



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Financial Statements  
and Supplemental Schedules

June 30, 2009

(With Independent Auditors' Report Thereon)

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Assets – June 30, 2009	12
Statement of Revenues, Expenses, and Changes in Net Assets – Year ended June 30, 2009	13
Statement of Cash Flows – Year ended June 30, 2009	15
Notes to Financial Statements	17
<b>Supplemental Schedules</b>	
Schedule of Net Assets – June 30, 2009	35
Schedule of Revenues, Expenses, and Changes in Net Assets – Year ended June 30, 2009	37
Muni Grants – Federal – Year ended June 30, 2009	38
Muni Grants – California Transportation Commission – Year ended June 30, 2009	39
Muni Grants – Metropolitan Transportation Commission – Year ended June 30, 2009	40
Muni Grants – San Francisco County Transportation Authority – Year ended June 30, 2009	41
Muni Grants – Others – Year ended June 30, 2009	43
Parking and Traffic Grants – Federal – Year ended June 30, 2009	44
Parking and Traffic Grants – California Transportation Commission – Year ended June 30, 2009	45
Parking and Traffic Grants – Metropolitan Transportation Commission – Year ended June 30, 2009	46
Parking and Traffic Grants – San Francisco County Transportation Authority – Year ended June 30, 2009	47
Parking and Traffic Muni Grants – Others – Year ended June 30, 2009	48

### **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of SFMTA. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SFMTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of SFMTA are intended to present the financial position, and the changes in the financial position and cash flows of only that portion of the City that is attributable to the transactions of SFMTA. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SFMTA as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 on our consideration of SFMTA internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of SFMTA taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

November 24, 2009

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

As management of the San Francisco Municipal Transportation Agency (SFMTA), we offer readers of the SFMTA's financial statements this narrative overview and analysis of the financial activities of the SFMTA for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with information contained in the financial statements. All amounts, unless otherwise noted, are expressed in thousands of dollars.

### Financial Highlights

- The SFMTA's assets exceeded their liabilities at the close of the most recent fiscal year by \$1,829,338.
- The SFMTA's total net assets decreased by \$74,019 in 2009 over the prior fiscal year.
- Total net amount invested in capital assets were \$1,902,859 at June 30, 2009, a decrease of 1.5% over the balance of \$1,932,340 at June 30, 2008.

### Overview of the Financial Statements

This discussion and analysis section is intended to serve as an introduction to the SFMTA's financial statements. The SFMTA financial statements include the San Francisco Municipal Railway (Muni), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Department of Parking and Traffic (DPT) and five non-profit garage corporations. Muni provides transit service within the City and County of San Francisco (the City). SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of Muni by purchasing equipment and improving facilities. SFMRIC has no employees. The DPT operation manages 40 City-owned garages, metered parking lots and all traffic engineering functions with the City. The parking garages accounted for activities of non-profit corporations whose operations are to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities. As explained in Note 2(a) to the financial statements (found on page 17), the SFMTA apply Governmental Accounting Standards Board (GASB) Statements. The SFMTA is an integral part of the City and these financial statements are included in the City's Comprehensive Annual Financial Report. More information regarding the SFMTA's organization and the basis of presentation are contained in Notes 1 and 2(a).

The statement of net assets (found on pages 12 and 13) presents information on all of the SFMTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the SFMTA. The information of the SFMTA's financial position is presented as of June 30, 2009.

The statement of revenues, expenses, and changes in net assets (found on page 14) presents information showing how the SFMTA's net assets changed during the fiscal year ending June 30, 2009. All changes

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The statement of cash flows (found on pages 15 and 16), presents information about the cash receipts and payments of the SFMTA during the most recent fiscal year. These statements show the effects on the SFMTA's cash balances of cash flows from operating, noncapital financing, capital and related financing, and investing activities. When used with related disclosures and information in the other financial statements, the information in the statement of cash flows helps readers assess the SFMTA's ability to generate net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

**Notes to Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 17 through 34 of this report.

**Other Information**

The supplemental schedules found on pages 35 through 48 of this report are presented for the purpose of additional analysis and are not a required part of the financial statements.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the SFMTA, assets exceeded liabilities by \$1,829,338 at the close of the most recent fiscal year.

Summary of Net Assets

June 30, 2009 and 2008

Assets:

Total current assets

Total restricted assets

Total other noncurrent assets

Capital assets

Total assets

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

	<b>2009</b>	<b>2008</b>
Liabilities:		
Total current liabilities	\$289,594	\$296,521
Total noncurrent liabilities	39,641	62,526
Total liabilities	2,029	1,460
Net assets:		
Invested in capital assets, net of related debt	2,288,924	2,354,499
Restricted net assets		
Unrestricted net assets	193,273	204,737
Total net assets	266,313	246,405

***Fiscal Year 2009***

The SFMTA's net assets decreased by \$74,019 with the unrestricted net asset deficit position higher compared to the prior year. The decrease in net assets is attributable to an increase in operating expenses with corresponding decreases in capital contribution and nonoperating revenues and offset by an increase in operating subsidy from the general fund.

The largest portion of the SFMTA's net assets (\$1,902,859 as of June 30, 2009) reflect its investment in capital assets (specifically land, building structure and improvements, equipment, infrastructure, and construction- in-progress). The value of these assets of \$3,015,291 is offset by accumulated depreciation of \$1,057,631 and related debt of \$54,801. More information can be found in Note 5 on pages 24 and 25. The SFMTA uses these assets to provide services.

The remainder of the SFMTA's net assets is composed of restricted net assets including deposits and investments with the City and receivables and unrestricted net assets.

