

**STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: December 14, 2017**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the audited Annual Financial Report of the Transbay Joint Powers Authority (TJPA) for the fiscal year ended June 30, 2017.

EXPLANATION:

State law, as well as various agreements in place with TJPA funders, requires that TJPA publish complete audited financial statements within six months of the close of each fiscal year. Responsibility for the preparation of the statements, the accuracy of the data, and the completeness and fairness of the presentation rests with TJPA management. The fiscal year 2016-17 financial statements are the fourteenth set of financial statements since the inception of the TJPA and represent the financial position of the TJPA for the period of July 1, 2016 to June 30, 2017. The objective of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. In addition, as a recipient of federal funds, TJPA is required to undergo a Single Audit of Federal Programs. Vavrinek, Trine, Day & Co (VTD) conducted an audit, including the Single Audit, of the TJPA's financial statements for fiscal year ended June 30, 2017 according to Government Auditing Standards, and has issued an unmodified opinion. The Annual Financial Report includes the following required sections:

- 1. Independent Auditor's Report**—this report was prepared by the independent auditors, who rendered an unmodified opinion (formerly unqualified opinion), which is the most favorable opinion an agency can receive in an audit, and means that the financial statements are presented fairly and in accordance with accounting principles generally accepted in the United States of America. In other words, TJPA's financial condition, position, and operations are fairly presented in our financial statements. This is the best type of report an auditee can receive from an external auditor.
- 2. Management's Discussion and Analysis (MD&A)**—this section provides management's objective narrative overview of TJPA's financial activities. It includes comparisons of the current year to the prior year, and analysis of the agency's overall financial position.
- 3. Basic Financial Statements**—the basic financial statements include a statement of net position; statement of revenues, expenses and changes in fund net position; statement of cash flows; and notes to the statements, which are essential to a full understanding of the data provided.
- 4. Required Supplementary Information (RSI)**—the Governmental Accounting Standards Board (GASB) considers certain information to be an essential part of financial reporting and has established authoritative guidelines for the presentation of this information. Auditors are required to apply certain limited procedures in reviewing RSI. MD&A is RSI, although it is presented before the basic financial statements. TJPA's other RSI is related to pension and other post-employment benefits.
- 5. Supplementary and Other Information**—this includes the Schedule of Expenditures of Federal Awards, and the required auditor reports on internal control and compliance. As in all other years, there were no internal control deficiencies and no management improvement recommendations.

A representative of VTD will address the Board at the December 14 meeting and be available to answer any questions.

RECOMMENDATION:

Information only.



December 5, 2017

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited the financial statements of the Transbay Joint Powers Authority (the TJPA) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the TJPA are described in Note 2 to the financial statements. We noted no transactions entered into by the TJPA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting TJPA's financial statements were:

Management's estimates used in: fair values of investments and the valuation of pension and other postemployment benefit liabilities and disclosures. We evaluated the key factors and assumptions used to develop these estimates in determining that they appeared reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 5, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management’s discussion and analysis, the schedule of TJPA’s share of the net pension liability, schedule of pension contributions and the schedule of funding progress for other postemployment benefits, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of governing board and management of the TJPA and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 5, 2017

**TRANSBAY JOINT
POWERS AUTHORITY**
San Francisco, California

Annual Financial Report

For the Year Ended June 30, 2017

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TRANSBAY JOINT POWERS AUTHORITY
For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TJPA's basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017 on our consideration of the TJPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TJPA's internal control over financial reporting and compliance.

Vavrinek, Trinc, Day & Co. LLP

Palo Alto, California

December 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

The following discussion and analysis provides an overview of the Transbay Joint Powers Authority's ("TJPA") financial activities for the year ended June 30, 2017 with comparative information for the year ended June 30, 2016. Please read it in conjunction with the TJPA's basic financial statements, which follow this section.

Financial Highlights

During the year ended June 30, 2017:

- The TJPA received \$21,780,891 in capital contributions, which were put towards the Transbay Program (the "Program"), which consists of both the transit center and the Caltrain Downtown Extension ("DTX") projects.
- Draws on the TJPA's TIFIA loan as well as from interim financing being provided through the City and County of San Francisco ("City") commenced during the fiscal year.
- At the close of the fiscal year, assets and deferred outflows of the TJPA exceeded its liabilities and deferred inflows by \$1,820,552,344.

Construction and Operating Highlights

- Transit center construction work continued, with 3,676,273 craft hours completed through June 2017. All below-grade structural concrete work was completed, and superstructure concrete was nearly complete. The majority of work under trade subcontracts for a variety of shell, interior, systems, and vertical circulation packages was nearing completion, including installation of the aluminum 'Penrose pattern' exterior awning.
- Construction of the bus ramp from the San Francisco-Oakland Bay Bridge into the transit center was substantially complete. Construction of the bus storage facility underneath Interstate 80 began in May.
- An asset manager agreement was awarded, and planning for the transition of operations from the Temporary Transbay Terminal to the new transit center was underway. The asset manager will serve as facility manager and leasing agent for the transit center. Under a naming rights agreement entered into with salesforce.com during the fiscal year, the transit center will be known as "Salesforce Transit Center".

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the TJPA's basic financial statements. The annual financial report for the TJPA includes this management's discussion and analysis ("MD&A"), the basic financial statements and notes to the basic financial statements.

The TJPA is reported as an *enterprise fund*. Enterprise funds are a type of proprietary fund that is used to report information in a manner similar to a private-sector business. An enterprise fund is used to account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. Under the Joint Powers Agreement creating the TJPA, dated April 4, 2001, the new transit center and related facilities will be managed and operated upon their completion as an enterprise operation.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

The basic financial statements include the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Fund Net Position; and Statement of Cash Flows. Following is a brief explanation of the use of each of the statements.

The *Statement of Net Position* presents information on all of the TJPA's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the TJPA is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how the TJPA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *Statement of Cash Flows* presents the cash inflows and outflows and the resulting cash position at fiscal year-end.

Notes to the Basic Financial Statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Statement Analysis

The TJPA has applied Governmental Accounting Standards Board ("GASB") Statement No. 34. In accordance with GASB, a comparative analysis of financial data is presented.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

TJPA'S CONDENSED STATEMENTS OF NET POSITION

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current and other assets	\$ 21,452,188	\$ 28,748,537	\$ (7,296,349)	-25%
Restricted assets	64,355,863	228,457,418	(164,101,555)	-72%
Capital assets	1,971,260,481	1,617,941,436	353,319,045	22%
Total assets	<u>2,057,068,532</u>	<u>1,875,147,391</u>	<u>181,921,141</u>	10%
Deferred outflows of resources:				
Pension related	931,853	692,675	239,178	35%
Derivative instrument-interest rate cap	652,043	-	652,043	n/a
Total deferred outflows of resources	<u>1,583,896</u>	<u>692,675</u>	<u>891,221</u>	129%
Liabilities:				
Current and other liabilities	84,441,235	68,700,395	15,740,840	23%
TIFIA loan payable	86,011,519	-	86,011,519	n/a
Intergovernmental liability to the City for: interim COP financing	49,000,000	-	49,000,000	n/a
re-conveyance of State transferred land	18,414,675	18,414,675	-	0%
Total liabilities	<u>237,867,429</u>	<u>87,115,070</u>	<u>150,752,359</u>	173%
Deferred inflows of resources:				
Pension related	<u>232,656</u>	<u>300,628</u>	<u>(67,972)</u>	-23%
Net Position:				
Net investment in capital assets	1,701,726,960	1,525,036,717	176,690,243	12%
Restricted				
O&M Reserve for transit center	6,256,886	4,763,312	1,493,574	31%
Construction of transit center	99,884,262	252,359,978	(152,475,716)	-60%
Debt service	4,315,471	2,509,708	1,805,763	72%
Unrestricted	8,368,766	3,754,653	4,614,113	123%
Total net position	<u>\$ 1,820,552,345</u>	<u>\$ 1,788,424,368</u>	<u>\$ 32,127,977</u>	2%

Total net position at June 30, 2017 includes invested in capital assets, net of related debt, which is comprised of construction in progress of \$1,766,626,232, land scheduled to be permanently and temporarily retained by the TJPA of \$186,082,200, and permanent easements of \$137,374. The construction in progress includes construction, construction management, program management, and administrative costs necessary to support the development of the transit center and DTX, as well as information technology costs for website development and labor compliance software.

\$4,315,471 of current year net position is net tax increment funds restricted for debt service, being used to pay the ongoing interest costs of the interim City financing. A \$6,256,886 restriction of total current year net position results from the restriction of the net position of operations for an Operating and Maintenance Reserve. The Operating and Maintenance Reserve can only be used for the operations and maintenance of Program facilities, including the Temporary Terminal, the future transit center, or the future DTX. The \$1,493,574 increase in restricted assets for the operating and maintenance reserve resulted from operating revenues, including a new licensing agreement for a neutral host distributed antennae system ("DAS") for cellular networks in the transit center.

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

In addition, \$99,884,262 is restricted for construction of the transit center as a result of land sales proceeds (see Note 4 for additional information). Total current year net position also includes \$8,368,766 in unrestricted net position which is derived from TJPA's non-operating revenues and is to be used for acquisition of capital assets.

The \$7,296,348 net decrease in current and other assets resulted primarily from a \$10,110,657 decrease in grantor receivables outstanding at fiscal year-end. The \$164,101,554 decrease in restricted assets resulted primarily from lower investment balances as land sales proceeds are spent down. The changes in deferred outflows of resources and deferred inflows of resources are due to accounting treatment of pension amounts, and the purchase of a derivative instrument to protect against rising interest rates under the interim City financing.

The net increase of \$15,740,840 in current and other liabilities resulted primarily from a \$15,813,399 increase in retainage payable and an \$851,789 decrease in intergovernmental payables. In addition, liabilities increased by \$135,011,019 with the commencement of draws on the TIFIA loan and interim City financing.

