

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Community Redevelopment Agency**  
**of the City of Los Angeles, California)**

**Financial Statements**  
**For the Fiscal Years Ended June 30, 2018 and 2017**



**SIMPSON & SIMPSON**  
CERTIFIED PUBLIC ACCOUNTANTS

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## FINANCIAL SECTION

# INDEPENDENT AUDITOR'S REPORT



SIMPSON & SIMPSON  
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## INDEPENDENT AUDITOR'S REPORT

*Governing Board of  
CRA/LA, A Designated Local Authority  
The Successor Agency to The Community Redevelopment Agency of  
The City of Los Angeles, California*

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the CRA/LA, A Designated Local Authority (CRA/LA-DLA), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the CRA/LA-DLA'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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 assessment, the auditor considers internal control relevant to the CRA/LA-DLA'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 CRA/LA-DLA'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 CRA/LA-DLA as of June 30, 2018 and 2017, and changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 1.R and Note 1.S to the financial statements, CRA/LA-DLA adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions in fiscal year 2018. Our opinion is not modified with respect to this matter.





## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of CRA/LA-DLA's proportionate share of the net pension liability and related ratios – Miscellaneous Plan, schedule of CRA/LA-DLA's contributions – Miscellaneous Plan, and schedule of CRA/LA-DLA's changes in the net other postemployment benefits liability and related ratios, and schedule of CRA/LA-DLA's contributions – other postemployment benefits plan, 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 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 CRA/LA-DLA's financial statements. As identified in the accompanying table of contents, the other supplementary information including the schedule of third-party indebtedness and the schedules of net position and changes in net position of the Community Redevelopment Financing Authority of the City of Los Angeles (a component unit of CRA/LA-DLA), are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of third-party indebtedness and the schedules of net position and changes in net position of the Community Redevelopment Financing Authority of the City of Los Angeles are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of third-party indebtedness and the schedules of net position and changes in net position of the Community Redevelopment Financing Authority of the City of Los Angeles are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 31, 2019, on our consideration of the CRA/LA-DLA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the CRA/LA-DLA's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Simpson &amp; Simpson".

Los Angeles, California  
January 31, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)**

**Management's Discussion and Analysis**

**June 30, 2018 and 2017**  
**(Unaudited)**

As management of the CRA/LA, A Designated Local Authority (CRA/LA-DLA), Successor Agency to the former Community Redevelopment Agency of the City of Los Angeles (Former Agency), we offer readers of the CRA/LA-DLA's financial statements this narrative overview and analysis of the financial activities of CRA/LA-DLA for the years ended June 30, 2018 and 2017.

**FINANCIAL HIGHLIGHTS**

On June 29, 2011, Assembly Bill 1X26 (the Dissolution Act) was enacted, which dissolved all California's redevelopment agencies and authorized establishment of successor agencies, other designated local authorities and oversight boards to satisfy enforceable obligations and wind down the affairs of the former redevelopment agencies. Legal challenges were raised and the constitutionality of the Dissolution Act was subsequently upheld on December 29, 2011 by the California Supreme Court. As a result, all redevelopment agencies were dissolved and ceased to operate as legal entities effective February 1, 2012. Pursuant to State Law, and following a decision by the City of Los Angeles (City) to not become the Successor Agency to the Former Agency, the Governor appointed three residents of the County of Los Angeles (County) to serve as the governing board of a Designated Local Authority (CRA/LA-DLA), as confirmed by Resolution No. 001 adopted on February 3, 2012. The matter is disclosed in more detail in note 1-A on page 10.

Pursuant to the Dissolution Act (as amended), CRA/LA-DLA is required to prepare an annual Recognized Obligation Payment Schedule (ROPS) each fiscal year. CRA/LA-DLA is further required to submit its ROPS to its Governing and Oversight Boards for review and approval. Following approval by the Oversight Board, the CRA/LA-DLA is to submit the approved ROPS to the Department of Finance (DOF), State Controller and County Auditor-Controller. Following DOF approval, the Successor Agency may pay only those scheduled amounts from funding sources listed on the approved ROPS.

The accompanying financial statements presents the financial position and changes in the financial position as of and for the years ended June 30, 2018 and 2017.

- The CRA/LA-DLA's total liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the year ended June 30, 2018 by \$460,921,000. The negative financial position is mainly due to outstanding long-term debt which will be eliminated by debt service funded by the Successor Agency's Redevelopment Property Tax Trust Fund administered by the County Auditor-Controller.
- The CRA/LA-DLA's bonded debt and long-term notes payable at June 30, 2018, net of unamortized premiums and discounts on bonds, totaled \$478,358,000. (page 22)
- Total additions of \$52,853,000 for the year ended June 30, 2018 decreased \$120,291,000 when compared to the additions of \$173,144,000 for the year ended June 30, 2017.
- Total deductions of \$40,897,000 for the year ended June 30, 2018 decreased \$31,868,000 when compared to total deductions of \$72,765,000 for the year ended June 30, 2017.
- CRA/LA-DLA's restatement of net position is due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in Fiscal Year 2017 resulting in cumulative adjustments to the net position by the amount of the OPEB liability of \$20,314,000. (page 15)

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**  
**(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The following discussion and analysis is intended to serve as an introduction to the CRA/LA-DLA's financial statements. The CRA/LA-DLA's financial statements consist of two components: 1) financial statements; and, 2) notes to financial statements. The report also contains required and other supplementary information in addition to the financial statements.

**Financial statements.** There are two financial statements presented by CRA/LA-DLA. The financial statements can be found on pages 8 and 9 of this report.

The *statements of fiduciary net position* provides a snapshot of the account balances at year end and the net position of CRA/LA-DLA to pay enforceable obligations.

The *statements of changes in fiduciary net position* present information showing the additions to and the deductions from the CRA/LA-DLA's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Notes to financial statements.** The notes provide additional information and are essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 10 through 44 of this report.

**Required supplemental information.** In addition to the financial statements and accompanying notes, this report also presents required supplementary information concerning the funding progress of the employees' pension plan and other postemployment benefits of CRA/LA-DLA on pages 45 through 48 of this report.

**Other supplementary information.** Included in the other supplementary information are the schedule of third-party indebtedness on page 49 and the financial schedules of the Community Redevelopment Financing Authority of the City of Los Angeles, a blended component unit of CRA/LA-DLA, on pages 50 and 51.

**FINANCIAL STATEMENT ANALYSIS**

**Fiduciary Net position.** As of the close of the year ended June 30, 2018, CRA/LA-DLA's liabilities and deferred inflows of resources exceeded its assets and deferred outflows by \$460,921,000. The negative net position is primarily caused by the outstanding long-term liabilities of \$605,787,000. This is due to the nature of how redevelopment activities were financed. The Former Agency issued tax allocation bonds or incurred other long-term debt to finance a substantial portion of its activities which included public infrastructure, affordable housing, public parking, commercial and retail projects, and community development activities. While the public infrastructure and land financed by bond proceeds were transferred to the City or to developers, the associated debt remains with CRA/LA-DLA. Acknowledged by the Department of Finance as enforceable obligations, the long-term liabilities will be eliminated with the allocation of future revenues from the Successor Agency's Redevelopment Property Tax Trust Fund administered by the County Auditor-Controller.

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**  
**(Unaudited)**

The negative net position of \$460,921,000 at June 30, 2018, declined \$25,024,000 when compared to the negative net position of \$435,897,000 at June 30, 2017. The decline in net position is mainly due to the effect resulting from the adoption of GASB Statement No. 75, \$20,314,000.

The following table summarizes the CRA/LA-DLA's net position (dollars in thousands):

**CRA/LA-DLA's Fiduciary Net Position**

	2018	2017
Assets		
Current and other assets	\$ 92,732	\$ 110,250
Restricted assets	42,846	44,098
Property held for resale, future development, and government use	57,179	78,244
Capital assets, net of accumulated depreciation and amortization	1,295	1,618
Total assets	194,052	234,210
Deferred outflows of resources	37,753	32,765
Liabilities		
Current and other liabilities	60,613	70,091
Long-term liabilities, net of unamortized premium and discount on bonds	605,787	621,585
Total liabilities	666,400	691,676
Deferred inflows of resources	26,326	11,196
Total net position	<u>\$(460,921)</u>	<u>\$(435,897)</u>

**Changes in fiduciary net position.** Total additions of \$52,853,000 for the year ended June 30, 2018 decreased \$120,291,000 when compared to total additions of \$173,144,000 for the year ended June 30, 2017. Decrease in total additions is due primarily to decrease in gain on sale of land of \$90,364,000 and decrease in redevelopment property tax revenues of \$21,600,000.