**Summary of Revenues, Expenses, and Changes in Net Assets**

Years ended June 30, 2009 and 2008

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

	<b>2009</b>	<b>2008</b>
Revenues:		
Total operating revenues	257,083	257,341
Total nonoperating revenues, net	239,505	235,654
Capital contributions:		
Federal	37,435	59,099
State and others	25,170	78,296
Total capital contributions	62,605	137,395
Net transfers	227,259	206,858
Total revenues and net transfers	786,452	837,248
Expenses:		
Total operating expenses	860,471	827,183
Change in net assets	(74,019)	10,065
Total net assets – beginning	1,903,357	1,893,292
Total net assets – ending	1,829,338	1,903,357



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

**Summary of Revenues, Expenses, and Changes in Net Assets**

**Years ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Revenues:		
Total operating revenues	257,083	257,341
Total nonoperating revenues, net	239,505	235,654
Capital contributions:		
Federal	37,435	59,099
State and others	25,170	78,296
Total capital contributions	62,605	137,395
Net transfers	227,259	206,858
Total revenues and net transfers	786,452	837,248
Expenses:		
Total operating expenses	860,471	827,183
Change in net assets	(74,019)	10,065
Total net assets – beginning	1,903,357	1,893,292
Total net assets – ending	1,829,338	1,903,357

***Fiscal Year 2009***

Total revenues and net transfers for the year ended June 30, 2009 were \$786,452, a decrease of \$50,796, or 6.1%, compared to the prior fiscal year. The decrease is due primarily to decline in capital contributions offset by an increase in operating transfers.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

Operating revenues slightly decreased by \$258, or 0.1%. Transit passenger fares increased by \$551 or 0.37%. There were also increases in advertising, property rental and other operating revenues totaling to \$1,440 or 6.9% compared to prior year. These increases were offset by the net decrease in garage revenues by \$2,249 or 2.6%. Nonoperating revenues increased by \$3,851, or 1.6%, mostly from increase in federal grants. This category includes operating support received from other sources, primarily federal and state operating grants. Capital contributions consist principally of funds received or receivable from federal, state and local grant agencies that provide funding for many of the SFMTA's capital projects. There were less capitalized expenditures incurred and billable to the grantors in fiscal year 2009 than in the prior year. This attributed to the significant decrease in capital contribution by \$74,790 or 54.4% when compared to fiscal year 2008. Net transfers increased by \$20,401, or 9.9%, in fiscal year 2009 compared to prior year, partly attributable to increase in subsidy from the City's General Fund for budgetary fund support.

Total expenses for the year ended June 30, 2009 were \$860,471, an increase of \$33,288, or 4.0%, compared to the previous year. The resulting net increases are comprised of trend changes from various expense categories. Personnel service costs increased by \$24,554, or 4.6%. The increase is attributable to increases in salaries, fringe benefits and the increase in other postemployment benefits (OPEB) compared to prior year. This is the second year of the City's implementation of the Government Accounting Standard Board Statement 45 reporting on other post retirement benefits. Contractual services increased by \$4,126. The net increases are due to higher costs in security services and parking meter contract services. Materials and supplies decreased by \$2,711, or 5.4%, due to decrease in fuel costs. Depreciation expense increased by \$2,448, or 2.4% compared to prior year. This is primarily attributable to the depreciation of a significant amount of capital assets related to the Third Street Light Rail Infrastructure that were capitalized and put into service in the prior fiscal year. Services provided by other city departments significantly increased by \$12,928 or 29.35% in fiscal year 2009. The City department services with significant increase in costs include the following: a) the City Attorney's Office expanded services for legal assistance on claims, major contracts and federally funded capital projects related to Economic Stimulus fund; b) City's Information Technology services provided to SFMTA for telecommunication, wireless, and telephone installation costs related to office move; c) share of the City's 311 Customer Service Center's costs as more calls received were for transit-related information and; d) share of cost for the new city-wide human resource system project under implementation by City's Human Resources.

The charts on the next page illustrate the SFMTA's operating revenues by source and expenses by category.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

## San Francisco Municipal Transportation Agency FY2009 Operating Revenues

Category	Amount
Passenger Fares	\$ 150,437
Parking Meters/Garages	\$ 84,395
Rents/Concessions	\$ 6,231
Advertising	\$ 13,002
Charges for Services	\$ 2,701
Other	\$ 317
Total	\$ 257,083

## San Francisco Municipal Transportation Agency FY2009 Operating Expenses

Category	Amount
Personal Services	\$ 560,012
Contractual Services	\$ 53,487
Materials and Supplies	\$ 47,726
Depreciation and amortization	\$ 104,486
General & Administrative	\$ 36,242
Services by other departments	\$ 56,983
Other	\$ 1,535
Total	\$ 860,471

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

**Capital Assets and Debt Administration**

***Capital Assets***

The SFMTA's investment in capital assets amounts to \$1,957,660 net of accumulated depreciation at June 30, 2009. This investment includes land, building structures and improvements, equipment, infrastructure, and construction-in-progress. The capital assets net decrease is \$36,332 or 1.8%, compared to the previous year. This decrease is attributed to a decline in construction work for new and existing projects and more depreciation expense for existing assets.

Summary of Capital Assets

	<b>Balance, June 30, 2009</b>	<b>Balance, June 30, 2008</b>
Capital assets not being depreciated:		
Land	\$26,245	\$26,245
Construction-in-progress	110,563	263,779
Total capital assets not being depreciated	136,808	290,024
Capital assets being depreciated:		
Building structures and improvements	594,010	415,686
Equipment	1,176,718	1,140,300
Infrastructure	1,107,755	1,101,857
Total capital assets being depreciated	2,878,483	2,657,843
Less accumulated depreciation for:		
Building structures and improvements	187,507	177,653
Equipment	530,139	468,546
Infrastructure	339,985	307,677
Total accumulated depreciation	1,057,631	953,876
Total capital assets being depreciated, net	1,820,852	1,703,967
Total capital assets, net	1,957,660	1,993,991

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

Construction completion of the Muni Metro East Maintenance Facility occurred in the summer of 2008. The facility is located on a 13-acre site at 25th and Illinois Streets in the Bayview area and will support the operation of the Third Street Light Rail line and relieve the tremendous overcrowded conditions at the SFMTA's only light rail facility at Metro Green/Geneva. The facility is a new, state-of-the-art storage yard, maintenance shop and operations/dispatch facility for a fleet of 80 light rail vehicles.