TJPA'S CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Temporary Terminal operating income				
Operating revenues	\$ 1,493,574	\$ 481,697	\$ 1,011,877	210%
Operating expenses	-	-	-	0%
Operating income	<u>1,493,574</u>	<u>481,697</u>	<u>1,011,877</u>	210%
Nonoperating revenues (expenses)				
Operating grant for Temporary Terminal				
Revenue	4,691,507	3,817,607	873,900	23%
Expenses	(4,691,507)	(3,817,607)	(873,900)	23%
Net operating grant	<u>-</u>	<u>-</u>	<u>-</u>	0%
Investment income	2,530,620	876,211	1,654,409	189%
Loss on interest rate cap	-	(4,660,288)	4,660,288	
Rental revenues	95,275	114,110	(18,835)	-17%
Miscellaneous revenues	4,171	39	4,132	10595%
Net tax increment revenue	5,089,445	1,631,749	3,457,696	212%
CFD impact fee revenue	1,134,000	-	1,134,000	n/a
Gain on conveyance of land	-	403,076,028	(403,076,028)	-100%
Gain on conveyance of air rights	-	170,000	(170,000)	-100%
Total nonoperating revenues	<u>8,853,511</u>	<u>401,207,849</u>	<u>(392,354,338)</u>	-98%
Income before capital contributions	<u>10,347,085</u>	<u>401,689,546</u>	<u>(391,342,461)</u>	-97%
Capital contributions				
Federal government capital grants	3,490,886	7,324,826	(3,833,940)	-52%
State government capital grants	2,152,550	21,882,281	(19,729,731)	-90%
Local government capital grants	12,954,138	38,286,442	(25,332,304)	-66%
Other capital contributions	3,183,317	647,968	2,535,349	391%
Total capital contributions	<u>21,780,891</u>	<u>68,141,517</u>	<u>(46,360,626)</u>	-68%
Change in net position	32,127,976	469,831,063	(437,703,087)	-93%
Net position- beginning	1,788,424,367	1,318,593,304	469,831,063	36%
Net position- ending	<u>\$ 1,820,552,343</u>	<u>\$ 1,788,424,367</u>	<u>\$ 32,127,976</u>	2%

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

Operating revenues

Operation of the Temporary Terminal commenced on August 7, 2010. The source of fiscal year 2017 operating revenues of \$1,493,574 was Temporary Terminal lease and advertising revenues, plus a new DAS licensing agreement for the transit center. The increase in operating revenues of \$1,011,878 is due mainly to the addition of the DAS licensing agreement. No operating expenses were funded from operating revenues.

Nonoperating revenues

The TJPA funds facility management and related operating expenses from a Metropolitan Transportation Commission ("MTC") Regional Measure 2 ("RM-2") operating grant. Total fiscal year 2017 operating grant revenues and expenses were \$4,691,507.

The fiscal year 2017 increase in investment income of \$1,654,410 is attributable mainly to the gain on the sale of the interest rate cap previously held as a hedge for a prior bank loan (the "bridge loan"). The increase in miscellaneous revenues is attributable to the inherent variability of revenues earned in this category. The increase in net tax increment revenue of \$3,457,696 is due to additional taxed properties coming on the tax rolls, and property values increasing through construction progress. No additional land parcels were sold this fiscal year.

Capital contributions (See Note 2 for additional information)

For the year ended June 30, 2017, the TJPA received \$21,780,891 in capital contributions. The continued decrease in capital contributions from prior fiscal years reflects the continued shift of TJPA's funding sources from capital grants to debt and other sources. Capital contributions were expended on the Transbay Program, which includes a new transit center building, bus ramp, new bus storage facility, and an extension of rail lines for Caltrain and future California High Speed Rail from the current Caltrain San Francisco terminus to the transit center. At June 30, 2017, the TJPA had capital project contract commitments of \$249,507,069 for construction, design, engineering, planning and administrative costs. Additional information on the TJPA's capital assets can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The TJPA Board approved the fiscal year 2018 Capital Budget on June 8, 2017. The main component of the TJPA's fiscal year 2018 \$404,489,900 Capital Budget is the completion of construction of the new transit center. Approximately \$361 million is budgeted for construction activities and \$11.4 million for construction management. The TJPA has also budgeted approximately \$5 million for DTX preliminary engineering in fiscal year 2018.

The TJPA's fiscal year 2018 budget anticipates that most of the revenues to pay for these expenditures will be provided by the following sources: land sales proceeds, unspent proceeds from the bridge loan, additional financing provided by the TIFIA loan and the City, the funding identified in the expenditure plan approved by the voters for the half cent sales tax for transportation in San Francisco ("Prop K"), and to a lesser extent the bridge toll increases approved in Regional Measure 1 and 2 and AB1171 ("RM-1", "RM-2" and "AB1171"), and grants from the Federal Transit Administration ("FTA").

TRANSBAY JOINT POWERS AUTHORITY
Management's Discussion and Analysis
(Required Supplementary Information-Unaudited)
For the Year Ended June 30, 2017

The approved fiscal year 2018 Capital Budget shows revenues in two categories—committed and planned. Committed revenues are those planned expenditures of grants that were allocated, or land sales and debt proceeds already received, at the time the TJPA Board approved the 2018 fiscal year budget, and planned revenues include sources that have pending applications with funding partners or applications that are anticipated to be submitted and approved during the fiscal year. This is explained in detail in the staff reports which were submitted with the fiscal year 2018 budget presentations and can be found on the TJPA website for the May 11 and June 8, 2017 TJPA Board meetings.

The fiscal year 2018 Operating Budget was approved June 8, 2017, and consists of \$16,105,000 in revenues and expenditures. Expenditures include a facility management contract, operating support for AC Transit, and parking control officers for the Temporary Terminal. The budget also anticipates opening the transit center during the fiscal year, and includes associated expenses. Approximately half of the revenues will be provided by RM-2 operating funds. The remainder will be covered through lease, advertising and DAS revenue, and other regional contributions.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Transbay Joint Powers Authority, 201 Mission Street, Suite 2100, San Francisco, California 94105.

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BASIC FINANCIAL STATEMENTS

TRANSBAY JOINT POWERS AUTHORITY

Statement of Net Position

June 30, 2017

Assets:

Current assets:

Cash and cash equivalents:

Cash in bank	\$ 1,254,358
Restricted cash for operations and maintenance of the Transbay Transit Center	85,138
Restricted cash for construction of the Transit Center	231,529
Equity in pooled cash and investments with the City and County of San Francisco	5,002,257
Equity in pooled cash and investments with the City and County of San Francisco - restricted for operations and maintenance of the Transit Center	5,023,684
Equity in pooled cash and investments with the State of California	3,081,941
Equity in pooled cash and investments with the State of California - restricted for operations and maintenance of the Transit Center	1,200,000
Total cash and cash equivalents	15,878,907

Receivables:

Federal government	124,718
Metropolitan Transportation Commission	2,954,904
San Francisco County Transportation Authority	2,431,024
Alameda-Contra Costa Transit District	332
Accounts receivable	459,475
Total receivables	5,970,454

Other current assets:

Prepaid items	79,160
Security deposits held by others	7,751
Total other current assets	86,911
Total current assets	21,936,272

Noncurrent assets:

Restricted assets:

Cash	333,703
Equity in pooled cash and investments with the State of California	1,461,981
Investments	61,408,515
Interest receivable	59,623
Interest rate cap	607,957
Total restricted assets	63,871,780

Capital assets, nondepreciable:

Land	186,082,200
Permanent easements	137,374
State transferred land to be re-conveyed to the City and County of San Francisco	18,414,675
Construction in progress:	
Information technology	165,965
Transit Center	1,709,023,104
Caltrain Downtown Extension	57,437,163
Total nondepreciable capital assets	1,971,260,481
Total noncurrent assets	2,035,132,261

Total Assets

2,057,068,533

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Net Position (Continued)
June 30, 2017

Deferred Outflows of Resources:	
Pension related	931,853
Derivative instrument-interest rate cap	652,043
Total Deferred Outflows of Resources	<u>1,583,896</u>
Liabilities:	
Current liabilities:	
Accounts, contracts and intergovernmental payables	38,883,989
Accrued payroll	78,568
Retainage payable	43,437,047
Intergovernmental payables-related parties	
Caltrans	38,146
City and County of San Francisco	427,425
AC Transit	678,829
Accrued interest payable	54,042
Unearned revenue	82,936
Deposits payable	32,900
Total current liabilities	<u>83,713,883</u>
Noncurrent liabilities:	
USDOT TIFIA loan payable	86,011,519
Intergovernmental liabilities to the City and County of San Francisco:	
for interim financing	49,000,000
for re-conveyance of State transferred land	18,414,675
Compensated absences, accrued vacation	157,414
Net pension liability	569,938
Net other postemployment benefit obligation	-
Total noncurrent liabilities	<u>154,153,546</u>
Total Liabilities	<u>237,867,429</u>
Deferred Inflows of Resources:	
Pension related	232,656
Total Deferred Inflows of Resources	<u>232,656</u>
Net Position:	
Net investment in capital assets	1,701,726,960
Restricted	
Operations and maintenance of Transit Center	6,256,886
Construction of Transit Center	99,884,262
Debt Service	4,315,471
Unrestricted	8,368,766
Total Net Position	<u>\$ 1,820,552,344</u>

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

Operating Revenues:	
Neutral host distributed antennae system revenue	\$ 1,000,000
Lease revenue	437,521
Advertising revenue	56,053
Total operating revenues	<u>1,493,574</u>
Operating Expenses:	
Total operating expenses	<u>-</u>
Operating Income	<u>1,493,574</u>
Nonoperating Revenues and Expenses:	
Operating grant (MTC)	
Operating grant revenue	<u>4,691,507</u>
Operating grant expenses:	
AC Transit incremental operating and maintenance costs	2,430,396
Facility Management	2,081,285
Parking Control Officers	128,549
Insurance	51,278
Total operating grant expenses	<u>4,691,507</u>
Net operating grant revenues (expenses)	<u>-</u>
Investment income	2,530,620
Net tax increment revenue	5,089,445
Community Facilities District impact fee revenue	1,134,000
Rental revenues	95,275
Miscellaneous revenues	4,171
Total nonoperating revenues	<u>8,853,511</u>
Income Before Capital Contributions	<u>10,347,085</u>
Capital Contributions:	
Federal government capital grants	3,490,886
State government capital grants	2,152,550
Local government capital grants:	
Regional Measures, bridge tolls	2,189,184
Proposition K, half cent sales tax	10,764,954
Other capital contributions	3,183,317
Total Capital Contributions	<u>21,780,891</u>
Change in Net Position	32,127,977
Net Position, Beginning of Year	1,788,424,367
Net Position, End of Year	<u><u>\$ 1,820,552,344</u></u>

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Cash receipts from Temporary Terminal lease revenue	\$ 438,193
Cash receipts from Temporary Terminal advertising revenue	56,053
Cash receipts from Transit Center neutral host distributed antennae system revenues	1,000,000
Cash payments to suppliers for goods and services	-
Net cash provided by operating activities	<u>1,494,246</u>
Cash Flows from Noncapital Financing Activities:	
Operating grant, net	-
Cash receipts from rental revenues	95,275
Other noncapital increases (decreases)	(218,451)
Net cash used for noncapital financing activities	<u>(123,175)</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital debt	135,011,519
Purchase of derivative instrument-interest rate cap	(1,260,000)
Federal government capital grants received	4,917,314
State government capital grants received	3,916,639
Local government capital grants received	21,238,391
Other capital contributions received	3,224,225
Net tax increment revenue received	5,089,445
Community Facilities District impact fee revenue received	1,134,000
Acquisition of capital assets	(339,092,588)
Net cash used for capital and related financing activities	<u>(165,821,054)</u>
Cash Flows from Investing Activities:	
Purchases of investment securities	(581,143,045)
Proceeds from maturities of investment securities	743,148,214
Investment income received	4,336,754
Net cash provided by investing activities	<u>166,341,922</u>
Net Increase in Cash and Cash Equivalents	1,891,940
Cash and Cash Equivalents, Beginning of Year	<u>15,782,651</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,674,591</u>
Cash and Cash Equivalents, End of Year:	
Cash and cash equivalents, unrestricted	\$ 15,878,907
Cash and cash equivalents, restricted	1,795,684
Cash and cash equivalents, end of year	<u>\$ 17,674,591</u>

(Continued)

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 1,493,574
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in unearned revenue	672
Net cash provided by operating activities	<u><u>\$ 1,494,246</u></u>
Supplemental disclosures of cash flow information	
Noncash capital financing activities:	
Acquisition of capital assets on accounts payable, contracts payable, intergovernmental payables, retainage payable and accrued liabilities	<u><u>\$ 81,790,742</u></u>
Acquisition of capital assets from capital debt	<u><u>\$ 176,628,803</u></u>

See accompanying notes to the basic financial statements.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 1 - ORGANIZATION

In April 2001, the City, Alameda-Contra Costa Transit District (“AC Transit”), and the Peninsula Corridor Joint Powers Board (“PCJPB”) (collectively, “Member Agencies”) entered into an agreement creating the Transbay Joint Powers Authority (“TJPA”) to design, build, develop, operate and maintain a new transportation terminal (“transit center”) and associated facilities in San Francisco (collectively, the “Transbay Program” or “Program”).