Total deductions of \$40,897,000 for the year ended June 30, 2018 decreased \$31,868,000 when compared to total deductions of \$72,765,000 for the year ended June 30, 2017. This decrease is primarily due to the decrease in litigation, claims, and settlements of \$32,843,000.

The extraordinary items in the amount of \$16,666,000 for the year ended June 30, 2018 represents proceeds from sales of property remitted to the Los Angeles County-Auditor Controller for distribution to the affected taxing entities of \$14,765,000 and a transfer of available unspent non-housing bond proceeds of \$1,901,000 to the City of Los Angeles.

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**  
**(Unaudited)**

The following table provides a summary of the CRA/LA-DLA's additions and deductions (dollars in thousands):

**CRA/LA-DLA's Changes in Fiduciary Net Position**

	2018	2017
Additions:		
Redevelopment property tax revenues	\$ 47,971	\$69,571
Gain on sale of land	-	90,364
Rental income	3,748	4,913
Parking receipts	504	2,099
Other additions	630	6,197
Total additions	52,853	173,144
Deductions:		
Program delivery expense	11,146	7,120
Administrative expense	3,492	3,533
Litigation, claims, and settlements	621	33,464
Pension expense	6,485	5,675
OPEB expense	1,174	-
Interest expense	17,979	22,571
Depreciation and amortization	-	402
Total deductions	40,897	72,765
Extraordinary items resulting from Redevelopment Agency Dissolution	(16,666)	(130,224)
Change in net assets	(4,710)	(29,845)
Net position, beginning of year as reported	(435,897)	(406,052)
Cumulative effect resulting from: Adoption of GASB No. 75	(20,314)	-
Net position, beginning of year, as restated	(456,211)	(406,052)
Ending net position (deficit)	\$ (460,921)	\$ (435,897)

**CAPITAL ASSETS**

The CRA/LA-DLA's capital assets net of accumulated depreciation and amortization at June 30, 2018 totaled \$1,295,000. The CRA/LA-DLA's capital assets include building and improvements, and equipment.

Additional information on the CRA/LA-DLA's capital assets can be found in note 2-C on page 20 of this report.

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**Management's Discussion and Analysis**

**June 30, 2018 and 2017**  
**(Unaudited)**

**DEBT ADMINISTRATION**

At June 30, 2018, the CRA/LA-DLA's long-term debt of \$478,358,000, net of unamortized bond premium and discount is summarized as follows (dollars in thousands):

**CRA/LA-DLA's Long-Term Debt**

Bonds payable	\$ 450,661
Notes payable	25,908
Payable to the City	<u>1,789</u>
Total	<u>\$ 478,358</u>

As of June 30, 2018, CRA/LA-DLA had 11 tax allocation bonds, totaling \$450,661,000, net of unamortized bond premiums and discounts of \$19,281,000. Of the 11 bond issues, 5 are insured. This equates to 82.59 percent of the original principal amount of bonds having been issued with insurance. Investors in insured CRA/LA-DLA bonds are encouraged to contact their respective investment advisor to obtain the latest rating(s) on their insured bonds. The remaining bonds are uninsured and have investment grade ratings.

Additional information on the CRA/LA-DLA's long-term liabilities can be found in note 2-E, 2-F, 2-G, and 2-H on pages 22 through 27 of this report.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the CRA/LA-DLA's finances for all those with an interest in such information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Executive Officer, CRA/LA, A Designated Local Authority, 448 S. Hill Street, Suite 1200, Los Angeles, California 90013.

CRA/LA-DLA's website can be found at [www.crala.org](http://www.crala.org).

## FINANCIAL STATEMENTS

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
(Successor Agency to The Community Redevelopment Agency of the City of Los Angeles)

**Statements of Fiduciary Net Position**

**June 30, 2018 and 2017**  
(In Thousands)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 82,214	\$ 97,134
Receivables:		
Other, net of uncollectibles of \$152 for 2017	194	751
Loans receivable, net of allowance for market value write-downs and uncollectibles of \$10,584 and \$15,277 for 2018 and 2017 respectively	6,192	6,495
Restricted assets	42,846	44,098
Prepaid bond insurance	1,388	1,547
Property held for sale, future development, and government use	57,179	78,244
Capital assets, net of accumulated depreciation and amortization of \$22,295 and \$21,972 for 2018 and 2017 respectively		
Building and improvements	1,295	1,618
Other postemployment benefit assets	-	2,791
Other assets	2,744	1,532
	194,052	234,210
<b>DEFERRED OUTFLOWS ON RESOURCES</b>		
Deferred loss on refunding, net of accumulated amortization	15,949	17,291
Deferred amounts on pension plans	18,077	15,474
Deferred amounts on other post employment benefits	3,727	-
	37,753	32,765
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	328	273
Interest payable	7,218	8,433
Deposits and other liabilities	53,067	61,385
Noncurrent liabilities:		
Due within one year	36,695	38,898
Due in more than one year	569,092	582,687
	666,400	691,676
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on refunding, net of accumulated amortization	1,459	1,599
Deferred amounts from advanced receipt of property tax revenue	14,251	-
Deferred amounts on pension plans	10,334	9,597
Deferred amounts on other post employment benefits	282	-
	26,326	11,196
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	26,326	11,196
<b>NET POSITION</b>		
Net position held in trust	\$ (460,921)	\$ (435,897)

See accompanying notes to financial statements.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
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**Statements of Changes in Fiduciary Net Position**

**For the Years Ended June 30, 2018 and 2017**  
(In Thousands)

	2018	2017
<b>ADDITIONS</b>		
Redevelopment property tax revenue	\$ 47,971	\$ 69,571
Gain on sale of land	-	90,364
Rental income	3,748	4,913
Parking receipts	504	2,099
Interest	427	1,628
Fees	-	3,661
Other	203	908
	52,853	173,144
<b>DEDUCTIONS</b>		
Program delivery expense	11,146	7,120
Administrative expense	3,492	3,533
Litigation, claims, and settlements	621	33,464
Pension expense	6,485	5,675
OPEB expense	1,174	-
Interest expense	17,979	22,571
Depreciation and amortization	-	402
	40,897	72,765
Extraordinary items resulting from Redevelopment Agency Dissolution		
Transfer of excess land proceeds to County of Los Angeles for distribution to Affected Taxing Entities	(14,765)	(130,224)
Transfer of unspent non-housing bond proceeds to City of Los Angeles	(1,901)	-
	(16,666)	(130,224)
Total extraordinary items resulting from Redevelopment Agency Dissolution	(16,666)	(130,224)
Change in net position	(4,710)	(29,845)
<b>NET POSITION</b>		
Beginning net position, beginning of year	(435,897)	(406,052)
Cummulative effect resulting from:		
Deletion of GASB 45 other postemployment benefits assets	(2,791)	-
Adoption of GASB Statement No. 75	(21,922)	-
Inclusion of fiscal year 2017 OPEB contributions as deferred outflows of resources	4,399	-
	(456,211)	(406,052)
Net position, beginning of year, as restated	(456,211)	(406,052)
Ending net position (deficit)	\$ (460,921)	\$ (435,897)

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)**

**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the CRA/LA, A Designated Local Authority (CRA/LA-DLA) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The significant accounting principles and policies utilized by the CRA/LA-DLA are described below.

**A. Reporting Entity**

The Community Redevelopment Agency of the City of Los Angeles (Former Agency) was established in 1948 to eliminate blight and promote economic revitalization within adopted project areas of the City of Los Angeles. Over the years, the Former Agency was active in implementing housing programs, business incentive programs, commercial improvement programs, planning and development of projects, capital improvement projects, and property acquisition in the project areas.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (the Dissolution Act) that provides for the dissolution of all redevelopment agencies in the State of California. In accordance with the timeline set forth in AB 1X26 (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as legal entities as of February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another unit of local government may agree to serve as the Successor Agency to hold the former agency's assets until they are monetized and/or distributed to affected taxing entities. On January 11, 2012, the City of Los Angeles (City) elected not to become the Successor Agency to the Former Agency, as part of City Council File 12-0049. Subsequently, and as authorized by State Law, Governor Brown appointed three County of Los Angeles (County) residents to serve as the Governing Board of a Designated Local Authority (CRA/LA-DLA), as confirmed by Resolution No. 001 adopted on February 3, 2012. On February 1, 2012, net assets of the Former Agency in the amount of \$97,391,000 were transferred to the newly formed CRA/LA-DLA. Pursuant to the Dissolution Act, CRA/LA-DLA, a tax-exempt state governmental unit, is vested with all authority, rights, powers, duties, and obligations previously vested with the Former Agency.