Phase II of the Third Street Light Rail Project will link the existing 5.2 mile Phase I T-line, beginning at Caltrain and 4th Street and King Streets, to BART, Union Square and Chinatown to the north. The "Central Subway" Project as it is titled, will total 1.7 miles with .4 miles on the surface of Fourth Street between King Street and Highway 101 overpass and 1.3 miles in a subway from Highway 101 to Chinatown. In November 2008 the Federal Transit Administration (FTA) issued SFMTA a Record of Decision that confirmed full environmental clearance for the project to complete engineering and, as needed to expedite or initiate long lead items, purchase real estate, construct advanced utility relocations and purchase equipment. The engineering for advanced utility relocation construction was completed in fiscal year 2009. The SFMTA is now completing advanced preliminary engineering and anticipates receiving FTA approval to enter into Final Design in the Fall of 2009. The SFMTA received an Overall Project Rating of Medium-High in the FTA's 2009 Annual Report to Congress that reviews all new proposed transit capital projects seeking federal funding in the U.S. Transit capital projects that are approved for Final Design are very strong candidates to receive the final approval to be constructed. As of fiscal 2009, the project has received approximately \$56 million in federal funds also called "New Starts" by FTA. Ten million in additional New Starts funding was approved for receipt in 2<sup>nd</sup> quarter of fiscal 2010, that will bring New Starts fund to \$66 million. Also, \$30 million in State Proposition 1B (Infrastructure bonds) was approved in fiscal 2009 for receipt in 1<sup>st</sup> quarter of fiscal year 2010. This year's budget submission includes funding necessary to advance this critical project for the City.

The SFMTA received additional cash advance of \$7 million in FY2009 from State Office of Homeland Security from Proposition IB. The bond measure was composed of several funding programs solely for public transit projects. The amount received was recorded as grants received in advance under current liabilities.

Other significant capital asset additions during the fiscal year 2009 included:

- Infrastructure – Majority of the \$24.5 million costs incurred are for new central subway project, the rail replacement project, and reconstruction work on overhead wire on trolley lines.
- Building – Additional construction costs of \$8.7 million was incurred in fiscal year 2009 for the completion of Metro East Facility as well as for escalator replacement project.

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

- Equipment – The cost of \$34.8 million incurred during the fiscal year includes acquisition cost for paratransit vans, refurbishment and modernization of farebox collection system, replacement cost for new radio communication system on SFMTA fleets, Light rail automatic train control system, automatic vehicle location/tracking system, and for the renovation and rehabilitation of cable cars.

#### ***Debt Administration***

SFMRIC is authorized to issue debt to fund each of its programs, but no debt or bonds are outstanding. One of SFMRIC's programs, the Transit Improvement Program (TIP) is also authorized to issue bonds, but no bonds were outstanding as of June 30, 2009 or 2008.

At June 30, 2009, the SFMTA's debt obligations outstanding totaled \$54,801. These amounts represent mostly bonds secured by revenue sources from parking garage revenues and meter collections, including \$907 unamortized bond premium costs. The SFMTA's total debt decreased by \$7,201 or 11.6% at June 30, 2009 primarily due to maturities of existing debts. No bonds were issued during the year ending June 30, 2009. The following table summarizes the changes in debt between fiscal year 2009 and 2008.

	2009	2008
Bonds payable	\$52,319	\$55,022
Notes and capital leases payables	2,482	6,980
Total	54,801	62,002

Additional information about the SFMTA's debt is presented in Note 7 to the financial statements.

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

In April 2002, Muni entered into the leveraged lease-leaseback transaction for 118 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. The sublease provides Muni with an option to purchase the Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

Muni received an aggregate of \$388.2 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion paid to a debt payment

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

undertaker whose repayment obligations is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company.

Muni recorded deferred revenue in fiscal year 2002 of \$35.5 million for the difference between the amount received of \$388.2 million and the amount paid to the escrows of \$352.7 million. The deferred revenue amortized in fiscal year 2009 amounted to \$1.3 million.

## **SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

### **Management's Discussion and Analysis**

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

In September 2003, after obtaining final approval from the SFMTA Board of Directors and the City's Board of Supervisors, Muni entered into a second leveraged lease-leaseback transaction for 21 Breda light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides Muni with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, Muni maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

Muni received an aggregate of \$72.6 million from the equity investors in full prepayment of the head lease. Muni deposited a portion of this amount into an escrow, and a portion paid to a debt payment undertaker whose repayment obligation is guaranteed by Financial Security Assurance, Inc., an "AAA/Aa3" rated bond insurance company. Approximately \$67.5 million of this head lease payment was deposited into two escrows. The deferred revenue amortized in fiscal year 2009 amounted to \$0.2 million.

### **Economic Factors and Next Year's Budget**

The November 2007 Charter Amendment or Proposition A significantly increased the financial and management self-governance of the SFMTA including the requirement to submit a two-year operating budget beginning with budget years FY2009 and 2010, the authority to set fares, fines, fees and rates previously approved by the City's Board of Supervisors and an increase in the parking tax allocation transfer to the SFMTA from 40% to 80% annually which resulted in an increase of \$25.4 million for fiscal year 2009. The FY2009 and 2010 budget years include a total of 322 new positions in support of Proposition A mandates and the SFMTA 2008 – 2012 Strategic Plan Goals. In order to balance the FY2009 and 2010 budget years, the SFMTA Board of Directors approved increases to various fares, fees, fines, rates and charges to be implemented over the two year budget cycle. The influence of these factors has resulted in a revised operating budget of just over \$768 million for FY 2009 and 2010. Approximately, \$452 million or 59% of the total SFMTA operating budget supports SFMTA Muni Service operations.