The TJPA Board of Directors (“TJPA Board”) is composed of one director appointed by each of the following agencies:

- Alameda-Contra Costa Transit District
- City and County of San Francisco, Board of Supervisors
- City and County of San Francisco, Mayor’s Office
- San Francisco Municipal Transportation Agency
- Peninsula Corridor Joint Powers Board
- State of California Department of Transportation (ex-officio)

The State of California (“State”) has granted the TJPA primary jurisdiction with respect to all matters pertaining to the financing, design, development, construction, and operation of the new Transit center. The Member Agencies of the TJPA have granted to the TJPA most of their jointly held powers, including the authority to buy and sell property, to enter into contracts, and to accept and expend grants of cash and property. The TJPA’s management functions include contract oversight, policy direction, financing, investment supervision, and coordinating and collaborating with, among others, the U.S. Department of Transportation, the State, and local entities including the Member Agencies.

The Program will provide expanded bus and rail service in a new transit center building on the site of the former Transbay Terminal in downtown San Francisco at First and Mission Streets. Also included in the Program is a ramp linking the new transit center to the Bay Bridge and to off-site bus storage facilities; a below-grade extension of Caltrain to the new transit center building, including the construction of a new subsurface station in the vicinity of Fourth and Townsend Streets; modifications to the existing Fourth and Townsend surface station; a temporary terminal for use by buses during construction of the new Transit center; and a new permanent off-site bus storage facility. The new transit center will eventually accommodate not only buses and commuter trains but also California High-Speed Rail.

Based upon the TJPA Board’s adopted implementation plan, the Project is divided into two phases: the design and construction of the Transit Center Building and Train Box as Phase 1, and the design and construction of the DTX as Phase 2. Phase 1 has completed major milestones including commencement of construction. Phase 2 is at approximately a 30 percent design level; final design and construction will commence when the required revenues and financing have been secured.

The TJPA is legally separate and financially independent and is not considered a component unit of the State, City, AC Transit, or the PCJPB. Therefore, these financial statements represent solely the activities, transactions and status of the TJPA.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 1 - ORGANIZATION (Continued)

The TJPA's major funding sources include grants from the federal government; grants of local revenue sharing ("Capital and Operating Grants") from AC Transit, MTC, and the San Francisco County Transportation Authority ("SFCTA"); and proceeds from sale of land parcels formerly owned by the State. In addition, financing was provided in fiscal year 2015 through a direct loan from Goldman Sachs Bank USA and Wells Fargo Securities LLC. TJPA commenced utilization of additional debt proceeds from a federal Transportation Infrastructure Finance and Innovation Act ("TIFIA") loan and the City in fiscal year 2017. See Note 9 for information on debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The TJPA is a single enterprise fund. The activities of the TJPA are reported using the economic resources measurement focus and its records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and Program capital outlay and operating expenses are recorded when the related liability is incurred.

The TJPA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and operating expenses currently result primarily from the operation of the Temporary Terminal. Any excess of actual operating revenues over expenses is restricted for the Operating and Maintenance Reserve. Expenses funded by an operating grant are also incurred in operations but are considered nonoperating expenses as they are grant funded. The TJPA will generate additional transit center operating revenues and incur additional operating expenses once the transit center is complete and placed into service.

As noted above, nonoperating revenues result from an operating grant, as well as investment income, rent from property tenants other than transportation operators, and miscellaneous revenue.

All active TJPA capital grants are expenditure-driven restricted grants. Restricted grant revenue is recognized only when qualifying expenditures are incurred. That is, restricted grant revenue recognition is driven by restricted grant-related expenditures being incurred.

When Program costs are incurred, if there is both restricted and unrestricted net position available to finance the costs, it is the TJPA's policy to first apply restricted grant and revenue sharing resources to such Program costs.

Cash Equivalents and Investments

The TJPA reports all highly liquid investments with a maturity of twelve months or less when purchased as cash equivalents or investments at cost. The deposits in the City and State investment pools are considered to be cash equivalents as the pools function as demand deposit accounts. Investments that are not highly liquid, or had maturities longer than twelve months at purchase, would be reported at fair value derived from the investment account statements. TJPA did not hold any such investments at June 30, 2017 (see Note 3).

Prepaid Items

Resource outflows that do not yet meet the criteria for expenditure recognition, in that they benefit a future fiscal period, are recorded as prepaid items. At June 30, 2017, the total amount of prepaid items is \$79,160.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits Payable

The TJPA may require deposits from tenants of TJPA-owned rental property and the Temporary Terminal, as well as from developers during negotiations. At June 30, 2017, the TJPA had a deposit payable for a rental property totaling \$8,900, and a deposit payable of \$24,000 for a Temporary Terminal operating lease.

Unearned Revenue

Resource inflows that do not yet meet the criteria for revenue recognition are recorded as unearned revenue. Capital contribution revenue from the TJPA's expenditure-driven grants and from other contributors such as adjacent property developers or tenants is recognized only when qualifying expenditures are incurred or the rental period begins. At June 30, 2017, the total amount of unearned revenue is \$82,936.

Compensated Absences

It is the policy of TJPA to permit employees to accumulate earned but unused vacation and sick pay benefits. Each employee is assigned an accrual rate and allowed to accrue up to two years' worth of vacation benefits. Vacation pay is accrued when earned. At June 30, 2017 the amount of accrued vacation payable is \$157,414. There is no limit on accrual of sick leave, but also no liability for unpaid accumulated sick leave since TJPA does not have a policy to pay any amounts for sick leave when employees separate from service.

Capital Assets

The TJPA defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Land, including land transferred by the State that may be re-conveyed to the City or the Office of Community Investment and Infrastructure ("OCII") for future use or sale, and permanent easements are recorded as non-depreciable capital assets. Information technology, transit center, and DTX capital asset costs are classified as construction in progress until such assets are completed and placed in service, at which time the TJPA will commence recording depreciation expense on depreciable capital assets.

All construction in progress costs associated with the planning and construction of the Program that are not directly associated with either the transit center or the DTX are accumulated as indirect program-wide costs. The annual increase in accumulated indirect program-wide costs is allocated to the transit center and DTX based on the respective percentage increase of annual direct costs of each project.

Non-depreciable land capital assets include the cost of the land and associated acquisition costs. Under the TJPA's capital asset policy, land costs include the following in addition to the actual acquisition costs: title and closing costs; relocation services, consultation and assistance; appraisal services; environmental consulting; land surveys; and site preparation including demolition.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions

The TJPA receives expenditure-driven restricted capital grants from the federal government. Details for the various active federal government direct and pass-through capital grants are presented in the “Schedule of Expenditures of Federal Awards” (“SEFA”). In addition to the grants listed in the SEFA, during the fiscal years ended June 30, 2002 through 2008, \$8,795,355 in Federal Transit Formula Grants were passed through from the San Francisco Municipal Transportation Agency to the TJPA and disbursed. Other FTA, FRA and Federal Emergency Management Agency (“FEMA”) grants now closed and not included in the SEFA total \$27,399,823, which was spent on Program capital expenditures in prior fiscal years.

The State provides direct and pass-through expenditure-driven restricted capital grants, the details for which are presented in Note 8, Local and State Revenue Funding Agreements. Land transferred (conveyed) from the State and scheduled to be permanently retained by the TJPA is recorded as a capital contribution. Land transferred (conveyed) from the State which is scheduled to be re-conveyed to the City or OCII during or at the end of the interim construction period is recorded as an intergovernmental liability. See Note 4, Capital Assets, for details regarding State-conveyed land.

Grants from local agency expenditure-driven restricted shared revenues and pass-through grants for the TJPA Capital Program are provided from:

AC Transit	Federal and State pass through grants
MTC	State-owned bridge tolls
SFCTA	Sales and use tax
SMCTA	Sales tax

See Note 8, Local and State Revenue Funding Agreements, for details regarding the local government capital grants from AC Transit, MTC, SFCTA, and San Mateo County Transportation Authority (“SMCTA”).

Contributions of donated noncash, nonland assets are recorded at estimated acquisition value in the period received as in-kind contributions. The TJPA recorded donated materials and survey and planning services during the two-year period ended June 30, 2004 from the former San Francisco Redevelopment Agency (now OCII) in the amount of \$798,689.

Capital grants and contributions from external sources are recognized as capital contributions earned when the related allowable expenditures are incurred.

Federal and State grants, State-conveyed land scheduled to be retained by the TJPA, grants from local agency shared revenues, and in-kind contributions for the TJPA Capital Program are reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position as capital contributions.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions (Continued)

The table below summarizes the current year and life-to-date capital contributions for each of TJPA's funding partners.

