

CITY OF OAKLAND

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OAKLAND

2018 MAR 29 PM 4: 27

# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Katano Kasaine  
Finance Director/Treasurer

**SUBJECT:** Oakland Redevelopment Successor  
Agency (ORSA) Audit Report,  
FY 2016-17

**DATE:** March 19, 2018

City Administrator Approval

Date:

3/29/18

## RECOMMENDATION

**Staff Recommends That The City Council Receive The Oakland Redevelopment Successor Agency (ORSA) Audit Report For The Year Ended June 30, 2017.**

## EXECUTIVE SUMMARY

The Finance Department, Controller's Bureau is pleased to present to the City Council the attached Oakland Redevelopment Successor Agency (ORSA) Audit Report for Fiscal Year (FY) 2016-17.

Macias, Gini & O'Connell, the City's external auditor, performed the Oakland Redevelopment Successor Agency financial audit for the year ending June 30, 2017 (**Attachment A**). The audit report incorporates the basic financial statements, notes to the basic financial statements, and the independent auditor's report on internal controls over financial reporting and on compliance and other matters based in accordance with *Government Auditing Standards*.

The auditor issued an unmodified opinion that the basic financial statements fairly present the financial condition of ORSA as of June 30, 2017 and are in accordance with accounting principles generally accepted in the United States.

## BACKGROUND / LEGISLATIVE HISTORY

The Oakland Redevelopment Agency (ORA) was established on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities were acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council served as the Redevelopment Agency's Board of Directors.

Item: \_\_\_\_\_  
Finance and Management Committee  
April 10, 2018

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and the wind-down of redevelopment activity. On January 10, 2012, the City Council passed Resolution No. 83679 C.M.S., electing for the City of Oakland to serve as the Successor Agency to the Redevelopment Agency of the City of Oakland, effective February 1, 2012. Also, at the same meeting, the City Council elected to retain the housing assets, functions, and powers previously performed by the former Agency.

Assembly Bill 1484 (AB 1484) was enacted on June 27, 2012. AB 1484 provided that successor agencies must be organized as separate public entities from the sponsoring city. Therefore, on July 17, 2012, per Resolution No. 84107 C.M.S., the Oakland Redevelopment Successor Agency (ORSA) was created to serve as successor agency to the ORA to wind-down the affairs of the former Redevelopment Agency. The ORSA is a separate public entity from the City, subject to the direction of the Oakland Oversight Board. The Oakland Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Alameda (County) representatives; one representative appointed by the County Superintendent of Education; one representative appointed by the Chancellor of California Community Colleges; and one representative appointed by the largest special district taxing entity, i.e., AC Transit.

In general, ORSA's assets can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable contractual commitments. In future years, ORSA will only be allocated property tax revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency, until all these enforceable obligations have been paid in full and all assets have been liquidated. Based upon the nature of its custodial role, the ORSA is reported as fiduciary fund (private-purpose trust fund).

The FY 2016-17 ORSA Audit Report provides information on the Successor Agency's financial activities for the year ended June 30, 2017, and is divided into the following sections:

- **Financial Section:** This section contains the Successor Agency's basic financial statements; notes to basic financial statements; the Independent Auditor's Report and the Management's Discussion and Analysis (MD&A);
- **Compliance Section:** This section provides independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

The auditor considered the Successor Agency's internal controls over financial reporting as a basis for designing their auditing procedures. In addition, the auditor performed tests of compliance with certain provision of laws, regulations and grant agreements, non-compliance with which could have a direct and material effect on the financial statement.

Item: \_\_\_\_\_

Finance and Management Committee

April 10, 2018

## **ANALYSIS AND POLICY ALTERNATIVES**

In the ORSA Audit Report for Fiscal Year 2016-17, the auditor issued an unmodified opinion that the basic financial statements accurately represent the financial condition of ORSA as of June 30, 2017 and are in accordance with *Generally Accepted Accounting Principles (GAAP)*.

The audit report did not identify any deficiencies in internal controls over financial reporting considered to be a material weakness. The report provides the status of the prior year finding, which has been resolved, on Page 29 of the Audit Report (**Attachment A**).

### ***Financial Highlights***

For the FY ended June 30, 2017, the Successor Agency achieved the following key financial results:

- Total liabilities exceeded total assets at June 30, 2017 by \$294.08 million – deficit net position held in trust. This represents a \$23.8 million deficit reduction from the prior year and is primarily due to a decrease in debt of \$30.4 million in Fiscal Year 2017.
- Total long-term obligations at June 30, 2017 totaled \$385.3 million.

Key elements of the ORSA's additions and deductions are presented below:

- The ORSA's additions for FY2017 were \$72.9 million, which was nearly the same as \$73.0 million for FY2016. On the individual addition level, redevelopment property tax revenue increased by 0.3 million, which is offset by \$0.3 million reduction in federal and State grants compared with FY2016.
- The ORSA's deductions for FY2017 were \$42.1 million compared to \$44.6 million for FY2016, a decrease of \$2.5 million. The decrease was mainly due to the decrease of \$1.8 million in interest expenses on long-term obligations as the result of reduced outstanding principal balances combined with the elimination of \$0.7 million of debt issuance costs incurred in the prior fiscal year.
- During FY2017, the ORSA transferred \$7.0 million of excess tax allocation bond proceeds to the City, which was approved by the DOF. The transfer was reported as a special item in FY2017.

## **FISCAL IMPACT**

There is no fiscal impact associate with this report.

Item: \_\_\_\_\_  
Finance and Management Committee  
April 10, 2018

**PUBLIC OUTREACH/INTEREST**

This item did not require any additional outreach other than the required posting on the City's website.

**COORDINATION**

This report was prepared in coordination with the Finance Department, City Administrator's Office, and the City Attorney's Office.

**SUSTAINABLE OPPORTUNITIES**

***Economic:*** No direct economic opportunities have been identified.

***Environmental:*** No environmental opportunities have been identified.

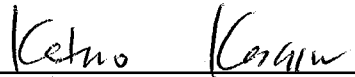
***Social Equity:*** No social equity opportunities have been identified.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Accept The Oakland Redevelopment Successor Agency (ORSA) Audit Report For The Year Ended June 30, 2017.

For questions regarding this report, please contact Kirsten LaCasse, Controller, at (510) 238-6776.

