 28%, mostly from federal operating grants, development fees, gain on disposal of assets, and interest and investment income, which were offset by decrease in state operating grants and amortized portion of the lease-leaseback benefits.

Capital contributions consist principally of funds received or receivable from federal, state, and local grant agencies that provide funding for many of the SFMTA's capital projects. There was an increase in capital expenditures incurred and billable to the grantors in fiscal year 2017 compared to the prior year mostly related to Revenue Vehicles procurement, Central Subway, and other huge projects. This resulted in the increase in capital contribution by \$33,702 or 8% when compared to fiscal year 2016.

Net transfers increased by \$8,919 or 2% in fiscal year 2017 due to \$33,672 increase in transfers from the City's General Fund for revenue baseline subsidy, in lieu of parking tax and Population-based allocation. This increase is offset by \$24,753 decrease mostly due to reduction of capital project support from the City's General Obligation Bonds.

Total operating expenses for the year ended June 30, 2017 were \$1,408,693, an increase of \$308,459 or 28% compared to the prior year. The resulting net increase comprises trend changes from various expense categories. Personnel service costs increase of \$311,367 or 46% is attributable mainly to COLA increase and increase in hiring during fiscal year 2017 as well as increases in pension costs. Depreciation expense increased by \$12,880 or 9.6% with more assets capitalized. Increase in contractual services by \$11,555 or 9.3% was attributable to new towing and storage contract and wet film and digital systems costs related to the red light program. Services from other City departments increased by \$5,188 or 8.4% mainly from major increase in technology infrastructure, legal, street management, and utilities. The offsetting decreases are in the following categories: general and administrative and other operating expenses category. General and administrative costs net decrease is \$24,335 or 57% mainly due to decrease in claim liability per actuarial study and lower judgment and claim cost compared to prior year. Materials and supplies decreased by \$6,950 or 8.5%. Other operating expenses decreased by \$1,246 or 5.8% with less noncapitalizable cost compared to prior year.

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June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

The tables below illustrate the SFMTA's operating revenue by source and expenses by category for fiscal years 2018, 2017, and 2016:

**Operating Revenues Comparative**

Years ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Fares	\$ 202,280	195,886	205,374
Parking fees	132,985	134,618	133,422
Parking fines	98,884	96,614	91,589
Advertising	23,317	21,801	21,702
Rents and concessions	8,111	7,436	7,766
Charges for services	32,110	29,055	22,054
Licenses and permits	17,169	16,333	13,934
Other	693	1,895	3,393
Total operating revenues	\$ <u>515,549</u>	<u>503,638</u>	<u>499,234</u>

**Operating Expenses Comparative**

Years ended June 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Personnel services	\$ 834,950	988,541	677,174
Depreciation and amortization	167,220	146,595	133,715
Contractual services	133,212	136,335	124,780
Services from other City departments	69,261	67,147	61,959
Materials and supplies	72,041	74,467	81,417
General and administrative	42,609	18,360	42,695
Other	(25,148)	(22,752)	(21,506)
Total operating expenses	\$ <u>1,294,145</u>	<u>1,408,693</u>	<u>1,100,234</u>

**Capital Assets and Debt Administration**

*Capital Assets*

The SFMTA's investment in capital assets amounts to \$4,222,115 net of accumulated depreciation as of June 30, 2018. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is \$605,211 or 16.7%, compared to the previous year. This increase is attributed to continued construction for the New Central Subway Project, transit lane and street improvement projects, rail replacement, and acquisition of new revenue vehicles.

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The SFMTA's investment in capital assets amounts to \$3,616,904 net of accumulated depreciation as of June 30, 2017. This investment includes land, building structures and improvements, equipment, infrastructure, intangibles, and construction in progress. The increase in capital assets is \$469,027 or 14.9%, compared to the previous year. This increase is attributed to continued construction for both enhancement and state of good repair projects as well as acquisition of new revenue vehicles.

**Summary of Capital Assets**

	<u>Balance,</u> <u>June 30, 2018</u>	<u>Balance,</u> <u>June 30, 2017</u>	<u>Balance,</u> <u>June 30, 2016</u>
Capital assets not being depreciated:			
Land	\$ 63,687	63,687	41,030
Construction in progress	<u>1,901,549</u>	<u>1,637,866</u>	<u>1,346,257</u>
Total capital assets not being depreciated	<u>1,965,236</u>	<u>1,701,553</u>	<u>1,387,287</u>
Capital assets being depreciated:			
Building structures and improvements	786,234	759,841	711,596
Equipment	1,908,943	1,648,217	1,561,455
Infrastructure	<u>1,469,632</u>	<u>1,318,438</u>	<u>1,260,196</u>
Total capital assets being depreciated	<u>4,164,809</u>	<u>3,726,496</u>	<u>3,533,247</u>
Less accumulated depreciation for:			
Building structures and improvements	305,597	310,160	291,541
Equipment	945,072	886,858	903,392
Infrastructure	<u>657,261</u>	<u>614,127</u>	<u>577,724</u>
Total accumulated depreciation	<u>1,907,930</u>	<u>1,811,145</u>	<u>1,772,657</u>
Total capital assets being depreciated, net	<u>2,256,879</u>	<u>1,915,351</u>	<u>1,760,590</u>
Total capital assets, net	<u>\$ 4,222,115</u>	<u>3,616,904</u>	<u>3,147,877</u>

Construction in progress is made up of various transportation projects. The five projects that have the highest balances on June 30, 2018 are the Central Subway, Transit Effectiveness Program, Radio Replacement, Light Rail Vehicle Procurement, and Facility Upgrades.

Central Subway Project will link the existing 5.4-mile Phase I T-line, beginning at 4th and King Street, to BART, Muni Metro along Market Street, Union Square, and Chinatown to the north. Construction is moving forward in 2018; excavation is complete at the Chinatown Station with track slab, arches, and cavern near completion, Stockton Street is paved from Geary to Ellis Streets and platforms have been installed, the roof has been

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

completed at the Yerba Buena Moscone Station as is the platform and track work. The platform at Brannan and Fourth continues for the Surface Street Station.

Significant capital asset additions during fiscal year 2018 included:

Construction in progress – A majority of the \$803.5 million costs incurred were for the New Central Subway Project, revenue fleet procurement, facility upgrade, and rail replacement.

Facilities and Improvements – The total of \$75.7 million was incurred in fiscal year 2018 for facility upgrades and Islais Creek annex renovation projects.

Equipment – The cost of \$307.2 million was incurred during the fiscal year for procurement of hybrid motor buses, trolley buses, and light rail vehicles.

Infrastructure – The total of \$151.2 million was incurred during the fiscal year for rail replacement, street improvement, and trolley overhead reconstruction projects.

Significant capital asset additions during fiscal year 2017 included:

Construction in progress – A majority of the \$573.5 million costs incurred were for the New Central Subway, motor bus procurement, radio replacement, and transit effectiveness projects.

Facilities and Improvements – A majority of the \$70.9 million costs incurred were for various garage cleanup, facility upgrade, and traffic signal upgrade projects.

Equipment – The cost of \$200.2 million was incurred during the fiscal year for procurement of hybrid motor buses and trolley buses, and security projects.

Infrastructure – The total of \$59 million was incurred during the fiscal year for central control system upgrade, facility upgrade, and street improvement projects.

### *Debt Administration*

At June 30, 2018 and 2017, the SFMTA's bond debt obligations outstanding totaled \$374,332 and \$388,934, respectively. The following table summarizes the balances in debt between fiscal years 2018, 2017, and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Bonds payable	\$ 374,332	388,934	205,756

These amounts represent bonds secured by all revenue except for City General Fund allocations and restricted sources.

The SFMTA's total bond-related debt decreased by \$14,602 or 3.8% as of June 30, 2018. The decrease represents principal payments and amortization of issuance premium in fiscal year 2018. During the fiscal year, SFMTA carried underlying debt ratings of AA/Stable from Standard & Poor's and Aa2 from Moody's as of June 30, 2018.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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The SFMTA's total bond-related debt increased by \$183,178 or 89% as of June 30, 2017. The increase represents issuance of new revenue bonds, offset with principal payments and amortization of issuance premium in fiscal year 2017. During the fiscal year, SFMTA carried underlying debt ratings of AA/Stable from Standard & Poor's and Aa2 from Moody's as of June 30, 2017.

More detailed information about the SFMTA's debt activity is presented in note 8 to the financial statements.

### *Leveraged Lease-Leaseback of Breda Vehicles*

In April 2002, Muni entered into the leveraged-lease leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company. Muni recorded \$35.5 million in fiscal year 2002 for the difference between the amounts received of \$388.2 million and the amounts paid to the escrows of \$352.7 million. This amount has been classified as a deferred inflow of resources and will be amortized over the life of the sublease unless the purchase option is executed.

In September 2003, Muni entered into a second leveraged-lease leaseback transaction for 21 items of Equipment. The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides Muni with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment. Muni received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease in fiscal year 2003. Muni deposited a portion of this amount into an escrow, and a portion was paid to a debt payment undertaker whose repayment obligation is guaranteed by Assured Guaranty Municipal Corp (AGM) as successor to Financial Security Assurance, Inc., a bond insurance company. Approximately \$67.5 million of this head lease payment was deposited into two escrows.

On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of \$89.6 million and 21 items of Tranche 2 Equipment having an initial transaction value of \$72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of \$100.4 million.

More information can be found in note 15 of the financial statements.

### **FY2019 and FY2020 Budget**

The SFMTA adopted two-year Operating Budget supports all of its Strategic Plan Goals and follows the Transit First Policy Principles. The approved Operating Budget for FY2019 totals to \$1.22 billion or 2.9% higher than the FY2018 Amended Budget of \$1.18 billion. The approved operating budget for FY2020 is \$1.27 billion or 4.7% higher than the FY2019 budget.



## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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Flowing through the Operating Budget is funding for capital needs from General Fund Population Based Baseline, Transportation Sustainability Fee and Development Impact fees administered by the Interagency Plan Implementation Committee (IPIC), which was established in October 2006 by the Board of Supervisors, to formalize interagency coordination for Area Plan-identified community improvements.

The adopted San Francisco Municipal Transportation Agency (SFMTA) Fiscal Year (FY) 2019–2020 Capital Budget is the SFMTA's two-year financial plan and consolidated capital program. It represents the appropriation of the first two years of the SFMTA's Five Year Capital Improvement Program. The proposed FY2019–FY2020 Capital Budget includes expenditure authority of \$390.9 million in FY2019 and \$612.1 million in FY2020. Projects funded through this two-year budget include infrastructure investments as well as various procurements and other one-time initiatives (plans, educational programs, etc.) to be implemented throughout the city.

### **Requests for Information**

This report is designed to provide a general overview of the SFMTA's finances for all those with a general interest. The financial statements and related disclosures in the notes to the financial statements and supplemental information are presented in accordance with U.S. generally accepted accounting principles. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, SFMTA, One South Van Ness Avenue, 3rd Floor, San Francisco, CA 94103.

Questions regarding the City and County of San Francisco or a request for a copy of the City's Comprehensive Annual Financial Report should be addressed to the Office of the Controller, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, CA 94102.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets:		
Cash and investments with City Treasury	\$ 647,731	921,116
Cash and investments held outside City Treasury	5,380	9,460
Cash on hand	179	191
Receivables:		
Grants	255,232	131,365
Due from the San Francisco County Transportation Authority	23,739	31,517
Due from other City departments	—	225
Charges for services (net of allowance for doubtful accounts of \$19 in 2018 and \$16 in 2017)	6,858	4,516
Interest and other	9,153	9,732
Total receivables	294,982	177,355
Inventories	81,370	77,120
Current prepaids and other assets	131	720
Total current assets	<u>1,029,773</u>	<u>1,185,962</u>
Restricted assets:		
Cash and investments with City Treasury	316,351	88,511
Cash and investments held outside City Treasury	21,832	20,532
Other receivables	1,689	1,327
Total restricted assets	339,872	110,370
Noncurrent assets:		
Capital assets, net	<u>4,222,115</u>	<u>3,616,904</u>
Total noncurrent assets	<u>4,561,987</u>	<u>3,727,274</u>
Total assets	<u>5,591,760</u>	<u>4,913,236</u>
Deferred outflows of resources:		
Related to pensions	214,182	340,916
Related to OPEB	36,034	—
Total deferred outflows of resources	\$ <u>250,216</u>	<u>340,916</u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Liabilities:		
Current liabilities:		
Due to other funds	\$ 2,589	3,480
Accounts payable and accrued expenses	146,641	98,059
Accrued payroll	29,465	27,981
Accrued vacation and sick leave	23,891	22,689
Accrued workers' compensation	22,652	21,076
Accrued claims	36,091	28,475
Grants received in advance	28,874	53,450
Unearned revenue and other liabilities	14,593	14,179
Payable from restricted assets	28,693	1,102
Accrued interest payable	5,119	3,324
Bonds, loans, capital leases, and other payables	10,132	12,382
Total current liabilities	<u>348,740</u>	<u>286,197</u>
Noncurrent liabilities:		
Accrued vacation and sick leave, net of current portion	14,589	13,841
Accrued workers' compensation, net of current portion	108,163	100,297
Accrued claims, net of current portion	43,806	36,900
Other post-employment benefits obligation	657,062	262,317
Net pension liability	721,282	841,164
Bonds, loans, capital leases, and other payables, net of current portion	369,695	377,402
Total noncurrent liabilities	<u>1,914,597</u>	<u>1,631,921</u>
Total liabilities	<u>2,263,337</u>	<u>1,918,118</u>
Deferred inflows of resources:		
Unamortized gain on leaseback transaction	3,680	4,015
Unamortized gain on refunding of debt	265	297
Related to pensions	51,981	36,030
Related to OPEB	1,060	—
Total deferred inflows of resources	<u>56,986</u>	<u>40,342</u>
Net position:		
Net investment in capital assets	3,836,904	3,223,499
Restricted:		
Debt service	19,707	18,401
Other purposes	291,472	90,867
Unrestricted	(626,430)	(37,075)
Total net position	\$ <u>3,521,653</u>	<u>3,295,692</u>

See accompanying notes to financial statements.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years ended June 30, 2018 and 2017**  
(In thousands)

	<b>2018</b>	<b>2017</b>
Operating revenues:		
Passenger fares	\$ 202,280	195,886
Parking and transportation	132,985	134,618
Fines, forfeitures, and penalties	98,884	96,614
Charges for services	32,110	29,055
Licenses, permits, and franchises	17,169	16,333
Advertising	23,317	21,801
Rents and concessions	8,111	7,436
Other	693	1,895
Total operating revenues	515,549	503,638
Operating expenses:		
Personnel services	834,950	988,541
Contractual services	133,212	136,335
Materials and supplies	72,041	74,467
Depreciation and amortization	167,220	146,595
Services from other City departments	69,261	67,147
General and administrative	42,609	18,360
Other operating expenses	(25,148)	(22,752)
Total operating expenses	1,294,145	1,408,693
Operating loss	(778,596)	(905,055)
Nonoperating revenues (expenses):		
Operating assistance:		
Federal	11,464	64,955
State and other grants	140,475	131,362
Interest and investment income	10,122	7,171
Interest expense	(10,109)	(7,257)
Other, net	44,349	68,210
Total nonoperating revenues, net	196,301	264,441
Loss before capital contributions and transfers	(582,295)	(640,614)
Capital contributions:		
Federal	341,111	240,784
State and others	181,215	212,656
Total capital contributions	522,326	453,440
Transfers in:		
City and County of San Francisco – General Fund	452,326	415,014
San Francisco County Transportation Authority	10,323	13,488
City and County of San Francisco – Other City departments	179,604	38,011
Total transfers in	642,253	466,513
Transfers out:		
City and County of San Francisco – Other City departments	(23,302)	(4,604)
Net transfers	618,951	461,909
Change in net position	558,982	274,735
Net position at beginning of year		
Beginning of year, as previously reported	3,295,692	3,020,957
Restatement due to adoption of GASB Statement No. 75 (note 2)	(333,021)	—
Net position beginning of year as restated	2,962,671	3,020,957
Total net position, end of year	\$ 3,521,653	3,295,692