### **Requests for Information**

This report is designed to provide a general overview of the SFMTA's finances for all those with a general interest. The financial statements and related disclosures in the notes to the financial statements and supplemental information are presented in accordance with U.S. generally accepted accounting principles. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, SFMTA Finance and Information Technology Services, One South Van Ness Avenue, 8th Floor, San Francisco, CA 94103.



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollars in thousands, unless otherwise noted)

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

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

## (1) Description of Reporting Entity

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. The SFMTA financial statements include the San Francisco Municipal Railway (Muni), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), the SFMTA's Division of Parking and Traffic (DPT) and five nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated. The SFMTA is an integral part of the City and these statements are reported as a major fund in the City's Comprehensive Annual Financial Report.

Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating Muni and DPT by July 1, 2002. The incorporations are intended to support the City's TransitFirst Policy. Muni is one of America's oldest public transit agencies, the largest in the Bay Area and seventh largest system in the United States. It currently carries more than 200 million riders annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches and the world famous cable cars, Muni's fleet is among the most diverse in the world. The SFMTA's Division of Parking and Traffic operation manages 40 City-owned garages and metered parking lots. It also manages all traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings, and parking meters. It promotes the safe and efficient movement of people and goods throughout the City.

SFMRIC is a nonprofit corporation whose sole purpose is to provide capital financial assistance on behalf of Muni by purchasing equipment and improving facilities. SFMRIC has no employees.

The parking garages accounted for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities.

## (2) Significant Accounting Policies

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

The activities of the SFMTA are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The SFMTA applies all Governmental Accounting Standards Boards (GASB) Statements, as well as the Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The SFMTA distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses primarily result from providing transportation, street and parking services in connection with the SFMTA's principal ongoing operations. The principal operating revenues are generated from passenger fares, meter and garage parking fees and fees collected from advertisements on the SFMTA property. Operating expenses of the SFMTA include employment costs, materials, services, depreciation on capital assets and other expenses related to the delivery of transportation and parking services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **Governmental Accounting Standards Board (GASB) No. 45**

The SFMTA follows the provisions of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of *other postemployment benefits* (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

This Statement improves the relevance and usefulness of financial reporting by:

- Requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service; and
- Providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Employers that participate in *single-employer* or *multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or overcontributions.

## **(b) Implementation of New Accounting Standards**

### **Governmental Accounting Standards Board (GASB) No. 49**

For fiscal year ending June 30, 2009, the SFMTA has adopted the provisions of GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*. To provide governments with better accounting guidance and consistency, GASB Statement 49, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
- A government has violated a pollution prevention-related permit or license
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

As of June 30, 2009 no environmental liability is reported in the accompanying statement of net assets.

### (c) *Cash and Cash Equivalents*

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the City reports certain investments at fair value in the statements of net assets and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

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

Of the \$14,420 restricted deposits and investments of SFMTA which are held outside the City Treasury as of June 30, 2009, \$13,739 are considered cash equivalents as they meet the definition of cash equivalents.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

**(d) Investments**

In accordance with GASB Statement No. 31, the SFMTA record investments at fair value with changes in fair value recorded as a component of nonoperating revenue (expenses and losses).

**(e) Inventories**

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

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

**(f) Capital Assets**

Capital assets are stated at cost. All construction-in-progress items over \$100,000 and nonconstruction-in-progress items over \$5,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from 3 to 60 years for building structures and improvements, equipment, and infrastructure. Generally no depreciation is recorded in the year of acquisition and a full year's depreciation is taken in the year of disposal.

**(g) Construction-in-Progress**

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

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

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

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

Effective July 1, 2002, any full-time employee leaving employment with the City upon service or disability retirement may receive payment of a portion of sick leave credits at the time of separation. The amount of this payment equals 2.5% of accrued sick leave credits at the time of separation, multiplied by the number of whole years of continuous employment, multiplied by the employee's salary rate, exclusive of premiums or supplements, at the time of separation. The number of hours for which an employee may receive cash payments cannot exceed one thousand forty (1,040) hours, including any vested sick leave.

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

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

The U.S. Department of Transportation, through the Federal Transit Administration (FTA), provides capital assistance to the SFMTA for the acquisition and construction of transit-related property and equipment. This assistance generally approximates 80% of acquisition cost and is administered by the SFMTA and by the Metropolitan Transportation Commission (MTC). The capital assistance provided to the SFMTA by the California Transportation Commission and San Francisco County Transportation Authority (SFCTA) is generally used as a local match to the federal capital assistance. However, additional capital assistance provided to the SFMTA by other agencies is administered by MTC, and is also generally used as a local match for the federal capital assistance. With the inception of the Third Street Light Rail Project, the SFCTA is also a primary local funding source for capital projects. Certain SFMTA expenditures for projects approved for funding by the SFCTA that are currently unbilled but will be billed to the SFCTA in the near future are recorded as other current receivables.

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

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

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

## SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

### Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

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

**(k) *Transit Impact Development Fees***

Transit Impact Development Fees (TIDF) are restricted for the capital and operating costs of increased peak period transit service associated with new office construction in downtown San Francisco. These fees are recorded as nonoperating revenues in the year in which they are assessed.