Funding Partner	Current Fiscal Year Actual	Life-To-Date Actual		
		Approved Award	Actual	Unexpended Award
Federal government				
Capital grants	\$ 3,490,886	\$ 475,779,260	\$ 468,922,686	\$ 6,856,574
Total Federal government	<u>3,490,886</u>	<u>475,779,260</u>	<u>468,922,686</u>	<u>6,856,574</u>
State government				
Capital grants	2,152,550	46,365,490	46,222,402	143,088
Total State government	<u>2,152,550</u>	<u>46,365,490</u>	<u>46,222,402</u>	<u>143,088</u>
Local agencies				
MTC	2,189,184	354,400,000	350,389,373	4,010,627
SFCTA	10,764,954	189,935,075	182,784,102	7,150,973
SMCTA	Completed	23,359,514	23,359,514	-
SFRA in-kind contribution	Completed	798,689	798,689	-
Total local agencies	<u>12,954,138</u>	<u>568,493,278</u>	<u>557,331,678</u>	<u>11,161,600</u>
Total grantor contributions	18,597,574	<u>\$ 1,090,638,028</u>	1,072,476,766	<u>\$ 18,161,262</u>
Other capital contributions	3,183,317		12,265,218	
Total capital contributions	<u>\$ 21,780,891</u>		<u>\$ 1,084,741,984</u>	

Percent of the total life-to-date actual grantor contributions made by funding partners:

	Federal	State	Local	Total
Amount	\$ 468,922,686	\$ 46,222,402	\$ 557,331,678	\$ 1,072,476,766
Percent	44%	4%	52%	100%

Net Position

The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the Statement of Net Position is classified as Net Position and is subdivided into the following three categories:

Net Position-Net investment in capital assets

This component of net position consists of capital assets, net of related debt and of accumulated depreciation (when applicable), reduced by obligations to re-convey State-transferred land. At June 30, 2017, the TJPA has \$135,011,519 in debt related to acquisition of capital assets, and \$18,414,675 recorded as an intergovernmental liability to the City for re-conveyance of State-transferred land. Total invested in capital assets net of related debt is \$1,701,726,960.

Net Position-Restricted

Restricted net position has external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net position.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net position at June 30, 2017 is as follows:

Restricted for operations and maintenance of TTC	\$	6,256,886
Restricted for construction		99,884,262
Restricted for debt service		4,315,471
Total restricted net position	\$	<u>110,456,619</u>

Net Position-Unrestricted

This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”. At June 30, 2017, unrestricted net position is \$8,368,766.

Operating and Nonoperating Revenues and Operating and Maintenance Reserve

The Transbay Temporary Terminal provides temporary bus terminal facilities while construction of the new multi-modal transit center takes place. Located minutes from the former terminal on the block bounded by Main, Folsom, Beale and Howard Streets, the Temporary Terminal serves AC Transit, WestCAT Lynx, SF Muni, Golden Gate Transit, SamTrans and Greyhound passengers. Temporary Terminal construction began in 2008 and was completed in 2010, with operations commencing in August 2010. The Temporary Terminal will serve commuters until the new transit center opens in 2018.

Operating Revenue

Temporary Terminal operating revenues consist of lease and advertising revenue. Additional operating revenue is received from a DAS licensing agreement for the new transit center; \$1,000,000 was received in fiscal year 2017. Total operating revenue for the fiscal year was \$1,493,574, and no operating and maintenance expenses were funded from operating revenues.

Nonoperating Revenue

Restricted operating assistance from local shared revenues (operating grants) is classified as nonoperating revenue and recorded as earned revenue when the related expenses are incurred. The TJPA receives an annual operating grant from MTC RM-2 state-owned bridge tolls to fund Temporary Terminal facility management expenses, including utilities, security, and primary tenant AC Transit’s increased costs to operate from the Temporary Terminal. The same grant will also partially fund operations at the transit center, and those costs were incurred beginning this fiscal year as planning for the operational transition commenced.

For the year ended June 30, 2017, the MTC-approved RM-2 operating grant allocation total is \$4,691,867 of which \$4,691,507 was expended leaving an unexpended balance of \$360. The unexpended operating grants do not carry over to the following fiscal year. MTC approves a new operating grant for each fiscal year.

Operating and Maintenance Reserve

The net position of the Temporary Terminal is restricted pursuant to the September 29, 2008 TJPA Board of Directors-approved comprehensive Lease and Use Agreement that controls AC Transit’s bus operations in the Temporary Terminal and future operations in the transit center. The net position of the Temporary Terminal is restricted for the Operating and Maintenance Reserve for Program facilities and is not available for construction of the transit center or the DTX. At June 30, 2017, net position of \$6,256,886 is restricted for the Operating and Maintenance Reserve.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The purpose of the Operating and Maintenance Reserve is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable costs. Disbursements from restricted Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
- Authorized under the annual Operating and Maintenance budget approved by the Board; or
- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the criteria described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital to fulfill contractual or other obligations, for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary “borrowing” of cash from this reserve. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of current fiscal year Temporary Terminal or transit center (as applicable) direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

Pensions

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

Derivative Instruments

TJPA’s interest rate cap is accounted for in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (“GASB 53”), and the change in fair value of the hedging derivative instrument is reported as a deferral in the Statement of Net Position. See Note 9 for further discussion of TJPA’s interest rate cap.

Rounding

One-dollar differences within and between statements and schedules are due to rounding.

Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The TJPA's investment policy allows the TJPA to invest cash balances in insured savings or money market accounts in a qualified public depository as established by California state law, the City Treasurer's investment pool, the State's Local Agency Investment Fund ("LAIF"), or through trust accounts required by agreements, including the 2003 Cooperative Agreement with the State and financing agreements such as the TIFIA loan agreement with the USDOT, for the deposit of various types of revenues and debt proceeds.

TJPA's cash held in the City and State investment pools is considered to be cash and cash equivalents because it has the same characteristics as a demand deposit. The TJPA's investments in the pools may be deposited or withdrawn without notice or penalty. Because the TJPA's short-term position in these pools is considered to be a demand deposit, the TJPA does not record any allocated share of unrealized gains or losses. TJPA cash held in the City and State pools on June 30, 2017 is \$15,769,863 and is classified in the statement of net position as follows:

Account Name	City Pool	State LAIF Pool
Restricted cash for O&M	\$ 5,023,684	\$ 1,200,000
Restricted cash for construction	-	1,461,981
Equity in pooled cash and investments	5,002,257	3,081,941
Total	\$ 10,025,941	\$ 5,743,923

TJPA participation in the City and State pools is voluntary. Additional information regarding the City pool is presented in the notes of the City's basic financial statements. Additional information regarding LAIF is available online at www.treasurer.ca.gov/pmia-laif/laif.asp.

As of June 30, 2017, the TJPA had investments of \$61,408,515 in U.S. Treasury notes, U.S. Treasury bills, U.S. Agency notes, commercial paper, negotiable certificates of deposit and money market funds, all considered highly liquid with a term to maturity at purchase of less than one year. Accordingly, all investments below are reported at cost, rather than fair market value:

Type	Value	Credit Ratings S&P	Percent of Total Portfolio
Cash Equivalents			
Commercial paper	\$ 11,978,177	A-1	15%
Negotiable certificates of deposit	5,750,000	N/A	7%
Money market mutual funds	9,759,994	AAAm	12%
Investments			
U.S. Agency notes	19,943,566	A-1	25%
U.S. Treasury notes	3,995,667	N/A	5%
U.S. Treasury bills	9,981,111	N/A	13%
Total investments	61,408,515		78%
Cash and pooled investments	17,340,888	N/A	22%
Total Portfolio	\$ 78,749,404		100%

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

If any of the investments were reported at fair value rather than at cost, TJPA would categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets. Level 1 assets may include debt and equity securities that are traded in an active exchange market, are highly liquid, and are actively traded in over-the-counter markets.

Level 2 inputs are significant other observable inputs such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads.

Level 3 inputs are unobservable and should be developed using the best information available under the circumstances; TJPA does not have any Level 3 investments at June 30, 2017. TJPA's fair value measurements would be categorized as follows at June 30, 2017:

- U.S. Treasury securities are Level 1, valued using quoted market prices.
- U.S. Agency securities are Level 2, valued using IDSI institutional bond quotes.
- Commercial paper is Level 2, valued using a matrix pricing model.
- Certificates of deposit are Level 2, valued using market prices.
- Money market mutual funds are Level 2, valued at \$1 per share.

TJPA's investments in the City and State investment pools are uncategorized; they are not measured using the input levels described above because TJPA's transactions are based on a stable net asset value of \$1 per share.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. Certificates of deposit are insured by the Federal Deposit Insurance Corporation up to \$250,000; all TJPA certificates of deposit are \$250,000 or less in value. The credit ratings of other TJPA investments are disclosed above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The issuer and amount of investments representing 5 percent or more of total investments are disclosed in the table below:

<u>Issuer</u>	<u>Type</u>	<u>Amount</u>	<u>Percent of Total Portfolio</u>
Federated Govt Obl.	Money Market MF	\$ 5,634,973	7%
Bank of Tokyo	Commercial Paper	4,995,972	6%
Natixis NY	Commercial Paper	6,982,205	9%
U.S. Agency	Notes	19,943,566	25%
U.S. Treasury	Notes and Bills	13,976,778	18%

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. California Government Code limits investments in U.S. Treasury Obligations, commercial paper, and negotiable certificates of deposit to a maximum maturity of five years, 270 days, and five years, respectively, which helps to mitigate this risk since the prices of fixed-income securities with a longer time to maturity tend to be more sensitive to changes in interest rates. At June 30, 2017, TJPA had a series of investments in U.S. Treasury Notes and Bills that matured by September 30, 2017; U.S. Agency Notes that matured by October 10, 2017; commercial paper that matured by July 31, 2017; and negotiable certificates of deposit with the latest maturity by October 17, 2017.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TJPA investment policy limits deposits to qualified public depositories as established by state law. The amounts placed on deposit with the bank were covered by federal depository insurance and were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent but not in the TJPA's name.

Custodial credit risk for investments is the risk that, in the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2017, \$33,920,344 of U.S. Treasuries and Agencies, and \$11,978,177 in commercial paper were held by the same broker-dealer (counterparty) that was used to purchase the securities.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 4 - CAPITAL ASSETS

The TJPA's capital assets consist of land, including land transferred by the State that may be re-conveyed to the City, permanent easements, and accumulated construction in progress related to the transit center and DTX. Construction in progress also includes intangible assets that are recorded as Information Technology in the statement of net position, which consists of costs to develop the TJPA's website and labor compliance software licensing. Capital assets are recorded at historical cost if purchased or constructed. Capital assets not purchased or constructed are recorded at estimated fair value at the time of acquisition.

Capital Asset Activity for the Fiscal Year Ended June 30, 2017

	Beginning of Fiscal Year	Current Year Acquisitions	Current Year Dispositions	End of Fiscal Year
Capital assets not being depreciated:				
Land	\$ 186,075,690	\$ 6,510	\$ -	\$ 186,082,200
Permanent easements	137,374	-	-	137,374
State transferred land to be re-conveyed to the City	18,414,675	-	-	18,414,675
Construction in progress:				
Information technology	158,965	7,000	-	165,965
Transbay Transit Center	1,357,765,184	351,257,920	-	1,709,023,104
Caltrain Downtown Extension	55,389,548	2,047,616	-	57,437,164
Total capital assets not being depreciated	1,617,941,436	353,319,046	-	1,971,260,482
Less outstanding capital related obligation:				
Intergovernmental liability to the City for re-conveyance of State transferred land	(18,414,675)	-	-	(18,414,675)
Invested in capital assets, net of related obligations	1,599,526,761	353,319,046	-	1,952,845,807
Capital assets acquired with debt proceeds	(74,490,044)	(176,628,803)	-	(251,118,847)
Invested in capital assets, net of related debt	\$ 1,525,036,717	\$ 176,690,243	\$ -	\$ 1,701,726,960

Land Acquisition

The total land value at June 30, 2017 of \$186,082,200 is made up of thirty-two parcels of land acquired by purchase, eminent domain, or transfer from the State over the life of the Program. The additional costs included in the land value are primarily for demolition of the old terminal and bus ramps, relocation assistance and loss of goodwill for relocated businesses, appraisals, surveying, environmental remediation and monitoring, garage easement interests, and title and closing costs.