The Dissolution Act requires the Successor Agency to expeditiously wind down the Former Agency with authority limited to the extent required to implement an orderly wind down of Former Agency activities. In this regard, CRA/LA-DLA is required to prepare an annual Recognized Obligation Payment Schedule (ROPS). CRA/LA-DLA is further required to submit its ROPS to its Governing Board and Oversight Board for review and approval. Following approval by the Oversight Board, CRA/LA-DLA is to submit the approved ROPS to the Department of Finance (DOF), State Controller and County Auditor-Controller (County AC). Following DOF approval, only those scheduled amounts listed on the approved ROPS may be paid from authorized funding sources.

As part of the FY2012-13 state budget, the Governor signed into law AB 1484 on June 27, 2012, amending the Dissolution Act. AB 1484's purpose is to make technical and substantive amendments to the Dissolution Act based on experience to date at the state and local level.

On September 22, 2015, the Governor signed Senate Bill 107 (SB 107), further amending the Dissolution Act by creating additional requirements and deadlines for the dissolution of former redevelopment agencies. Among other items, SB 107 provides for an annual ROPS beginning with ROPS 16-17. Eligible successor agencies are also authorized to request approval of a last and final ROPS.

*CRFA, Blended Component Unit*

On June 5, 1992, and based on a joint powers agreement, the Former Agency and the Former Agency's Industrial Development Authority created the Community Redevelopment Financing Authority (CRFA) for the purpose of

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

issuing one or more pooled bond issues and other financings. By issuing bonds on a pooled basis, issuance costs can be reduced significantly, making previously uneconomic bond financings and refinancings feasible.

The CRFA is an entity legally separate from CRA/LA-DLA but is governed by the same board members and officers as that of CRA/LA-DLA. For financial reporting purposes, the CRFA is blended into the CRA/LA-DLA's basic financial statements as if it were part of the CRA/LA-DLA's operations, because its sole purpose was to provide pooled bond financing benefitting project areas of the Former Agency.

**B. Basis of Accounting and Financial Statement Presentation**

In accordance with the Dissolution Act, CRA/LA-DLA's accounts are organized in a private-purpose trust fund, which is used to account for the assets, deferred outflows of resources, liabilities, deferred inflows of resources, additions and deductions for payments of enforceable obligations of the CRA/LA-DLA until all such obligations are paid in full and assets have been liquidated.

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Rental income and similar non-exchange transactions are recognized as revenues as soon as all eligibility requirements are met.

**C. Cash and Investments**

Cash includes deposits maintained with local banks while cash equivalents represent investments with original maturities of 90 days or less.

Money market investments that have a remaining maturity of one year or less at the time of purchase, including those shown as restricted assets (note 1-E) are carried at amortized cost, provided that the fair value is not significantly affected by the impairment of the credit standing of the issuer or other factors. Other investments are reported at fair value.

**D. Loans Receivable**

To facilitate the redevelopment process, the Former Agency made loans to developers at below-market interest rates primarily for the rehabilitation and development of low and moderate-income housing and the development of commercial properties. Since these loans were generated to assist various redevelopment project areas, repayment terms are structured to meet requirements established by the Former Agency and the specific project area. Repayment terms on these loans can be classified in the following categories:

- Amortizing loans – loans requiring monthly payments designed to payoff both the principal and interest over a specified period, usually 15-20 years. Included in this category are partially amortizing loans and interest only payment loans requiring balloon payments at maturity date.
- Deferred loans – loans requiring repayments only on the earlier of loan due date or when the mortgaged properties are sold or refinanced.
- Residual receipts loans – loans requiring repayments only when the project or mortgaged properties have positive cash flows pursuant to a formula set forth in the specific loan agreement.

In the financial statements, loans receivable is reported net of allowance for market value write-downs and uncollectible accounts.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Restricted Assets**

Restricted assets consist primarily of investments maintained by bond fiscal agents and trustees, under provisions of the respective bond indentures/trust agreements/fiscal agent agreements/loan agreements, which are considered as pledged collateral for payment of principal and interest on the associated tax allocation bond obligations.

**F. Property Held for Sale, Future Development, and Government Use**

As part of its redevelopment activities, the Former Agency acquired land for eventual disposition to developers of housing or commercial projects. These properties were held until sold and/or conveyed for development. On October 7, 2014, DOF approved the Long Range Property Management Plan (LRPMP) which specifies the disposition of various CRA/LA-DLA owned properties. Separately, DOF approved the transfer of Government Use assets to the City. The CRA/LA-DLA is implementing the liquidation of its land inventory pursuant to Governing and Oversight Board approvals and consistent with DOF-approved disposition plans.

**G. Capital Assets**

Assets purchased or acquired with original costs of \$150 or more and estimated useful life of more than one year are capitalized at historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation of capital assets is provided using the straight-line method over the following estimated useful lives:

<u>Capital Assets</u>	<u>Years</u>
Building and improvements	30 to 40
Vehicles	5
Office equipment	5
Computer software	5
Computer hardware	3

**H. Deferred Outflows and Inflows of Resources**

The statements of fiduciary net position report a separate section for deferred outflows and inflows of resources. Deferred outflows and inflows of resources represents resources that apply to future periods and therefore not recognized as outflows and/or inflows of resources until then. Deferred charges on refunding bonds resulting from the difference in the carrying value of refunded debt and its reacquisition price are amortized over the shorter of the life of the refunded or refunding debt and reported as deferred outflows and/or inflows of resources. Certain pension and other postemployment benefits (OPEB) activities including employer contributions and the net change in the pension and OPEB liabilities are reported as deferred outflows and/or inflows of resources. Deferred amounts from advanced receipt of property tax are reported as deferred inflows.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Compensated Absences**

CRA/LA-DLA employees accumulate vacation pay at varying rates as services are provided. CRA/LA-DLA pays for vacation leave as it is used or periodic cash payouts. Any accrued vacation time is payable upon termination of employment. CRA/LA-DLA employees also accumulate sick leave hours with full pay at the rate of 96 hours per fiscal year to a maximum of 800 hours. CRA/LA-DLA pays employees for sick leave as it is used.

CRA/LA-DLA pays 50 percent of the accumulated sick leave in excess of 800 hours as of the end of any fiscal year to active employees. Upon retirement, an employee can elect to be paid 50 percent of the available sick leave or convert their unused sick leave to CalPERS service credits.

**J. Pollution Remediation**

Brownfields (i.e., abandoned, under-utilized, and/or blighted properties likely impacted by environmental contamination) exist throughout redevelopment project areas in the City. The Former Agency acquired various brownfields sites which it planned to remediate and convey to developers to transform into usable properties that contribute to the economic and/or cultural foundation of the project areas.

Under the provisions of GASB Statement No. 49, CRA/LA-DLA will capitalize the cleanup costs of those brownfields sites it owns and has a legal obligation to cleanup based on a contract, court order, or regulatory order net of any cost recovery. Those cleanup costs will be capitalized when they are incurred rather than recorded as expenses and related liabilities potentially in earlier periods. Only those outlays that are expected to exceed the capitalization limit are accrued as a liability. Pursuant to SB107, adopted on September 22, 2015, funding of environmental remediation is prohibited unless required by a pre-June 28, 2011 enforceable obligation. (page 39)

**K. Long-term Debt and Other Long-term Obligations**

Long-term debt and other long-term obligations are reported as non-current liabilities in the financial statements. Bond premiums and/or discounts are deferred and amortized over the life of the bonds as interest expense. Bonds payable are reported net of the applicable unamortized bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

**L. Other Postemployment Benefits (OPEB)**

For purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Prefunding Plan administered by CalPERS, also known as the California Employers' Retirement Benefit Trust (CERBT) and additions to/deductions from the CERBT's fiduciary net position have been determined on the same basis as they are reported by the CalPERS. For this purpose, the CERBT recognizes contributions postmarked by June 30 and received by July 15. Contributions and reimbursements outside of the trust are recognized based on data submitted by the employer. OPEB reimbursements are recognized as the benefits come due for the CERBT, which includes reimbursement requests received from employer by July 31, for OPEB costs incurred for the fiscal year. Net investment income represents realized and unrealized gains and losses based on the fair value of investments, interest, and dividends, net of investment expenses. Investment income/loss of the trust is allocated to each participating employer based on the employer's percentage of ownership in the respective investment strategies using the daily investment gain/loss provided by the custodian bank.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. Unearned Revenue**

Unearned revenue represents resources that have been received, but not yet earned.