**(l) *Use of Estimates***

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

**(3) Net Assets**

Net assets as of June 30, 2009 consist of the following:

Category	Amount
Restricted assets:	
Deposits and investments with City Treasury	20,862
Deposits and investments outside City Treasury (see note below)	14,420
Receivables	4,359
Total restricted assets	39,641
Restricted liabilities of:	
Others	(6,667)
Total restricted liabilities	(6,667)
Restricted assets, net	32,974

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

Category	Amount
Net assets:	
Restricted:	
Debt service	4,528
Other purposes	28,446
Total restricted net assets	32,974
Unrestricted	(106,495)
Invested in capital assets, net of related debt	1,902,859
Net assets	1,829,338

**(4) Deposits and Investments**

The SFMTA maintains its deposits and investments with the City Treasury and a portion of its restricted asset deposits as part of the City's pool of deposits and investments. The City's investment pool is invested in an unrated pool pursuant to investment policy guidelines established by the City Treasurer. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The Comprehensive Annual Financial Report of the City categorizes the level of common deposits and investment risks associated with the City's pooled deposits and investments. As of June 30, 2009, the SFMTA's unrestricted deposits and investments with City Treasury were \$191,672.

The restricted deposits and investments outside the City Treasury are mostly related to issuance of bonds with the trustees. As of June 30, 2009, the SFMTA had restricted deposits and investments with the trustees of \$14,420. Of these deposits, \$13,738 meets the definition of cash and cash equivalents as of June 30, 2009.

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

**Investment maturities (in months)**



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

<b>Months</b>	<b>Under 1</b>	<b>1 to less than 6</b>	<b>6 to less than 12</b>	<b>12 – 60</b>
Percentage	9.9%	27.0%	8.8%	54.3%

The restricted deposits and investments outside the City Treasury are held by independent trustees.

**(5) Capital Assets**

Capital asset balances and their movements as of and for the year ended June 30, 2009 and 2008 are as follows:

	<b>Balance, July 1, 2008</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30, 2009</b>
<b>Capital assets not being depreciated:</b>				
Land	26,245	—	—	26,245
Construction-in-progress	263,779	68,020	(221,236)	110,563
Total capital assets not being depreciated	290,024	68,020	(221,236)	136,808
<b>Capital assets being depreciated:</b>				
Building structures and improvements	415,686	178,324	—	594,010
Equipment	1,140,300	37,177	(759)	1,176,718
Infrastructure	1,101,857	5,898	—	1,107,755
Total capital assets being depreciated	2,657,843	221,399	(759)	2,878,483
<b>Less accumulated depreciation for:</b>				
Building structures and improvements	177,653	9,854	—	187,507
Equipment	468,546	62,324	(731)	530,139

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

	<b>Balance, July 1, 2008</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance, June 30, 2009</b>
Infrastructure	307,677	32,308	—	339,985
Total accumulated depreciation	953,876	104,486	(731)	1,057,631
Total capital assets being depreciated, net	1,703,967	116,913	(28)	1,820,852

Certain buses and vans were disposed during 2009. The net loss for sold assets is \$28 offset by proceeds of \$6 on sale of these capital asset items.

Construction-in-progress consists of the following projects as of June 30, 2009:

<b>Category</b>	<b>Amount</b>
Rail replacement	\$9,829
Flynn Facility Air Quality	987
Historic Street Car Renovation	3,129
Farebox Rehabilitation	5,941
Cable Car Propulsion	2,415
Islais Creek-Woods Annex	7,078
Trolley Overhead Reconstruction	9,379
New Central Subway	44,967
Light rail vehicles	13,380
Wayside Fare Collection	1,406
Radio Replacement	5,047
Others	7,005

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

<b>Category</b>	<b>Amount</b>
Total	110,563

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

Accounts payable and accrued expenses were \$41,033 at June 30, 2009. This category consists of liabilities for goods and services either evidenced by vouchers approved for payment but not paid as of June 30, 2009, accrued expenses for amount owed to private persons or organization for goods and services, and construction contracts retainage payable.

<b>Category</b>	<b>Amount</b>
Vouchers payable	\$26,067
Accruals	13,470
Contracts retainage	1,496
Total accounts payable and accrued expenses	41,033

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

SFMRIC is authorized to issue debt to fund each of its programs under separate indentures. Transit Equipment Progress bonds totaling \$51,500 have been authorized, of which \$30,500 is available for issuance and none are outstanding. Transit Improvement Program (TIP) bonds amounting to \$44,000 have been authorized, of which \$7,800 is available for issuance. As of June 30, 2009 and 2008, no bonds were outstanding under the TIP.

The City's electorate has approved various lease revenue bond propositions for the SFMTA for the construction of parking garages and surface lots of the City's neighborhood. Interest rates ranges from 3% to 6%.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The following is a summary of long-term obligation of the SFMTA:

	<b>Final maturity date</b>	<b>Remaining interest rate</b>	<b>Amount</b>
Parking and traffic:			
Revenue bonds	2020	4.35% – 5.00%	\$15,880
Lease Revenue bonds	2022	4.70% – 5.50%	6,165
Notes, loans and other payables	2010	3.00% – 5.25%	2,510
Downtown parking – parking revenue refunding bonds	2018	3.00% – 5.75%	8,725
Ellis-O’Farrell – parking revenue refunding bonds	2017	3.50% – 5.75%	3,825
Uptown parking – revenue bonds	2031	4.50% – 6.00%	17,696
Total long-term obligations			\$54,801

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The changes in long-term obligation for the SFMTA are as follows:

	Balance July 1, 2008	Net increases	Net decreases	Balance June 30, 2009	Amount due within one year
Bonds payable:					
Revenue bonds	\$46,875	—	(1,515)	45,360	1,825
Lease revenue bonds	7,310	—	(1,145)	6,165	345
Add/less deferred amounts:					
For issuance premiums	837	—	(43)	794	—
Total bonds payable	55,022	—	(2,703)	52,319	2,170
Notes, loans and other payables	6,980	—	(4,498)	2,482	2,369
Accrued vacation and sick leave	27,023	20,696	(19,077)	28,642	16,868
Deferred revenue and other deferred credits	41,987	7,770	(6,622)	43,135	14,808
Total long-term obligations	\$131,012	28,466	(32,900)	126,578	36,215

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The bond debt service requirements are as follows:

<b>Year ending June 30</b>	<b>Principal</b>	<b>Revenue bonds interest</b>	<b>Total</b>
2010	4,539	1,854	6,393
2011	3,260	2,410	5,670
2012	3,405	2,282	5,687
2013	3,575	2,135	5,710
2014	3,750	1,977	5,727
2015 – 2019	20,275	6,767	27,042
2020 – 2024	7,543	3,377	10,920
2025 – 2029	5,364	1,754	7,118
2030 – 2031	3,090	111	3,201
Total	54,801	22,667	77,468

MTA must be in compliance with certain bond covenants.