Respectfully submitted,



KATANO KASAINÉ  
Finance Director/Treasurer  
Finance Department

Prepared by:

Kirsten LaCasse  
Controller  
Finance Department, Controller's Bureau

Attachment (1):

A: *Oakland Redevelopment Successor Agency (ORSA) Audit Report For The Year Ended June 30, 2017*

Item: \_\_\_\_\_  
Finance and Management Committee  
April 10, 2018

## **ATTACHMENT A**

### **Oakland Redevelopment Successor Agency (ORSA) Audit Report - FY 2016-17**

This report can also be viewed on the City of Oakland website using the following link:

***<http://www.oaklandnet.com/government/fwawebite/accounting/CAFR.htm>***

# **CITY OF OAKLAND CALIFORNIA**



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

**(A COMPONENT UNIT OF THE CITY OF OAKLAND)**

**FOR THE YEAR ENDED JUNE 30, 2017**

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Independent Auditor's Reports  
and Basic Financial Statements

For the Year Ended June 30, 2017



Certified  
Public  
Accountants



# OAKLAND REDEVELOPMENT SUCCESSOR AGENCY

## FINANCIAL REPORT

### PROJECT TEAM

Katano Kasaine  
*Finance Director / Treasurer*

Kirsten LaCasse  
*Controller*

### AUDIT/FINANCIAL STATEMENT COORDINATOR

Kirsten LaCasse, *Controller*

### FINANCIAL STATEMENT PREPARATION

#### Financial Statement Leaders

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*Financial Analyst*

Lilian Falkin  
*Accounting Supervisor*

#### Accounting Team

Michelle Wong  
Timothy Turner  
Lilian Falkin

Connie L. Chu  
Felipe Kiocho  
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Andy Yang  
Rogelio Medalla

### SPECIAL ASSISTANCE

Dawn Hort

Madhukar Kumar

David Jones

### SPECIAL ASSISTANCE - DEPARTMENTS & OFFICES

City Administrator's Office

City Attorney's Office

Finance Department - Treasury Bureau

Economic & Workforce Development

Housing and Community Development

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

For the Year Ended June 30, 2017

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## Independent Auditor's Report

Board of Directors  
Oakland Redevelopment Successor Agency  
Oakland, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Oakland Redevelopment Successor Agency (Agency), a component unit of the City of Oakland (City), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 an opinion on the basic financial statements as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
December 22, 2017

## **OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited

For the Year Ended June 30, 2017

As management of the Oakland Redevelopment Successor Agency of the City of Oakland (“ORSA”), we offer readers of the ORSA’s basic financial statements this narrative overview and analysis of the financial activities of the ORSA for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the ORSA’s financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

On May 29, 2013, the State of California’s Department of Finance (DOF) issued its finding on the ORSA stating that it used excess bond proceeds from bonds issued prior to 2011 pursuant to Health and Safety Code (HSC) Section 34191.4. Based on the DOF’s finding, the Oakland Oversight Board approved the ORSA’s Bond Expenditure Agreement between the ORSA and the City of Oakland (City) that would transfer current and future excess tax allocation bond proceeds to the City to fund redevelopment projects and programs in progress on July 29, 2013. For the year ended June 30, 2017, the ORSA transferred excess tax allocation bond proceeds in the amount of \$7.0 million to the City.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the ORSA’s basic financial statements. The ORSA’s basic financial statements comprise two components: 1) basic financial statements and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. These financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting.

### **FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. At the close of June 30, 2017, the ORSA has a negative net position of \$294.1 million. Under the former California Redevelopment Law, the former Redevelopment Agency of the City of Oakland (Agency) issued bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues (See Note 6 to the basic financial statements).

In general, ORSA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). These include public projects such as public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers. Once redevelopment projects that were public facilities were completed by the former Agency, the responsibilities for their continued maintenance and operations were transferred to the appropriate public entity such as the City including the capitalized redevelopment project costs. In addition, completed projects with private developers were also transferred to the developers in accordance with disposition and development agreements. Although completed public facilities and joint agency-private partnership projects were transferred to the City or private entities, the related debt remained with the former redevelopment agency and was transferred to the ORSA.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2017

Shown below is a schedule that summarizes the ORSA's net position held in trust:

**Condensed Statements of Fiduciary Net Position**  
(In thousands)

<b>Assets</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>\$ Change</b>
Current and other assets	\$ 61,808	\$ 63,733	\$ (1,925)
Restricted cash and investments	17,179	21,845	(4,666)
Notes and loans receivable, net	16,798	16,977	(179)
Property held for resale	2,818	2,818	-
<b>Total assets</b>	<b>98,603</b>	<b>105,373</b>	<b>(6,770)</b>
<b>Deferred outflows of resources</b>	<b>6,051</b>	<b>6,396</b>	<b>(345)</b>
<b>Liabilities</b>			
Other liabilities	13,432	13,922	(490)
Long-term liabilities	385,300	415,723	(30,423)
<b>Total liabilities</b>	<b>398,732</b>	<b>429,645</b>	<b>(30,913)</b>
<b>Total net position held in trust</b>	<b>\$ (294,078)</b>	<b>\$ (317,876)</b>	<b>\$ 23,798</b>

At June 30, 2017, the ORSA's liabilities exceeded its assets and deferred outflows of resources, resulting in a net deficit of \$294.1 million. This represents a \$23.8 million deficit reduction compared to the net position at June 30, 2016. The change is mainly due to the following:

- Total assets were \$98.6 million, a reduction of \$6.8 million compared to \$105.4 million at June 30, 2016. The reduction is mainly due to scheduled debt service payments and transfer of excess tax allocation bond proceeds to the City that reduced restricted cash and investments and unrestricted cash and investments by \$4.7 million and \$1.8 million, respectively.
- Deferred outflows of resources reduced by \$0.3 million compared to \$6.4 million at June 30, 2016 to \$6.1 million at June 30, 2017. The reduction was from scheduled amortization of debt refunding losses in FY2017.
- A \$0.5 million reduction in other liabilities was due to reduced timing payments for eligible expenditures.
- The \$30.4 million decrease in long-term liabilities was due to \$29.2 million scheduled debt service payments combined with net of a \$1.2 million reduction in the long-term debt premium and discount.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)  
For the Year Ended June 30, 2017

Condensed Statements of Changes in Fiduciary Net Position  
(In thousands)