See accompanying notes to financial statements.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from passengers and service contracts	\$ 464,121	457,372
Cash received from fines, forfeitures, and penalties	98,757	96,563
Cash received from tenants for rent	8,169	7,617
Cash paid to employees for services	(767,412)	(734,057)
Cash paid to suppliers for goods and services	(342,480)	(334,336)
Cash paid for judgments and claims	(11,554)	(15,443)
Net cash used in operating activities	<u>(550,399)</u>	<u>(522,284)</u>
Cash flows from noncapital financing activities:		
Operating grants	155,009	191,789
Net transfers	639,712	461,675
Other noncapital increases	58,090	53,390
Net cash provided by noncapital financing activities	<u>852,811</u>	<u>706,854</u>
Cash flows from capital and related financing activities:		
Capital grants	377,446	383,813
Proceeds from sale of capital assets	139	243
Acquisition of capital assets	(732,397)	(634,908)
Other capital financing increases	13,877	15,600
Bond sale proceeds and loans received	4,689	192,930
Retirement of capital leases, bonds, and loans	(12,394)	(7,672)
Bond and loan issue cost paid	(121)	(1,936)
Interest paid on long-term debt	(10,477)	(6,339)
Net cash used in capital and related financing activities	<u>(359,238)</u>	<u>(58,269)</u>
Cash flows from investing activities:		
Interest income received	8,489	6,954
Net cash provided by investing activities	<u>8,489</u>	<u>6,954</u>
Net increase (decrease) in cash and cash equivalents	(48,337)	133,255
Cash and cash equivalents – beginning of year	<u>1,039,810</u>	<u>906,555</u>
Cash and cash equivalents – end of year	\$ <u><u>991,473</u></u>	<u><u>1,039,810</u></u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (778,596)	(905,055)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	167,220	146,595
Provision for doubtful accounts	3	(26)
Changes in operating assets and liabilities:		
Due from other funds	225	—
Receivables	(259)	(53)
Inventories	(4,250)	2,893
Prepaid and others	589	60
Accounts payable and accrued expenses	(10,381)	(16,712)
Accrued payroll	1,554	3,418
Accrued vacation and sick leave	1,950	1,724
Accrued workers' compensation	9,442	3,733
Accrued claims	14,522	(13,847)
Other post-employment benefits obligation	26,750	26,325
Net pension liability	22,803	220,380
Due to other funds	(887)	976
Unearned revenues and other liabilities	(1,084)	7,305
Net cash used in operating activities	\$ <u>(550,399)</u>	<u>(522,284)</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and investments with City Treasury:		
Unrestricted	\$ 647,731	921,116
Restricted	316,351	88,511
Cash and investments held outside City Treasury:		
Unrestricted	5,380	9,460
Restricted	<u>21,832</u>	<u>20,532</u>
Total deposits and investments	991,294	1,039,619
Cash on hand	<u>179</u>	<u>191</u>
Total cash and investments, end of year	\$ <u><u>991,473</u></u>	<u><u>1,039,810</u></u>

See accompanying notes to financial statements.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

### (1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors who are appointed by the Mayor and Board of Supervisors. The SFMTA's financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street parking, regulation of the taxi industry, and three nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA is an integral part of the City, and these statements are reported as a major enterprise fund in the City's Comprehensive Annual Financial Report.

The SFMTA was established by voter approval of the addition of Article VIII A to the Charter of the City (the Charter) in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all surface transportation functions within a single City department, and to provide the Transportation System with the resources, independence, and focus necessary to improve transit service and the City's transportation system. The voters approved additional Charter amendments: (1) in 2007 (Proposition A), which increased the autonomy of and revenue to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A), which provided \$500 million in General Obligation Bonds for transportation and street infrastructure; and (4) in 2014 (Proposition B), which increases general fund allocation to SFMTA based on the City's population increase.

Muni is one of America's oldest public transit agencies, the largest in the Bay Area and eighth largest system in the United States. It currently has more than 225 million boardings annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world famous cable cars, Muni's fleet is among the most diverse in the world.

The SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 21 City-owned garages and 18 metered parking lots. In March 2009, the former Taxi Commission was merged with the SFMTA, which then has assumed responsibility for taxi regulation to advance industry reforms.

Three nonprofit corporations provide operational oversight to four garages, namely Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four garages, Portsmouth and Union Square garages are owned by the Recreation and Park Department but managed by the SFMTA. The activities of these nonprofit garages are accounted for in the parking garages account. In February 2018, Uptown Parking Corporation was dissolved and all operations and financial reporting of the Sutter-Stockton have been transferred to Sustainable Streets. Union Square garage is still managed by SFMTA but the financial reporting has been transferred to the Recreation and Park Department.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

### (2) Significant Accounting Policies

#### (a) *Measurement Focus and Basis of Accounting*

The activities of the SFMTA are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this method, revenue is recorded when earned and expenses are recorded when the related liability is incurred. When both restricted and unrestricted resources are available for use, it is generally SFMTA's policy to use unrestricted resources first, and then use restricted resources when they are needed.

The SFMTA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses primarily result mainly from the public using the transportation surface system. The principal operating revenue is generated from passenger fares, meter parking, garage parking fees, fines, parking permits, and fees collected from advertisements on the SFMTA property. All other revenues such as operating assistance grants, interest income, and development fees are considered nonoperating revenues. Operating expenses of the SFMTA include costs associated with providing transportation services including employment and labor costs, materials, services, depreciation on capital assets, support services from other city departments, and other related expenses. All expenses not meeting this definition are reported as nonoperating expenses.

#### (b) *Effects of New Pronouncements*

##### (i) *Governmental Accounting Standards Board (GASB) Statement No. 75*

In June 2015, the GASB issued Statement No. 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other post-employment benefits other than pensions (OPEB). The new standard is effective for periods beginning after June 15, 2017. The SFMTA adopted the provisions of this Statement in fiscal year 2018.

##### (ii) *Governmental Accounting Standards Board (GASB) Statement No. 81*

In March 2016, the GASB issued Statement No. 81 – Irrevocable Split Interest Agreements. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. The SFMTA adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

##### (iii) *Governmental Accounting Standards Board (GASB) Statement No. 83*

In November 2016, the GASB issued Statement No. 83 – Certain Asset Retirement Obligations. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The new standard is effective for periods beginning after June 15, 2018. The SFMTA will implement the provisions of Statement No. 83 in fiscal year 2019.



## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

(iv) *Governmental Accounting Standards Board (GASB) Statement No. 84*

In January 2017, the GASB issued Statement No. 84 – Fiduciary Activities. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2018. The SFMTA will implement the provisions of Statement No. 84 in fiscal year 2020.

(v) *Governmental Accounting Standards Board (GASB) Statement No. 85*

In March 2017, the GASB issued Statement No. 85 – Omnibus 2017. GASB Statement No. 85 addresses practice issues identified during the implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2017. The SFMTA adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(vi) *Governmental Accounting Standards Board (GASB) Statement No. 86*

In May 2017, the GASB issued Statement No. 86 – Certain Debt Extinguishment Issues. GASB Statement No. 86 improves accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. The SFMTA adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(vii) *Governmental Accounting Standards Board (GASB) Statement No. 87*

In June 2017, the GASB issued Statement No. 87 – Leases. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. The SFMTA will implement the provisions of Statement No. 87 in fiscal year 2021.

(viii) *Governmental Accounting Standards Board (GASB) Statement No. 88*

In March 2018, the GASB issued Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments. The new standard is effective for periods beginning after June 15, 2018. SFMTA will implement the provisions of Statement No. 88 in fiscal year 2019.

(ix) *Governmental Accounting Standards Board (GASB) Statement No. 89*

In June 2018, the GASB issued Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. The new standard is effective for periods beginning after December 15, 2019. SFMTA will implement the provisions of Statement No. 89 in fiscal year 2021.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

**(c) Cash and Cash Equivalents and Investments**

The SFMTA maintains its deposits and investments and a portion of its restricted deposits and investments as part of the City's pool of cash and investments pursuant to the City Charter's requirements. The SFMTA's portion of this pool is displayed on the statements of net position as "Cash and investments with City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, the City reports certain investments at fair value in the statements of net position and recognizes the corresponding change in fair value of investments in the year in which the change occurred as a component of nonoperating revenues (expenses).

The SFMTA considers its pooled deposits and investments with the City Treasury to be demand deposits and, therefore, cash equivalents for the purposes of the statements of cash flows. The City also may hold nonpooled deposits and investments for the SFMTA. Nonpooled restricted deposits and highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

**(d) Inventories**

Inventories are valued using the average-cost method. Inventories are expensed using the consumption method.

Rebuilt inventory items include motors, transmission, and other smaller parts that are removed from existing coaches that are overhauled and repaired.

**(e) Capital Assets**

Capital assets are stated at cost. All construction in progress items over \$100 and nonconstruction in progress items over \$5 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 60 years for building structures and improvements, infrastructure, and equipment. Generally, no depreciation is recorded in the year of acquisition, and a full year's depreciation is taken in the year of disposal.

Building structures and improvements	4 to 60 years
Infrastructure	5 to 60 years
Equipment	3 to 30 years

**(f) Construction in Progress**

Construction in progress represents the design and construction costs of various uncompleted projects. As facilities are accepted by the SFMTA and become operative, they are transferred to building structures and improvements, infrastructure, and equipment accounts and depreciated in accordance with the SFMTA's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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### **(g) Bond Premium, Issuance Costs, and Refunding of Debt**

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

Accrued vacation pay, which vests and may be accumulated up to 10 weeks per employee, is charged to expense as earned. Unused sick leave accumulated on or prior to December 6, 1978 is vested and payable upon termination of employment by retirement, death, or disability caused by industrial accident. Sick leave earned subsequent to that date is nonvesting and is charged to expense when earned. The amount of allowable accumulation is set forth in various memorandums of understanding but is generally limited to six months per employee.

### **(i) Capital Grants and Contributions**

Capital grants and contributions from external sources are recognized as capital contribution earned when applicable eligibility requirements are met, such as the time reimbursable expenditures related to the grants are incurred.

The U.S. Department of Transportation, through the Federal Transit Administration (FTA), provides capital assistance to the SFMTA for the acquisition and construction of transit-related property and equipment. This assistance generally approximates 80% of acquisition cost and is administered through the Metropolitan Transportation Commission (MTC). The capital assistance provided to the SFMTA by the California Transportation Commission and San Francisco County Transportation Authority (SFCTA) is generally used as a local match to the federal capital assistance. Additional capital assistance provided to the SFMTA by other agencies is administered by MTC, and is also generally used as a local match for the federal capital assistance.

### **(j) Operating Assistance Grants**

Operating assistance grants are recognized as revenue when approved by the granting authority and/or when related expenditures are incurred.

The SFMTA receives operating assistance from federal and various state and local sources. Transportation Development Act funds are received from the City to meet, in part, the SFMTA's operating requirements based on annual claims filed with and approved by the MTC. Sales tax represents an allocation by the MTC of the 1/2 cent transactions and use tax collected within San Francisco County for transit services.

Additionally, the SFMTA receives funding from the U.S. Department of Transportation through the Federal Highway Administration, California Transportation Commission, and the MTC to provide safe, accessible, clean, and environmentally sustainable service through transportation programs.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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### **(k) Development Fees**

Development fees to fund transportation projects are derived from three main sources. These include the following:

The Transportation Sustainability Fee (TSF), approved in 2016, is a citywide transportation fee placed on new development in the City and County of San Francisco. As a part of the City's Transportation Sustainability Program, the TSF will be an update to the current Transportation Impact Development Fee (TIDF) by expanding applicability to include market-rate residential development and certain large institutions. The TSF is expected to provide funding for the purchase of new Muni fleet, improvements to local and regional transit systems, and pedestrian and bicycling infrastructure improvements.

Developer exactions are specific developer contributions to transportation infrastructure as defined in negotiated development agreements. Development Agreements are contracts entered into by the City and a developer to expressly define a development project's rules, regulations, commitments, and policies for a specific period of time. These contributions can be in addition to or in lieu of community improvement impact fees.

The City imposes community improvement development impact fees on specific development projects in order to help address the impacts caused by new development on public services, infrastructure and facilities citywide and in certain neighborhoods. It is collected by the Planning Department and a portion of fees is directed to the SFMTA depending on the area from which it is collected. These fees are administered by the Interagency Plan Implementation Committee (IPIC) established by the Board of Supervisors and the SFMTA is a member. The IPIC makes recommendations for Area Plans with respect to capital project funding.

These fees of \$28,253 and \$50,759 are recorded as nonoperating revenue for the years ended June 30, 2018 and 2017, respectively, in the accompanying statements of revenues, expenses, and changes in net position.

### **(l) Pensions**

As prescribed under GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value and liabilities are based on the results of actuarial calculations.

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**(m) Other Post-Employment Benefits**

As prescribed under GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions, net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value.

The provisions of GASB Statement No. 75 are effective for the SFMTA's year ended June 30, 2018. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017 as follows:

Record beginning net OPEB liability	\$	627,844
Record beginning deferred outflows of resources – OPEB items		(32,506)
Remove net OPEB obligation (Change from GASB No. 45)		<u>(262,317)</u>
Total cumulative effect of change in accounting principle	\$	<u><u>333,021</u></u>

**(n) Use of Estimates**

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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**(3) Net Position**

Net position as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Restricted assets:		
Cash and investments with City Treasury	\$ 316,351	88,511
Cash and investments outside City Treasury	21,832	20,532
Other receivables	<u>1,689</u>	<u>1,327</u>
Total restricted assets	<u>339,872</u>	<u>110,370</u>
Restricted liabilities of:		
Payable from restricted assets	<u>28,693</u>	<u>1,102</u>
Total restricted liabilities	<u>28,693</u>	<u>1,102</u>
Restricted assets, net	\$ <u>311,179</u>	<u>109,268</u>
Net position:		
Restricted:		
Debt service	\$ 19,707	18,401
Other purposes	<u>291,472</u>	<u>90,867</u>
Total restricted net position	311,179	109,268
Unrestricted	(626,430)	(37,075)
Net investment in capital assets	<u>3,836,904</u>	<u>3,223,499</u>
Net position	\$ <u>3,521,653</u>	<u>3,295,692</u>

*Restricted Net Assets*

SFMTA financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Restricted category represents net assets that have external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation and includes amounts restricted for debt service and liabilities. At June 30, 2018 and 2017, SFMTA reported \$19.7 million and \$18.4 million restricted assets related to debt reserves and debt service and \$291.5 million and \$90.9 million were restricted by legislation, respectively. The net investment in capital assets category includes capital assets net of accumulated depreciation and outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted is the residual amount not included in the above categories.

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**(4) Cash and Investments**

Pursuant to the City Charter, the SFMTA maintains its cash and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of common deposits and investment risks associated with the City's pooled cash and investments. As of June 30, 2018 and 2017, the SFMTA's unrestricted and restricted cash and investments with City Treasury totaled to \$964,082 and \$1,009,627, which represents 9% and 11.8% of the City's investment pool, respectively.

The unrestricted cash and investments outside the City Treasury are cash held by the two remaining nonprofit garage corporations totaling to \$2,169 and \$4,335, taxi medallion collateral sale to \$2,929 and \$4,850, and revolving fund to \$282 and \$275 as of June 30, 2018 and 2017, respectively. The SFMTA had restricted cash and investments of \$19,707 held by an independent trustee outside the City's investment pool and \$2,125 held at commercial banks in checking accounts that are covered by depository insurance as of June 30, 2018. The SFMTA had restricted cash and investments of \$18,401 held by an independent trustee outside the City's investment pool and \$2,131 held at commercial banks in checking accounts that are covered by depository insurance as of June 30, 2017.