**N. Property Tax Revenues**

Pursuant to the Dissolution Act, and following DOF approval, the County Auditor-Controller is required to biannually remit to CRA/LA-DLA property taxes deposited into the Successor Agency's Redevelopment Property Tax Trust Fund (RPTTF) to pay for enforceable obligations and/or its administrative allowance as scheduled on the approved annual ROPS. Deferred inflows of resources are reported when property taxes are received before the period when resources are required to be used or when use is first permitted.

**O. Net Position**

Net position is the residual of all other amounts presented in the statements of fiduciary net position.

**P. Extraordinary Items**

Extraordinary items are both unusual in nature and infrequent in occurrence. The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item.

HSC Sec. 34191.5(c)(2)(B) provides that if the Long Range Property Management Plan (LRPMP) directs liquidation of property or use of revenues generated from a property for any purpose other than to fulfill an enforceable obligations, proceeds shall be distributed as property tax to the affected taxing entities (ATEs). Cumulative net land sales proceeds not required to fulfill enforceable obligations amounted to \$144,989,000. CRA/LA-DLA remitted \$14,765,000 and \$130,224,000 for the fiscal year ended June 30, 2018 and 2017, respectively, to the Los Angeles County Auditor-Controller for distribution to the ATEs.

Pursuant to the Non-Housing Bond Expenditure Agreement between CRA/LA-DLA and the City, unencumbered excess bond proceeds originally retained for projects, deemed no longer needed, are to be transferred to the City and added to the approved Bond Spending Plans. Previously retained bond proceeds for specific projects in the amount of \$1,901,000 is no longer required. On September 20, 2017, CRA/LA-DLA remitted a total \$1,901,000 to the City pursuant to the approved ROPS.

**Q. Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**R. Restatement of Net Position**

CRA/LA-DLA adopted GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions in fiscal year 2018. GASB 75 requires CRA/LA-DLA to record its defined benefit OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses. The cumulative effect of applying the provisions of GASB 75 has been reported as a restatement of beginning net position.

Beginning net position	\$ (435,897)
Cumulative effect from adoption of GASB 75:	
Deletion of GASB 45 other postemployment benefit assets	(2,791)
Recognition of GASB 75 net OPEB liability	(21,922)
Inclusion of fiscal year 2017 OPEB contributions as deferred outflows of resources	4,399
Beginning net position, as restated	<u>\$ (456,211)</u>

**S. Recent GASB Pronouncements**

Pronouncements adopted by CRA/LA-DLA in fiscal year 2018:

1. *GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* Issued in June 2015, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for OPEB. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This statement is effective for financial statements for fiscal year beginning 2018.

CRA/LA-DLA adopted GASB Statement No. 75 in fiscal year 2018. CRA/LA-DLA did not consider it practical to restate the financial statements for all periods presented. The implementation of GASB Statement No. 75 resulted in cumulative adjustments to the beginning net position for the year ended June 30, 2018.

2. *GASB Statement No. 81 – Irrevocable Split-Interest Agreements.* Issued March 2016, this statement will improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement is effective beginning fiscal year 2018. The adoption of this statement has no impact on CRA/LA-DLA's net position.
3. *GASB Statement No. 85 – Omnibus 2017.* Issued March 2017, this statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This statement is effective beginning fiscal year 2018. The adoption of this statement has no impact on CRA/LA-DLA's net position.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

4. *GASB Statement No. 86 – Certain Debt Extinguishment Issues.* Issued May 2017, this statement will improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds from refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing the debt. This statement is effective beginning fiscal year 2018. The adoption of this statement has no impact on CRA/LA-DLA's net position.

Recent Pronouncements effective in future periods:

1. *GASB Statement No. 83 – Certain Asset Retirement Obligations.* Issued November 2016, this statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement will be effective beginning fiscal year 2019. CRA/LA-DLA has not completed the process of evaluating the impact of GASB Statement No. 83 on its financial statements.
2. *GASB Statement No. 84 – Fiduciary Activities.* Issued January 2017, this statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement will be effective beginning fiscal year 2020. CRA/LA-DLA has not completed the process of evaluating the impact of GASB Statement No. 84 on its financial statements.
3. *GASB Statement No. 87 – Leases.* Issued June 2017, this statement increases the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement will be effective beginning fiscal year 2021. CRA/LA-DLA has not completed the process of evaluating the impact of GASB Statement No. 87 on its financial statements.
4. *GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* Issued April 2018, this statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This statement will be effective beginning fiscal year 2019. CRA/LA-DLA has not completed the process of evaluating the impact of GASB Statement No. 88 on its financial statements.
5. *GASB Statement No. 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period.* Issued June 2018, this statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement will be effective beginning fiscal year 2021. CRA/LA-DLA has not completed the process of evaluating the impact of GASB Statement No. 90 on its financial statements.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES**

**A. Cash, Cash Equivalents, and Investments**

*Cash*

Cash consists of cash deposits maintained with local banks. At June 30, 2018 and 2017, the carrying amount of the CRA/LA-DLA's cash deposits totaled \$82,214,000 and \$97,134,000, respectively; while the bank balances totaled \$82,704,000 and \$118,145,000, respectively. The difference of \$490,000 and \$21,011,000, respectively, at June 30, 2018 and 2017 are primarily due to outstanding checks and other reconciling items. Of the total bank balances at June 30, 2018 and 2017, \$250,000 was covered by the Federal Deposit Insurance Corporation and \$82,454,000 and \$117,895,000, respectively, were fully collateralized as required by State law and reported to the State Administrator of Local Agency Security to ensure the safety of public deposits.

Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of those deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the CRA/LA-DLA's name.

*Investments*

At June 30, 2018 and 2017, restricted investments, shown as restricted assets consisted primarily of investments maintained with bond fiscal agents and trustees, which are considered as pledged collateral for payment of principal and interest on the CRA/LA-DLA's tax allocation bond obligations.

At June 30, 2018 and 2017, cash and investments are reflected in the statements of fiduciary net position with carrying values as follows (dollars in thousands):

	June 30, 2018			June 30, 2017		
	Deposits	Investments	Total	Deposits	Investments	Total
Cash	\$ 82,214	\$ -	\$ 82,214	\$ 97,134	\$ -	\$ 97,134
Restricted assets	-	42,846	42,846	-	44,098	44,098
<b>Total</b>	<b>\$ 82,214</b>	<b>\$ 42,846</b>	<b>\$ 125,060</b>	<b>\$ 97,134</b>	<b>\$ 44,098</b>	<b>\$ 141,232</b>

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

CRA/LA-DLA's investments at June 30, 2018 and 2017 consisted of the following investment types (dollars in thousands):

At June 30, 2018:

<u>Investment Type</u>	<u>Amortized Costs</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Investments held by fiscal agent or trustee:			
Money market funds	\$ 42,846	\$ 42,846	0.003
Total investments held by fiscal agent or trustee	<u>\$ 42,846</u>	<u>\$ 42,846</u>	

At June 30, 2017:

<u>Investment Type</u>	<u>Amortized Costs</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Investments held by fiscal agent or trustee:			
Money market funds	\$ 44,098	\$ 44,098	0.003
Total investments held by fiscal agent or trustee	<u>\$ 44,098</u>	<u>\$ 44,098</u>	

The CRA/LA-DLA's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would exercise in the management of their own affairs, not for speculation, but for investment considering the general economic conditions and the anticipated needs of CRA/LA-DLA. The core objective is to minimize the interest rate risk and credit risk of each investment.

*Interest rate risk.* In accordance with the CRA/LA-DLA's investment policy, CRA/LA-DLA manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to not more than two years, excluding investments held by a trustee, fiscal agent, or escrow bank in connection with a CRA/LA-DLA bond or note.