	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>	<u>\$ Change</u>
<b>Additions</b>			
Redevelopment property tax revenues	\$ 68,760	\$ 68,468	\$ 292
Other revenues	4,186	4,509	(323)
<b>Total additions</b>	<u>72,946</u>	<u>72,977</u>	<u>(31)</u>
<b>Deductions</b>			
General and administrative	3,788	3,923	(135)
Project expenses	17,498	17,336	162
Interest on debt	20,814	22,674	(1,860)
Bond issuance costs	-	681	(681)
<b>Total deductions</b>	<u>42,100</u>	<u>44,614</u>	<u>(2,514)</u>
<b>Special item from</b>			
Transfer of excess tax allocation bond proceeds to the City, approved by the California Department of Finance	(7,048)	-	(7,048)
<b>Total special items</b>	<u>(7,048)</u>	<u>-</u>	<u>(7,048)</u>
<b>Change in net position</b>	23,798	28,363	(4,565)
Net position held in trust, beginning of year	(317,876)	(346,239)	28,363
Net position held in trust, end of year	<u>\$ (294,078)</u>	<u>\$ (317,876)</u>	<u>\$ 23,798</u>

Key elements of the ORSA's additions and deductions are presented below:

- The ORSA's additions for FY2017 were \$72.9 million, which was nearly the same as \$73.0 million for FY2016. On the individual addition level, redevelopment property tax revenue increased by 0.3 million, which is offset by \$0.3 million reduction in federal and State grants compared with FY2016.
- The ORSA's deductions for FY2017 were \$42.1 million compared to \$44.6 million for FY2016, a decrease of \$2.5 million. The decrease was mainly due to the decrease of \$1.8 million in interest expenses on long-term obligations as the result of reduced outstanding principal balances combined with the elimination of \$0.7 million of debt issuance costs incurred in the prior fiscal year.
- During FY2017, the ORSA transferred \$7.0 million of excess tax allocation bond proceeds to the City, which was approved by the DOF. The transfer was reported as a special item in FY2017.

**Debt Administration**

At June 30, 2017, the ORSA had long-term bonds outstanding totaling \$378.2 million, a decrease of \$29.2 million from fiscal year 2016 as the result of scheduled debt service payments on outstanding long-term debts (Tax Allocation Bonds and Housing Set-Aside Bonds), which are backed by redevelopment property tax revenues.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)

For the Year Ended June 30, 2017

Below is a breakdown of the long-term debt is as follows (in thousands):

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Long-Term Debt</b>		
Tax allocation bonds	\$ 338,510	\$ 362,245
Housing set-aside bonds	<u>39,720</u>	<u>45,225</u>
Subtotal - Bonds outstanding	378,230	407,470
Unamortized amounts:		
Premiums and discounts	<u>7,070</u>	<u>8,253</u>
<b>Total long-term debt</b>	<b>\$ 385,300</b>	<b>\$ 415,723</b>

***Bond Ratings***

Bond ratings reflect the credit strength of the ORSA's value and size. The strengths that Moody's Investors Services takes into account are the ORSA's large geographic and total project area, sizable incremental and assessed valuation, and solid high period of debt service coverage.

The table below shows ORSA bond ratings for the outstanding bonds as of June 30, 2017:

<u>Type of Obligation</u>	<u>Ratings</u>		
	<u>Moody's</u>	<u>S &amp; P</u>	<u>Fitch</u>
<b>Tax Allocation Bonds:</b>			
Subordinated Tax Allocation Refunding Bonds, Series 2015-TE, 2015-T <u>Central District Redevelopment Project</u>	N/A	A-/AA*	N/A
Subordinated Tax Allocation Bonds, Series 2006T	A3*	A-/A*	N/A
Subordinated Tax Allocation Bond Series 2009T	N/A	A-	N/A
Subordinated Tax Allocation Refunding Bonds, Series 2013 <u>Coliseum Area Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006B-TE, B-T	Baa1	A	N/A
<u>Central City East Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006A-T	Baa1	A	N/A
<u>Broadway/MacArthur/San Pablo Redevelopment Project</u>			
Tax Allocation Bonds, Series 2006C-T	Baa1	A+	N/A
Tax Allocation Bonds, Series 2010T	N/A	A-	N/A
<b>Subordinated Housing Set-Aside Bonds:</b>			
Revenue Bonds, Series 2011A-T	Baa1	AA-	N/A

\* Insured maturities



## **OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Management's Discussion and Analysis – Unaudited (Continued)

For the Year Ended June 30, 2017

### **REVENUES AND RECOGNIZED OBLIGATIONS PAYMENT SCHEDULE**

Pursuant to State laws and regulations, the ORSA is required to adopt a Recognized Obligation Payments Schedule ("ROPS"). A ROPS, listing all enforceable obligations due and payable currently in the six-month coverage period, is prepared in a manner provided by the DOF and is the basis for the distribution of property tax revenues from the Redevelopment Property Tax Trust Fund ("Trust Fund"). The ROPS represents the ORSA's annual budget. The semi-annual Administrative Budget for the ORSA is presented and approved by the Successor Agency governing board and ORSA's Oversight Board, and subsequently approved as part of the ROPS by the DOF

In September 2015, the State passed the Senate Bill 107, which authorizes successor agencies to submit a Last and Final ROPS, which shall list the remaining enforceable obligations of the successor agency and the total outstanding obligation and a schedule of remaining payments for each enforceable obligation, for approval by the oversight board and the DOF. Upon approval by the DOF, the Last and Final ROPS will establish the maximum amount of Redevelopment Property Tax Trust Funds to be distributed to the ORSA.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the ORSA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, Controller's Bureau, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093. Additional financial data may also be found on the ORSA's website ([www.oaklandnet.com](http://www.oaklandnet.com)).