The following table shows the percentage distribution of the City's pooled investments by maturity:

	<b>Investment maturities (in months)</b>			
	<b>Under 1</b>	<b>1 to less than 6</b>	<b>6 to less than 12</b>	<b>12-60</b>
2018	14.3%	22.1%	18.5%	45.1%
2017	20.1	21.2	18.0	40.7

The following table shows the restricted cash and investments outside of City Treasury as of June 30, 2018 and 2017:

	<b>Restricted cash and investments outside City Treasury</b>		
	<b>Investment</b>	<b>Maturities</b>	<b>Fair value</b>
2018	Money Market Funds	Less than 1 month	\$ 19,707
2017	Money Market Funds	Less than 1 month	18,401

Fair Value Hierarchy – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant

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unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

SFMTA's cash and investments outside of the City's pooled investments as of June 30, 2018 and 2017 consist of money market investments with maturities of one year or less and cash and cash equivalents. These are exempt from fair value treatment under GASB Statement No. 72.

**(5) Capital Assets**

Capital asset balances and their movements as of and for the year ended June 30, 2018 are as follows:

	<u>Balance, July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, June 30, 2018</u>
Capital assets not being depreciated:				
Land	\$ 63,687	—	—	63,687
Construction in progress	<u>1,637,866</u>	<u>803,491</u>	<u>(539,808)</u>	<u>1,901,549</u>
Total capital assets not being depreciated	<u>1,701,553</u>	<u>803,491</u>	<u>(539,808)</u>	<u>1,965,236</u>
Capital assets being depreciated:				
Building structures and improvements	759,841	75,715	(49,322)	786,234
Equipment	1,648,217	307,177	(46,451)	1,908,943
Infrastructure	<u>1,318,438</u>	<u>151,194</u>	<u>—</u>	<u>1,469,632</u>
Total capital assets being depreciated	<u>3,726,496</u>	<u>534,086</u>	<u>(95,773)</u>	<u>4,164,809</u>
Less accumulated depreciation for:				
Building structures and improvements	310,160	19,438	(24,001)	305,597
Equipment	886,858	104,414	(46,200)	945,072
Infrastructure	<u>614,127</u>	<u>43,368</u>	<u>(234)</u>	<u>657,261</u>
Total accumulated depreciation	<u>1,811,145</u>	<u>167,220</u>	<u>(70,435)</u>	<u>1,907,930</u>
Total capital assets being depreciated net	<u>1,915,351</u>	<u>366,866</u>	<u>(25,338)</u>	<u>2,256,879</u>
Total capital assets, net	<u>\$ 3,616,904</u>	<u>1,170,357</u>	<u>(565,146)</u>	<u>4,222,115</u>

Certain buses, vans, trucks, and other equipment were sold, disposed, and retired during 2018. The net loss on disposal or retirement is \$0.06 million.



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Capital asset balances and their movements as of and for the year ended June 30, 2017 are as follows:

	<b>Balance, July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30, 2017</b>
Capital assets not being depreciated:				
Land	\$ 41,030	22,657	—	63,687
Construction in progress	<u>1,346,257</u>	<u>573,493</u>	<u>(281,884)</u>	<u>1,637,866</u>
Total capital assets not being depreciated	<u>1,387,287</u>	<u>596,150</u>	<u>(281,884)</u>	<u>1,701,553</u>
Capital assets being depreciated:				
Building structures and improvements	\$ 711,596	48,262	(17)	759,841
Equipment	1,561,455	200,232	(113,470)	1,648,217
Infrastructure	<u>1,260,196</u>	<u>58,978</u>	<u>(736)</u>	<u>1,318,438</u>
Total capital assets being depreciated	<u>3,533,247</u>	<u>307,472</u>	<u>(114,223)</u>	<u>3,726,496</u>
Less accumulated depreciation for:				
Building structures and improvements	291,541	18,619	—	310,160
Equipment	903,392	91,556	(108,090)	886,858
Infrastructure	<u>577,724</u>	<u>36,420</u>	<u>(17)</u>	<u>614,127</u>
Total accumulated depreciation	<u>1,772,657</u>	<u>146,595</u>	<u>(108,107)</u>	<u>1,811,145</u>
Total capital assets being depreciated, net	<u>1,760,590</u>	<u>160,877</u>	<u>(6,116)</u>	<u>1,915,351</u>
Total capital assets, net	\$ <u><u>3,147,877</u></u>	<u><u>757,027</u></u>	<u><u>(288,000)</u></u>	<u><u>3,616,904</u></u>

Certain buses, trucks, parking meters, and equipment were sold, disposed, and retired during 2017. The net gain on disposal or retirement is \$0.2 million.

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Construction in progress consists of the following projects as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
New Central Subway	\$ 1,236,653	1,085,314
Transit Effectiveness Program	137,902	85,645
Radio Replacement	107,372	89,714
Light Rail Vehicle Procurement	99,847	40,438
Facility Upgrades	79,328	28,911
Rail Replacement	72,134	86,630
Traffic Signal Upgrades	25,928	27,267
Street Improvements	23,476	19,420
Trolley Bus Procurement	21,141	6,283
Central Control System Upgrades	16,282	71,414
Motor Bus Hybrid Procurement	15,334	8,850
New Asset Management System	14,207	10,068
Historic Street Car Renovation	13,825	4,636
Fare Box Project	12,284	—
Islais Creek-Woods Annex	8,402	49,146
Garage Renovation and Parking Equipment Upgrade	4,859	—
Traffic Sign Installation/Traffic Calming	3,169	1,868
Security Projects	1,961	2,991
Trolley Overhead Reconstruction	895	12,790
Others	6,550	6,481
	<u>\$ 1,901,549</u>	<u>1,637,866</u>

**(6) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses were \$146,641 and \$98,059 at June 30, 2018 and 2017, respectively. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, and accrued expenses for amount owed to private persons or organizations for goods and services, and construction contracts retainage payable.

	<u>2018</u>	<u>2017</u>
Vouchers payable and accruals	\$ 128,475	72,534
Contracts retainage	18,166	25,525
Total accounts payable and accrued expenses	<u>\$ 146,641</u>	<u>98,059</u>

**(7) Short-Term Debt**

On June 4, 2013, pursuant to the City Charter Section 8A.102 (b) 13, the SFMTA Board of Directors authorized the issuance of commercial paper notes in an aggregate principal amount not to exceed

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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\$100 million. On July 16, 2013, the Board of Supervisors concurred with the issuance. The commercial paper was secured by an irrevocable letter of credit from the State Street Bank and Trust Company issued on September 10, 2013 for a term of five years and interest rate not to exceed 12% per annum. On June 20, 2018, the letter of credit was substituted by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, for a term of five years and interest rate not to exceed 12% per annum. The letter of credit will cover the principal as well as the interest accrued on the 270 days prior to the maturity date. The commercial paper program is jointly administered by the Office of Public Finance (OPF) and SFMTA. OPF will be initiating the issuance of commercial paper with the dealers and reporting on the commercial paper program. The commercial paper notes will be issued from time to time on a revolving basis to pay for Board-approved project costs in the Capital Improvement Program and other related uses. SFMTA will be requesting drawdowns based on cash flow needs and expenditure schedules.

SFMTA has no commercial paper outstanding as of June 30, 2018 and 2017.

#### **(8) Long-Term Debt, Loans, and Other Payables**

In 2007, San Francisco voters approved Proposition A, which authorized the SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval but with approval by the SFMTA Board of Directors and concurrence by the Board of Supervisors.

##### **(a) Series 2017 Revenue Bonds**

In June 2017, the SFMTA issued its Revenue Bonds, Series 2017 in the total amount of \$177.8 million. The net proceeds of \$192.1 million (consisting of \$177.8 million of the Series 2017 bonds plus original issue premium of \$14.3 million) were used to pay \$1.1 million underwriter discount and \$1 million in costs of issuance, and fund \$190 million for various transit and parking capital projects for the SFMTA. The Series 2017 bonds bear interest at fixed rates between 3% to 5% and have a final maturity on March 1, 2047.

##### **(b) Series 2014 Revenue Bonds**

In November 2014, the SFMTA issued its Revenue Bonds, Series 2014 in the total amount of \$70.6 million. The net proceeds of \$80.4 million (consisting of \$70.6 million of the Series 2014 bonds plus original issue premium of \$9.8 million) were used to pay \$0.2 million underwriter discount and \$0.7 million in costs of issuance, deposit \$4.5 million into the Reserve Account, and fund \$75 million for various transit and parking capital projects for the SFMTA. The Series 2014 bonds bear interest at fixed rates between 1% to 5% and have a final maturity on March 1, 2044.

##### **(c) Series 2013 Revenue Bonds**

In December 2013, the SFMTA issued its Revenue Bonds, Series 2013 in the total amount of \$75.4 million. The net proceeds of \$82.2 million (consisting of \$75.4 million of the Series 2013 bonds plus original issue premium of \$6.8 million) were used to pay \$0.2 million underwriter discount and \$1 million in costs of issuance, deposit \$6 million into the Reserve Account, and fund \$75 million for various transit and parking capital projects for the SFMTA. The Series 2013 bonds bear interest at fixed rates between 1.5% to 5% and have a final maturity on March 1, 2033.

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**(d) Series 2012A Revenue Bonds**

In July 2012, the SFMTA issued Revenue Refunding Bonds, Series 2012A in the total amount of \$38 million to refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O'Farrell Corporation, the City of San Francisco Downtown Parking Corporation, and the City of San Francisco Uptown Parking Corporation. The Series 2012A bonds bear interest at fixed rates between 2% and 5%, and will mature on March 1, 2032.

The net proceeds of \$46 million (consisting of the \$38 million par amount of the Series 2012A bonds, plus original issue premium of \$5.1 million, plus \$2.9 million accumulated in the debt service and reserve fund related to the refunded bonds) were used to pay \$0.1 million underwriter's discount and \$0.5 million in costs of issuance, make a \$2.7 million deposit into Reserve Account, and deposit \$42.7 million into irrevocable escrow funds with the Trustee to defease and refund \$42.3 million in revenue bonds described below:

	<u>Refunded</u>	<u>Rate</u>	<u>Price</u>
Series Revenue Bond:			
1999 Parking Meters Refunding	\$ 13,080	4.70%–5.00%	100%
2000A North Beach	5,075	5.00%–5.50%	100
2001 Uptown Parking	15,465	5.50%–6.00%	100
2002 Ellis Parking	2,535	4.20%–4.70%	100
2002 Downtown Parking	<u>6,095</u>	4.50%–5.375%	100
Total	\$ <u>42,250</u>		

The refunded bonds were defeased and redeemed on July 27, 2012. Accordingly, the liability for these bonds has been removed from the accompanying statements of net position. The loss of \$0.9 million on refunding of debt resulting from the fiscal year 2013 refunding, previously reported as a contra liability, was recalculated to be a gain of \$0.5 million reported as a deferred inflow of resources. The SFMTA obtained an economic gain (the difference between the present value of the old debt and the new debt) of \$6.7 million or 15.8% of the refunded bonds.

**(e) Series 2012B Revenue Bonds**

In July 2012, the SFMTA issued its Revenue Bonds, Series 2012B in the total amount of \$25.8 million. The net proceeds of \$28 million (consisting of \$25.8 million of the Series 2012B bonds plus original issue premium of \$2.2 million) were used to pay \$0.1 million underwriter discount and \$0.4 million in costs of issuance and set aside for City's audit services, deposit \$1.8 million into the Reserve Account, and fund \$25.7 million for various transit and parking capital projects for the SFMTA. The Series 2012B included serial and term bonds with interest ranging from 3% to 5% and have a final maturity on March 1, 2042.

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The following table is a summary of long-term obligations on bonds for the SFMTA:

	<u>Final maturity date</u>	<u>Remaining interest rate</u>	<u>Balance June 30, 2018</u>	<u>Balance June 30, 2017</u>
Revenue Bonds Series 2012A	2032	5.0%	\$ 19,512	23,392
Revenue Bonds Series 2012B	2042	3.0%–5.0%	27,710	27,763
Revenue Bonds Series 2013	2033	4.0%–5.0%	67,058	70,341
Revenue Bonds Series 2014	2044	3.0%–5.0%	73,658	75,314
Revenue Bonds Series 2017	2047	3.0%–5.0%	186,394	192,124
Total long-term obligations			\$ <u>374,332</u>	<u>388,934</u>

The changes in long-term obligations for the SFMTA for years ended June 30, 2018 and 2017 are as follows:

	<u>July 1, 2017</u>	<u>Additional obligations, interest accretion, and net increases</u>	<u>Current maturities, retirements, and net decreases</u>	<u>June 30, 2018</u>	<u>Amounts due within one year</u>
Bonds payable:					
Revenue bonds	\$ 356,025	—	(12,350)	343,675	10,055
Add/less unamortized amounts:					
For issuance premiums	32,909	—	(2,252)	30,657	—
Total bonds payable	388,934	—	(14,602)	374,332	10,055
Notes, loans, and other payables*	850	4,689	(44)	5,495	77
Accrued vacation and sick leave	36,530	1,969	(19)	38,480	23,891
Accrued workers' compensation	121,373	33,401	(23,959)	130,815	22,652
Accrued claims	65,375	28,304	(13,782)	79,897	36,091
Other post-employment benefits obligation	262,317	431,839	(37,094)	657,062	—
Unearned revenue and other liabilities	14,179	833	(419)	14,593	14,593
Net pension liability	841,164	140,200	(260,082)	721,282	—
Total long-term obligations	\$ <u>1,730,722</u>	<u>641,235</u>	<u>(350,001)</u>	<u>2,021,956</u>	<u>107,359</u>

\* The loan balance as of fiscal year 2018 is \$5,495, representing the outstanding loan from Portsmouth Plaza Parking Corporation for the garage renovation project.

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	<u>July 1, 2016</u>	<u>Additional obligations, interest accretion, and net increases</u>	<u>Current maturities, retirements, and net decreases</u>	<u>June 30, 2017</u>	<u>Amounts due within one year</u>
Bonds payable:					
Revenue bonds	\$ 185,835	177,830	(7,640)	356,025	12,350
Add/less unamortized amounts:					
For issuance premiums	<u>19,921</u>	<u>14,294</u>	<u>(1,306)</u>	<u>32,909</u>	<u>—</u>
Total bonds payable	205,756	192,124	(8,946)	388,934	12,350
Notes, loans, and other payables*	76	806	(32)	850	32
Accrued vacation and sick leave	34,806	1,827	(103)	36,530	22,689
Accrued workers' compensation	117,640	26,712	(22,979)	121,373	21,076
Accrued claims	79,222	1,562	(15,409)	65,375	28,475
Other post-employment benefits obligation	235,992	58,369	(32,044)	262,317	—
Unearned revenue and other liabilities	19,531	8,399	(13,751)	14,179	14,179
Net pension liability	<u>314,611</u>	<u>600,229</u>	<u>(73,676)</u>	<u>841,164</u>	<u>—</u>
Total long-term obligations	<u>\$ 1,007,634</u>	<u>890,028</u>	<u>(166,940)</u>	<u>1,730,722</u>	<u>98,801</u>

\* During the year, Portsmouth Plaza Parking Corporation entered into a loan agreement for the garage renovation project. The loan balance as of fiscal year 2017 is \$850, representing the loans from Portsmouth Plaza Parking Corporation of \$806 and Uptown Parking Corporation of \$44.