No property was acquired during the year ended June 30, 2017. Additional land costs total \$6,500 incurred during the fiscal year.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 4 - CAPITAL ASSETS (Continued)

Land Acquisition Summary

Scheduled Disposition:	Parcels	Land Value	Additional Costs	Total Land Value
Retained for:				
Transit Center	18	\$ 125,409,458	\$ 21,607,336	\$ 147,016,794
Downtown Extension	11	15,691,890	1,886,957	17,578,847
Total to be retained	29	141,101,348	23,494,293	164,595,641
Transfer to the City or OCII	3	20,628,720	857,839	21,486,559
Total Value	32	\$ 161,730,068	\$ 24,352,132	\$ 186,082,200

TJPA is scheduled to permanently retain title to twenty-nine parcels valued at \$164,595,641. The TJPA will hold title to the remaining three parcels with a land value of \$20,628,720 for a temporary period. These three parcels are needed only during the construction of the transit center and the operation of the Temporary Terminal and then will be conveyed to the City or OCII, along with an additional four parcels transferred by the State, with a value of \$18,414,675, when no longer needed for Temporary Terminal operations. In the fiscal year the TJPA transfers parcels to the City or OCII, the TJPA will record a loss on conveyance of land for the total land value of the three parcels, plus the additional costs of \$857,839 associated with the three parcels and the seven former State-owned parcels to be conveyed.

Land transferred from the State by fiscal year and Land scheduled to be transferred to the City

	Total Transferred From the State		Scheduled To be Retained		Scheduled To be Transferred To City/OCII For Sale	
	No.	Value	No.	Value	No.	Value
FY 2009	4	\$ 16,683,315	0	\$ -	4	\$ 16,683,315
FY 2011	14	72,007,574	9	53,186,468	5	18,821,106
FY 2013	0	(6,985,999)	0	(6,985,999)	0	-
FY 2014	1	7,476,962	0	-	1	7,476,962
FY 2015	0	-	0	-	0	-
FY 2016	0	-	0	-	0	-
FY 2017	0	-	0	-	0	-
Total Transferred	19	\$ 89,181,852	9	\$ 46,200,469	10	42,981,383
Total State Parcels transferred to the City/OCII					(6)	(24,566,708)
Remaining State Parcels to be transferred to the City/OCII					4	18,414,675
TJPA acquired land scheduled to be transferred to the City/OCII					3	20,628,720
Additional costs for all parcels scheduled to be transferred to the City/OCII						857,839
Total land scheduled to be transferred to the City/OCII					7	\$ 39,901,234

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 4 - CAPITAL ASSETS (Continued)

The TJPA has applied one of two valuation methods for each land parcel transferred from the State to the TJPA. Parcels that the State was leasing to third parties prior to transfer to the TJPA are valued by the TJPA using the lease rate. For parcels that were not being leased by the State at or near the date of transfer, the TJPA has used the sale price of comparable parcel(s) sold in the vicinity of the transit center. This valuation is for purposes of compliance with GASB Statement No. 34 accounting and reporting requirements only, and should not be construed as current market value for the parcels.

Land parcels transferred from the State which are scheduled to be retained by the TJPA are recorded as a capital contribution and included as a component of the land capital asset account. At June 30, 2017, the value of the land transferred from the State which is scheduled to be retained by the TJPA is \$46,200,469 according to the described valuation methodology.

At June 30, 2017, the TJPA held title to seven land parcels valued at \$39,901,234 which are temporarily needed by the TJPA only for the construction of the Transbay Program—three acquired by purchase and four via transfer from the State. Upon completion of the construction period, these parcels are scheduled to be transferred to the City or OCII for future sale.

Land parcels transferred from the State which are scheduled to be re-conveyed to the City or OCII upon completion of the new transit center are recorded as an intergovernmental liability to the City and as State-transferred land to be re-conveyed to City capital asset account. At June 30, 2017, the total value of the land to be re-conveyed to the City recorded in these liability and capital asset accounts is \$18,414,675.

In the fiscal year the TJPA transfers the parcels to be re-conveyed to the City or OCII, the TJPA will record the liquidation of the intergovernmental liability to the City and accordingly reduce the State-transferred land capital asset account.

Future Transfers of State Parcels

One remaining State parcel is scheduled to be transferred to the TJPA when required for construction purposes or development. Two parcels are scheduled to be transferred directly from the State to the City or OCII and will not be recorded in the TJPA's accounting records. However, one or more of these three parcels could potentially come to the TJPA first on an interim basis and then be re-conveyed from TJPA to the City or OCII.

Contract Commitments

At year end, the TJPA had contract commitments of \$249,507,069 for construction, design, engineering, planning and administrative costs.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS

A. Pension Plan

Plan Description and Benefits Provided

All full-time employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined-Benefit Pension Plan administered by CalPERS. CalPERS acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement, disability, and death benefits based upon the employee's years of service, age, and final compensation. Benefit provisions under the Plan are established by State statute and TJPA resolution. Employees vest after five years of service.

TJPA contracted with CalPERS effective January 1, 2012. Until that date, full-time employees participated in the CalPERS pension plan via Local Government Services ("LGS"), previously TJPA's employer of record under contract. CalPERS processed a merger, transferring TJPA employees from LGS' plan to TJPA's plan. Due to its small number of employees, TJPA participates in the CalPERS risk pool for Miscellaneous Employees. There are two retirement formulas for TJPA employees, depending upon date of hire: "2% at 55" risk pool for "Classic" CalPERS employees, and "2% at 62" for employees hired after January 1, 2013 who are not already CalPERS members, per the California Public Employees' Pension Reform Act ("PEPRA").

Detailed information about the pension plan's fiduciary net position is publicly available in separately issued CalPERS reports. The reports and other details referenced below may be obtained from CalPERS, www.calpers.ca.gov.

Contributions

The contribution requirements of plan members are established by State statute, and the employer contribution rate is actuarially established and may be amended by CalPERS. PEPRA members are required to contribute 6.25% of their annual covered salary, and Classic members are required to contribute 7% of their annual covered salary. TJPA pays this required contribution on behalf of Classic employees, amounting to \$117,571 for the year ended June 30, 2017. For fiscal year 2017, the actuarially determined employer contribution rate was 8.88% of covered payroll costs for Classic employees, amounting to \$149,147, and 6.555% for PEPRA employees, amounting to \$11,758. The employer contribution, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, TJPA employer contributions that are included in the calculation of net pension expense were \$174,875.

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

Generally accepted accounting principles require employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position. Net pension liability is the plan's total pension liability based on the entry age normal actuarial cost method less the plan's fiduciary net position.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

Pension expense is the change in net pension liability from the previous fiscal year to the current fiscal year less adjustments. Deferred outflows and deferred inflows of resources related to pensions are certain changes in total pension liabilities and fiduciary net position that are to be recognized in future pension expense. Each participating cost-sharing employer, such as TJPA, is required to report its proportionate share of the collective net pension liability, pension expense, and deferred outflows/deferred inflows of resources in their financial statements. The disclosures below are thus based on an actuarial valuation provided by CalPERS.

At June 30, 2017, TJPA reported a liability of \$569,938 for its proportionate share of the net pension liability. The net pension liability was measured by CalPERS as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. TJPA's proportion of the net pension liability was based on a projection of TJPA's long-term share of contributions to the pension plan relative to the projected contributions of all participating local governments, actuarially determined. TJPA's proportionate share of the net pension liability for the plan as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.0217%
Proportion - June 30, 2016	0.0083%
Change - Increase (Decrease)	-0.0134%

The annual pension expense is equal to the change in the net pension liability from the beginning of the year to the end of the year, adjusted for the deferred recognition of actual contributions and items such as investment gains and losses, changes in actuarial assumptions, and changes in plan benefits. For the year ended June 30, 2017, TJPA recognized a net pension credit of (\$131,967). At June 30, 2017, TJPA also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
TJPA contributions subsequent to the measurement date	\$ 174,875	\$ -
Differences between actual and expected experience	6,515	(1,493)
Changes in assumptions	-	(61,633)
Contributions in excess of employer share	160,312	-
Changes in TJPA proportion	269,370	(169,529)
Net differences between projected and actual earnings on pension plan investments	320,782	-
Total	\$ 931,853	\$ (232,655)

Of the \$931,853 total deferred outflows of resources, \$174,875 resulting from TJPA employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

Year Ended June 30:	Total Deferred Outflows (Inflows)
2018	165,402
2019	135,834
2020	140,000
2021	83,086
Total	\$ 524,321

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Expenses
Mortality Rate Table	Based on 2010 CalPERS Experience Study and Society of Actuaries Scale AA

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that were the most likely to have a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, CalPERS has determined that using the 7.65% long-term expected rate of return gross of administrative expenses for all plans in the Public Employees Retirement Fund is appropriate and compliant with GASB 68. The stress test results are presented in the “GASB Crossover Testing Report” available on the CalPERS website.

CalPERS determined the long-term expected rate of return on pension plan investments using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Both short-term and long-term market return expectations were taken into account, as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years). Using the expected nominal returns, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to this calculated single equivalent rate and rounded down to the nearest one quarter of one percent.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

A. Pension Plan (Continued)

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

The following presents TJPA’s proportionate share of the net pension liability for the plan, calculated using the discount rate of 7.65%, as well as what TJPA’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount Rate -1 (6.65%)	Discount Rate (7.65%)	Discount Rate +1 (8.65%)
TJPA's net pension liability	\$ 887,948	\$ 569,938	\$ 307,118

Payable to the Pension Plan

At June 30, 2017, TJPA reported a payable of \$12,476 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

B. Defined Contribution Retirement Plan

TJPA participates in the California Public Agencies Self-Directed Tax-Advantaged Retirement System Plan (the “STARS Plan”), which provides retirement benefits for employees of the member public agencies. The STARS Plan includes a deferred compensation plan in accordance with Internal Revenue Code Section 457(b), whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement, and a defined contribution plan in accordance with Internal Revenue Code Section 401(a), whereby TJPA matches employee contributions up to two percent of the employee’s base annual salary. All employees are eligible for plan participation. Plan assets are invested in each individual’s name with a deferred compensation plan provider. The STARS Plan deferred compensation and defined contribution assets are not reflected in these financial statements. Each of the STARS Plan’s participants directs the investments of their separate accounts. Employer contributions vest immediately. Distributions are made upon the participant’s termination, retirement, death or total disability. During the year ended June 30, 2017, the TJPA and participating employees made contributions to the STARS Plan totaling \$32,480 and \$114,343, respectively. At June 30, 2017, TJPA had a payable of \$7,150 for the outstanding amount of contributions to the defined contribution plan required for the fiscal year.