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# **BASIC FINANCIAL STATEMENTS**

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**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Statement of Fiduciary Net Position  
June 30, 2017  
(Amounts in Thousands)

**ASSETS**

Current assets:

Cash and investments	\$ 54,392
Accrued interest receivable	406
Due from City of Oakland	2,311
Due from other governments	2,705
Prepaid expenses	1,994
Restricted investments	<u>17,179</u>
Total current assets	<u>78,987</u>

Noncurrent assets:

Notes and loans receivable (net of allowance for uncollectable of \$46,675)	16,798
Property held for resale	<u>2,818</u>
Total noncurrent assets	<u>19,616</u>
Total assets	<u>98,603</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Unamortized losses on refunding of debts	<u>6,051</u>
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**LIABILITIES**

Current liabilities:

Accounts payable and accrued liabilities	244
Accrued interest payable	7,082
Due to the City of Oakland	6,059
Deposits and other liabilities	<u>47</u>
Total current liabilities	<u>13,432</u>

Long-term liabilities:

Due within one year	31,107
Due in more than one year	<u>354,193</u>
Total long-term liabilities	<u>385,300</u>
Total liabilities	<u>398,732</u>

**NET POSITION**

Restricted for redevelopment	<u>\$ (294,078)</u>
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See accompanying notes to the basic financial statements.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2017

(Amounts in Thousands)

**ADDITIONS**

Redevelopment property tax revenues	\$	68,760
Investment income:		
Interest on investments		545
Net appreciation in fair value of investments		4
Federal and State grants		2,381
Other		1,256
		<hr/>
Total additions		72,946

**DEDUCTIONS**

General and administrative:		
Salaries, wages and benefits		3,643
Materials, supplies and other services		145
Project expenses		17,498
Interest on debt		20,814
		<hr/>
Total deductions		42,100

**SPECIAL ITEM**

Transfer of excess tax allocation bond proceeds to the City, approved by the California Department of Finance		(7,048)
		<hr/>

<b>Change in net position</b>		23,798
Net position, beginning of year		(317,876)
		<hr/>
<b>Net position, ending of year</b>	\$	<u>(294,078)</u>

See accompanying notes to the basic financial statements.

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

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## **OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements

For the Year Ended June 30, 2017

(Amounts in Thousands)

### **NOTE 1 – REPORTING ENTITY**

The Redevelopment Agency of the City of Oakland (Agency) was established in 1956 by the Oakland City Council as a public entity legally separate from the City. Until June 28, 2011, the Agency had the authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area.” Redevelopment projects are developed in cooperation with private developers. Public redevelopment projects are also developed under cooperation agreements between the Agency and the City or other public entity that will own the project.

On June 28, 2011, the State of California enacted Assembly Bill X1 26 (AB X1 26). This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for the successor agencies and oversight boards that are responsible for overseeing the dissolution process and the wind down of redevelopment activity. At the City of Oakland’s meeting on January 10, 2012, the City Council affirmed its decision as part of City Resolution Number 83679 C.M.S. to serve as the Oakland Redevelopment Successor Agency (ORSA) of the City, effective February 1, 2012 as such a component unit of the City. Also upon dissolution, the City Council elected as part of Resolution Number 83680 C.M.S. to retain the housing assets, functions, and powers previously performed by the former Agency.

ORSA was created to serve as a custodian of the assets and to wind down the affairs of the former Agency. ORSA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Alameda (County) representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and one representative from the largest special district taxing entity.

In general, ORSA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, ORSA will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of ORSA’s custodial role, ORSA is reported in a fiduciary fund (private-purpose trust fund) in the City’s financial statements.

In September 2015, the State passed the Senate Bill 107 (the Bill) which contains additional provisions and provides specificity to existing law governing the dissolution of redevelopment agencies and the wind-down of their existing activities and obligations. The Bill includes specific language to ORSA that facilitates the issuance of bonds or other indebtedness for the purposes of low and moderate income housing and various infrastructure in the City, by allowing the pledge of revenues available in the Redevelopment Property Tax Trust Fund that are not otherwise pledged, subject to the approval of the Oversight Board. The Bill declares that the Central District Subordinated Tax Allocations Refunding Series 2013 and Subordinated Housing Set Aside Revenue Bonds, Series 2011A-T are finally and conclusively approved as enforceable obligations. The Bill required that remaining principal amount of any of the loans that were previously unpaid after September 2015 shall be recalculated from the date of the original loan at a simple interest rate of 3%.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Basis of Accounting***

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

***Investments***

ORSA records investment transactions on the trade date. Investments are reported at fair value or at net asset value. ORSA measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, using observable market transactions or available market information. Investment income, including unrealized gains and losses from investments, is recognized as revenue.

ORSA follows the practice of pooling cash of all operating funds for investment. Income or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds based on their proportionate share of the average daily cash balance.

Proceeds from debt and other funds which are restricted for the payment of debt or for enforceable obligations in the Recognized Obligations Payment Schedules (ROPS) and held by fiscal agents by agreement are classified as restricted assets.

ORSA follows Governmental Accounting Standards Board (GASB) Statement No. 72 in measuring the fair value of its investment within the fair value hierarchy established by GAAP. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

***Redevelopment Property Tax Revenues***

Pursuant to the Redevelopment Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into ORSA's Redevelopment Property Tax Trust Fund ("RPTTF") administered by the County of Alameda's Auditor-Controller (the County) for the benefit of holders of the former Agency's enforceable obligations and the taxing entities that receive pass-through payments. After deducting its administrative costs, the County must distribute the collected redevelopment property tax revenue into the ORSA's RPTTF twice each year as follows:

<u>Distribution Dates</u>	<u>Covers ROPS to be Paid</u>
January 2	January 1 through June 30
June 1	July 1 through December 31

The amounts distributed for ROPS are forward looking to the next six month period.

The Redevelopment Dissolution Law requires the County to disburse funds from the RPTTF in the following order: (1) for payments local agencies and schools would have received from the collected revenue before dissolution and for any pass-through payments pursuant to agreement; (2) for payment of the former redevelopment agency's enforceable obligations; (3) for payment of the ORSA's administrative expenses; and (4) to local taxing agencies.

If there are insufficient funds available in the RPTTF to pay all enforceable obligations, the Redevelopment Dissolution Law requires the County to reduce or eliminate the above-listed distributions in the following order: (1) to reduce or eliminate distributions to local taxing agencies; (2) to reduce or eliminate payment of the ORSA's administrative expenses; and (3) to deduct the amount required to meet the former redevelopment agency's bond debt service from pass-through payments.

The hierarchy of payment for enforceable obligations on the ORSA's ROPS is as follows: (1) debt service on tax allocation bonds; (2) debt service on revenue bonds; (3) all other obligations; and (4) the ORSA's administrative costs. The maximum administrative cost allowance is the greater of \$250,000 or three percent of the revenue allocated to the ORSA.

***Restricted Assets***

Assets are restricted for specified uses by bond debt requirements, grant provisions or other requirements and their use is limited by applicable bond covenants or agreements.