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The bond debt service requirements are as follows:

	<u>Principal</u>	<u>Bond interest</u>	<u>Total</u>
Year ending June 30:			
2019	\$ 10,055	15,356	25,411
2020	10,545	14,883	25,428
2021	9,150	14,367	23,517
2022	9,565	13,956	23,521
2023	9,860	13,478	23,338
2024–2028	57,065	59,617	116,682
2029–2033	72,465	44,212	116,677
2034–2038	56,965	29,832	86,797
2039–2043	67,045	16,940	83,985
2044–2047	40,960	3,759	44,719
	<u>\$ 343,675</u>	<u>226,400</u>	<u>570,075</u>

The SFMTA's debt policy is that the aggregate annual debt service on long-term debt cannot exceed 5% of SFMTA's annual operating expenses. SFMTA met the requirement for the fiscal years ended 2018 and 2017.

SFMTA must be in compliance with certain bond covenants.

The bond indenture for the SFMTA requires that certain funds be established and administered by a trustee. The Reserve Fund is to be maintained by the trustee for the benefit and security of the holders of the bonds to which such accounts are pledged, and shall not be available to pay or secure the payment of any other bonds. As of June 30, 2018 and 2017, the bond reserve fund with the trustee totaled \$14.4 million and \$14.5 million, respectively.

The SFMTA has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable from all SFMTA operating revenues except for City General Fund allocations and restricted sources and are payable through the fiscal year 2047.

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Annual principal and interest payments for fiscal year 2018 and 2017 were 42.6% and 38.9%, respectively, of funds available for revenue bond debt service. The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2018 and 2017, applicable net revenues, and funds available for bond debt service are as follows:

	<u>2018</u>	<u>2017</u>
Bonds issued with revenue pledge	\$ 387,670	387,670
Principal and interest remaining due at the end of the year	570,075	596,359
Principal and interest paid during the year	27,952	16,505
Net revenue for the year	37,612	25,952
Fund available for revenue bond debt service	65,564	42,457

**(9) Employee Benefit Plans**

**(a) Pensions – City and County of San Francisco**

*(i) Retirement Plan*

The SFMTA participates in the City’s retirement plan. The City administers a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees’ Retirement System (the Retirement System). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS plans, and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

**San Francisco Employees’ Retirement System (SFERS) – Cost Sharing**

**Fiscal year 2018**

Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

**Fiscal year 2017**

Valuation Date (VD)	June 30, 2015 updated to June 30, 2016
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016



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(Dollars in thousands, unless otherwise noted)

The City is an employer of the plan with a proportionate share of 94.07% as of June 30, 2017 (measurement date), and 94.22% as of June 30, 2016 (measurement date). The SFMTA's allocation percentage was determined based on the SFMTA's employer contributions divided by the City's total employer contributions for fiscal years 2017 and 2016. The SFMTA's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the SFMTA's allocated percentage. The SFMTA's allocation of the City's proportionate share was 15.36% as of June 30, 2017 (measurement date), and 15.36% as of June 30, 2016 (measurement date).

#### (ii) *Employees' Retirement System*

##### *Plan Description*

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

##### *Benefits*

The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are included in the notes to the basic financial statements of the Retirement System.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

(iii) *Funding and Contribution Policy*

Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2018 varied from 7.5% to 13% as a percentage of gross covered salary, and from 7.5% to 12% as a percentage of gross covered salary for fiscal year 2017. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46%. Based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.9% to 21.4%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2017 (measurement period) was \$519,073. The SFMTA's allocation of employer contributions for fiscal year 2017 was \$79,725 and \$73,676 for fiscal year 2016.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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

*Fiscal Year 2018*

As of June 30, 2018, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of \$4.70 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (measurement date), 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The SFMTA's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2018 and 2017 (reporting years) was \$721,282 and \$841,164, respectively. During the measurement year 2017, the actual investment earnings decreased total pension liability. This was partially offset by an increase in service costs and interest costs, resulting in an overall decrease in net pension liability.

For the year ended June 30, 2018, the City's recognized pension expense was \$732,895, including amortization of deferred outflow/inflow related pension items. The SFMTA's allocation of pension expense including amortization of deferred outflow/inflow related pension items was \$112,428. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

At June 30, 2018, the SFMTA's reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

**Schedule of Deferred Inflows and Outflows**

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Pension contributions subsequent to the measurement date	\$ 89,458	—
Differences between expected and actual experience	6,692	21,775
Changes in assumptions	116,954	2,118
Net difference between projected and actual earnings on pension plan investments	—	26,908
Changes in employer's proportion	<u>1,078</u>	<u>1,180</u>
Total	<u>\$ 214,182</u>	<u>51,981</u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

	<b>Deferred outflows (inflows) of resources</b>
	<u>                    </u>
Year ended June 30:	
2019	\$ 3,344
2020	60,627
2021	38,507
2022	(29,735)
Thereafter	<u>          —</u>
	<u>\$ 72,743</u>

*Fiscal Year 2017*

As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of \$5.48 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan for June 30, 2017 is measured as of June 30, 2016 (measurement date), 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 City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The SFMTA's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2016 (reporting years) was \$841,164 and \$314,611, respectively. During the measurement year 2016, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the year ended June 30, 2017, the City's recognized pension expense was \$1,808,992, including amortization of deferred outflow/inflow related pension items. The SFMTA's allocation of pension expense including amortization of deferred outflow/inflow related pension items was \$300,106. Pension expense increased significantly, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred inflows/outflows.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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(Dollars in thousands, unless otherwise noted)

At June 30, 2017, the SFMTA's reported deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

**Schedule of Deferred Inflows and Outflows**

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
	<u>                    </u>	<u>                    </u>
Pension contributions subsequent to the measurement date	\$ 79,725	—
Differences between expected and actual experience	—	30,998
Changes in assumptions	144,703	4,243
Net difference between projected and actual earnings on pension plan investments	115,009	—
Changes in employer's proportion	<u>1,479</u>	<u>789</u>
Total	\$ <u><u>340,916</u></u>	<u><u>36,030</u></u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in pension expense as follows:

	<b>Deferred outflows (inflows) of resources</b>
	<u>                    </u>
Year ended June 30:	
2018	\$ 33,137
2019	33,137
2020	90,523
2021	68,364
Thereafter	<u>—</u>
	\$ <u><u>225,161</u></u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

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(v) *Actuarial Assumptions*

*Fiscal Year 2018*

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017 (measurement date) is provided below, including any assumptions that differ from those used in the July 1, 2016 actuarial valuation. Refer to the July 1, 2016 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

Key actuarial assumptions:

Valuation date	June 30, 2016 updated to June 30, 2017
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal cost method
Expected rate of return	7.50%
Municipal bond yield	2.85% as of June 30, 2016 3.58% as of June 30, 2017
	Bond Buyer 20-Bond GO Index, July 30, 2016 and June 29, 2017
Inflation rate	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Discount rate	7.50% as of June 30, 2016 7.50% as of June 30, 2017
Administrative expenses	0.60% of payroll as of June 30, 2016 0.60% of payroll as of June 30, 2017

	<u>Old Miscellaneous and all New Plans</u>	<u>Old Police &amp; Fire Pre-7/1/75</u>	<u>Old Police &amp; Fire, Charters A8.595 and A8.596</u>	<u>Old Police &amp; Fire, Charters A8.559 and A8.585</u>
Basic COLA:				
June 30, 2016	2.00%	2.70%	3.30%	4.40%
June 30, 2017	2.00	2.70	3.30	4.40

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

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*Fiscal Year 2017*

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2016 (measurement date) is provided below, including any assumptions that differ from those used in the July 1, 2015 actuarial valuation. Refer to the July 1, 2015 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

Key actuarial assumptions:

Valuation date	June 30, 2015 updated to June 30, 2016
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal cost method
Expected rate of return	7.50%
Municipal bond yield	3.85% as of June 30, 2015 2.85% as of June 30, 2016 Bond Buyer 20-Bond GO Index, July 2, 2015 and June 30, 2016
Inflation rate	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Discount rate	7.46% as of June 30, 2015 7.50% as of June 30, 2016
Administrative expenses	0.45% of payroll as of June 30, 2015 0.60% of payroll as of June 30, 2016

	<u>Old Miscellaneous and all New Plans</u>	<u>Old Police &amp; Fire Pre-7/1/75</u>	<u>Old Police &amp; Fire, Charters A8.595 and A8.596</u>	<u>Old Police &amp; Fire, Charters A8.559 and A8.585</u>
Basic COLA:				
June 30, 2015	2.0%	3.0%	4.0%	5.0%
June 30, 2016	2.0	2.7	3.3	4.4

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

(vi) *Discount Rate*

*Fiscal Year 2018*

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.5% as of June 30, 2016 (measurement date) and 7.5% as of June 30, 2017 (measurement date).

The discount rate used to measure the total pension liability as of the June 30, 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age

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normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over 5 years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.5% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2017 for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2% Basic COLA for sample years.

<b>Assumed Supplemental COLA for Members with a 2.00% Basic COLA</b>		
<b>FYE</b>	<b>96 – Prop C</b>	<b>Before 11/6/96 or After Prop C</b>
2018	0.75%	—%
2023	0.75	0.29
2028	0.75	0.35
2033	0.75	0.38
2038+	0.75	0.38



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The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year-end 2096 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.5% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.58% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2017 was 7.5%.

The long-term expected rate of return on pension plan investments was 7.5%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	5.3%
Fixed income	20.0	1.6
Private equity	18.0	6.5
Real assets	17.0	4.6
Hedge Funds/Absolute Returns	5.0	3.6
	<u>100.0%</u>	

*Fiscal Year 2017*

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as of June 30, 2015 (measurement date) and 7.5% as of June 30, 2016 (measurement date).

The discount rate used to measure the total pension liability as of the June 30, 2016 was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2015 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17 years and 5 years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over 5 years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.5% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of the June 30, 2016 for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2% Basic COLA for sample years.

**Assumed Supplemental COLA  
for Members with a 2.00% Basic COLA**

<u>FYE</u>	<u>96 – Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2018	0.750%	—%
2023	0.750	0.220
2028	0.750	0.322
2033	0.750	0.370
2038+	0.750	0.375

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The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year-end 2093 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.5% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2016 was 7.5%.

The long-term expected rate of return on pension plan investments was 7.5%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	5.1%
Fixed income	20.0	1.1
Private equity	18.0	6.3
Real assets	17.0	4.3
Hedge Funds/Absolute Returns	5.0	3.3
	<u>100.0%</u>	

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

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

The following presents the SFMTA's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the SFMTA's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

*Fiscal Year 2018*

<u>Employer</u>	<u>1% Decrease Share of NPL @ 6.5%</u>	<u>Share of NPL @ 7.5%</u>	<u>1% Increase Share of NPL @ 8.5%</u>
SFMTA	\$ 1,235,671	721,282	295,662

*Fiscal Year 2017*

<u>Employer</u>	<u>1% Decrease Share of NPL @ 6.5%</u>	<u>Share of NPL @ 7.5%</u>	<u>1% Increase Share of NPL @ 8.5%</u>
SFMTA	\$ 1,332,984	841,164	434,371

**(b) Deferred Compensation Plan**

The City offers its employees, including the SFMTA employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all active employees to voluntarily invest a portion of their pretax regular earnings in a diverse selection of investment funds. Withdrawals from the deferred compensation plan, by employees or other beneficiaries, are allowed only upon termination, retirement, death, or for unforeseeable emergency.

The deferred compensation plan is managed by the Retirement System and is administered by a third-party administrator. The SFMTA has no administrative involvement and does not perform the investing function. SFMTA has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

**(c) Other Post-Employment Benefits**

*(i) Benefit Plan*

The SFMTA participates in the City's agent multiple-employer defined benefit plan, which operates as a cost-sharing multiple-employer defined benefit plan for SFMTA (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System and provides post-employment medical, dental, and vision insurance benefits to eligible employees, retired employees, and surviving spouses. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

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(Dollars in thousands, unless otherwise noted)

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

**San Francisco Health Service System Retiree Plan**

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Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

The SFMTA's proportionate share percentage of the Plan was determined based on its percentage of citywide pay-as-you-go contributions for the year ended June 30, 2017. The SFMTA's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows, and OPEB expense are based on the SFMTA's allocated percentage. The SFMTA's proportionate share of the City's OPEB elements was 17.68% as of the measurement date.

*(ii) Benefits*

Permanent full-time and elected employees are eligible to retire and receive post-retirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service <sup>1</sup> Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement <sup>2</sup>		Any age with 10 years of credited service
Terminated Vested <sup>3</sup>		Age 50 with 5 years of credited service at separation
Active Death <sup>2</sup>		Any age with 10 years of credited service

<sup>1</sup> Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.

<sup>2</sup> No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses/domestic partners of those killed in the line of duty.

<sup>3</sup> Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental & DeltaCare USA
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

#### *(iii) Contributions*

Benefits provided under the Plan are currently paid through pay-as-you-go funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded. At that time, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1 of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1 of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's GASB Actuary has determined that the City's portion of the Trust Fund is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the fiscal year ended June 30, 2018, the City's funding was based on pay-as-you-go plus a contribution of \$25,839 to the Retiree Healthcare Trust Fund. The pay-as-you-go portion paid by the City was \$178,019 for a total contribution of \$203,858 for the fiscal year ended June 30, 2018. The SFMTA's proportionate share of the City's contributions for fiscal year 2017-18 was \$36,034.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

(iv) *OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB*

As of June 30, 2018, the City reported net OPEB liabilities related to the Plan of \$3.7 billion. The SFMTA's proportionate share of the City's net OPEB liability as of June 30, 2018 was \$657,062.

For the year ended June 30, 2018, the City's recognized OPEB expense was \$355.2 million. Amortization of the City's deferred inflow is included as a component of pension expense. The SFMTA's proportionate share of the City's OPEB expense was \$62,784.

As of June 30, 2018, the SFMTA reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB from the following sources:

**Schedule of Deferred Inflows and Outflows**

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Contributions subsequent to measurement date	\$ 36,034	—
Net difference between projected and actual earnings on plan investments	—	1,060
Total	<u>\$ 36,034</u>	<u>1,060</u>

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows:

	<u>Deferred outflows (inflows) of resources</u>
Year ended June 30:	
2019	\$ (265)
2020	(265)
2021	(265)
2022	(265)
Thereafter	—
	<u>\$ (1,060)</u>

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

(v) *Actuarial Assumptions*

A summary of the actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2017 (measurement date) is provided below:

Key actuarial assumptions:

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's total OPEB liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.25% and trends down to ultimate rate of 4.5% Medicare trend starts at 7.0% and trends down to ultimate rate of 4.5% 10-County average trend starts at 6.0% and trends down to ultimate rate of 4.5%
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 0.00%–8.00% Fire: 0.00%–15.00% Muni Drivers: 0.00%–15.00% Craft: 0.00%–3.50% Misc: 0.00%–5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 3.00% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ended June 30, 2014 Non-Annuitant – CalPERS employee mortality tables without scale BB projection

<u>Gender</u>	<u>Adjustment factor</u>	<u>Base year</u>
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants – CalPERS healthy annuitant mortality table without scale BB projection



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

<u>Gender</u>	<u>Adjustment factor</u>	<u>Base year</u>
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disable Annuitants – RP-2014 Disabled Retiree Tables without MP-2014 projection

<u>Gender</u>	<u>Adjustment factor</u>	<u>Base year</u>
Female	1.066	2006
Male	0.942	2006

Safety Disables Annuitants – CalPERS industrial disability mortality table without scale BB projection

<u>Gender</u>	<u>Adjustment factor</u>	<u>Base year</u>
Female	0.983	2009
Male	0.909	2009

*Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate*

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the SFMTA's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

	<u>-1%</u>	<u>Baseline</u>	<u>1%</u>
\$	573,421	657,062	760,457

*Discount Rate*

The discount rate used to measure the Total OPEB Liability as of June 30, 2017 was 7.5%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

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June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

The long-term expected rate of return on OPEB plan investments was 7.5% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>20-year Expected Return</u>
U.S. Equities	41.0%	7.3%
Developed Market Equity (non-U.S.)	20.0	7.1
Emerging Market Equity	16.0	9.4
High Yield Bonds	3.0	5.4
Bank Loans	3.0	5.0
Emerging Market Bonds	3.0	5.4
Treasury Inflation Protected Securities	5.0	3.3
Investment Grade Bonds	9.0	3.6
	<u>100.0%</u>	

The asset allocation targets summarized above have a 20-year return estimate of 7.75%, which was weighted against a 10-year model estimating a 6.59% return, resulting in the ultimate long-term expected rate of return of 7.5%.