The bond indenture for the SFMTA requires that certain funds be established and administered by a trustee. The funds to be maintained are to secure the payment of principal and interest, to provide for the operating obligations of the facility and safekeeping of surplus funds. These funds are as follows:

*Bond Reserve Fund* accumulates fund for the Bond Reserve Fund requirement.

*Revenue Fund* receives corporate revenues.

*Operating and Maintenance Fund* accumulates funds to pay operation and maintenance expenses.

*Principal/Sinking and Interest Fund* accumulates funds for the amount of principal and interest becoming due and payable on the outstanding serial bonds on the next scheduled maturity date.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

*Repair and Replacement Fund* accumulates funds primarily for repairs and replacements to the garage

The Trustee transfers any remaining amounts in the Revenue Fund to the *Surplus Revenue Fund* after first making deposits to the above funds. No later than two business days prior to 15<sup>th</sup> of each year, the non profit garage corporations transfer 85% of all monies deposited in the Surplus Revenue Fund to Muni and Recreation & Park accounts.

## (8) Employee Benefit Plans

### (a) Retirement Plan – City and County of San Francisco

#### Plan Description

The City has a single-employer defined benefit retirement plan (the Plan) which is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). The Plan covers substantially all full-time employees of the SFMTA along with other employees of the City. The Plan provides basic retirement, disability, and death benefits based on specified percentages of final average salary, and provide cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020.

#### Funding Policy

Contributions are made to the basic plan by both the SFMTA and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2009 varied from 7% to 8% as a percentage of covered payroll. The SFMTA is required to contribute at an actuarially determined rate. For fiscal year 2009, the actuarially determined contribution rate as a percentage of covered payroll was 4.99%. The SFMTA's required contribution was approximately \$16.2 in fiscal year 2009.

The SFMTA's contributions to the Retirement System on behalf of its employees amounted to \$13,001 for the years ended June 30, 2009, which were equal to the required employee contributions for the year.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

**(b) *Deferred Compensation Plan***

The City offers its employees, including the SFMTA employees, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

The SFMTA has no administrative involvement and does not perform the investing function. SFMTA has no fiduciary accountability for the plan, and accordingly, the plan assets and related liabilities to the plan participants are not included in these financial statements.

**(c) *Healthcare Benefits***

Health care benefits of the SFMTA employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System (the Health Service System). The SFMTA's annual contribution, which amounted to approximately \$63,711 in fiscal year 2009, is determined by a charter provision based on similar contributions made by the ten most populous counties in California.

Included in these amounts is \$18,505 for fiscal year 2009 to provide postretirement benefits for retired employees, on a pay-as-you-go basis. In addition, the City allocated an additional \$409 to SFMTA's contribution allocation for payments made the Health Service System for postretirement health benefits in 2009.

The City has determined a City-wide annual required contribution, interest on net OPEB obligation, ARC adjustment and OPEB cost based upon an actuarial valuation performed in accordance with GASB 45, by the City's actuaries. The City's allocation of the OPEB related cost to the SFMTA for the year ended June 30, 2009 based upon its percentage of City-wide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for SFMTA for the fiscal years ended June 30, 2009 and 2008, the amounts contributed to the plan and changes in the net OPEB obligations:



**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

	<b>2009</b>	<b>2008</b>
Annual required contribution	56,804	53,464
Interest on net OPEB obligation	1,761	—
Adjustment to ARC	<b>(1,304)</b>	—
Annual OPEB cost	57,261	53,464
Contribution made	<b>(18,914)</b>	<b>(18,026)</b>
Increase in net OPEB obligation	38,347	35,438
Net OPEB obligation, beginning of fiscal year	35,438	—
Net OPEB obligation, end of fiscal year	73,785	35,438

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

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the Santa Clara Valley Transportation Authority and the San Mateo County Transit District. The PCJPB is governed by a separate board composed of nine members, three from each participant. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The PCJPB began operating the Peninsula CalTrain rail service on July 1, 1992. Prior to that time, such rail service was operated by the California Department of Transportation. The agreement establishing the PCJPB expired in 2001, upon which it will continue on a year-to-year basis thereafter, until a participant withdraws, which requires one-year notice. The SFMTA contributes to the net operating costs and administrative expenses of the PCJPB. The SFMTA contributed \$7.3 million for operating needs in fiscal year 2009. The PCJPB's annual financial statements are publicly available.

**(10) Self-Insurance**

The SFMTA 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 SFMTA is fully self-insured for its general liability and auto liability, and public transportation bus and light rail liabilities, respectively. In addition, claims liabilities are calculated considering the effect of inflation, recent claim settlement trends, including frequency and amount of

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

payments, and other economic and social factors. The SFMTA is self-insured for workers' compensation claims. The respective liabilities as of June 30, 2009 have been actuarially determined and include an estimate of incurred but not reported claims. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic social factors.