***Property Held for Resale***

For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimated of net realizable value of each property parcel based on its current use. The ORSA does not depreciate property held for resale, as it is the intention of the ORSA to only hold the property for a period of time until it can be resold for development. California DOF has approved ORSA's Long-Range Property Management Plan (LRPMP) of its use or disposition of properties on May 29, 2014, as discussed in Note 5.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2017  
(Amounts in Thousands)

***Long-term Debt***

The former Agency issued Tax Allocation Bonds and Housing Set-Aside Bonds to finance housing and other redevelopment projects. Bonds payable are reported at face value, net of applicable premiums and discounts. The premiums and discounts are amortized as a component of bonds payable on a straight-line basis over the remaining life of the debt instrument. Costs related to the issuance of bonds are reported as an expense. Gains or losses occurring from refunding of debt are reported as deferred outflows of resources or deferred inflows of resources, respectively, and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

***Special Item***

Special items are significant transactions or events within the control of management that are either 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) or 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The transfer of excess bond proceeds to the City as requested by ORSA and approved by DOF pursuant to Health and Safety Code section 34179 (h) qualifies as a special item since this action was under the control of ORSA's Oversight Board and met the criteria of infrequent. ORSA transferred \$7.0 million of excess bond proceeds to the City in FY 2017, which was recorded as special item in the financial statements.

***Use of Estimates***

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

***Effects of New Pronouncements***

The City's adoption in 2017 of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, did not have a material impact on the ORSA's financial statements.

The ORSA is currently analyzing their accounting practices to determine the potential impact on the financial statements of certain new accounting standards pronouncements issued by the GASB, including GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 85, *Omnibus 2017*, GASB Statement No. 86, *Certain Debt Extinguishment Issues*, and GASB Statement No. 87, *Leases*.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

**NOTE 3 – CASH AND INVESTMENTS**

The ORSA's cash and investments consist of the following at June 30, 2017:

Unrestricted cash and investments:	
Demand deposits	\$ 2,449
Investments	51,943
Total unrestricted cash and investments	<u>54,392</u>
Restricted investments	<u>17,179</u>
Total cash and investments	<u><u>\$ 71,571</u></u>

***Investments***

The ORSA follows the City's Investment Policy, which is governed by provisions of the California Government Code 53600 and the City's Municipal Code. The ORSA also has investments subject to provisions of the bond indentures of the former Agency's various bond issues. According to the Investment Policy and bond indentures, the ORSA is permitted to invest in the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. government agencies, time deposits, money market mutual funds invested in U.S. government securities, along with various other permitted investments. Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds.

The ORSA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. At June 30, 2017, the ORSA does not have any of its investments using Level 1 and 3 inputs. The ORSA has the following recurring fair value measurements as of June 30, 2017:

	<b>Significant other observable inputs (Level 2)</b>	<b>Investments measured at the net asset value (NAV)</b>
Unrestricted investments:		
U.S. Government Agency Securities (Discount)	\$ 46,943	\$ -
Money Market Mutual Funds	-	5,000
Restricted investments:		
U.S. Government Agency Securities (Discount)	5,984	
Money Market Mutual Funds	-	11,195
Sub-total	<u>\$ 52,927</u>	<u>\$ 16,195</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2017  
(Amounts in Thousands)

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, ORSA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, ORSA will not be able to recover the value of the investment or collateral securities that are in the possession of another party.

The California Government Code requires that a financial institution secure its deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of ORSA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is held in the ORSA's name.

As of June 30, 2017, the carrying amount of the ORSA's deposits was \$2.45 million. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$0.25 million, and the remaining bank balance of \$2.21 million are collateralized with securities held by the pledging financial institutions as required by Section 53652 of the California Government Code.

ORSA invests in individual investments. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the ORSA employs the trust department of a bank or trustee as the custodian of certain ORSA investments, regardless of their form.

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The ORSA's Investment Policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market 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 rates. ORSA Investment Policy has mitigated interest rate risk by establishing policies over liquidity.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

As of June 30, 2017, ORSA had the following investments, credit risk ratings, and maturities:

<u>Type of Investment</u>	<u>Current Yield (%)</u>	<u>Credit Ratings (S&amp;P)</u>	<u>Maturities</u>	
			<u>Less than 1 Year</u>	<u>3 Years</u>
Unrestricted investments:				
U.S. Government Agency Securities (Discount)	0.90-0.99	AA	\$ 46,943	\$ -
Money Market Mutual Funds	0.85	AAA	5,000	-
Total unrestricted investments			<u>\$ 51,943</u>	<u>\$ -</u>
Restricted investments:				
U.S. Government Agency Securities (Discount)	0.89	AA	\$ 2,999	\$ -
U.S. Government Agency Securities (Discount)	1.71	AA	-	2,985
Money Market Mutual Funds	0.82-0.84	AAA	11,195	-
Total restricted investments			<u>\$ 14,194</u>	<u>\$ 2,985</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on ORSA. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The following table shows ORSA's investments in one issuer that exceed 5% of ORSA's investment portfolios at June 30, 2017:

<u>Type of Investment/Issuer</u>	<u>Amount</u>	<u>% of Unrestricted Portfolio</u>
<b>U.S. Government Agency Securities</b>		
Federal Home Loan Bank	\$ 46,943	90.4%
<u>Type of Investment/Issuer</u>	<u>Amount</u>	<u>% of Restricted Portfolio</u>
<b>U.S. Government Agency Securities</b>		
Federal Home Loan Bank	\$ 2,999	17.5%
Federal Farm Credit	2,985	17.4%

**NOTE 4 – LOANS RECEIVABLE**

Composition of loans receivable as of June 30, 2017 is as follows:

Housing development project loans	\$ 1,463
Economic development loans	62,010
Gross notes and loans receivable	63,473
Allowance for uncollectible	(46,675)
Total notes and loans receivable, net	<u>\$ 16,798</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2017  
(Amounts in Thousands)

**NOTE 5 – PROPERTY HELD FOR RESALE**

As of June 30, 2017, ORSA has a total \$2.8 million for properties booked at the lower of cost or estimated conveyance value. On May 29, 2014, pursuant to HSC Section 34191.4, the DOF approved the ORSA's LRPMP addressing the disposition and use of former Agency properties and authorizing the disposition of properties pursuant to the plan.