The following presents the SFMTA's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the SFMTA's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease Share of NOL @ 6.5%</u>	<u>Share of NOL @ 7.5%</u>	<u>1% Increase Share of NOL @ 8.5%</u>
\$	752,707	657,062	578,625

**(10) Peninsula Corridor Joint Powers Board**

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the Santa Clara Valley Transportation Authority and the San Mateo County Transit District. The PCJPB is governed by a separate board composed of nine members, three from each participating agencies. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The PCJPB began operating the Peninsula CalTrain rail service on July 1, 1992. Prior to that time, such rail service was operated by the California Department of Transportation. The agreement establishing the PCJPB expired in 2001, upon which it continues thereafter on a year-to-year basis, until a participant withdraws, which

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Notes to Financial Statements

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(Dollars in thousands, unless otherwise noted)

requires one-year notice. The SFMTA contributes to the net operating costs and administrative expenses of the PCJPB. The SFMTA contributed \$5.5 million and \$5.6 million for operating needs in fiscal years 2018 and 2017, respectively. The PCJPB’s annual financial statements are publicly available.

**(11) Risk Management**

The SFMTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; transit and general liability; injuries to employees; and natural disasters. The SFMTA risk treatment program encompasses both self-insured and insured methods. Insurance purchase is generally coordinated through the City’s Risk Management Division and, in some specific cases, directly by the agency. Self-insurance is when the City manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources, i.e., pay-as-you-go. The City’s and SFMTA’s general policy is to first evaluate self-insurance for the risk of loss to which it is exposed. When economically more viable or when required by debt financing covenants, SFMTA purchases insurance as necessary or required.

<b>Risks</b>	<b>Coverage</b>
a. General/Transit Liability	Self-Insured
b. Property	Self-Insured and Purchase Insurance
c. Workers’ Compensation	Self-Insured
d. Employee (Transit Operators)	Purchase Insurance
e. Directors and Officers	Purchase Insurance

**(a) General/Transit Liability**

The SFMTA is self-insured. Through coordination with the Controller and City Attorney’s Office, the SFMTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process as well as a reserve that is increased each year by approximately \$3 million. The annual budget for claims was \$11.9 million and \$11.9 million for fiscal years 2018 and 2017, respectively. In addition, as of June 30, 2018 and 2017, the reserve was \$24.8 million and \$22.4 million, respectively. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

**(b) Property**

The SFMTA purchases property insurance on its facilities, Breda light rail cars, and personal property.

Also, insurance is purchased for scheduled City parking garages covering blanket property and business interruptions. Damages to facilities and property outside of the specified schedules are self-insured. For SFMTA contractors, SFMTA requires each contractor to provide its own insurance, the traditional insurance ensuring that the full scope of work be covered with satisfactory levels to limit the risk exposure to City and SFMTA’s property.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

### **(c) Workers' Compensation**

The workers' compensation payments are addressed through pay-as-you-go funding as part of the budgetary process. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering open claims' future exposure based on current costs, and estimation for injuries that may have occurred but not yet reported. The workers' compensation claims and payouts are handled by the City's third-party administrator. SFMTA continues to develop and implement programs to mitigate growth of costs such as the transitional work programs that bring injured workers back to work on modified duty. Other programs include injury prevention, back care, injury investigation, and medical treatment bills review.

Workers' compensation expense is part of personnel services, while claims expense is part of general and administrative under operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

### **(d) Employee Benefits (Transit Operators) Insurance**

SFMTA has purchased group life insurance and a Group Felonious Assault Coverage Insurance on transit operators per Memorandum of Understanding.

### **(e) Directors and Officers Insurance**

SFMTA has purchased insurance starting in fiscal year 2012 to cover errors and omissions of its Board members and senior management.

See the changes in workers' compensation and general liabilities for claims paid and incurred claims and changes in estimate in note 8, *Long-Term Debt, Loans, and Other Payables*.

## **(12) General Fund Contributions**

The amount of operating allocation provided to the SFMTA each year is limited to the amount set by the City Charter and budgeted by the City. Such allocation is recognized as revenue in the year received.

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue baseline transfer of \$338.9 million and \$312.6 million in fiscal years 2018 and 2017, respectively, as required by the City Charter. In addition, SFMTA received \$67.8 million and \$68.4 million allocation in fiscal years 2018 and 2017, respectively, from in lieu of parking tax as required by the City Charter.

Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City's population growth. In fiscal years 2018 and 2017, SFMTA received \$43.3 million and \$31 million, respectively, from this source.

In fiscal year 2018, SFMTA also received additional City General Fund allocation of \$2.3 million to fund various capital projects such as the detailed design on UCSF platform extension and crossover track.

## **(13) Federal, State, and Local Assistance**

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2018 and 2017, the SFMTA had approved capital

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

grants with unused balances amounting to \$839.8 million and \$821.2 million, respectively. Capital grants receivable as of June 30, 2018 and 2017 totaled \$252.1 million and \$129.9 million, respectively.

The SFMTA also receives operating assistance from various federal, state, and local sources including Transit Development Act funds, diesel fuel, and sales tax allocations. As of June 30, 2018 and 2017, the SFMTA had various operating grants receivable of \$26.9 million and \$32.8 million, respectively. In fiscal years 2018 and 2017, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of \$1.8 million and \$1.7 million, respectively, and other federal, state, and local grants of \$7.4 million and \$59.5 million, respectively, to fund project expenses that are operating in nature.

The capital and operating grants identified above include funds received and due from the SFCTA. During the fiscal years 2018 and 2017, the SFCTA approved \$112.2 million and \$73.4 million, respectively, in new capital grants and the SFMTA received payments totaling \$90.7 million and \$79.8 million, respectively. As of June 30, 2018 and 2017, the SFMTA had \$23.3 million and \$30 million, respectively, in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA mostly for paratransit support. During the fiscal years 2018 and 2017, SFCTA approved \$9.7 million and \$9.8 million, respectively, in new operating grants, and SFMTA received payments totaling \$11.5 million and \$16.3 million, respectively. The SFMTA had \$0.4 million and \$1.5 million, respectively, in operating grants due from the SFCTA as of June 30, 2018 and 2017.

Proposition 1B is a 10-year \$20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling \$7.2 million and \$14.1 million, respectively, in fiscal years 2018 and 2017 for different projects. Proposition 1B funds do not require matching funds. The original legislation required funds to be obligated within three years of the date awarded. SB87 extended the date to June 30, 2017 for funds awarded between fiscal years 2008 and 2010. The Budget Act of 2013 extended the date to June 30, 2018. Subsequently, the Budget Act of 2014 reappropriated the remaining balances of fiscal years 2009, 2010, and 2011 to be further extended to June 30, 2019, and the remaining balance of fiscal year 2015 to be further extended to June 30, 2020. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal years 2018 and 2017, \$27.6 million and \$76.6 million drawdowns, respectively, were made from the funds for various eligible projects costs.

#### **(14) Commitments and Contingencies**

##### **(a) Grants and Subventions**

Receipts from federal and state grants and other similar programs are subject to audit to determine if the funds were expended in accordance with appropriate statutes, grant terms, and regulations. The SFMTA believes that no significant liabilities will result from any such audits.

##### **(b) Operating Leases**

The SFMTA leases certain equipment and various properties for use as office space, fleet storage space, and machine shops under lease agreements that expire at various dates through fiscal year

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

2047. These agreements are accounted for as operating leases. Rent expense was \$18.3 million and \$19.1 million for the years ended June 30, 2018 and 2017, respectively.

The SFMTA has operating leases for certain buildings that require the following minimum annual payments:

Year ending June 30:	
2019	\$ 15,421
2020	15,418
2021	15,618
2022	14,466
2023	14,931
2024–2028	71,298
2029–2033	86,997
2034–2038	84,930
2039–2043	108,284
2044–2048	<u>138,092</u>
	<u>\$ 565,455</u>

SFMTA leases certain owned facilities to tenants and concessionaires who will provide the following minimum annual payments:

Year ending June 30:	
2019	\$ 6,198
2020	5,076
2021	3,851
2022	2,676
2023	2,362
2024–2028	7,390
2029–2033	6,250
2034–2038	6,250
2039–2043	6,250
2044–2048	6,250
2049–2053	6,250
2054–2056	<u>4,583</u>
	<u>\$ 63,386</u>

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

### **(c) Other Commitments**

As of June 30, 2018 and 2017, the SFMTA has outstanding commitments of approximately \$585.6 million and \$579.8 million with third parties for various capital projects, respectively. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$69.2 million and \$74.8 million with third parties for noncapital expenditures as of June 30, 2018 and 2017, respectively. Various local funding sources are used to finance these expenditures.

In addition, the SFMTA is involved in various lawsuits, claims, and disputes, which have arisen in SFMTA's routine conduct of business. In the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of SFMTA.

### **(15) Leveraged Lease-Leaseback of Breda Vehicles**

#### *Tranches 1 and 2*

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors, and the City's Board of Supervisors, Muni entered into separate leveraged lease-leaseback transactions for over 118 and 21 Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment, respectively, and collectively, the "Equipment"). Each transaction, also referred to as a "sale-in-lease-out" or "SILO", was structured as a head lease of the Equipment to a special purpose trust and a sublease of the Equipment back from such trust. Under each sublease, Muni retained an option to purchase the Equipment on specified dates between November 2026 through January 2030 in the case of the Tranche 1 Equipment and in January 2030 in the case of the Tranche 2 Equipment. During the terms of the subleases, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment.

Muni received an aggregate of \$388.2 million and \$72.6 million, respectively, in 2002 and 2003, from the equity investors in full prepayment of the head leases. Muni deposited a portion of the prepaid head lease payments into separate escrows that were invested in U.S. agency securities with maturities that correspond to the purchase option dates for the Equipment as specified in each sublease. Muni also deposited a portion of the head lease payments with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company, that was rated "AAA" by Standard & Poor's ("S&P") and "Aaa" by Moody's Investor Services ("Moody's") at the time the Tranche 1 and Tranche 2 Equipment transactions were entered into. Although these escrows do not represent a legal defeasance of Muni's obligations under the subleases, management believes that these transactions are structured in such a way that it is not probable that Muni will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations have not been recorded on the financial statements of the SFMTA.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands, unless otherwise noted)

As a result of the cash transactions above, Muni recorded \$35.5 million and \$4.4 million in fiscal years 2002 and 2003, respectively, representing the difference between (a) the amounts received of \$388.2 million and \$72.6 million, and (b) the amounts of \$352.7 million and \$67.5 million paid to the escrows, the debt payment undertaker and for certain transaction expenses. These amounts have been classified as deferred inflows of resources in fiscal year 2018 and 2017 and will be amortized over the life of each sublease unless the purchase option is executed or the sublease is otherwise terminated before its expiration date.

As of June 30, 2018 and 2017, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of \$98.7 million remains outstanding. All other lease transactions were terminated in prior fiscal years.

The deferred inflows of resources amortized amount was \$0.3 million for the remaining Tranche 1 Equipment in fiscal year 2018 and 2017. The Tranche 1 lease transaction was terminated in October 2018.



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Net Position

June 30, 2018

(In thousands)

	<u>Transit</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and investments with City Treasury	\$ 366,307	281,424	—	647,731
Cash and investments held outside City Treasury	215	2,996	2,169	5,380
Cash on hand	144	35	—	179
<b>Receivables:</b>				
Grants	251,461	3,771	—	255,232
Due from the San Francisco County Transportation Authority	20,622	3,117	—	23,739
Due from other City departments	—	—	—	—
Charges for services, net	4,059	2,787	12	6,858
Other, net	6,253	2,900	—	9,153
Total receivables	282,395	12,575	12	294,982
Inventories	81,370	—	—	81,370
Current prepaids and other assets	26	—	105	131
Total current assets	730,457	297,030	2,286	1,029,773
<b>Restricted assets:</b>				
Cash and investments with City Treasury	246,853	69,498	—	316,351
Cash and investments held outside City Treasury	12,021	7,686	2,125	21,832
Other receivables	1,472	217	—	1,689
Total restricted assets	260,346	77,401	2,125	339,872
<b>Noncurrent assets:</b>				
Capital assets, net	3,911,590	303,799	6,726	4,222,115
Total noncurrent assets	4,171,936	381,200	8,851	4,561,987
Total assets	4,902,393	678,230	11,137	5,591,760
<b>Deferred outflows of resources:</b>				
Related to pensions	186,488	27,694	—	214,182
Related to OPEB	31,248	4,786	—	36,034
Total deferred outflows of resources	\$ 217,736	32,480	—	250,216

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Net Position

June 30, 2018

(In thousands)

	<u>Transit</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>Total</u>
Liabilities:				
Current liabilities:				
Due to other funds	\$ 2,500	89	—	2,589
Accounts payable and accrued expenses	130,866	14,352	1,423	146,641
Accrued payroll	25,801	3,584	80	29,465
Accrued vacation and sick leave	20,627	3,264	—	23,891
Accrued workers' compensation	19,719	2,933	—	22,652
Accrued claims	28,808	7,283	—	36,091
Grants received in advance	28,662	212	—	28,874
Unearned revenue and other liabilities	5,953	8,537	103	14,593
Payable from restricted assets	25,309	3,384	—	28,693
Accrued interest payable	3,908	1,211	—	5,119
Bonds, loans, capital leases, and other payables	5,910	4,145	77	10,132
<b>Total current liabilities</b>	<b>298,063</b>	<b>48,994</b>	<b>1,683</b>	<b>348,740</b>
Noncurrent liabilities:				
Accrued vacation and sick leave, net of current portion	12,684	1,862	43	14,589
Accrued workers' compensation, net of current portion	92,294	15,869	—	108,163
Accrued claims, net of current portion	31,519	12,287	—	43,806
Other post-employment benefits obligation	569,784	87,278	—	657,062
Net pension liability	628,016	93,266	—	721,282
Bonds, loans, capital leases, and other payables, net of current portion	285,911	78,366	5,418	369,695
<b>Total noncurrent liabilities</b>	<b>1,620,208</b>	<b>288,928</b>	<b>5,461</b>	<b>1,914,597</b>
<b>Total liabilities</b>	<b>1,918,271</b>	<b>337,922</b>	<b>7,144</b>	<b>2,263,337</b>
Deferred inflows of resources:				
Unamortized gain on leaseback transaction	3,680	—	—	3,680
Unamortized gain on refunding of debt	—	265	—	265
Related to pensions	45,259	6,722	—	51,981
Related to OPEB	919	141	—	1,060
<b>Total deferred inflows of resources</b>	<b>49,858</b>	<b>7,128</b>	<b>—</b>	<b>56,986</b>
Net position:				
Net investment in capital assets	3,615,861	219,812	1,231	3,836,904
Restricted:				
Debt service	12,021	7,686	—	19,707
Other purposes	223,016	66,331	2,125	291,472
Unrestricted	(698,898)	71,831	637	(626,430)
<b>Total net position</b>	<b>\$ 3,152,000</b>	<b>365,660</b>	<b>3,993</b>	<b>3,521,653</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Supplemental Schedule – Schedule of Revenues, Expenses,  
and Changes in Net Position

Year ended June 30, 2018

(In thousands)