*Credit rate risk.* Investments held by a fiscal agent or trustee are invested in accordance with the respective CRA/LA-DLA's bond indenture or similar agreement, and the credit rating of the authorized investments are limited. These bond indenture agreements authorize investments in money market funds having a rating in the highest investment category by Standard & Poor's and/or Moody's. At June 30, 2018 and 2017, the CRA/LA-DLA's investments in money market funds at amortized costs of \$42,846,000 and \$44,098,000, respectively, for both years, were rated in the highest categories of Standard & Poor's "A-1+" and Moody's "P-1".

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**B. Loans Receivable**

A schedule of loans receivable at June 30, 2018 and 2017 including allowance for market value write-downs and uncollectibles is as follows (dollars in thousands):

At June 30, 2018:

	Principal Balance			
	Amortizing	Deferred	Residual Receipts	Total
Outstanding at July 1, 2017	\$ 1,938	\$ 10,230	\$ 9,604	\$ 21,772
Reductions:				
Principal repayments	(242)	-	(12)	(254)
Others *	-	(1,417)	(3,325)	(4,742)
Outstanding at June 30, 2018	1,696	8,813	6,267	16,776
Less allowance for market value write-downs and uncollectibles	-	(8,795)	(1,789)	(10,584)
Balance at June 30, 2018	<u>\$ 1,696</u>	<u>\$ 18</u>	<u>\$ 4,478</u>	<u>\$ 6,192</u>

\* Included in these amounts are write-offs and service repayments on forgivable loans.

At June 30, 2017:

	Principal Balance			
	Amortizing	Deferred	Residual Receipts	Total
Outstanding at July 1, 2016	\$ 1,643	\$ 38,078	\$ 9,871	\$ 49,592
Reductions:				
Principal repayments	(264)	(7,800)	(278)	(8,342)
Others *	559	(20,048)	11	(19,478)
Outstanding at June 30, 2017	1,938	10,230	9,604	21,772
Less allowance for market value write-downs and uncollectibles	-	(10,212)	(5,065)	(15,277)
Balance at June 30, 2017	<u>\$ 1,938</u>	<u>\$ 18</u>	<u>\$ 4,539</u>	<u>\$ 6,495</u>

\* Included in these amounts are loan amendments, write-offs and service repayments on forgivable loans.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**C. Capital Assets**

Changes in capital assets for the year ended June 30, 2018 and 2017 were as follows (dollars in thousands):

At June 30, 2018:

Description	Balance June 30, 2017	Dispositions/ Adjustments	Depreciation/ Amortization	Balance June 30, 2018
Capital assets, being depreciated:				
Building and improvements	\$ 11,326	\$ -	\$ -	\$ 11,326
Less accumulated depreciation/ amortization	<u>(9,708)</u>	<u>-</u>	<u>(323)</u>	<u>(10,031)</u>
Net building and improvements	<u>1,618</u>	<u>-</u>	<u>(323)</u>	<u>1,295</u>
Equipment and leasehold improvements	12,264	-	-	12,264
Less accumulated depreciation/ amortization	<u>(12,264)</u>	<u>-</u>	<u>-</u>	<u>(12,264)</u>
Net equipment and leasehold improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net capital assets, being depreciated	<u>1,618</u>	<u>-</u>	<u>(323)</u>	<u>1,295</u>
Net capital assets	<u>\$ 1,618</u>	<u>\$ -</u>	<u>\$ (323)</u>	<u>\$ 1,295</u>

At June 30, 2017:

Description	Balance June 30, 2016	Dispositions/ Adjustments	Depreciation/ Amortization	Balance June 30, 2017
Capital assets, being depreciated:				
Building and improvements	\$ 11,326	\$ -	\$ -	\$ 11,326
Less accumulated depreciation/ amortization	<u>(9,384)</u>	<u>-</u>	<u>(324)</u>	<u>(9,708)</u>
Net building and improvements	<u>1,942</u>	<u>-</u>	<u>(324)</u>	<u>1,618</u>
Equipment and leasehold improvements	13,448	(1,184)	-	12,264
Less accumulated depreciation/ amortization	<u>(13,373)</u>	<u>1,184</u>	<u>(75)</u>	<u>(12,264)</u>
Net equipment and leasehold improvements	<u>75</u>	<u>-</u>	<u>(75)</u>	<u>-</u>
Net capital assets, being depreciated	<u>2,017</u>	<u>-</u>	<u>(399)</u>	<u>1,618</u>
Net capital assets	<u>\$ 2,017</u>	<u>\$ -</u>	<u>\$ (399)</u>	<u>\$ 1,618</u>

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**D. CRFA Bonds**

The following table summarizes the CRFA bond transactions for the fiscal years ended June 30, 2018 and 2017 (dollars in thousands):

Balance, July 1, 2016	\$ 106,310
Retirement, various pooled financing bond issues	<u>(98,175)</u>
Balance, July 1, 2017	8,135
Retirement, various pooled financing bond issues	<u>(130)</u>
Balance, June 30, 2018	<u><u>\$ 8,005</u></u>

CRFA bonds outstanding at June 30, 2018 and 2017 were as follows (dollars in thousands):

Description	Date of Issue	Maturity Date	Interest Rate	Original Issue	2018 Balance Outstanding	2017 Balance Outstanding
Pooled bonds:						
Pooled Financing Bonds, Series P (taxable)	6/26/2008	9/1/2038	8.00%	14,250	\$ <u>8,005</u>	\$ <u>8,135</u>
Total CRFA bonds					<u><u>\$ 8,005</u></u>	<u><u>\$ 8,135</u></u>

The source of all payments of outstanding principal and interest on the CRFA pooled financing bonds consists of debt service payments on underlying tax allocation bonds and notes issued by the respective redevelopment project areas.

As a blended component unit, CRFA's activities for financial reporting purposes are blended into the CRA/LA-DLA's financial statements. Hence, in the accompanying statements of fiduciary net position as of June 30, 2018 and 2017, the \$8,005,000 and \$8,135,000, respectively, receivable/payable between CRFA and CRA/LA-DLA is eliminated.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**E. Long-Term Debt**

**Changes in Long-term Liabilities**

CRA/LA-DLA's long-term liabilities for the fiscal year ended June 30, 2018 and 2017 are summarized as follows (dollars in thousands):

At June 30, 2018:

Description	Balance June 30, 2017	Additions	Retirement	Balance June 30, 2018	Due Within One Year
Bonds payable	\$ 464,000	\$ -	\$ (32,620)	\$ 431,380	\$ 32,425
Notes payable	27,902	-	(1,994)	25,908	1,870
Payable to the City	1,886	-	(97)	1,789	99
Sub-total before premiums/ discounts on bonds	493,788	-	(34,711)	459,077	34,394
Unamortized premiums and discounts on bonds	21,645	-	(2,364)	19,281	-
Total bonds and notes	515,433	-	(37,075)	478,358	34,394
Pension liability	78,432	5,946	-	84,378	-
Compensated absences	470	210	(404)	276	27
Other postemployment benefit liability, as restated	21,922	2,126	(5,634)	18,414	-
Other long-term obligations (page 26)	27,250	-	(2,889)	24,361	2,274
Net long-term liabilities, governmental activities	<u>\$ 643,507</u>	<u>\$ 8,282</u>	<u>\$ (46,002)</u>	<u>\$ 605,787</u>	<u>\$ 36,695</u>

At June 30, 2017:

Description	Balance June 30, 2016	Additions	Retirement	Balance June 30, 2017	Due Within One Year
Bonds payable	\$ 526,795	\$ 251,285	\$ (314,080)	\$ 464,000	\$ 32,620
Notes payable	33,611	-	(5,709)	27,902	1,658
Payable to the City	1,985	-	(99)	1,886	99
Sub-total before premiums/ discounts on bonds	562,391	251,285	(319,888)	493,788	34,377
Unamortized premiums and discounts on bonds	26,183	(3,036)	(1,502)	21,645	-
Total bonds and notes	588,574	248,249	(321,390)	515,433	34,377
Pension liability	68,844	9,588	-	78,432	-
Compensated absences	486	165	(181)	470	134
Other long-term obligation	28,954	-	(1,704)	27,250	4,387
Net long-term liabilities, governmental activities	<u>\$ 686,858</u>	<u>\$ 258,002</u>	<u>\$ (323,275)</u>	<u>\$ 621,585</u>	<u>\$ 38,898</u>