**NOTE 6 – LONG-TERM DEBT**

The following is a summary of long-term debt as of June 30, 2017:

Type of Obligation	Original Issued Amount	Issued Year	Maturity Fiscal Year	Interest Rate Range	June 30, 2017 Principal Balance
<b>Tax Allocation Bonds:</b>					
<u>Central District Redevelopment Project</u>					
Subordinated Tax Allocation Bonds, Series 2006T	\$ 33,135	2006	2022	5.25% - 5.41%	\$ 10,680
Subordinated Tax Allocation Bond Series 2009T	38,755	2009	2021	8.00% - 8.50%	22,850
Subordinated Tax Allocation Refunding Bonds, 2013	102,960	2013	2023	4.00% - 5.00%	72,990
<u>Coliseum Area Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006B-TE	28,770	2006	2037	4.00% - 5.00%	18,640
Tax Allocation Bonds, Series 2006B-T	73,820	2006	2036	5.26% - 5.54%	59,810
<u>Central City East Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006A-T	62,520	2006	2035	5.26% - 5.54%	48,495
<u>Broadway/MacArthur/San Pablo Redevelopment Project</u>					
Tax Allocation Bonds, Series 2006C-T	12,325	2006	2033	5.28% - 5.59%	9,165
Tax Allocation Bonds, Series 2010T	7,390	2010	2041	7.20% - 7.40%	7,135
Subtotal	<u>359,675</u>				<u>249,765</u>
<b>Subordinated Housing Set-Aside Bonds:</b>					
Revenue Bonds Series 2006A-T	82,645	2006	2017	5.38%	-
Revenue Bonds, Series 2011A-T	46,980	2011	2042	7.50% - 9.25%	39,720
Subtotal	<u>129,625</u>				<u>39,720</u>
<b>ORSA Subordinated Tax Allocation Refunding Bonds:</b>					
Series 2015-TE	22,510	2015	2037	5.00%	22,510
Series 2015-T (federally taxable)	66,675	2015	2036	1.33% - 4.92%	66,235
Subtotal	<u>89,185</u>				<u>88,745</u>
Total long-term debt	<u>\$ 578,485</u>				<u>\$ 378,230</u>

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

A summary of the changes in long-term debt for the year ended June 30, 2017 follows (in thousands):

	<u>July 1, 2016</u>	<u>Deductions</u>	<u>June 30, 2017</u>	<u>Due within One Year</u>
Bonds Payable:				
Tax allocation bonds	\$ 273,060	\$ (23,295)	\$ 249,765	\$ 23,650
Housing set-aside bonds	45,225	(5,505)	39,720	1,935
Subordinated tax allocation refunding bonds	89,185	(440)	88,745	4,340
Subtotal	<u>407,470</u>	<u>(29,240)</u>	<u>378,230</u>	<u>29,925</u>
Less unamortized amounts:				
Issuance premiums	10,232	(1,319)	8,913	1,318
Issuance discount	(1,979)	136	(1,843)	(136)
Total	<u>\$ 415,723</u>	<u>\$ (30,423)</u>	<u>\$ 385,300</u>	<u>\$ 31,107</u>

***Tax Allocation Bonds and Housing Set-Aside Bonds***

The Tax Allocation Bonds (TAB), which are comprised of Series 2006T, Series 2009T, Series 2006A-T, Series 2006B TE/T, Series 2006C-T, Series 2010T, and Series 2013 are issued primarily to finance redevelopment projects and are all secured by pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of taxes levied upon all taxable properties within each of the tax increment generating redevelopment project areas, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2017, the total principal and interest remaining on these TABs was estimated at \$356.0 million and the property tax revenues are pledged until the year 2041, the final maturity date of the bonds. The former Agency's debt service payments are requested through the ROPS as enforceable obligations until the debt obligations have been satisfied.

Historically, upon receipt of property tax increment, the former Agency calculated the 80 percent and 20 percent and the voluntary 5 percent amount of tax increment and would then transfer the 20 percent and 5 percent portion to the Low and Moderate Income Housing Fund, as required by the California HSC and the former Agency board resolution. The previous requirement to bifurcate the tax increment into 80 percent and 20 percent portions was eliminated in AB X1 26. However, in order to maintain compliance with bond indentures secured by the 80 percent and 20 percent tax increment, the ORSA plans to request the funds through the ROPS from the Trust Fund pursuant to HSC Section 34183(a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

***Housing Set-Aside Bonds***

The Housing Set-Aside Bonds, which are comprised of Series 2011A-T are issued to finance affordable housing projects and are secured by a pledge and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) set-aside for the low and moderate income housing fund.

As of June 30, 2017, the total principal and interest remaining on the Housing Set-Aside Bonds was estimated at \$93.2 million and the property tax revenues are pledged until the year 2042, the final maturity date of the bonds. The former Agency's debt service payments are requested through the ROPS as enforceable obligations until the debt obligations have been satisfied.

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2017

(Amounts in Thousands)

In the future, in order to maintain compliance with bond indentures secured by the 20 percent tax increment, the ORSA plans to request the funds through the ROPS from the Trust Fund pursuant to HSC Section 34183 (a)(2)(A), and segregate the funds in the debt service funds accordingly until the debt obligations have been satisfied.

***Subordinated Tax Allocation Refunding Bonds***

The Subordinate Tax Allocation Refunding Bonds are comprised of Series 2015-TE and Series 2015-T (the "Series 2015 Bonds"). The Series 2015 Bonds are limited obligations of the ORSA and payable from and secured by pledged tax revenues. Pledged tax revenues are tax increment revenues that were eligible for allocation to the former Agency and are allocated to the ORSA, excluding (i) tax revenues required to pay debt service on the existing bonds, (ii) certain amounts required to be paid under the Uptown Ground Lease and the 17<sup>th</sup> Street Garage Disposition and Development Agreement, and (iii) amounts required to be paid to taxing entities pursuant to the Dissolution Act, unless such payments are subordinated.

As of June 30, 2017, the total principal and interest remaining on the Series 2015 Bonds was estimated at \$138.0 million and the property tax revenues are pledged until the fiscal year 2037, the final maturity date of the bonds. The former Agency's debt service payments are requested through the ROPS as enforceable obligations until the debt obligations have been satisfied.