	<u>Transit</u>	<u>Sustainable Streets</u>	<u>Parking Garages</u>	<u>SFMTA Eliminations</u>	<u>Total</u>
<b>Operating revenues:</b>					
Passenger fares	\$ 202,280	—	—	—	202,280
Parking and transportation	—	112,448	20,537	—	132,985
Fines, forfeitures, and penalties	—	98,884	—	—	98,884
Charges for services	2,227	29,883	—	—	32,110
Licenses, permits, and franchises	—	17,169	—	—	17,169
Advertising	23,317	—	—	—	23,317
Rents and concessions	3,018	3,979	1,114	—	8,111
Other	—	600	93	—	693
<b>Total operating revenues</b>	<b>230,842</b>	<b>262,963</b>	<b>21,744</b>	<b>—</b>	<b>515,549</b>
<b>Operating expenses:</b>					
Personnel services	732,397	98,147	4,406	—	834,950
Contractual services	65,538	64,603	3,071	—	133,212
Materials and supplies	66,174	5,456	411	—	72,041
Depreciation and amortization	150,639	15,491	1,090	—	167,220
Services from other City departments	60,382	8,879	—	—	69,261
General and administrative	42,263	(1,676)	2,022	—	42,609
Other operating expenses	(38,884)	11,973	1,763	—	(25,148)
<b>Total operating expenses</b>	<b>1,078,509</b>	<b>202,873</b>	<b>12,763</b>	<b>—</b>	<b>1,294,145</b>
<b>Operating income (loss)</b>	<b>(847,667)</b>	<b>60,090</b>	<b>8,981</b>	<b>—</b>	<b>(778,596)</b>
<b>Nonoperating revenues (expenses):</b>					
Operating assistance:					
Federal	9,437	2,027	—	—	11,464
State and other grants	139,804	671	—	—	140,475
Interest and investment income	5,174	4,945	3	—	10,122
Interest expense	(7,208)	(2,523)	(378)	—	(10,109)
Other, net	38,448	5,901	—	—	44,349
<b>Total nonoperating revenues, net</b>	<b>185,655</b>	<b>11,021</b>	<b>(375)</b>	<b>—</b>	<b>196,301</b>
<b>Income (loss) before capital contributions and transfers</b>	<b>(662,012)</b>	<b>71,111</b>	<b>8,606</b>	<b>—</b>	<b>(582,295)</b>
<b>Capital contributions:</b>					
Federal	338,865	2,246	—	—	341,111
State and others	173,476	7,739	—	—	181,215
<b>Total capital contributions</b>	<b>512,341</b>	<b>9,985</b>	<b>—</b>	<b>—</b>	<b>522,326</b>
<b>Transfers in:</b>					
City and County of San Francisco – General Fund	348,550	103,776	—	—	452,326
San Francisco County Transportation Authority	9,487	836	—	—	10,323
City and County of San Francisco – Other City departments	136,629	42,975	—	—	179,604
SFMTA operating transfers in	183,088	12,249	—	(195,337)	—
<b>Total transfers in</b>	<b>677,754</b>	<b>159,836</b>	<b>—</b>	<b>(195,337)</b>	<b>642,253</b>
<b>Transfers out:</b>					
City and County of San Francisco – Other City departments	—	—	(23,302)	—	(23,302)
SFMTA operating transfers out	—	(183,088)	(12,249)	195,337	—
<b>Net transfers</b>	<b>677,754</b>	<b>(23,252)</b>	<b>(35,551)</b>	<b>—</b>	<b>618,951</b>
<b>Change in net position</b>	<b>528,083</b>	<b>57,844</b>	<b>(26,945)</b>	<b>—</b>	<b>558,982</b>
<b>Net position at beginning of year</b>					
Beginning of year, as previously reported	2,912,816	351,938	30,938	—	3,295,692
Restatement due to adoption of GASB Statement No. 75 (note 2)	(288,899)	(44,122)	—	—	(333,021)
	<u>2,623,917</u>	<u>307,816</u>	<u>30,938</u>	<u>—</u>	<u>2,962,671</u>
<b>Total net position, end of year</b>	<b>\$ 3,152,000</b>	<b>365,660</b>	<b>3,993</b>	<b>—</b>	<b>3,521,653</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Federal

Year ended June 30, 2018

(In thousands)

	Authorized grants as of July 1, 2017	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2018	Amounts not expended as of June 30, 2018	Grants receivable as of June 30, 2018
Capital grants:							
FY 2008 Section 5307 Urban Area Formula	\$ 689	—	(689)	—	—	—	—
FY 2009 Section 5307 Urban Area Formula	6,495	—	(4,559)	—	1,936	(670)	1,266
FY 2011 Section 5307 Urban Area Formula	619	—	(619)	—	—	—	—
FY 2014 Section 5307 Urban Area Formula	5,444	—	—	—	5,444	(5,444)	—
FY 2016 Section 5307 Urban Area Formula	9,123	—	(135)	—	8,988	(7,597)	1,391
FY 2017 Section 5307 Urban Area Formula	—	5,337	(3,162)	—	2,175	—	2,175
FY 2013 Section 5307 CMAQ & Surface Transportation Program	10,758	—	(6,969)	—	3,789	(3,787)	2
FY 2014 Section 5307 Formula Fund	7,606	—	(6,622)	—	984	(984)	—
FY 2015 Section 5307 Formula Fund	499	—	—	(200)	299	(299)	—
FY 2016 Section 5307 Formula Fund	—	—	(17,244)	33,013	15,769	(13,491)	2,278
FY 2017 Section 5307 Formula Fund	—	68,424	(39,164)	—	29,260	(10,507)	18,753
FY 2011 Section 5309 Bus & Facilities	23,340	—	(20,558)	—	2,782	(2,247)	535
FY 2013 Section 5309 Bus Livability	2,379	—	(110)	—	2,269	(2,227)	42
FY 2009 Section 5309 Fixed Guideway	2,962	—	(2,671)	—	291	(273)	18
FY 2010 Section 5309 Fixed Guideway	29,616	—	(7,861)	—	21,755	(10,142)	11,613
FY 2011 Section 5309 Fixed Guideway	17,983	—	(12,879)	—	5,104	(675)	4,429
FY 2012 Section 5309 Fixed Guideway	30,428	—	(8,948)	—	21,480	(15,432)	6,048
FY 2007 Section 5309 New Starts	246,091	—	(90,372)	—	155,719	(106,783)	48,936
FY 2016 Section 5309 New Starts	59,604	—	(8,415)	—	51,189	(47,057)	4,132
FY 2013 Section 5337 State of Good Repair	18,741	—	(3,308)	—	15,433	(3,759)	11,674
FY 2014 Section 5337 State of Good Repair	17,435	—	(13,571)	—	3,864	(3,337)	527
FY 2015 Section 5337 State of Good Repair	20,962	—	(7,405)	—	13,557	(12,582)	975
FY 2016 Section 5337 State of Good Repair	—	41,490	(7,285)	—	34,205	(19,897)	14,308
FY 2017 Section 5337 State of Good Repair	—	127,761	—	—	127,761	(97,195)	30,566
FY 2013 Section 5339 Bus & Facilities Formula	6,691	—	(6,691)	—	—	—	—
FY 2014 Section 5339 Bus & Facilities Formula	6,909	—	(6,909)	—	—	—	—
FY 2015 Section 5339 Bus & Facilities Formula	6,875	—	(6,875)	—	—	—	—
FY 2016 Section 5339 Bus & Facilities Formula	—	6,365	—	—	6,365	(6,365)	—
FY 2017 Section 5339 Bus & Facilities Formula	—	4,713	—	—	4,713	(4,713)	—
FY 2014 Section 79-TG-3 Tiger IV OST Surface Transportation Infrastructure	7,531	—	(7,212)	—	319	—	319
FY 2013 CA Regional Priority Development Area Planning Grant	94	—	(94)	—	—	—	—
<b>Total capital grants</b>	<b>\$ 538,874</b>	<b>254,090</b>	<b>(290,327)</b>	<b>32,813</b>	<b>535,450</b>	<b>(375,463)</b>	<b>159,987</b>
Operating grants:							
FY 2012 Section 5317 New Freedom	\$ 15	—	(15)	—	—	—	—
FY 2013 Section 5307 CMAQ & Surface Transportation Program	1,218	—	(1,048)	—	170	(170)	—
FY 2016 Section 5307 Formula Fund	35,240	—	(1,950)	(33,013)	277	(220)	57
FY 2017 Section 5307 Formula Fund	—	4,592	—	—	4,592	—	4,592
FY 2017 Section 5303 Planning	43	—	(36)	—	7	(7)	—
FY 2017 Section 5310 Enhanced Mobility of Seniors and Individuals With Disabilities	—	783	(109)	—	674	(218)	456
<b>Total operating grants</b>	<b>\$ 36,516</b>	<b>5,375</b>	<b>(3,158)</b>	<b>(33,013)</b>	<b>5,720</b>	<b>(615)</b>	<b>5,105</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2018

(In thousands)

	<b>Authorized grants as of July 1, 2017</b>	<b>New grants approved/ spending commences</b>	<b>Payments received</b>	<b>Expired/ rescinded adjusted grants</b>	<b>Authorized grants as of June 30, 2018</b>	<b>Amounts not expended as of June 30, 2018</b>	<b>Grants receivable as of June 30, 2018</b>
Capital grants:							
FY 2008 Prop 1B: 3rd St. Light Rail	\$ 2,201	—	(633)	—	1,568	(1,568)	—
FY 2008 Prop 1B: Operator Restrooms	791	—	—	—	791	(791)	—
FY 2009 Prop 1B: New Central Subway	1,872	—	(464)	—	1,408	(1,408)	—
FY 2010 Prop 1B: Balboa Park Eastside Connection	556	—	(336)	—	220	(220)	—
FY 2013 Prop 1B: Mission Mobility Maximization	3,238	—	(762)	—	2,476	(2,476)	—
FY 2013 Prop 1B: 8X Mobility Maximization	2,601	—	(1,091)	—	1,510	(1,510)	—
FY 2013 Prop 1B: Mission Bay Loop	241	—	(241)	—	—	—	—
FY 2014 Prop 1B: LRV Procurement	5,616	—	(977)	(249)	4,390	(4,390)	—
FY 2014 Prop 1B: Central Subway	20,753	—	(20,753)	—	—	—	—
FY 2014 Prop 1B: Flynn Lifts	—	770	—	—	770	(770)	—
FY 2016 Prop 1B: Van Ness Bus Rapid Transit	576	—	(435)	—	141	(141)	—
FY 2017 Prop 1B: 31 Balboa Project	—	725	—	—	725	(725)	—
<b>Total Prop 1B</b>	<b>38,445</b>	<b>1,495</b>	<b>(25,692)</b>	<b>(249)</b>	<b>13,999</b>	<b>(13,999)</b>	<b>—</b>
FY 2010 Prop 1B: Transit Security	282	—	—	—	282	(282)	—
FY 2012 Prop 1B: Transit Security	72	—	—	—	72	(72)	—
FY 2015 Prop 1B: Transit Security	4,447	—	(468)	—	3,979	(3,979)	—
FY 2016 Prop 1B: Transit Security	4,211	—	—	(282)	3,929	(3,929)	—
FY 2017 Prop 1B: Transit Security	—	5,656	—	—	5,656	(5,656)	—
<b>Total Transit Security</b>	<b>9,012</b>	<b>5,656</b>	<b>(468)</b>	<b>(282)</b>	<b>13,918</b>	<b>(13,918)</b>	<b>—</b>
FY 2016 Community Engagement for an Equitable Muni	294	—	(294)	—	—	—	—
FY 2016 Transit Intercity Rail Capital Program	—	41,181	—	—	41,181	(10,304)	30,877
<b>Total capital grants</b>	<b>\$ 47,751</b>	<b>48,332</b>	<b>(26,454)</b>	<b>(531)</b>	<b>69,098</b>	<b>(38,221)</b>	<b>30,877</b>
Operating grants:							
FY 2017 Low Carbon Transit Operations Grant	\$ 11,000	—	(3,765)	—	7,235	(7,235)	—
<b>Total operating grants</b>	<b>\$ 11,000</b>	<b>—</b>	<b>(3,765)</b>	<b>—</b>	<b>7,235</b>	<b>(7,235)</b>	<b>—</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded adjusted grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Capital grants:							
Bridge Toll:							
Match to Capital Grants	\$ 12,803	90,835	(5,626)	(1,381)	96,631	(61,198)	35,433
Regional Measure 2:							
Match to Capital Grants	38	—	(38)	—	—	—	—
State Transit Assistance:							
Third Street Light Rail	1	—	—	—	1	(1)	—
State of Good Repair	—	9,499	—	—	9,499	(9,499)	—
Total capital grants	\$ <u>12,842</u>	<u>100,334</u>	<u>(5,664)</u>	<u>(1,381)</u>	<u>106,131</u>	<u>(70,698)</u>	<u>35,433</u>
Operating grants:							
AB1107 Sales Tax	\$ —	42,420	(39,773)	589	3,236	—	3,236
State Transit Assistance	8,104	43,333	(39,925)	—	11,512	—	11,512
Transportation Development Act	—	44,940	(44,940)	—	—	—	—
Lifeline Cycle 2 – Shopping Shuttle	—	77	(77)	—	—	—	—
RM2:							
Owl Service	—	188	—	—	188	—	188
T-Third Light Rail	—	2,500	—	—	2,500	—	2,500
Lifeline Cycle 4:							
Expanded Late Night Transit	114	114	(114)	(114)	—	—	—
Total operating grants	\$ <u>8,218</u>	<u>133,572</u>	<u>(124,829)</u>	<u>475</u>	<u>17,436</u>	<u>—</u>	<u>17,436</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2018

(In thousands)

	Authorized grants as of July 1, 2017	New grants approved/ spending commences	Payments received	Expired/ rescinded/ adjustment grants	Authorized grants as of June 30, 2018	Amounts not expended as of June 30, 2018	Grants receivable as of June 30, 2018
Capital grants:							
3rd Street Light Rail Projects	\$ 4,169	—	—	—	4,169	(4,169)	—
Central Subway	—	13,752	—	—	13,752	(13,752)	—
Escalator Replacement Study	2,711	—	(1,616)	—	1,095	(582)	513
Islais Creek Woods	3,264	—	(2,779)	—	485	(485)	—
Rail Replacement/Mntce Equip/Mission Bay	1,011	—	—	(1,011)	—	—	—
Radio Communications System & CAD	49,932	—	(24,467)	(4,000)	21,465	(18,084)	3,381
Central Train Control & Communication	9,535	—	(2,186)	(975)	6,374	(5,586)	788
Bus Rapid Transit (Geary & Van Ness)	32,381	—	(1,687)	(76)	30,618	(30,294)	324
Balboa Park Intermodal Improvements	1,323	—	(581)	—	742	(742)	—
Balboa Park Station Eastside Connection	139	—	(5)	—	134	(1)	133
Motor Coach NABI Replacement	3,193	—	—	—	3,193	(3,193)	—
Green Center Rail Replacement	565	—	(565)	—	—	—	—
Market & Haight Transit & Ped Improvements	228	—	(8)	—	220	(204)	16
50 Motor Coach Replacement	3,543	—	(266)	—	3,277	(3,174)	103
Central Subway Phase 3 Initial Study	546	—	(97)	(5)	444	(429)	15
Bayshore Multimodal Station Location	1	—	(1)	—	—	—	—
Glen Park Bus Terminal	5	—	—	—	5	—	5
60 Foot Trolley Coach Replacement	10,946	35,553	(12,046)	—	34,453	(28,691)	5,762
Phelan Plaza Development	131	—	(26)	—	105	(99)	6
Muni Forward	3,655	—	(1,265)	—	2,390	(1,809)	581
New Light Rail Vehicles	129,390	—	(1,329)	—	128,061	(126,561)	1,500
Geneva-Harvey Bus Rapid Transit Study	4,307	—	(533)	(1)	3,773	(3,773)	—
Muni Metro East (MME) Phase II	1,690	—	(728)	(272)	690	(685)	5
Fall Protection System	13,198	—	(3,002)	—	10,196	(9,266)	930
Replace M-Line Curve Tracks	2,452	—	(699)	—	1,753	(1,723)	30
Procurement of 30, 40 & 60 Ft Hybrid Buses	34,501	30,097	(24,972)	—	39,626	(37,472)	2,154
Kearny Corridor Multimodal Project	100	—	(6)	—	94	(88)	6
Ensuring Transit Srv Equity Thru Community	36	—	(36)	—	—	—	—
Fire Life Safety Upgrade	241	1,837	(128)	—	1,950	(1,726)	224
1570 Burket Facility Renovation	2,885	902	(2,044)	(473)	1,270	(857)	413
33 Stanyan Pole Replacement & Ovhd Recon	977	—	(910)	—	67	(67)	—
Rail Grinding Project	1,036	—	(10)	—	1,026	(1,026)	—
Cable Car Drive Reduction Gearbox Rehab	1,280	—	(420)	—	860	(714)	146
ATCS Tunnel Wiring Replacement	635	—	(151)	—	484	(223)	261
Elevator Safety & Reliability Project	287	—	—	—	287	(287)	—
Paratransit Van Replacement Project	717	—	(619)	—	98	(97)	1
Twin Peaks Tunnel Rail Replacement-Rev	4,149	—	(1,029)	—	3,120	—	3,120
Track Support System	—	1,669	—	—	1,669	(1,663)	6
Track Replacement & Upgrade	—	2,811	—	—	2,811	(2,811)	—
30' Coaches Replacement	—	356	—	—	356	(356)	—
Paratransit Sedan Procurement	—	270	—	—	270	(270)	—
1455 Market St Tenant Improve	—	—	(569)	975	406	(207)	199
Alternative Fuel Taxicab In	—	250	—	—	250	(250)	—
	\$ 325,159	87,497	(84,780)	(5,838)	322,038	(301,416)	20,622