C. Other Post-Employment Benefits

Plan Description

TJPA contracts with CalPERS under the Public Employees’ Medical and Hospital Care Act (“PEMHCA”), which provides healthcare insurance programs for both active and retired employees of public employer contracting agencies. TJPA has a program in place to partially pay CalPERS medical insurance premiums for eligible retiring employees. Retiree benefit provisions are established and amended through agreements between TJPA and its employees; at a minimum TJPA will contribute the amount required by PEMHCA, which is \$128 per month per employee in calendar year 2017 and \$133 in 2018. Medical insurance premiums for retiree’s spouses or dependents are not covered under these agreements, nor are dental or vision premiums. The plan does not issue a separate financial report.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

C. Other Post-Employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

TJPA's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"). The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. An actuarial valuation has been performed as of January 1, 2015 to calculate the ARC and related information.

The following table shows the components of TJPA's annual OPEB cost, the amount actually contributed to the plan, and changes in TJPA's net OPEB obligation to the plan for fiscal year 2017:

Annual required contribution	\$ 20,795
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>20,795</u>
Contributions made	<u>20,795</u>
Change in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

TJPA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 for the past three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Additional Contributions	Net OPEB Obligation
6/30/2015	\$ 41,624	0%	\$ -	\$ 205,795
6/30/2016	\$ 31,916	100%	\$ 205,795	\$ -
6/30/2017	\$ 20,195	100%	\$ -	\$ -

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015, the most recent valuation, was as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$ -	\$ 209,284	\$ 209,284	0%	\$ 2,101,029	10.0%

TJPA joined the California Employers' Retiree Benefit Trust ("CERBT"), an irrevocable trust established under Internal Revenue Code Section 115 to fund OPEB, in fiscal year 2016. CERBT is administered and managed by CalPERS, and issues a financial report available on the CalPERS website. For fiscal year 2017, TJPA contributed \$20,195 to CERBT, pre-funding 100% of its net OPEB obligation. TJPA participates in the CERBT Strategy 3 portfolio, the most conservative of the three available investment strategies, and the ending trust balance at June 30, 2017 was \$270,107.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 5 - RETIREMENT AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

C. Other Post-Employment Benefits (Continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information following the notes to the financial statements is designed to present trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between TJPA and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The 2015 actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal Cost
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.25%, used only to allocate cost of benefits between service years

The underlying mortality assumptions and all other demographic actuarial assumptions used in the valuation were based on the results of the January 2014 CalPERS actuarial experience study for the period 1997 to 2011, except for a different basis used to project future mortality improvements.

Healthcare cost trend rate – Medical plan premiums are assumed to increase once each year, at levels varying from 4.5% to 8.0%. The PEMHCA minimum required contribution is assumed to increase annually by 4.5%.

The schedules presented as Required Supplementary Information following the notes to the basic financial statements presents multiyear trend information. The Schedule of Funding Progress presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The next actuarial valuation will be performed with an as of July 1, 2017 date.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 6 - LEASES

The TJPA leases office space under an operating lease which expires during fiscal year 2021. Total costs for this lease were \$696,668 for the year ended June 30, 2017. These costs represent direct Program management costs related to the transit center and DTX and as such are capitalized as part of accumulated Program costs. In the event that the TJPA terminates a contract held with the Program Management & Program Control consultant, the TJPA will assume the AECOM lease of office trailers, or cover any termination costs associated with early termination of the lease. That lease expires during fiscal year 2018.

In May 2017 the TJPA entered into an airspace lease agreement with the State of California for the property under Interstate 80 between Third, Second, Perry and Stillman Streets for the construction and operations of the Bus Storage Facility. The term of the lease is 25 years; upon completion of construction and commencement of operations of the Bus Storage Facility, AC Transit will be responsible for the lease costs under a sublease with TJPA. Payments for this lease made for the fiscal year ending June 30, 2017 were \$36,240.

The future minimum lease payments for these leases are as follows:

	TJPA Lease	AECOM Lease	BS Facility Lease
2018	\$ 710,492	\$ 35,596	\$ 265,760
2019	731,806	-	24,885
2020	753,761	-	-
2021	579,899	-	-
	<u>\$ 2,775,957</u>	<u>\$ 35,596</u>	<u>\$ 290,645</u>

NOTE 7 - RISK MANAGEMENT

The TJPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The TJPA participates in the Special District Risk Management Authority (“SDRMA”), a joint powers agency (risk-sharing pool) established in 1986 to provide pooled joint protection programs among the members of SDRMA. The purpose of SDRMA is to reduce the amount and frequency of losses and to decrease the cost incurred by its members in the handling and litigation of claims and to purchase excess or re-insurance as a group, thereby reducing costs. The TJPA’s deductibles and maximum coverages under the SDRMA pool are as follows:

Coverage Description	Deductibles	Coverage
General Liability	\$500	\$10,000,000
Auto Liability	\$1,000	\$10,000,000
Property Coverage	\$1,000	\$1,000,000,000
Boiler and Machinery Coverage	\$1,000	\$100,000,000
Employees & Public Officials:		
Errors and Omissions Liability	\$0	\$10,000,000
Dishonesty	\$0	\$1,000,000
Personal Liability for Board Members	\$500	\$500,000

There were no reductions in insurance coverage from the previous year. The TJPA pays an annual contribution, determined by the Board of Directors of SDRMA, and any additional amounts which the SDRMA Board of Directors deems necessary in accordance with bylaws of SDRMA. The TJPA’s annual contribution for the fiscal year ended June 30, 2017 was \$76,422.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 7 - RISK MANAGEMENT (Continued)

In addition, the TJPA purchased an excess liability policy to provide additional coverage of \$10,000,000. The premium for the fiscal year ended June 30, 2017 for this policy was \$48,762. There is no deductible under this policy. The TJPA does not maintain earthquake insurance coverage.

The TJPA maintains workers' compensation insurance in compliance with statutory limits. The premiums for the fiscal year ended June 30, 2017 for this coverage were \$16,290. TJPA also holds a public officials bond renewed in December 2016 for \$875.

During the year ended June 30, 2010, the TJPA received a payment and performance bond from Webcor Builders/Obayashi Corporation, the joint venture awarded the Construction Manager/General Contractor ("CM/GC") contract. The bond provides a \$600 million guarantee that the CM/GC will complete the transit center and related structures in accordance with its contract and that it will pay its subcontractors, labor and suppliers. The TJPA reimbursed the CM/GC \$5.4 million for the original bond premium. In fiscal years 2014 and 2015, the bond amount was increased to \$889 million, for premiums totaling \$2,594,064. During the year ended June 30, 2016, the TJPA accrued an additional \$4,017,442 for a bond rider that increased the bond amount to \$1,336,575,975.

NOTE 8 - LOCAL AND STATE CAPITAL REVENUE FUNDING AGREEMENTS

A. MTC Revenues

RM-1

The RM-1 funds from MTC are derived from Regional Measure 1, approved by California voters in 1989, which authorized toll increases on all state-owned bridges in the northern and southern bay area bridge groups. In June 2001, the San Francisco Municipal Transportation Agency received two RM-1 funding allocations totaling \$1,400,000 on the TJPA's behalf to provide preliminary planning and preliminary design services for the Transbay Terminal and Caltrain Downtown Extension project. The SFMTA passed through the \$1,400,000 to TJPA and the funds were disbursed during the fiscal years ended June 30, 2002 through 2005.

The MTC-approved RM-1 allocations direct to TJPA total \$53,000,000 which has been fully expended as of the end of fiscal year 2016.

RM-2

On March 2, 2004, voters approved RM-2, which increased the state-owned bridge toll in the San Francisco Bay Area by \$1.00 for each vehicle. RM-2 assigns the administrative duties and responsibilities associated with this additional toll revenue to the MTC. The additional toll revenues are earmarked for transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors and are incorporated into the Regional Traffic Relief Plan, which is also administered by the MTC.

The MTC-approved RM-2 allocations total \$150,000,000 of which \$148,307,768 has been expended leaving an unexpended balance of \$1,692,232 which was appropriated for the fiscal year ending June 30, 2018.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 8 - LOCAL AND STATE CAPITAL REVENUE FUNDING AGREEMENTS (Continued)

AB 1171

MTC’s Resolution 3434 includes AB 1171 funds for the Transbay Program. This source results from the adoption of AB 1171 Bridge Toll Funds by the California legislature for a plan to fund the cost of seismic retrofit of Bay Area toll bridges. The Program is eligible for these funds under a provision that makes the money available to projects consistent with the purposes of the voter-approved RM-1 program.

The MTC-approved AB 1171 allocations total \$150,000,000 of which \$147,681,604 has been expended leaving an unexpended balance of \$2,318,396 which was appropriated for the fiscal year ending June 30, 2018.

Summary of MTC Allocations Life-To-Date

	<u>Allocations</u>	<u>Expended</u>	<u>Unexpended</u>
RM-1 Direct	\$ 53,000,000	\$ 53,000,000	\$ -
RM-1 Pass Through	1,400,000	1,400,000	-
RM-2	150,000,000	148,307,768	1,692,232
AB 1171	150,000,000	147,681,604	2,318,396
Life-To-Date Total	\$ 354,400,000	\$ 350,389,372	\$ 4,010,628

B. SFCTA Prop K Revenues

On November 4, 2003, the voters approved Prop K, which imposes one-half of one percent of additional sales and use tax to be used for the planning, maintenance and rehabilitation of, and improvement to, the City’s multi-modal transportation system. The SFCTA is responsible for allocating, administering and overseeing the expenditures of Prop K.

The SFCTA-approved allocations total \$195,384,934 of which \$182,784,102 has been expended leaving an unexpended balance of \$12,600,832. The unexpended balance was appropriated for the fiscal year ending June 30, 2018.

C. SMCTA Measure A Revenues

In June of 1988, San Mateo County voters approved Measure A, which established a program to fund transportation projects by an increase in sales tax of 0.5%. The SMCTA is an independent agency formed to administer the proceeds of the sales tax increase.

The SMCTA-approved sales tax allocations total \$23,359,514 and the funds were disbursed during the fiscal years ending June 30, 2006 through June 30, 2013.