***Debt Service Requirements***

The debt service requirements for all debt are based upon a fixed rate of interest. The annual requirements to amortize outstanding tax allocation bonds and housing set-aside bonds outstanding as of June 30, 2017, including mandatory sinking fund payments, are as follows:

Year Ending June 30:	Tax Allocation Bonds		Housing Set-Aside Bonds		Subordinate Refunding Tax Allocation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 23,650	\$ 13,366	\$ 1,935	\$ 3,389	\$ 4,340	\$ 3,710
2019	25,520	11,973	2,075	3,239	4,425	3,622
2020	26,700	10,479	2,235	3,077	4,515	3,509
2021	28,175	8,871	2,400	2,897	4,645	3,373
2022	24,330	7,416	2,515	2,701	4,795	3,216
2023 - 2027	37,930	28,687	5,620	11,530	13,440	14,137
2028 - 2032	44,075	18,217	210	10,527	12,850	11,484
2033 - 2037	33,925	6,354	35	10,504	39,735	6,204
2038 - 2042	5,460	828	22,695	5,618	-	-
<b>TOTAL</b>	<b>\$ 249,765</b>	<b>\$ 106,191</b>	<b>\$ 39,720</b>	<b>\$ 53,482</b>	<b>\$ 88,745</b>	<b>\$ 49,255</b>

***Outstanding Defeased Bonds***

For financial reporting purposes, the ORSA's advance-refunded debt is considered defeased and therefore removed as a liability from ORSA's statement of fiduciary net position. Using the proceeds from the Series 2015 Bonds, ORSA paid off \$86.9 million of defeased debt during FY 2017. The remaining outstanding balance for defeased bonds was \$7.4 million at June 30, 2017.



**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2017  
(Amounts in Thousands)

**NOTE 7 – TRANSACTIONS WITH THE CITY**

*City Expenses*

In FY 2017, ORSA incurred a total of \$6.7 million expense in general administration and project-related overhead. Of this amount, \$1.8 million reimbursed the City for general and administrative overhead and \$4.9 million paid for project-related overhead and operational costs for support services provided by designated City employees.

*Due from the City*

As of June 30, 2017, ORSA has a total due from the City in the amount of \$2.3 million, which has no change compared to the \$2.3 million at June 30, 2016. The ending balance is composed of the former Agency's assets transferred to Housing Successor, which include the former Agency's Central District Project Area Fund loan receivable from the City in the amount of \$1.5 million, land sale receivable of \$0.3 million as well as the former Agency's Coliseum Project Area Fund loan receivable from the City in the amount of \$0.5 million.

*Due to the City*

At June 30, 2017, ORSA has a payable to the City in the amount of \$6.1 million, which included the former Agency's Low and Moderate Housing Fund loan of \$1.5 million to the Central City East Project Funds where the Low and Moderate Housing Funds Assets were transferred to the Housing Successor, a loan of \$2.7 million from the Capital Project Fund to the West Oakland Project for public improvements and a payable of \$1.9 million to the City for support services.

**NOTE 8 – COMMITMENTS**

*Encumbrances*

As of June 30, 2017, the ORSA had encumbered \$818.3 million for contracted obligations, per the ROPS covering the July 1, 2017 through June 30, 2018 period, which was approved by the DOF on May 17, 2017.

**NOTE 9 – LITIGATION**

*Litigation/Unpaid Claims*

The ORSA is subject to various claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with certainty, it is reasonably possible that some of these legal actions could be decided unfavorably against the ORSA. In the opinion of the City Attorney's Office for the ORSA, none of these claims are expected to have a significant impact on the financial position or changes in financial position of the ORSA.

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# **OTHER SUPPLEMENTARY INFORMATION**

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**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Combining Schedule of Fiduciary Net Position  
June 30, 2017  
(Amounts in Thousands)

	Redevelopment Obligation Retirement Fund	Planning Fund	Capital Project Funds	Federal and State Grants	Debt Service	Elimination	Total
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 26,258	\$ 4,864	\$ 21,082	\$ 1,468	\$ 720	\$ -	\$ 54,392
Accrued interest receivable	217	4	167	13	5	-	406
Due from other funds	12,779	-	-	-	-	(12,779)	-
Due from City of Oakland	-	-	2,311	-	-	-	2,311
Due from other governments	-	-	2,705	-	-	-	2,705
Prepaid expenses	-	-	-	-	1,994	-	1,994
Restricted investments	-	-	3,190	-	13,989	-	17,179
Total current assets	39,254	4,868	29,455	1,481	16,708	(12,779)	78,987
Non-current assets:							
Notes and loans receivable (net of allowance for uncollectable)	-	35	16,763	-	-	-	16,798
Property held for resale	-	-	2,818	-	-	-	2,818
Total non-current assets	-	35	19,581	-	-	-	19,616
Total assets	39,254	4,903	49,036	1,481	16,708	(12,779)	98,603
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Unamortized losses on refunding of debts	-	-	-	-	6,051	-	6,051
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities	-	7	237	-	-	-	244
Accrued interest payable	-	-	-	-	7,082	-	7,082
Due to other funds	-	-	12,779	-	-	(12,779)	-
Due to the City of Oakland	-	650	5,409	-	-	-	6,059
Deposits and other liabilities	-	6	41	-	-	-	47
Total current liabilities	-	663	18,466	-	7,082	(12,779)	13,432
Long-term liabilities:							
Due within one year	-	-	-	-	31,107	-	31,107
Due in more than one year	-	-	-	-	354,193	-	354,193
Total long-term liabilities	-	-	-	-	385,300	-	385,300
Total liabilities	-	663	18,466	-	392,382	(12,779)	398,732
<b>NET POSITION</b>							
Restricted for redevelopment	\$ 39,254	\$ 4,240	\$ 30,570	\$ 1,481	\$ (369,623)	\$ -	\$ (294,078)

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)

Combining Schedule of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017  
(Amounts in Thousands)