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded/ adjustment grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Operating grants:							
Paratransit	\$ 225	9,406	(9,631)	—	—	—	—
Transit Corridor Investment Study	59	—	(5)	—	54	(54)	—
N-Judah Customer First	215	—	—	—	215	(215)	—
66 Quintara Reconfiguration Study	100	—	(90)	—	10	(10)	—
Total operating grants	\$ <u>599</u>	<u>9,406</u>	<u>(9,726)</u>	<u>—</u>	<u>279</u>	<u>(279)</u>	<u>—</u>

See accompanying independent auditors' report.



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
TRANSIT**

Supplemental Schedule of Grants – Others

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded adjusted grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Capital grants:							
Homeland Security:							
FY 2011 Federal Homeland Security – TSA K9 Project	\$ 680	—	(240)	—	440	(371)	69
Muni Metro Station Enhancement Phase I	—	2,465	—	—	2,465	(2,465)	—
Bus Rapid Transit (Geary & Van Ness)	—	—	—	821	821	(237)	584
Total capital grants	<u>\$ 680</u>	<u>2,465</u>	<u>(240)</u>	<u>821</u>	<u>3,726</u>	<u>(3,073)</u>	<u>653</u>
Operating grants:							
FY 2015 Transit Security Grant Program	\$ 2,543	—	(2,139)	—	404	(149)	255
FY 2016 Transit Security Grant Program	172	—	—	—	172	—	172
FY 2017 Transit Security Grant Program	—	2,595	—	—	2,595	(1,052)	1,543
Total operating grants	<u>\$ 2,715</u>	<u>2,595</u>	<u>(2,139)</u>	<u>—</u>	<u>3,171</u>	<u>(1,201)</u>	<u>1,970</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Federal

Year ended June 30, 2018

(In thousands)

	Authorized grants as of July 1, 2017	New grants approved/ spending commences	Payments received	Expired/ rescinded adjusted grants	Authorized grants as of June 30, 2018	Amounts not expended as of June 30, 2018	Grants receivable as of June 30, 2018
<b>Capital grants:</b>							
FY 2009 CMAQ – SF Park	\$ 398	—	—	—	398	(398)	—
FY 2012 Safe Routes to School – Chinatown	18	—	—	—	18	(18)	—
FY 2013 Highway Safety Improvements – Continental Crosswalks	16	—	—	—	16	(16)	—
FY 2013 Highway Safety Improvements – Masonic Signals Project	58	—	—	—	58	(58)	—
FY 2014 Highway Safety Improvement – Polk Street Signals	1,368	—	(905)	—	463	(24)	439
FY 2013 Highway Safety Improvement – Rail Signals	562	—	—	—	562	(562)	—
FY 2013 Section 5307 Surface Transportation	4	—	(4)	—	—	—	—
FY 2016 Surface Transportation – Eddy and Ellis Traffic Calming Projects	1,003	—	(852)	—	151	(3)	148
FY 2013 Surface Transportation – Mansell Corridor Complete Streets	372	—	(288)	—	84	(4)	80
FY 2015 State Transportation Improvement – Crosswalks	168	—	(157)	—	11	(6)	5
FY 2015 State Transportation Improvement – Twin Peaks Connectivity	117	—	(44)	—	73	(34)	39
FY 2015 Section 5307 Formula Fund – Embarcadero Enhancement Project	—	—	—	200	200	(179)	21
FY 2016 & 2017 Highway Safety Improvement – South Van Ness Pedestrian Signals Projects	1,399	—	(1,014)	—	385	(158)	227
FY 2018 Highway Safety Improvement – NOMA SOMA Signal Timing Project	520	826	(349)	—	997	(697)	300
FY 2018 Advanced Transportation and Congestion Management Technologies Deployment Initiatives	—	10,991	—	—	10,991	(10,991)	—
<b>Total capital grants</b>	<b>\$ 6,003</b>	<b>11,817</b>	<b>(3,613)</b>	<b>200</b>	<b>14,407</b>	<b>(13,148)</b>	<b>1,259</b>
<b>Operating grants:</b>							
TEA Pedestrian Safety Education	\$ 20	—	—	—	20	—	20
Tenderloin Pedestrian Improvements	279	—	—	—	279	(279)	—
Golden Gate Park Pedestrian Improvements	63	—	—	—	63	(3)	60
Chinatown Safe Routes to School	25	—	—	—	25	(25)	—
Van Ness Corridor Improvement	455	—	(170)	—	285	(285)	—
Alamo School Safe Routes to School	118	—	(32)	—	86	(5)	81
SFGO Van Ness Corridor Management – TSP/BRT	11,522	—	(206)	—	11,316	(11,168)	148
SF Bicycle Parking Program	12	—	—	—	12	(8)	4
Pedestrian Safety Program	4	—	—	—	4	(2)	2
Masonic Avenue Signal Upgrade	45	—	—	—	45	(45)	—
FY 2007 Safe Routes to School	29	—	—	—	29	(29)	—
FY 2012 Safe Routes to School – Tenderloin	360	—	(264)	—	96	(81)	15
FY 2013 Safe Routes to School – Denman	734	—	(449)	—	285	(73)	212
FY 2010 & 2011 State Transportation Improvement Program – SF Pedestrian Safety & Encouragement	6	—	—	—	6	(6)	—
FY 2012 State Transportation Improvement – Church & Duboce	24	—	—	—	24	(7)	17
FY 2013 Linked Price Electric Bike Sharing	1,230	—	(12)	—	1,218	(622)	596
FY 2013 Regional Priority Development Area –Various Projects	640	—	(530)	—	110	(14)	96
FY 2015 State Active Transportation Program – SF Safer Street Campaign	1,342	—	(994)	—	348	(134)	214
FY 2017 California Office of Traffic Safety – Vision Zero Three Year Motorcycle Education Campaign Pilot	169	175	(99)	—	245	(223)	22
FY 2018 National Safety Council Innovation – Distracted Driving High Visibility Enforcement	—	111	(24)	—	87	—	87
<b>Total operating grants</b>	<b>\$ 17,077</b>	<b>286</b>	<b>(2,780)</b>	<b>—</b>	<b>14,583</b>	<b>(13,009)</b>	<b>1,574</b>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – California Transportation Commission

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded/ Adjustment grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Capital grants:							
Prop 1B – Persia Triangle Improvements	\$ 141	—	—	—	141	(141)	—
FY 2013 Prop 1B: 8X Mobility Maximization	139	—	(8)	—	131	(131)	—
FY 2014 Prop 1B: LRV Procurement	—	—	(107)	249	142	(142)	—
FY 2015 Prop 1B: Transit Security	919	—	(919)	—	—	—	—
FY 2016 Prop 1B: Transit Security	—	—	(105)	282	177	(177)	—
Citywide Bicycle Wayfinding	792	—	(13)	—	779	(690)	89
Affordable Housing & Sustainable Comm. Dev.	—	1,019	—	—	1,019	(935)	84
Safer Intersections Program	—	2,002	—	—	2,002	(1,995)	7
Total capital grants	<u>\$ 1,991</u>	<u>3,021</u>	<u>(1,152)</u>	<u>531</u>	<u>4,391</u>	<u>(4,211)</u>	<u>180</u>
Operating grants:							
Randolph/Farralones/Orizaba Transit Access							
Pedestrian Safety	\$ 3	—	—	—	3	(3)	—
Addison & Dighy Traffic Circle	63	—	—	—	63	(63)	—
Class II & III Bikeways	260	—	(209)	—	51	(36)	15
West Portal Improvements School Access	162	—	—	—	162	(162)	—
Jean Parker Safe Routes to School	361	—	(118)	—	243	(117)	126
Taylor Street Safety Project	300	—	(178)	—	122	(19)	103
HSIP SSARP Bicycle Safety	250	—	(125)	—	125	(58)	67
District 11 Neighborhood Greenway Planning Project	300	—	(77)	—	223	(116)	107
Bayview CBTP	—	292	—	—	292	(281)	11
Total operating grants	<u>\$ 1,699</u>	<u>292</u>	<u>(707)</u>	<u>—</u>	<u>1,284</u>	<u>(855)</u>	<u>429</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Metropolitan Transportation Commission

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded/ Adjustment grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Capital grants:							
TDA:							
TDA FY2018 Allocation	\$ —	467	—	—	467	(467)	—
TDA FY2017 Allocation	487	—	(226)	—	261	(95)	166
TDA FY2016 Allocation	318	—	(318)	—	—	—	—
CBTP:							
Western Addition CBTP	<u>12</u>	<u>—</u>	<u>(10)</u>	<u>—</u>	<u>2</u>	<u>(2)</u>	<u>—</u>
Total capital grants	<u>\$ 817</u>	<u>467</u>	<u>(554)</u>	<u>—</u>	<u>730</u>	<u>(564)</u>	<u>166</u>
Operating grants:							
TDA:							
Long-Term Bike Parking	\$ 174	—	(135)	—	39	(21)	18
Bridge Tolls (RM2):							
Bicycle Transit System Integ	<u>26</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26</u>	<u>(26)</u>	<u>—</u>
Total operating grants	<u>\$ 200</u>	<u>—</u>	<u>(135)</u>	<u>—</u>	<u>65</u>	<u>(47)</u>	<u>18</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – San Francisco County Transportation Authority

Year ended June 30, 2018

(In thousands)

	<u>Authorized grants as of July 1, 2017</u>	<u>New grants approved/ spending commences</u>	<u>Payments received</u>	<u>Expired/ rescinded/ Adjustment grants</u>	<u>Authorized grants as of June 30, 2018</u>	<u>Amounts not expended as of June 30, 2018</u>	<u>Grants receivable as of June 30, 2018</u>
Capital grants:							
Bicycle Program Projects	\$ 484	678	(303)	(76)	783	(681)	102
Pedestrian Safety Program Projects	2,015	380	(675)	(10)	1,710	(1,082)	628
Traffic Calming Program Projects	4,430	2,905	(1,007)	—	6,328	(5,843)	485
Traffic Signal/Traffic Sign Projects	8,509	19,842	(3,195)	(60)	25,096	(23,653)	1,443
Transit Study & Street Improvement Projects	868	759	(373)	—	1,254	(1,200)	54
Transportation Demand/Parking Management	60	—	—	—	60	(60)	—
Total capital grants	<u>\$ 16,366</u>	<u>24,564</u>	<u>(5,553)</u>	<u>(146)</u>	<u>35,231</u>	<u>(32,519)</u>	<u>2,712</u>
Pass-thru capital grants:							
Bicycle Program Projects	\$ 336	165	(373)	—	128	(128)	—
Taxi Vehicle Alternative Fuel Program	245	—	(13)	—	232	(214)	18
Total pass-thru capital grants	<u>\$ 581</u>	<u>165</u>	<u>(386)</u>	<u>—</u>	<u>360</u>	<u>(342)</u>	<u>18</u>
Operating grants:							
Bicycle Program Projects	\$ 164	117	(61)	(22)	198	(178)	20
Pedestrian Safety Program Projects	822	—	(193)	(114)	515	(506)	9
Taxi Vehicle Alternative Fuel Program	4	—	—	(3)	1	(1)	—
Traffic Calming Program Projects	14	214	(80)	(14)	134	(77)	57
Traffic Signal/Traffic Sign Projects	2,363	—	(882)	(789)	692	(565)	127
Transit Study & Street Improvement Projects	707	—	(515)	—	192	(98)	94
Transportation Demand/Parking Management	69	—	—	(69)	—	—	—
Total operating grants	<u>\$ 4,143</u>	<u>331</u>	<u>(1,731)</u>	<u>(1,011)</u>	<u>1,732</u>	<u>(1,425)</u>	<u>307</u>
Pass-thru operating grants:							
Bicycle Program Projects	\$ 72	—	—	—	72	(72)	—
Traffic Calming Projects	14	—	—	(14)	—	—	—
Transportation Demand/Parking Management	30	—	—	(30)	—	—	—
Transportation Outreach Program	193	—	(8)	—	185	(105)	80
Total pass-thru operating grants	<u>\$ 309</u>	<u>—</u>	<u>(8)</u>	<u>(44)</u>	<u>257</u>	<u>(177)</u>	<u>80</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY  
SUSTAINABLE STREETS**

Supplemental Schedule of Grants – Others

Year ended June 30, 2018

(In thousands)

	<b>Authorized grants as of July 1, 2017</b>	<b>New grants approved/ spending commences</b>	<b>Payments received</b>	<b>Expired/ rescinded/ Adjustment grants</b>	<b>Authorized grants as of June 30, 2018</b>	<b>Amounts not expended as June 30, 2018</b>	<b>Grants receivable as June 30, 2018</b>
Capital grants:							
Electronic Bicycle Lockers	\$ —	100	—	—	100	(100)	—
Traffic Signal/Traffic Sign	—	—	—	49	49	—	49
Pedestrian Safety Program	—	—	—	10	10	—	10
Bike Program	—	—	—	75	75	—	75
Traffic Signal Improvement	—	—	—	11	11	—	11
Total capital grants	\$ <u>—</u>	<u>100</u>	<u>—</u>	<u>145</u>	<u>245</u>	<u>(100)</u>	<u>145</u>
Operating grants:							
UCSF – 18th St and Minnesota Signal	\$ —	600	(26)	—	574	(574)	—
Group I – Bryant and Sterling Construction	—	200	—	—	200	(200)	—
Equity Residential Mariposa and Pennsylvania	—	20	—	—	20	(20)	—
6th Street Pedestrian Safety Improvements	517	—	(41)	(476)	—	—	—
Total operating grants	\$ <u>517</u>	<u>820</u>	<u>(67)</u>	<u>(476)</u>	<u>794</u>	<u>(794)</u>	<u>—</u>

See accompanying independent auditors' report.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