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**Outstanding Long-term Debt**

Long-term debt outstanding at June 30, 2018 and 2017 is comprised of the following (dollars in thousands):

Description	Date of Issue	Maturity Date	Interest Rate	Original Issue	2018 Outstanding Balance	2017 Outstanding Balance
Tax allocation bonds**:						
Adelante Eastside, TARB Series E (taxable)	12/20/2013	9/1/2032	1.460% - 6.000%	\$ 4,605	\$ 3,860	\$ 4,035
Bunker Hill, TARB Series M	10/30/2014	12/1/2028	2.000% - 5.250%	148,640	139,315	143,980
Bunker Hill, TARB Series N (taxable)	10/30/2014	12/1/2017	0.480% - 1.500%	22,440	-	7,550
General Agency, TARB Series A (taxable)	8/4/2017	9/1/2040	0.893% - 3.375%	251,285	237,975	251,285
Hollywood, Refunding Series C	3/1/1998	7/1/2022	4.100% - 5.500%	35,840	2,660	5,185
Hollywood, TARB Series G	12/20/2013	7/1/2022	3.000% - 5.000%	14,975	11,000	11,000
Hollywood, TARB Series H (taxable)	12/20/2013	7/1/2022	0.526% - 4.494%	11,875	7,005	8,290
Little Tokyo, TARB Series F	12/24/2013	9/1/2020	3.000% - 5.000%	7,965	3,780	4,920
Mid-City Recovery, Series C (taxable)*	6/26/2008	9/1/2032	8.000%	6,500	5,870	5,980
Mid-City Recovery, TARB Series D (taxable)	12/20/2013	9/1/2032	1.146% - 6.000%	5,515	4,365	4,640
North Hollywood, TARB Series I	12/20/2013	7/1/2024	3.000% - 5.000%	16,675	13,415	14,980
Vermont/Manchester, Series B (taxable) *	6/26/2008	9/1/2038	8.000%	2,250	2,135	2,155
Total tax allocation bonds payable before unamortized premium (discount)					431,380	464,000
Project notes payable:						
Mid-City Recovery, Midtown Crossing Senior Note	3/22/2013	1/31/2042	6.00%	5,000	3,968	4,194
Junior Note	3/22/2013	1/31/2042	6.00%	5,422	5,422	5,422
North Hollywood, NOHO Commons	8/27/2004	2/2029	6.00%	9,043	5,607	6,374
Wilshire/Koreatown, The Vermont Mixed-Use	7/11/2014	12/13/2040	6.00%	12,500	10,911	11,912
Total project notes payable					25,908	27,902
Payable to the City (note 2-G)					1,789	1,886
Total long-term debt, June 30, 2018 and 2017					\$ 459,077	\$ 493,788

\*Purchased by and payable to CRFA.

\*\*Unless otherwise noted, tax allocation bonds are tax-exempt.

The bond indentures/fiscal agent agreements contain various limitations and restrictions in accordance with State redevelopment law and the redevelopment plan for the respective project, including requirements to not invest, reinvest, or expend the proceeds from any tax exempt bond issue in such a manner as to result in the loss of exemption from Federal income taxation of bond interest. CRA/LA-DLA is in compliance with such restrictions and limitations on tax-exempt bond issues.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

Pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (Continuing Disclosure Rule), CRA/LA-DLA, or its authorized Dissemination Agent, is required to file an annual financial report for all fixed interest rate bonds issued on or after July 1, 1995. The Dissemination Agent files copies of the annual report(s) with each Nationally Recognized Municipal Securities Information Repository approved by the Securities and Exchange Commission, and the appropriate state information depository, if any.

The annual reports on the tax allocation bonds, consist of, but are not limited to, a copy of the CRA/LA-DLA's most recent audited financial statements and operating information updating particular tables in each bond issue's Official Statement. Other types of information are required for third-party supported bond issues (note 3-I, Third-Party Indebtedness), such as housing revenue bonds. Furthermore, upon occurrence of any of the eleven enumerated events, CRA/LA-DLA is required to promptly notify and instruct the Dissemination Agent to report the occurrence.

**Annual Debt Service Requirements**

Annual requirements to amortize all long-term debt outstanding at June 30, 2018 are reflected in the following table (dollars in thousands).

Year Ending June 30	Bonds Payable		Notes Payable		Payable to the City (note 2-G)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 32,425	\$ 15,360	\$ 1,870	\$ 1,533	\$ 99	\$ 82	\$ 34,394	\$ 16,975
2020	31,480	14,340	2,176	1,424	100	82	33,756	15,846
2021	31,385	13,275	2,364	1,270	1,590	80	35,339	14,625
2022	30,300	12,177	2,572	1,117	-	-	32,872	13,294
2023	31,305	11,020	2,793	1,251	-	-	34,098	12,271
2024-2028	146,255	38,143	7,611	2,611	-	-	153,866	40,754
2029-2033	67,275	15,874	2,097	2,449	-	-	69,372	18,323
2034-2038	48,010	6,185	3,295	955	-	-	51,305	7,140
2039-2042	12,945	580	1,130	89	-	-	14,075	669
Total	\$ 431,380	\$ 126,954	\$ 25,908	\$ 12,699	\$ 1,789	\$ 244	\$ 459,077	\$ 139,897

**F. Defeasance of Debt**

In the current year and prior years, CRA/LA-DLA and the Former Agency defeased various bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. government securities, which were placed in the trust funds held by the respective escrow agents. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called for redemption or matures.

The trust account assets and corresponding liabilities for the defeased bonds are not reflected on the accompanying basic financial statements. At June 30, 2018, \$88,333,000 of bonds outstanding are considered defeased.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

**G. Payable to the City**

*CDBG Regular Program Year Allocations*

The Former Agency's Community Development Block Grant (CDBG) allocations from the City have been structured as either grants, or deferred loans. Under various contracts with the City, the Former Agency has recorded 20-year loans of \$17,194,000. These loans are to be repaid from certain sources such as tax increment revenues of the respective redevelopment projects as they become available. In addition to the tax increment revenues, the program income earned on the 20-year loan funds is applied as repayments to the 20-year loans.

Pursuant to a City Council authorization, new promissory notes were issued in February 2003 amending the 20-year loans from amortizing notes to deferred notes to cure a technical default by the Former Agency on these notes. These notes as amended continue to accrue interest at the existing rate and any principal and interest due under the existing notes are deferred until maturity.

At June 30, 2018 and 2017, the outstanding balance of the 20-year loan amounted to \$1,590,000 for both years. Interest accrued at June 30, 2018 and 2017 on the 20-year loan in the amount of \$79,000, for both years, are reported as interest payable in the financial statements.

*Beacon Street LADOT Loan*

On July 19, 2005, the City Department of Transportation (LADOT) loaned the Former Agency \$960,000 from the LADOT's Special Parking Revenue funds for the design and construction of 40 public parking spaces within the Centre Street Lofts mixed-use project in the Beacon Street Redevelopment Project area. Repayment of the loan was to come from a combination of (a) Former Agency/City participation in surplus profits as described in the project's DDA and/or (b) from Beacon Street Project tax increment. In the event the Former Agency's share of surplus profits prove to be insufficient to repay the entire loan amount, the remaining balance will be amortized over a ten-year period from project completion at the City's "average pooled fund" interest rate. The Certificate of Completion for the project was executed on September 15, 2009. This date marks the loan start date and sets the loan maturity on September 15, 2019.

According to the loan agreement with LADOT, interest is determined based on the City's pooled interest rate for the year the repayment is made. For the purposes of projecting future annual debt service requirements for the loan, the interest is calculated at the Local Agency Investment Fund rate of 1.9 percent and .92 percent at June 30, 2018 and 2017, respectively, to comply with HSC Section 34191.4 (b)(2) guidelines.

During the fiscal year ended June 30, 2018, a debt service payment in the amount of \$100,000 was made; \$2,000 was applied against accrued interest with the balance of \$98,000 applied against principal. At June 30, 2018 and 2017, the outstanding loan principal balance is \$199,000 and \$296,000, respectively.

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**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

The following is a schedule of amounts payable to the City at June 30, 2018 and 2017 (dollars in thousands).