D. AC Transit Revenues

In September 2011, AC Transit passed through two security grants from the Federal Emergency Management Agency and two security grants from the California Emergency Management Agency (“Cal-EMA”) totaling \$7,697,323. In January 2013, AC Transit passed through an additional security grant from Cal-EMA totaling \$2,149,588. In February 2014, AC Transit passed through another security grant from Cal-EMA totaling \$2,149,596. In February 2015, a Proposition 1B, or Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Program

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 8 - LOCAL AND STATE CAPITAL REVENUE FUNDING AGREEMENTS (Continued)

grant from Caltrans in the amount of \$21,164,990 was passed through, and in fiscal year 2016 AC Transit notified TJPA of two additional Cal-EMA grants to be passed through totaling \$4,296,855. In fiscal year 2017, AC Transit passed through another Cal-EMA grant in the amount of \$2,152,543. These pass-throughs are being credited towards AC Transit's required capital contribution under the Lease and Use Agreement (see Note 10) and are for construction.

Of the \$39,610,562 allocated thus far, \$39,467,474 has been expended leaving an unexpended balance of \$143,089 which was appropriated for the fiscal year ending June 30, 2018. Because these grants are pass-throughs from the federal and state governments, they are not included as local agency contributions in Note 2, Capital Contributions (see also below).

E. State of California Revenues

RTIP

In January 2007, the State and the TJPA entered into a Program Master Agreement for future planned State financial allocations of Regional Transportation Improvement Program ("RTIP") funds for locally administered rail and transit projects. Pursuant to the Master Agreement, program supplements are entered into subject to all of the terms and conditions of the Master Agreement.

The State-approved program supplements total \$10,153,000, and the funds were disbursed during the fiscal years ending June 30, 2008 through June 30, 2013.

Cal-EMA

A portion of the AC Transit revenue discussed above is six grants totaling \$15,047,500 being passed through from Cal-EMA, which has been fully expended as of June 30, 2017.

PTMISEA

A portion of the AC Transit revenue discussed above is for a Public Transportation Modernization, Improvement, and Service Enhancement Account ("PTMISEA") grant totaling \$21,164,990 being passed through from Caltrans. \$21,021,901 has been expended, leaving an unexpended balance of \$143,089 which was appropriated for the fiscal year ending June 30, 2018.

NOTE 9 - LONG TERM OBLIGATIONS AND DERIVATIVE INSTRUMENT

The changes in long-term obligations for the year ended June 30, 2017 are as follows:

	Beginning of Fiscal Year	Current Year Additions	Current Year Decreases	End of Fiscal Year
Loans payable				
TIFIA loan	\$ -	\$ 86,011,519	\$ -	\$ 86,011,519
Interim City financing	-	49,000,000	-	49,000,000
Accrued compensated absences	161,290	-	(3,876)	157,414
Total long-term obligations	\$ 161,290	\$ 135,011,519	\$ (3,876)	\$ 135,168,933

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 9 - LONG TERM OBLIGATIONS AND DERIVATIVE INSTRUMENT (Continued)

The following is a summary of outstanding debt of the TJPA as of June 30, 2017:

Obligation	Final Maturity Date	Interest Rate	Balance at June 30
TIFIA loan	2051	4.57%	\$ 86,011,519
Interim City financing	upon repayment	1-month LIBOR plus margin	49,000,000
		Total long-term obligations	\$ 135,011,519

TIFIA Loan

The federal TIFIA program provides loans, loan guarantees and standby lines of credit to transportation infrastructure projects throughout the country. TJPA reached financial close on a \$171,000,000 TIFIA loan in January 2010 for Phase 1 transit center construction which is to be repaid primarily with net tax increment revenues allocated to the project. The net tax increment revenues are generated by the former State-owned parcels that are sold for development, and committed to the TJPA pursuant to an agreement with the City and OCII. TIFIA commenced disbursements of the loan in fiscal year 2017, and draws totaled \$84,797,959 at June 30. Interest is added to the loan balance for the first two years; the TJPA accrued \$1,213,560 through June 30. Repayment will commence when amortization begins in 2025. Interest payments will commence two years after the substantial completion of the transit center.

Annual debt service requirements for the TIFIA loan are as follows:

Year Ending June 30:	<i>(Dollars in Thousands)</i>	
	Principal	Interest
2017	\$ -	\$ -
2018	-	-
2019	-	-
2020	-	4,319
2021	-	8,603
2022-2026	5,955	42,820
2027-2031	23,172	39,303
2032-2036	29,054	33,421
2037-2041	36,401	26,075
2042-2046	45,638	16,838
2047-2051	47,764	5,341
Total	\$187,984	\$ 176,720

Pledged Revenues

The net tax increment revenue that is received by TJPA, together with, to a much lesser extent, certain AC Transit contributions, and income derived from permitted investments from these two sources (together "Pledged Revenues") is pledged as security under the TIFIA loan. This revenue is only available for limited other purposes until the TIFIA loan is repaid in full, currently forecast for August 1, 2050.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 9 - LONG TERM OBLIGATIONS AND DERIVATIVE INSTRUMENT (Continued)

Tax increment in California has a 20% mandated set-aside for affordable housing. The net tax increment revenue assumed to flow to TJPA is net of this set-aside as well as 21% statutory pass-through payments to other taxing entities including school districts. In accordance with the Transbay Development Project Tax Increment Allocation and Sales Proceeds Pledge Agreement, TJPA is to receive net tax increment revenue until March 31, 2050. An amendment to the TIFIA loan allows use of net tax increment revenues to pay the ongoing interest on, and, potentially, a take-out of, the interim City financing described below.

Interim City Financing

In 2016, the TJPA Board approved a Phase 1 budget of \$2.259 billion, at the recommendation of MTC following a risk and cost review of the project. To fully fund the new budget, additional funding was required. The City, MTC and TJPA negotiated a financing that closed in January 2017. Under the financing, TJPA leases the Train Box portion of the transit center to a bank acting as a Trustee. The City is also leasing certain City-owned property to the Trustee. The Trustee subleases the properties back to the City. Payments by the City under the subleases are set to be equivalent to and pay the debt service on certificates of participation (“COPs”) sold by the City to Wells Fargo Bank, N.A. (“Wells Fargo”) and MTC. Up to \$160 million may be sold to Wells Fargo and up to \$100 million to MTC. TJPA submits draw requests to the City to fund construction costs and the City sells COPs as needed. TJPA is obligated to reimburse the City for amounts paid by the City on the COPs pursuant to a leaseback by TJPA of the asset it leased, which it pays from net tax increment revenues. TJPA intends to repay the outstanding principal of the COPs to the City with future bond proceeds backed by Transbay Transit Center Community Facilities District (“CFD”) special taxes. TJPA is expected to secure a long-term take-out of the financing in approximately 6-10 years if any City financing remains outstanding.

The COPs are sold based on a variable rate of one-month London Interbank Offer Rate (“LIBOR”) plus an applicable margin. The one-month LIBOR rate is the rate in effect each month, and is set at the end of the prior month. TJPA was required by the TIFIA lender to enter into an interest rate cap that caps the 1-month LIBOR portion of the variable interest rate (excluding the margin) at 1.75%. The interest is paid as Base Rental on a quarterly basis, and a commitment fee for the unused amount of Wells Fargo capacity of 20 basis points (0.20%) is paid as Additional Rental quarterly as well. The interest rate at June 30, 2017, was 1.611%. The Base and Additional Rental amounts calculated for fiscal year 2017 are as follows:

Month	Principal	Rate	Base Rental	Additional Rental
January	\$ -	n/a	\$ -	\$ 17,778
February	-	n/a	-	24,889
March	5,000,000	1.344%	8,851	26,494
April	23,000,000	1.543%	27,599	22,833
May	36,000,000	1.555%	45,959	21,644
June	49,000,000	1.611%	59,678	19,800
Total	<u>\$ 49,000,000</u>		<u>\$ 142,087</u>	<u>\$ 133,438</u>

Base and Additional Rental were capitalized for the period because the financing proceeds were used exclusively to fund project construction.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 9 - LONG TERM OBLIGATIONS AND DERIVATIVE INSTRUMENT (Continued)

Derivative Instrument - Interest Rate Cap

TJPA purchased an interest rate cap as a hedge against rising interest rates under the interim City financing, as required by the TIFIA lender. The Interest Rate Cap Agreement limits TJPA's variable interest rate exposure by providing that SMBC Capital Markets, Inc., as cap provider counterparty, will make monthly payments to TJPA to the extent that the one-month LIBOR rate exceeds 1.75%. The interest rate cap has a notional amount that started at \$25,000,000 and stepped up to \$120,500,000 as of June 30. The maximum notional amount is \$162,000,000. The cap is in effect through July 1, 2020.

TJPA paid \$1,260,000 for the interest rate cap and the fair value was \$607,957 at June 30, 2017. The fair value of the cap is the mid-market net present value as modeled by TJPA's derivative advisor; the change in the fair value was (\$652,043), which was recorded as a deferred outflow of resources on the Statement of Net Position. The interest rate cap was determined to be effective, meaning that the derivative significantly reduces an identified financial risk and hedge accounting is used.

Credit Risk

Credit risk is the risk that a counterparty will not fulfill its obligations. The maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted is \$607,957, which is the fair value of the interest rate cap at year-end. To minimize TJPA's exposure to credit risk, the Interest Rate Cap Agreement requires that if the cap provider is downgraded below A/A2/A then the cap provider must transfer collateral to TJPA equal to 100% of the mark to market value of the cap, or obtain a replacement counterparty that meets the rating requirements. If the cap provider is downgraded below A-/A3/A-, the cap provider must obtain a replacement counterparty that meets the rating requirements. At June 30, 2017, the counterparty was rated A/A1/A.

Termination Risk

Termination risk is the possibility that a derivative may end earlier than expected, depriving TJPA of the protection from interest rate risk. TJPA or its counterparty may terminate the interest rate cap in accordance with the terms of the Interest Rate Cap Agreement. The Interest Rate Cap Agreement was entered into under the International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement"). The ISDA Master Agreement together with the Confirmation of the Interest Rate Cap Agreement provide the terms and conditions upon which each party may terminate the Interest Rate Cap Agreement. Included in such terms and conditions is the right of TJPA to terminate the Interest Rate Cap Agreement on any business day and the right of TJPA to terminate the Interest Rate Cap Agreement if the counterparty's senior, unsecured, unenhanced debt rating is downgraded below the ratings noted above. No payment would be due from TJPA to the counterparty in any instance of termination.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 10 - RELATED PARTY TRANSACTIONS

Note 10 identifies agencies of State and local government that appoint members to the TJPA Board of Directors. The TJPA also purchases goods and services from these TJPA Board Member Agencies and these Agencies are therefore considered to be related parties to the TJPA. Below is a summary of goods and services purchased by the TJPA from these related parties during the fiscal year ended June 30, 2017.