<b>Project title</b>	<b>Allocation</b>	<b>Beginning balance July 1, 2017</b>	<b>Additions</b>	<b>Reassigned allocation</b>	<b>Interest earned</b>	<b>Reassigned interest earnings</b>	<b>Expenditures</b>	<b>Ending balance June 30, 2018</b>
First Allocation Fiscal Year 2007–2008:								
Third Street Light Rail Interest	\$ —	93	—	—	35	—	—	128
Third Street/Metro East CP/Other Direct	1,383	289	—	—	—	—	—	289
LRV4 VCC Support	2,200	1,796	—	—	—	—	(632)	1,164
Elevator Safety & Reliability Project	117	117	—	—	—	—	—	117
Subtotal PTSB01	3,700	2,295	—	—	35	—	(632)	1,698
Auto Passenger Count	1,200	—	—	—	—	—	—	—
New Central Subway	1,300	1	—	—	—	—	—	1
Subtotal PTSB02	2,500	1	—	—	—	—	—	1
Trolley Overhead Reconstruction	2,267	1	—	—	—	—	—	1
Mid-Life Rehabilitation of Neoplan Buses	733	—	—	—	—	—	—	—
Subtotal PTSB03	3,000	1	—	—	—	—	—	1
STA Prop 1B; FY0708; Farebox Rehab	—	5	—	—	—	—	—	5
Operator-Restroom	27	—	—	—	—	—	—	—
Farebox Rehabilitation	19,590	—	—	—	—	—	—	—
Neoplan Life Cycle Rehabilitation	223	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	80	—	—	—	—	—	—	—
14 Mission Customer First	80	—	—	—	—	—	—	—
Subtotal PTSB04	20,000	5	—	—	—	—	—	5
STA Prop 1B; FY0708; Geneva	—	3	—	—	—	—	—	3
Historic Streetcar Shed	6,092	—	—	—	—	—	—	—
New Central Subway	1,200	—	—	—	—	—	—	—
14 Mission Customer First	208	—	—	—	—	—	—	—
Subtotal PTSB05	7,500	3	—	—	—	—	—	3
Subtotal Allocation	36,700	2,305	—	—	35	—	(632)	1,708
Second Allocation Fiscal Year 2007–2008:								
STA Prop 1B; FY0708; Metro East LRV	—	18	—	—	—	—	—	18
New Third Street Light Rail	8,052	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	822	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	485	—	—	—	—	—	—	—
Capital Program Controls System Procurement	—	6	—	—	—	—	—	6
14 Mission Customer First	341	—	—	—	—	—	—	—
Green Center Rail Replacement	—	55	—	—	—	—	—	55
Subtotal PTSB06	9,700	79	—	—	—	—	—	79

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

Project title	Allocation	Beginning balance July 1, 2017	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2018
STA Prop 1B; FY0708; Operator Restrooms	\$ —	34	—	—	13	—	—	47
Operator-Restroom	2,164	—	—	—	—	—	—	—
Woods Lifts Heavy Maintenance Shop	10	—	—	—	—	—	—	—
Cable Car Safety & Reliability Improvement	422	422	—	—	—	—	—	422
Transportation Capital Infrastructure	369	369	—	—	—	—	—	369
Subtotal PTSB07	2,965	825	—	—	13	—	—	838
STA Prop 1B; FY0708; WYSD Fare Collect Eq	—	35	—	—	1	—	—	36
Wayside Fare Collection	1,000	—	—	—	—	—	—	—
Subtotal PTSB08	1,000	35	—	—	1	—	—	36
Subtotal Allocation	13,665	939	—	—	14	—	—	953
First Allocation Fiscal Year 2008–2009:								
STA Prop 1B; FY0910; Central Subway	—	71	—	—	30	—	—	101
Operator-Restroom	19	—	—	—	—	—	—	—
New Central Subway	20,001	—	—	—	—	—	—	—
Wayside/Central Train Control System	3,345	1,422	—	—	—	—	(232)	1,190
Mid-Life Rehabilitation of Neoplan Buses	1,404	—	—	—	—	—	—	—
Subway CCTV Surveillance System	1,169	—	—	—	—	—	—	—
Vehicle Video Surveillance Replacement	689	63	—	—	—	—	—	63
14 Mission Customer First	882	96	—	—	—	—	—	96
Fall Protection Scaffolding	773	—	—	—	—	—	—	—
8X Customer First	562	—	—	—	—	—	—	—
Safer Market Street	649	—	—	—	—	—	—	—
Flynn Lift	20	—	—	—	—	—	—	—
L Taraval Early Implementation Project	455	259	—	—	—	—	(232)	27
Potrero Facility Vehicle Lifts	32	32	—	—	—	—	—	32
Subtotal PTSB11	30,000	1,943	—	—	30	—	(464)	1,509
STA Prop 1B; FY0910; Interim Line Mgt	—	19	—	—	—	—	—	19
Central Control & Communications Program	400	—	—	—	—	—	—	—
Subtotal PTSB12	400	19	—	—	—	—	—	19
STA Prop 1B; FY0910; Lt RI Op Cont Ctr	—	58	—	—	1	—	—	59
Central Control & Communications Program	1,300	—	—	—	—	—	—	—
Subtotal PTSB13	1,300	58	—	—	1	—	—	59
STA Prop 1B; FY0809; Persia Triangle	—	8	—	—	—	—	—	8
Persia Triangle Improvements	127	49	—	—	—	—	—	49
Subtotal PKSB01	127	57	—	—	—	—	—	57
Randolph/Farallones/Orizaba	85	4	—	—	—	—	—	4
Subtotal PKSB02	85	4	—	—	—	—	—	4
Subtotal Allocation	31,912	2,081	—	—	31	—	(464)	1,648



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

<u>Project title</u>	<u>Allocation</u>	<u>Beginning balance July 1, 2017</u>	<u>Additions</u>	<u>Reassigned allocation</u>	<u>Interest earned</u>	<u>Reassigned interest earnings</u>	<u>Expenditures</u>	<u>Ending balance June 30, 2018</u>
Third Allocation Fiscal Year 2007–2008 and Second Allocation 2008–2009:								
STA Prop 1B; FY0910; LRV Rehab Program	\$ —	14	—	—	—	—	—	14
LRV Safety Mods and Overhaul Project	3,638	—	—	—	—	—	—	—
Subtotal PTSB14	3,638	14	—	—	—	—	—	14
New Central Subway	352	—	—	—	—	—	—	—
Subtotal PTSB15	352	—	—	—	—	—	—	—
STA Prop 1B; FY0910; High Speed Connectivity Central Control & Communications Program	— 817	25 —	— —	— —	— —	— —	— —	25 —
Subtotal PTSB16	817	25	—	—	—	—	—	25
Subtotal Allocation	4,807	39	—	—	—	—	—	39
Third Allocation Fiscal Year 2008–2009:								
STA Prop 1B; FY0809, LRV Rehabilitation	—	116	—	—	—	(116)	—	—
Islais Creek-woods Annex	—	—	—	—	—	116	—	116
LRV Safety Mods and Overhaul Project	5,262	—	—	—	—	—	—	—
Capital Program Controls System Procurement	—	60	—	—	—	—	—	60
Subtotal PTSB18	5,262	176	—	—	—	—	—	176
STA Prop 1B; FY0809; LRV Restoration Prgm LRV Collision Repairs	— 3,831	44 —	— —	— —	1 —	— —	— —	45 —
Subtotal PTSB19	3,831	44	—	—	1	—	—	45
New Central Subway	719	—	—	—	—	—	—	—
Subtotal PTSB20	719	—	—	—	—	—	—	—
Subtotal Allocation	9,812	220	—	—	1	—	—	221
First Allocation Fiscal Year 2009–2010:								
STA Prop 1B; FY2009-2010 PTMISEA Funds	13	13	—	—	9	—	—	22
Hunters View Revitalize Transit Stop Connection	497	—	—	—	—	—	—	—
New Central Subway	20,216	—	—	—	—	—	—	—
LRV Collision Repairs	770	—	—	—	—	—	—	—
Mid-Life Rehabilitation of Neoplan Buses	700	—	—	—	—	—	—	—
Balboa Park Station Eastside Connection	864	557	—	—	—	—	(336)	221
Green Center Rail Replacement	—	51	—	—	—	—	—	51
Capital Program Controls System Procurement	—	101	—	—	—	—	—	101
Safer Market Street	—	3	—	—	—	—	—	3
Subtotal PTSB22	23,060	725	—	—	9	—	(336)	398
Subtotal Allocation	23,060	725	—	—	9	—	(336)	398

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

Project title	Allocation	Beginning balance July 1, 2017	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2018
Second Allocation Fiscal Year 2009–2010:								
STA Prop 1B; FY2009-2010 PTMISEA Funds	\$ —	10	—	—	—	—	—	10
New Central Subway	16,045	—	—	—	—	—	—	—
Green Center Rail Replacement	—	147	—	—	—	—	—	147
Capital Program Controls System Procurement	—	53	—	—	—	—	—	53
Subtotal PTSB23	16,045	210	—	—	—	—	—	210
Randolph/Farallones/Orizaba								
	395	—	—	—	—	—	—	—
Subtotal PKSB03	395	—	—	—	—	—	—	—
Subtotal Allocation	16,440	210	—	—	—	—	—	210
Third Allocation Fiscal Year 2009–2010:								
STA Prop1B; Central Subway & Persia	—	81	—	—	3	—	—	84
Persia Triangle Improvements	676	91	—	—	—	—	—	91
New Central Subway	48,400	—	—	—	—	—	—	—
Central Subway Goodwill	—	55	—	—	—	—	—	55
Green Center Rail Replacement	—	106	—	—	—	—	—	106
Capital Program Controls System Procurement	—	14	—	—	—	—	—	14
Subtotal PTSB24	49,076	347	—	—	3	—	—	350
Subtotal Allocation	49,076	347	—	—	3	—	—	350
First Allocation Fiscal Year 2010–2011:								
STA Prop1B; FY12-13 PTMISEA Fnds Central	—	156	—	—	5	(156)	—	5
Islais Creek-woods Annex	—	—	—	—	—	156	—	156
Traffic Signal Battery Backup System	—	270	—	—	—	—	—	270
New Central Subway	117,681	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	—	38	—	—	—	—	—	38
Mission Bay Transit Loop	—	237	—	—	—	—	(237)	—
Subtotal PTSB26	117,681	701	—	—	5	—	(237)	469
Subtotal Allocation	117,681	701	—	—	5	—	(237)	469
Second Allocation Fiscal Year 2010–2011:								
STA Prop1B; FY13 PTMISEA Mission Mobility	—	124	—	—	50	(124)	—	50
Islais Creek-woods Annex	—	—	—	—	—	124	—	124
14 Mission Customer First	836	492	—	—	—	—	—	492
Muni Forward – West Portal/St Francis Circle	1,743	1,183	—	—	—	—	(334)	849
Cable Car Safety & Reliability Improvement	978	263	—	—	—	—	(261)	2
Muni Forward – Lower Haight Street (71)	1,500	1,300	—	—	—	—	(167)	1,133
Subtotal PTSB27	5,057	3,362	—	—	50	—	(762)	2,650

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

<b>Project title</b>	<b>Allocation</b>	<b>Beginning balance July 1, 2017</b>	<b>Additions</b>	<b>Reassigned allocation</b>	<b>Interest earned</b>	<b>Reassigned interest earnings</b>	<b>Expenditures</b>	<b>Ending balance June 30, 2018</b>
STA Prop1B; FY13 PTMISEA 8X Mobility Max	\$ —	110	—	—	44	—	—	154
Potrero Hill Ped Safety & Transit Impv	216	139	—	—	—	—	(8)	131
Operator-Restroom	186	—	—	—	—	—	—	—
FY10 TSGP Subway CCTV Surveillance System	1,060	—	—	—	—	—	—	—
Balboa Park Station Area & Plaza Improvement	1,460	605	—	—	—	—	(605)	—
Mission Bay Transit Loop	—	—	—	448	—	—	(448)	—
8X Customer First	1,763	1,397	—	—	—	—	(37)	1,360
Transportation Capital Infrastructure	600	600	—	(448)	—	—	—	152
Subtotal PTSB28	5,285	2,851	—	—	44	—	(1,098)	1,797
STA Prop1B; FY13 PTMISEA Mission Bay Loop	—	30	—	—	4	—	—	34
Mission Bay Transit Loop	1,382	241	—	—	—	—	(241)	—
Subtotal PTSB29	1,382	271	—	—	4	—	(241)	34
Subtotal Allocation	11,724	6,484	—	—	98	—	(2,101)	4,481
First Allocation Fiscal Year 2013–2014:								
STA Prop1B; FY14 LRV Procurement	—	111	—	—	87	(57)	—	141
Islais Creek-woods Annex	—	—	—	—	—	57	—	57
Van Ness Bus Rapid Transit	639	639	—	—	—	—	—	639
Mission Bay Transit Loop	984	72	—	1,213	—	—	(600)	685
Muni Forward	500	500	—	508	—	—	(267)	741
Elevator Safety & Reliability Project	2,200	2,200	—	—	—	—	—	2,200
Muni Metro Subway Station Enhancement	287	234	—	—	—	—	(109)	125
Transportation Capital Infrastructure	1,970	1,970	—	(1,970)	—	—	—	—
MS Arguello Traffic Signal	—	—	—	249	—	—	(107)	142
Subtotal PTSB31	6,580	5,726	—	—	87	—	(1,083)	4,730
STA Prop1B; FY14 Central Subway	—	311	—	—	472	(310)	—	473
Islais Creek-woods Annex	—	—	—	—	—	310	—	310
New Central Subway	81,880	20,754	—	—	—	—	(20,754)	—
FY10 TSGP Subway CCTV Surveillance System	—	80	—	—	—	—	(26)	54
Potrero Facility Vehicle Lifts	—	215	—	—	—	—	—	215
Subtotal PTSB33	81,880	21,360	—	—	472	—	(20,780)	1,052
Subtotal Allocation	88,460	27,086	—	—	559	—	(21,863)	5,782
First Allocation Fiscal Year 2015–2016:								
STA Prop1B; FY16 PTMISEA Van Ness Brt	—	59	—	—	10	—	—	69
Van Ness Bus Rapid Transit	5,550	575	—	—	—	—	(435)	140
Subtotal PTSB36	5,550	634	—	—	10	—	(435)	209
Subtotal Allocation	5,550	634	—	—	10	—	(435)	209

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Schedule of Public Transportation, Modernization, Improvement and Service Enhancement Account (PTMISEA)

Year ended June 30, 2018

(In thousands)

Project title	Allocation	Beginning balance July 1, 2017	Additions	Reassigned allocation	Interest earned	Reassigned interest earnings	Expenditures	Ending balance June 30, 2018
First Allocation Fiscal Year 2016–2017:								
Prop 1B: 31 Balboa	\$ 725	—	725	—	—	—	—	725
Subtotal CTR25	725	—	725	—	—	—	—	725
Subtotal Allocation	725	—	725	—	—	—	—	725
Residual Allocation Fiscal Year 2008–2009 and 2009–2010:								
FY2014 Prop1B: Flynn Lifts	770	—	770	—	—	—	—	770
Subtotal CTR1055	770	—	770	—	—	—	—	770
Subtotal Allocation	770	—	770	—	—	—	—	770
Grand Total	\$ 410,382	41,771	1,495	—	765	—	(26,068)	17,963

See accompanying independent auditors' report.



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**Independent Auditors' 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**

*The Honorable Mayor and Board of Supervisors*  
and San Francisco Municipal Transportation Agency Board of Directors  
City and County of 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 San Francisco Municipal Transportation Agency (SFMTA), an enterprise fund of the City and County of San Francisco, California (the City), which comprise the statement of financial position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2019. Our report also includes an emphasis of matter paragraph related to SFMTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and the restatement of the July 1, 2017 beginning net position. The financial statements of the City of San Francisco Portsmouth Plaza Parking Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the City of San Francisco Portsmouth Plaza Parking Corporation. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SFMTA'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 SFMTA 's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SFMTA 's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*KPMG LLP*

San Francisco, California  
February 28, 2019