Description	Date of Issue	Maturity Date	Interest Rate	Original Issue	2018 Outstanding Balance	2017 Outstanding Balance
CDBG 20-year loan, various projects	2/6/2003	6/30/2021	5.00%	\$ 1,590	\$ 1,590	\$ 1,590
LADOT loan, Beacon Street	7/19/2005	9/15/2019 *	Variable	960	<u>199</u>	<u>296</u>
Total payable to the City					<u>\$ 1,789</u>	<u>\$ 1,886</u>

\* The Certificate of Completion for the project was issued on September 15, 2009. This date marks the loan start date and sets the loan maturity on September 15, 2019, 10 years from the project completion date.

Annual debt service requirements for the payable to the City are contained in note 2-E, Annual Debt Service Requirements.

**H. Other Long-Term Obligations**

Other long-term obligations include obligations arising from certain Owner Participation Agreements (OPA) and Disposition and Development Agreements (DDA) between the Former Agency and various developers. Project site-specific and area-wide tax increment revenues have been pledged using various debt instruments to finance certain redevelopment projects. These pledges are subordinate to senior-lien tax allocation bonds and limited to the amounts annually available.

In accordance with the Dissolution Act, revenue pledges are to be honored. Accordingly, these obligations are reported in the financial statements and are as follows:

1. *NOHO Commons Project* - Developed by SL NoHo, LLC (Developer), this three phase mixed-use catalytic project is located on the block bounded by Lankershim Boulevard, Chandler Boulevard and Weddington Street. Pursuant to the OPA, CRA/LA-DLA is required to make certain annual payments from available site-generated tax increment to pay the Developer/Owner for the following:
  - a) Reimbursement of Developer Payments on HUD 108 Loan obligation of \$6,050,000 plus annual interest at 6%. The reimbursement obligation ends on the earlier of when the principal and accrued interest is paid in full or October 1, 2028. The outstanding balance at June 30, 2018 is \$1,006,000.
  - b) Revenue Shortfall obligation of \$5,000,000 plus annual interest at 6%. The obligation ends at the earlier of when the principal and accrued interest is paid in full or October 1, 2028. The outstanding balance at June 30, 2018 is \$3,860,000.
  - c) Housing subsidy payments to maintain required affordability totaling \$27,262,000 plus 6% interest for the term of 21 years. The obligation will be paid in full on October 1, 2028. The outstanding balance at June 30, 2018 is \$18,404,000.

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**June 30, 2018 and 2017**

**NOTE 2 - DETAILED NOTES (continued)**

2. *Slauson Central Shopping Center* - On December 1, 2003, the Former Agency entered into a DDA with Slauson Central, LLC (Developer) to construct a retail shopping center consisting of approximately 80,000 sq. ft. of retail improvements, on the property bounded by Slauson and Central Avenues. Pursuant to the DDA, the Former Agency agreed to assist the Developer in assembling the property and to pay certain acquisition, relocation and hazardous materials remediation costs related to the Property. On April 8, 2004, the Former Agency entered into a Cooperation Agreement with the City of Los Angeles in which the City agreed to advance Section 108 funds totaling \$1,472,000 to the Former Agency. In turn, the Former Agency pledged to repay Section 108 funds from Site Specific Tax Increment (SSTI) which is triggered once the retail center is built and operations stabilized. The project's certificate of occupancy was issued in March 2014. Pursuant to the Cooperation Agreement, the Former Agency is required to make an annual payment from SSTI to the City to allow it to service the Section 108 Loan. The payment obligation ends at the earlier of when the principal and accrued interest is paid in full or August 1, 2023. The outstanding balance at June 30, 2018 is \$1,091,000.

**I. Negative Net Position**

At June 30, 2018 and 2017, CRA/LA-DLA's negative net position amounted to \$460,921,000 and \$435,897,000, respectively. Pursuant to the Dissolution Act, CRA/LA-DLA's enforceable obligations as listed on the approved ROPS will be paid by property tax distributed from the RPTTF administered by the County. As CRA/LA-DLA's enforceable obligations are paid, its negative net position will be reduced and in time eliminated.

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**Notes to Financial Statements**

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**NOTE 3 - OTHER INFORMATION**

**A. Employees' Retirement System**

*Plan Description*

CRA/LA-DLA contributes to the California Public Employees' Retirement System (CalPERS), a multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and authorized by CRA/LA-DLA.

The pension plan covers all full-time employees and eligible retirees of CRA/LA-DLA. Under the provision of CalPERS, pension benefits fully vest after five years of service. A vested employee may retire at age 50 and receive annual pension benefits equal to a predetermined percentage of the employee's salary earned during the highest 12 consecutive months of employment multiplied by the number of years of service. Effective July 1, 1997, the Former Agency amended its contract with CalPERS changing the retirement formulation from two percent at age 60 to two percent at age 55 as part of collective bargaining negotiations. Under the amended contract, the service requirement benefits now vary from 1.426 percent at age 50 to 2.418 percent at age 63 and over multiplied by the number of years of service. The CRA/LA-DLA modified its contract with CalPERS on February 17, 2013 to reflect the entity change to a designated local authority

Following the dissolution and subsequent reductions in force, CRA/LA-DLA's headcount was lowered to fewer than 50 fulltime employees in fiscal year 2013. Subsequently, CalPERS placed CRA/LA-DLA's pension plan from an agent multiple-employer defined pension plan to a public agency cost-sharing multiple-employer defined pension plan (i.e., miscellaneous risk pool). While the risk pool designation does not change plan terms or affect payments to retirees, it has resulted in an increase in the employer's normal cost contributions when compared to the period before the dissolution due to several adjustments. Also, the plan's unfunded liability, on both an actuarial and market value bases, has increased.

The actuarial valuation reports and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

*Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five years of service. The Pre-retirement or Post-retirement death benefit for members with five years or more of total service is the Optional Settlement 2W or the Standard Lump Sum payment of \$500, respectively. The 3% cost of living adjustments are applied annually on a compound basis.

*Contributions*

Section 20814(c) of the Public Employment Retirement Law requires that the employer contribution rates be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance the unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Pursuant to the negotiated bargaining agreement, CRA/LA-DLA also pays the employee contribution rate. According

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 3 - OTHER INFORMATION (continued)**

to the CalPERS' funding requirement annual valuation report, the active employee contribution rate is 6.907% of annual pay; and the employer's contribution rate is 9.386% of annual payroll and the employer payment of unfunded liability is \$4,097,000 for the year ended June 30, 2018.

Employer contributions for the year ended June 30, 2018 is \$3,860,000; employee member contributions paid by the employer for the year ended June 30, 2018 is \$118,000.

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

A summary of principal assumptions and methods used to determine the net pension liability at June 30, 2017 is as follows:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Asset valuation method:	
Discount rate (1)	7.15%
Inflation	2.75%
Investment rate of return	7.50%
Salary increases	Varies by entry age and service
Mortality rate table (2)	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

(1) Rate to decrease from 7.50% to 7.0% over three fiscal years, beginning fiscal year 2018.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of the actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

*Changes of Assumptions*

The accounting discount rate was reduced from 7.65% to 7.15% during the measurement period ended June 30, 2017. Deferred inflows of resources for changes of assumptions represents the unamortized portion of the changes of assumptions related to prior period measurement periods.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by the CalPERS' Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability for the Plan. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB section.

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**June 30, 2018 and 2017**

**NOTE 3 - OTHER INFORMATION (continued)**

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

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Assumed Target Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
Global Equity	47.00%	4.90%	5.38%
Global Debt Securities	19.00	0.80	2.27
Inflation Assets	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.39
Liquidity	2.00	(0.40)	(0.90)

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

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

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

*Allocation of Net Position Liability and Pension Expense*

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. GASB 68, paragraph 49, indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset related information are used where available, and proportional allocations of individual plan amounts as of the valuation date are used where not available.

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**NOTE 3 - OTHER INFORMATION (continued)**

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

The following presents CRA/LA-DLA's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what CRA/LA-DLA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6%) or 1 percentage-point higher (8%) than the current rate (dollars in thousands):

Description	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
CRA/LA-DLA's proportionate share of net pension liability	\$118,914	\$84,378	\$55,775

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources*

At June 30, 2018 and 2017, CRA/LA-DLA reported a liability of \$84,378,000 and \$78,432,000, respectively, for its proportionate share of the net pension liability. The net pension liability measured as of June 30, 2017, and the total pension liability used to calculate the net pension was determined by an actuarial calculation as of June 30, 2016 rolled forward to June 30, 2017 using standard updated procedures.