	Redevelopment Obligation Retirement Fund	Planning Fund	Capital Project Funds	Federal and State Grants	Debt Service	Elimination	Total
<b>ADDITIONS</b>							
Redevelopment property tax revenues	\$ 68,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,760
Investment income:							
Interest on investments	76	19	391	6	53	-	545
Net appreciation (depreciation) in fair value of investments	4	(3)	(12)	2	13	-	4
Federal grants	-	-	-	-	221	-	221
State grants	-	-	-	2,160	-	-	2,160
Other	-	-	1,256	-	-	-	1,256
Total additions	68,840	16	1,635	2,168	287	-	72,946
<b>DEDUCTIONS</b>							
General and project administration:							
Salaries, wages and benefits	-	3,643	-	-	-	-	3,643
Materials, supplies and other services	-	145	-	-	-	-	145
Project expenses	-	-	16,805	693	-	-	17,498
Interest on long-term debt	-	-	-	-	20,814	-	20,814
Total deductions	-	3,788	16,805	693	20,814	-	42,100
Net increase (decrease) before other financing sources (uses) and special item	68,840	(3,772)	(15,170)	1,475	(20,527)	-	30,846
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfers in	-	4,497	10,531	-	51,027	(66,055)	-
Transfers out	(66,055)	-	-	-	-	66,055	-
Total other financing sources (uses)	(66,055)	4,497	10,531	-	51,027	-	-
<b>SPECIAL ITEM</b>							
Transfer of excess tax allocation bond proceeds to the City, approved by the California Department of Finance	-	-	(7,048)	-	-	-	(7,048)
Total special item	-	-	(7,048)	-	-	-	(7,048)
Change in net position	2,785	725	(11,687)	1,475	30,500	-	23,798
Net position, beginning of year	36,469	3,515	42,257	6	(400,123)	-	(317,876)
Net position, ending of year	\$ 39,254	\$ 4,240	\$ 30,570	\$ 1,481	\$ (369,623)	\$ -	\$ (294,078)

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Combining Schedule of Fiduciary Net Position for Capital Project Sub-Funds

June 30, 2017

(Amounts in Thousands)

	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Other Projects	Total Capital Project Funds
<b>ASSETS</b>								
Current assets:								
Cash and investments	\$ -	\$ 8,978	\$ 8,482	\$ 813	\$ 832	\$ -	\$ 1,977	\$ 21,082
Accrued interest receivable	-	60	58	28	6	-	15	167
Due from City of Oakland	1,779	532	-	-	-	-	-	2,311
Due from other governments	-	-	-	-	-	-	2,705	2,705
Restricted investments	-	68	184	2,191	747	-	-	3,190
Total current assets	1,779	9,638	8,724	3,032	1,585	-	4,697	29,455
Non-current assets:								
Notes and loans receivable (net of allowance for uncollectable of \$46,675)	14,635	675	-	-	820	-	633	16,763
Property held for resale	2,818	-	-	-	-	-	-	2,818
Total non-current assets	17,453	675	-	-	820	-	633	19,581
Total assets	19,232	10,313	8,724	3,032	2,405	-	5,330	49,036
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities	-	2	1	232	2	-	-	237
Due to other funds	10,441	-	-	-	-	2,338	-	12,779
Due to the City of Oakland	675	205	1,454	106	137	127	2,705	5,409
Deposits and other liabilities	3	-	-	-	25	-	13	41
Total liabilities	11,119	207	1,455	338	164	2,465	2,718	18,466
<b>NET POSITION</b>								
Restricted for development	\$ 8,113	\$ 10,106	\$ 7,269	\$ 2,694	\$ 2,241	\$ (2,465)	\$ 2,612	\$ 30,570

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**

(A Component Unit of the City of Oakland, California)

Combining Schedule of Fiduciary Net Position for Capital Project Sub-Funds

June 30, 2017

(Amounts in Thousands)

	Central District	Coliseum	Central City East	Low and Moderate Housing	Broadway MacArthur San Pablo	Oakland Army Base	Other Projects	Total Capital Project Funds
<b>ADDITIONS</b>								
Investment income:								
Interest on investments	\$ 259	\$ 41	\$ 35	\$ 42	\$ 6	\$ -	\$ 8	\$ 391
Net change in fair value of investments	-	-	-	(3)	-	(9)	-	(12)
Other	1,215	41	-	-	-	-	-	1,256
Total additions	1,474	82	35	39	6	(9)	8	1,635
<b>DEDUCTIONS</b>								
Project expenses	8,990	834	68	6,374	539	-	-	16,805
Total deductions	8,990	834	68	6,374	539	-	-	16,805
Net decrease before other financing sources and special item	(7,516)	(752)	(33)	(6,335)	(533)	(9)	8	(15,170)
<b>OTHER FINANCING SOURCES:</b>								
Transfers in	4,215	787	65	4,936	528	-	-	10,531
<b>SPECIAL ITEM</b>								
Transfer of excess tax allocation bond proceeds to the City, approved by the California Department of Finance	(1,208)	(2)	(5)	(5,810)	(23)	-	-	(7,048)
Change in net position	(4,509)	33	27	(7,209)	(28)	(9)	8	(11,687)
Net position, beginning of year	12,622	10,073	7,242	9,903	2,269	(2,456)	2,604	42,257
Net position, ending of year	\$ 8,113	\$ 10,106	\$ 7,269	\$ 2,694	\$ 2,241	\$ (2,465)	\$ 2,612	\$ 30,570



Certified  
Public  
Accountants

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Directors  
Oakland Redevelopment Successor Agency  
Oakland, 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 Oakland Redevelopment Successor Agency (Agency), a component unit of the City of Oakland (City), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



## Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
December 22, 2017

**OAKLAND REDEVELOPMENT SUCCESSOR AGENCY**  
(A Component Unit of the City of Oakland, California)  
Schedule of Finding and Response  
For the Year Ended June 30, 2017

**CURRENT YEAR FINDING**

No current year finding.

**STATUS OF PRIOR YEAR'S FINDING**

Reference Number and  
Finding:

**Finding No. 2016-001** – Significant Deficiency over Financial Reporting Accounting for Non-Routine Transactions.

In fiscal year 2016, the Agency had errors arising from non-routine transactions relating to the refunding of the 2006A Subordinated Housing Set Aside Revenue Refunding Bonds; the 2006A-TE Central City East Redevelopment Project Tax Allocation Bonds; the 2006C-TE Broadway/MacArthur/San Pablo Redevelopment Project Tax Allocation Bonds; and partial refunding of the 2006A-T Subordinated Housing Set Aside Revenue Bonds and the 2006B-TE Coliseum Area Redevelopment Project Tax Allocation Bonds. Due to current financial system upgrade project and other changes in the allocation of personnel, the ORSA did not have a time to familiarize themselves with the accounting and financial reporting requirements associated with these types of transactions.

Recommendation:

The Agency should provide adequate resources to properly prepare the ORSA's financial records for audit and to provide adequate financial reporting training to its personnel.

Status of Finding:

The Agency addressed the finding during the fiscal year.