Changes in the balances of claims liabilities and workers' compensation liabilities for the years ended June 30, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Accrued claims liabilities, beginning of fiscal year	55,981	56,942
Incurred claims and changes in estimates	12,872	13,995
Claims payments	(21,388)	(14,956)
Accrued claims liabilities, end of fiscal year	47,465	55,981
Accrued workers' compensation, beginning of fiscal year	92,116	93,911
Incurred workers' compensation and changes in estimates	14,510	13,322
Workers' compensation payments	(16,541)	(15,117)
Accrued workers' compensation, end of fiscal year	90,085	92,116

Workers' compensation expense is part of personnel services, while claims expense is part of general and administrative under operating expenses in the accompanying statements of revenue, expenses and changes in net assets for 2009.

**(11) Transactions with the City**

The amount of operating subsidy provided to the SFMTA each year is limited to the amount budgeted by the City. Such subsidy is recognized as revenue in the year received. At times, a budget deficit can be caused by a revenue shortfall for which there is an expectation that those or other revenues will be received in the subsequent year relating to the prior years. In those circumstances, the City allows the SFMTA to show a deficit on a budgetary basis. This policy does not provide cash to finance receivables. Consequently, the SFMTA at times maintains a cash overdraft with the City, which can be repaid only through collection of receivables.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The General Fund support from the City reflected in the accompanying financial statements includes a total revenue transfer of \$229.7 million in fiscal year 2009.

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

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2009, the SFMTA had approved capital grants with unused balances amounting to \$468.5 million. Capital grants receivable as of June 30, 2009 totaled \$13.9 million.

The SFMTA also receives operating assistance from various federal, state, and local sources including Transit Development Act funds and sales tax allocations. As of June 30, 2009, the SFMTA had various operating grants receivable of \$23.5 million. In fiscal year 2009, the SFMTA's operating assistance also includes BART Americans with Disability Act (ADA) revenues of \$1.3 million and other federal, state, and local grants of \$20 million to fund project expenses that are operating in nature.

The capital and operating grants identified above include funds received and due from the SFCTA. During the fiscal year 2009, the SFCTA approved \$18.7 million in new capital grants and the SFMTA received payments totaling \$8.7 million. As of June 30, 2009, the SFMTA had \$0.6 million in capital grants due from the SFCTA. Similarly, the SFMTA receives operating grants from SFCTA. During the fiscal year 2009, SFCTA approved \$17.6 million in new operating grants and SFMTA received payments totaling \$21 million. As of June 30, 2009, the SFMTA had \$2.0 million in operating grants due from the SFCTA.

Proposition 1B is a ten-year \$20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. The SFMTA received \$50 million in fiscal year 2008 for eight different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2009, \$8.3 million drawdowns were made from these funds for various eligible projects costs.

The State Office of Homeland Security also approved funding for the SFMTA transit security projects in the amount of \$7 million under Prop 1B. The grant award letter is dated April 22, 2008 but the cash advance of \$7 million was received in August 2008 and recorded as deferred grant.

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

### (13) Commitments and Contingencies

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

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

#### (b) *Operating Leases*

The SFMTA leases certain equipment and various properties for use as office space, fleet storage space, and machine shops under lease agreements that expire at various dates through fiscal year 2034. These agreements are accounted for as operating leases. Rent expense was \$12.07 million for the years ended June 30, 2009.

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

Years ending June 30:	Amount
2010	\$9,658
2011	7,300
2012	7,236
2013	7,242
2014	7,202
2015 – 2019	36,388
2020 – 2024	39,966
2025 – 2029	44,023
2030 – 2034	48,462
Total	\$207,477

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

**(c) Other Commitments**

As of June 30, 2009, the SFMTA has outstanding commitments of approximately \$68.4 million with third parties for various capital projects. Grant funding is available for the majority of this amount. The SFMTA also has outstanding commitments of approximately \$16.3 million with third parties for noncapital expenditures. Various local funding sources are used to finance these expenditures.

The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SFMRIC’s board of directors has authorized SFMRIC to extend financial guarantees to the SFMTA for certain projects. The projects for which SFMRIC has guaranteed funding and the maximum amounts of such guarantees as of June 30, 2009, are as follows:

Item	Amount
Historic Streetcar Shed	\$773
Islais Creek Storage Facility	534
Historic Streetcar Rehab	846
Total	\$2,153

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

**(14) Leveraged Lease-Leaseback of Breda Vehicles**

***Tranches 1 and 2***

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors, and the City’s Board of Supervisors, Muni entered into the leveraged lease-leaseback transactions for over 118 and 21 respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). Each transaction, also referred to as “sale in lease out” or “SILO”, was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Under the respective sublease, Muni may exercise an option to purchase the Tranche 1 Equipment on specified dates between

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

November 2026 through January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled sublease expiration dates. During the terms of the subleases, Muni maintains custody of the Tranche 1 Equipment and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of the sublease.

Muni received an aggregate of \$388.2 million and \$72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head lease. Muni deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance (FSA), a bond insurance company that is currently rated "AAA" by Standard & Poor's and "Aa3" by Moody's Investor Services. The terms of the SILO documents require the City to replace FSA as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by Standard & Poor's and Moody's, respectively. FSA's current ratings satisfy this requirement. In addition, FSA provided a surety policy with respect to each SILO to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require Muni to replace FSA as surety provider if FSA's ratings are downgraded below "AA-/Aa3" by Standard & Poor's and Moody's, respectively. FSA's current ratings satisfy this requirement. Although S&P has placed FSA on "credit watch with negative

# SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

## Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

implications” and Moody’s indicated that FSA’s outlook is “developing”, it is not known whether or to what level downgrades, if any, may occur. Failure of Muni to replace FSA following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to Muni. Because replacement of FSA in either of its roles as debt payment undertaker guarantor or surety may not be practicable, Muni could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2009 after giving effect to the market value of the securities in the escrow accounts, would approximate \$108.1 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these escrows do not represent a legal defeasance of Muni’s obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that Muni will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations are not recorded on the financial statements of the SFMTA as of June 30, 2009.