A. City and County of San Francisco

During the year ended June 30, 2017, the City provided services including management, administration, permitting and inspection of construction; traffic engineering; transit center power connections, and legal assistance to the TJPA. Such services totaled \$4,584,548, with \$427,425 due to the City at June 30. Services were provided by the following organizations/departments:

Office of the City Attorney	\$	1,112
Department of Public Health		5,032
Department of Public Works		685,795
Department of Technology		12,128
Fire Department		39,797
Municipal Transportation Agency		454,261
Public Utilities Commission		2,579,859
San Francisco Arts Commission		804,588
Tax Collector		1,976
Total	\$	<u>4,584,548</u>

In addition, Community Benefit District tax related payments of \$51,093 were paid to the San Francisco Tax Collector during the fiscal year, and \$197,299 was paid to the Office of the Controller for Base and Additional Rental (see Note 9). Also at June 30, 2017, the TJPA held title to land parcels which are temporarily needed by the TJPA only for the construction of the Transbay Program. Upon completion of the construction period, these parcels will be transferred to the City or OCII (see Note 4).

B. Alameda-Contra Costa Transit District (AC Transit)

AC Transit provides bus services between Alameda and Contra Costa counties and the City and County of San Francisco. Under the Program, the Temporary Terminal and the future transit center are the point of destination/departure for AC Transit's bus services in San Francisco. AC Transit is the TJPA's only Primary Tenant in the Temporary Terminal, for the life of the Temporary Terminal, and will be a Primary Tenant in the transit center. On September 29, 2008, the TJPA Board of Directors approved a comprehensive Lease and Use Agreement that controls AC Transit's bus operations in the Temporary Terminal and the transit center through at least the year 2050. The Agreement sets forth all the rights and obligations of the parties with respect to the two facilities. It addresses payments AC Transit will make for its share of operating and maintenance costs in the Temporary Terminal and in the transit center should operating expenses exceed revenues, as well as its contribution in the sum of \$57,000,000 (discounted to 2011 dollars) to the capital cost of the new transit center (see Note 8). The Agreement allows for subtenant agreements, where subtenants can be allocated a share of the primary tenant's operating and maintenance costs. For the fiscal year ended June 30, 2017, expenses incurred by the TJPA to reimburse AC Transit for its incremental operating and maintenance costs in the Temporary Terminal totaled \$2,430,396 and the TJPA reported \$678,829 due to AC Transit at June 30, 2017.

TRANSBAY JOINT POWERS AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

NOTE 10 - RELATED PARTY TRANSACTIONS (Continued)

C. State of California (State) Department of Transportation (Caltrans)

Caltrans provides design review and construction support services to the TJPA, and leases the site of the Bus Storage Facility to TJPA. Such services and lease payments totaled \$178,323 during the year ended June 30, 2017, and the TJPA reported \$38,146 due to Caltrans at June 30. The agreements with Caltrans require the TJPA to provide, within the total agreement amounts, payment for revolving invoice reserves. The payment of these deposits totals \$55,000, which the TJPA has recorded as prepaid items.

See also Note 4, Capital Assets, for State-conveyed land to be retained by the TJPA and re-conveyed to the City.

NOTE 11 - CONTINGENT LIABILITIES

A. Due from Grantors

Amounts received or receivable from federal, state, and local funders are subject to audit and adjustment by these agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by these agencies cannot be determined at this time although the TJPA expects such amounts, if any, to be immaterial.

B. Pollution Remediation

TJPA has conducted pollution remediation activities as a matter of course in its demolition and construction. The expenditures associated with these activities are capitalized as costs to prepare property for use. As such, the TJPA capitalizes remediation outlays as incurred and does not record a pollution remediation liability. Life-to-date remediation expenditures through June 30, 2017 total \$16,898,170 and are associated with the following project components:

Temporary Terminal	\$ 948,283
Transit Center	15,071,322
Bus Storage Facility	877,557
Caltrain Downtown Extension	1,008
Total	<u>\$ 16,898,170</u>

NOTE 12 - SUBSEQUENT EVENT

On October 26, 2017, the City sold \$207.5 million of federally taxable Special Tax Bonds for its Community Facilities District (CFD) No. 2014-1 (Transbay Transit Center), consisting of \$36.1 million for open space, street and sidewalk improvements to be constructed by the City, and \$171.4 million for construction of the transit center. This was the inaugural issuance under the CFD's \$1.4 billion bond authorization. The bonds are secured by special taxes levied on three buildings in the CFD that have received temporary certificates of occupancy, and have a final maturity of September 1, 2048. The bonds were sold via negotiated sale and closed on November 9. After accounting for issuer discounts, capitalized interest reserve, and costs of issuance, TJPA will receive \$149.2 million, which will be used for Phase 1 construction.

REQUIRED SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY

Notes to Required Supplementary Information

For the Year Ended June 30, 2017

SCHEDULE OF TJPA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CalPERS Public Agency Cost-Sharing Multiple-Employer Plan

Measurement Date	June 30, 2016 ¹	June 30, 2015	June 30, 2014 ²
TJPA's proportion of the net pension liability	0.0025%	0.0022%	0.0068%
TJPA's proportionate share of the net pension liability	\$569,938	\$394,755	\$423,396
TJPA's covered payroll	\$1,932,209	\$2,215,123	\$2,087,405
TJPA's proportionate share of the net pension liability as a percentage of its covered payroll	29.50%	17.82%	20.28%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	88.95%	83.03%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. TJPA currently has only three years of data to present in the schedule. As future years' data is calculated, it will be added to the schedule until ten years of data is presented.

² TJPA covered payroll figure for fiscal year 2014 is the figure used by CalPERS in its GASB 68 valuation report for that fiscal year, versus the actual pensionable earnings reported by TJPA, as displayed in the next schedule.

TRANSBAY JOINT POWERS AUTHORITY
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

SCHEDULE OF TJPA PENSION CONTRIBUTIONS

	FY 2017 ¹	FY 2016 ²	FY 2015	FY 2014	FY 2013
Actuarially determined contribution	\$ 174,875	\$ 174,033	\$ 254,524	\$ 228,308	\$ 194,665
Contributions in relation to the actuarially determined contribution	(174,875)	(174,033)	(254,524)	(228,308)	(194,665)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TJPA's covered payroll	\$ 1,852,299	\$ 1,932,209	\$ 2,215,123	\$ 2,125,171	\$ 1,976,776
Contributions as a percentage of covered payroll	9.44%	9.01%	11.49%	10.74%	9.85%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable. TJPA currently has five years of data to present in the schedule. As future years' data is calculated, it will be added to the schedule until ten years of data is presented.

² TJPA covered payroll figure for fiscal year 2016 is the amount for Classic employees only, as the PEPRA employees that commenced employment in fiscal year 2016 will not be included in the GASB 68 valuation report provided by CalPERS until the next fiscal year.

Changes of Benefit Terms and Assumptions

The figures in the schedule of contributions above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. The discount rate was changed from 7.5% (net of administrative expense) to 7.65% to correct for an adjustment to exclude administrative expenses.

TRANSBAY JOINT POWERS AUTHORITY

Notes to Required Supplementary Information

For the Year Ended June 30, 2017

SCHEDULE OF FUNDING PROGRESS FOR OPEB

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	\$ -	\$ 253,655	\$ 253,655	0%	\$ 1,760,761	14.4%
1/1/2015	-	209,284	209,284	0%	2,101,029	10.0%

SUPPLEMENTARY INFORMATION

TRANSBAY JOINT POWERS AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Program Description	Federal CFDA Number	Grant Number	Program Award	EXPENDITURES - FEDERAL SHARE			REVENUES - FEDERAL SHARE		
				Cumulative through June 30, 2016	July 1, 2016 through June 30, 2017	Cumulative through June 30, 2017	Cumulative through June 30, 2016	July 1, 2016 through June 30, 2017	Cumulative through June 30, 2017
U.S. DEPARTMENT OF TRANSPORTATION									
Federal Transit - Capital Investment Grants:									
Federal Transit Formula Grants:									
General Capital Assistance	20.522	CA-39-0009	\$ 1,240,000	\$ 920,321	\$ 290,368	\$ 1,210,690	\$ 920,321	\$ 290,368	\$ 1,210,690
General Capital Assistance	20.500	CA-04-0140	7,885,080	6,409,401	739,922	\$ 7,149,323	6,409,401	739,922	7,149,323
Total Federal Transit - Capital Investment Grant:			<u>9,125,080</u>	<u>7,329,722</u>	<u>1,030,290</u>	<u>8,360,012</u>	<u>7,329,722</u>	<u>1,030,290</u>	<u>8,360,012</u>
Federal Railroad Administration (FRA) Capital Grants:									
American Recovery and Reinvestment Act (ARRA)	20.319	FR-HSR-0007-10-01-00	400,000,000	397,542,926	2,457,074	400,000,000	397,542,926	2,457,074	400,000,000
Highway Planning and Construction Grant:									
General Capital Assistance	20.205	CA-70-X011	24,459,002	24,363,973	3,522	24,367,495	24,363,973	3,522	24,367,495
General Capital Assistance	20.205	CA-95-X321	6,000,000	-	-	-	-	-	-
Total Highway Planning and Construction Grant:			<u>30,459,002</u>	<u>24,363,973</u>	<u>3,522</u>	<u>24,367,495</u>	<u>24,363,973</u>	<u>3,522</u>	<u>24,367,495</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>439,584,082</u>	<u>429,236,621</u>	<u>3,490,886</u>	<u>432,727,507</u>	<u>429,236,621</u>	<u>3,490,886</u>	<u>432,727,507</u>
TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS			<u>\$ 439,584,082</u>	<u>\$ 429,236,621</u>	<u>\$ 3,490,886</u>	<u>\$ 432,727,507</u>	<u>\$ 429,236,621</u>	<u>\$ 3,490,886</u>	<u>\$ 432,727,507</u>

See Notes to the Schedule of Expenditures of Federal Awards

TRANSBAY JOINT POWERS AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

NOTE 1 - GENERAL

The Schedule of Expenditures of Federal Awards (the “Schedule”) presents the current fiscal year and life-to-date activity of all direct and pass-through federal award programs of the Transbay Joint Powers Authority (the “TJPA”) that were active or closed out during fiscal year 2017. The TJPA has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 - BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

NOTE 3 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 4 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award and expenditures agree to or can be reconciled with the amounts reported in the TJPA’s basic financial statements.

OTHER REPORTS



**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 GOVERNMENTAL AUDITING STANDARDS**

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transbay Joint Powers Authority (TJPA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the TJPA's basic financial statements, and have issued our report thereon dated December 5, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TJPA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California

December 5, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Transbay Joint Powers Authority
San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited Transbay Joint Powers Authority (TJPA)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of TJPA's major Federal programs for the year ended June 30, 2017. TJPA's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vavrinck, Trinc, Day & Co. LLP

Palo Alto, California
December 5, 2017

TRANSBAY JOINT POWERS AUTHORITY

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

CFDA No. 20.319 - ARRA High-Speed Rail Corridors and Intercity Passenger Rail Service

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II Financial Statement Findings

No matters were reported.

Section III Federal Award Findings and Questioned Costs

No matters were reported.