As a result of the cash transactions above, Muni recorded deferred revenue of \$35.5 million and \$4.4 million in fiscal year 2002 and 2003 respectively, for the difference between the amounts received of \$388.2 million and \$72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of \$352.7 million and \$67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal year 2009. As of June 30, 2009, the outstanding payments to be made on the sublease through the end of the sublease term are \$84.8 million and \$51.4 million for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be \$680.8 million and \$154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If Muni does not exercise the purchase option, Muni would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the “service recipient,” under a “service contract,” and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

### **(15) Wellness Incentive Program**

Effective July 1, 2002, the City established a pilot “wellness incentive program” (the Wellness Program) to promote workforce attendance. Under the Wellness Program, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment of a portion of accrued sick leave credits at the time of separation.

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY**

Notes to Financial Statements

June 30, 2009

(Dollars in thousands, unless otherwise noted)

The amount of this payment shall equal to 2.5% of accrued sick leave credits at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave credits, as set forth under Civil Service Commission Rules, shall not be included in this computation.



## **SUPPLEMENTAL SCHEDULES**

**Report on Internal Control over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

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

We have audited the financial statements of the San Francisco Municipal Transportation Agency (SFMTA) of the City and County of San Francisco, California (the City) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered SFMTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SFMTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SFMTA's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in the accompanying schedule of findings and responses (Appendix A). A significant deficiency is a deficiency, or combination of deficiencies in internal

control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SFMTA's financial statements are free of 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*.

SFMTA's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit SFMTA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Board of Supervisors, San Francisco Municipal Transportation Agency Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties.

November 24, 2009

## **2009-01 Lack of Controls over Inventory Count Process**

### ***Criteria***

A control deficiency 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 misstatements on a timely basis.

### ***Condition***

In performing an inventory count at the Green Warehouse on May 16, 2009, the count of stock code 024-10-0622 (Motor) was erroneously recorded by the warehouse personnel to be 32 items on hand, when the warehouse in fact had 6 items at the point of count.

Additionally, it was noted that approximately half of the counters of the Green Warehouse were also employed at the Green Warehouse, and for two of the five days, the count was supervised by two Green Warehouse supervisors.

### ***Cause***

Adequate controls over the inventory count process were not in place at the Green warehouse which could cause an error in the inventory count process.

### ***Recommendation***

In performing the inventory count in warehouses, the warehouse management should implement general controls to prevent errors in recording the count.

### ***Management Response***

This observation reflects a problem where the counter did not observe the process established in the Inventory Instructions, to only count what is actually observed. In this instance, the maintenance Rebuild shop rebuilds a motor unit and does a “turn in” to the parts counter so it can be entered into the inventory system. Due to the part size and a lack of space in the Green Storeroom, many of the rebuilt items are located in the shop. When the maintenance department is in need of a rebuilt item stored in the shop, the item is taken and the storeroom is informed of a work order number for the item to be issued. The counter observed 6 of the (024-10-0622) Rebuilt PCC Motors in the Maintenance department. He had prior knowledge of more than six and wrote the number he recalled instead of what he actually observed.

It has been the practice to utilize Muni storekeepers to conduct inventories, a process that enhances accuracy as the staff is familiar with the various parts. If the counter is familiar with the storeroom inventory, identification of an incorrectly placed part is facilitated. As a control measure, the staff conducting the actual count is not responsible for entering any of the data in the system.

With the goal of stricter controls, all counting staff will be trained in advance to comply with all Inventory Count Instructions, including counting only what is observed. Training sessions will

## **Appendix A**

include classroom instruction and practice counts to assure understanding and compliance with written instructions.

## **2009-2. Lack of Control over the Review of Financial Statements**

### ***Criteria***

A control deficiency 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 misstatements on a timely basis.

### ***Condition***

The process of preparing the yearend financial statements includes performing a number of nonroutine steps, as well performing reviews of the resulting financial statements. During the current year we noted the following errors in the draft financial statements;

- A self-insurance adjustment was noted late in the process. Management should identify items earlier in the closing process and assign an accounting staff to ensure that the self-insurance related entries are properly recorded in the financial statements.
- As this was the first year complete MTA financial statements were compiled to be audited, several policy decisions had to be researched and made. However, \$114 million of cash received from fines, forfeitures, penalties and other was misclassified as non-capital financing activities in the statement of cash flows. Although such amounts were correctly presented on the statement of revenues, expenditures, and changes in net assets, different definitions are used for the statement of cash flows.

### ***Cause***

Nonroutine transactions and disclosures were not appropriately reviewed during the preparation of the yearend financial statements.

### ***Recommendation***

When preparing financial statements, management should perform a thorough review of the information to ensure the amounts are properly captured and classified in the financial statements.

### ***Management Response***

- SFMTA management has historically performed review and evaluation of the agency's workers compensation data to ensure that the information is complete and accurately reflected in the agency's financial statements. This quality control review procedure would have also normally been performed at FY2009 fiscal year end had it not been for the retirement of the manager in the unit. Going forward, SFMTA management will ensure that the quality control review procedure is performed and properly documented regardless of staff changes. In addition, SFMTA will continue to work with the Controller's Office to ensure the reconciliation process is completed.

## Appendix A

- Given that FY2009 is the first year that SFMTA is issuing a consolidated financial report that includes the operations of MUNI, Parking and Traffic, and the Parking Garages, SFMTA management is very pleased that only two findings related to the financial statement presentation were identified. SFMTA correctly recorded the fines, forfeitures, penalties and others in the statement of revenues, expenditures and net assets while inadvertently misclassifying the cash from the same source as non-capital financing activities in the statement of cash flows. This is an oversight and SFMTA will ensure that proper review will be performed to avoid this from recurring in the future.