For the year ended June 30, 2018, CRA/LA-DLA recognized pension expense of \$6,485,000. At June 30, 2018, CRA/LA-DLA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 2,370	\$ -
Difference between proportionate share and actual contributions	1,286	198
Changes in employer's proportion	-	8,128
Changes of assumptions	10,477	799
Difference between expected and actual experience	84	1,209
Pension contributions subsequent to measurement date	3,860	-
Total	<u>\$ 18,077</u>	<u>\$ 10,334</u>

The amounts above are net of outflows and inflows recognized in the 2017-18 measurement period expense. \$3,860,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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**Notes to Financial Statements**

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**NOTE 3 - OTHER INFORMATION (continued)**

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows (dollars in thousands):

Year Ended June 30,	Deferred Outflows/Inflows of Resources
2019	\$ (2,271)
2020	4,899
2021	2,662
2022	(1,407)

**B. Other Postemployment Benefits (OPEB)**

*Plan Description*

CRA/LA-DLA provides medical (including vision care) and dental benefits for life to all employees who retired on or after January 1, 1993 and had at least 10 years of service. The OPEB Plan is administered by CRA/LA-DLA.

On March 19, 2013, CRA/LA-DLA management was authorized by its Governing Board to enroll in an OPEB Prefunding Plan administered by CalPERS, also referred to as the CERBT. Accordingly, an agreement was fully executed by CRA/LA-DLA and CalPERS (on behalf of CERBT), effective March 28, 2013.

The OPEB Prefunding Plan is a trust fund that is intended to perform as an agent multi-employer plan with pooled administrative and investment functions. The CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' Website Form and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

*Benefits Provided*

In accordance with collective bargaining agreements, CRA/LA-DLA subsidizes health care benefits starting at 40 percent of maximum monthly subsidy to retirees for the first 10 years of service and increases at the rate of four percent per year for each additional year of service. At 25 years of service and at least 50 years of age, the retiree health care benefit is 100 percent subsidized by CRA/LA-DLA. Eligible retirees pay premiums in excess of the CRA/LA-DLA monthly subsidy.

*Employees Covered by Benefit Terms*

As of June 30, 2017, the following current and former employees were covered by the benefit terms:

Active employees	14
Retired former employees	217
Total	231

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**June 30, 2018 and 2017**

**NOTE 3 - OTHER INFORMATION (continued)**

*Contributions*

The agreement with CalPERS allows CRA/LA-DLA to contribute funds to be identified annually by an independent actuary and prudently invested by CalPERS for the purposes of funding retiree healthcare obligations. The following table shows the activities of CRA/LA-DLA's CERBT account at June 30, 2018 and 2017 (dollars in thousands):

Balance, July 1, 2016	\$	15,338
Contributions		1,800
Investment earnings (losses)		1,241
Administrative fees		(15)
		18,364
Balance, July 1, 2017		18,364
Contributions		1,800
Investment earnings (losses)		1,240
Administrative fees		(10)
		21,394
Balance, June 30, 2018	\$	21,394

*Net OPEB Liability*

CRA/LA-DLA's net OPEB liability as of June 30, 2018 was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial Methods and Assumptions*

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2017
Measurement date	July 1, 2017
Investment rate of return	5.75%, net of investment expense, including inflation
Inflation	2.75%
Projected salary increases	3.25%
Healthcare inflation rate	Medical premiums - 6% in 2019, graded down to an ultimate rate of 5%; dental and vision premiums and Medicare Part B premiums - 5% per year
Mortality rate table	Derived using the 2014 CalPERS OPEB Assumptions Model
Post retirement benefit increase	7%, graded down to an ultimate rate of 5%

The long-term expected rate of return on the OPEB plan investments was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. The asset class percentages are taken from the current composition of the CERBT trust, and the expected yields are taken from a recent CalPERS publication for the Pension Fund.

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**Notes to Financial Statements**

**June 30, 2018 and 2017**

**NOTE 3 - OTHER INFORMATION (continued)**

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Assumed Target Allocation	Real Return Years 1-10
Global Equity	40.00%	5.25%
Fixed Income	39.00	0.99
Treasury Securities	10.00	0.45
Real Estate	8.00	4.50
Commodities	3.00	3.90

*Discount Rate*

The discount rate used to measure the total OPEB liability was 5.75%. The cash flows of the OPEB plan were projected to future years, assuming that CRA/LA-DLA will pay benefits to retiree and contribute \$1,700,000 each year for the next six years; and will then seek reimbursement from CERBT for retiree benefits each year after that. Under that projection, the plan assets are projected to be adequate to pay all benefits to retirees in all future years, so the discount rate has been set equal to the long-term expected rate of return on investments, 5.75%.

*Changes in the Net OPEB Liability*

The following is the changes in the net OPEB liability (dollars in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016	\$ 37,260	\$ 15,338	\$ 21,922
Changes for the year:			
Service cost	49	-	49
Interest	2,068	-	2,068
Employer contributions	-	4,399	(4,399)
Net investment income	-	1,235	(1,235)
Benefit paid to retirees	(2,599)	(2,599)	-
Administrative expense	-	(9)	9
Net changes	(482)	3,026	(3,508)
Balance at June 30, 2017	\$ 36,778	\$ 18,364	\$ 18,414

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**NOTE 3 - OTHER INFORMATION (continued)**

*Sensitivity of Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates*

The following presents the net OPEB liability calculated using the healthcare cost trend rates of 5.00% to 6.00%, as well as what the net OPEB liability would be if it were calculated using the healthcare cost trend rates that is 1 percentage-point lower (4.00% to 5.00%) or 1 percentage-point higher (6.00% to 7.00%) than the current healthcare cost trend rates (dollars in thousands):

Description	Healthcare Cost Trend Rate -1% (4.00% to 5.00%)	Healthcare Cost Trend Rate (5.00% to 6.00%)	Healthcare Cost Trend Rate +1% (6.00% to 7.00%)
Net OPEB liability	\$16,486	\$18,414	\$20,534

*OPEB Plan Fiduciary Net Position*

The OPEB plan's fiduciary net position is equal to the value of assets that have been accumulated in the CERBT. Detailed information about the CERBT's fiduciary net position is available in the CalPERS' audited financial statements.

*OPEB, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources*

For the year ended, June 30, 2018, CRA/LA-DLA recognized OPEB expense of \$1,174,000. At June 30, 2018, CRA/LA-DLA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (dollars in thousands):

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 282
OPEB contributions subsequent to measurement date	3,727	-
Total	<u>\$ 3,727</u>	<u>\$ 282</u>

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows (dollars in thousands):

Year Ended June 30,	Deferred Outflows/Inflows of Resources
2019	\$ (71)
2020	(71)
2021	(70)
2022	(70)

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**NOTE 3 - OTHER INFORMATION (continued)**

*Health Care Reform*

The Patient Protection and Affordable Care Act of 2010 contains a provision that would impose a 40% excise tax on the annual value of health plan costs that exceed certain dollar thresholds beginning in 2020. If there are no changes in the law between now and 2020, and if medical cost trend stays substantially the same during the same period, the employment health care benefits will be subject to the excise tax in 2020 and thereafter. In January 2018, the implementation of the excise tax was postponed until 2022. The impact of potential excise tax imposed by the Affordable Care Act and related statutes was included in the July 1, 2017 OPEB actuarial valuation.

**C. Deferred Compensation**

CRA/LA-DLA offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all full-time employees, allows them to defer a portion of their compensation for income tax shelter purposes. The current maximum annual deferral, which is indexed to inflation, is \$18,000 (\$36,000 if age 50 or older) for the 2018 and 2017 tax years.

The Plan is administered by independent financial institutions (Plan Administrators) that have fiduciary responsibilities over the plan assets. They invest the deferred amounts as directed by participants, maintain detailed accounting records of individual participant's deferrals and earnings, and disburse funds to the plan participants under the terms of the deferred compensation agreements.

The Plan assets are not considered the property and rights of CRA/LA-DLA; therefore, the assets are not reflected in the accompanying basic financial statements.

**D. Reduction in Workforce**

*Early Retirement Incentive Package in 2010*

Due to the continuing effects of the prolonged economic downturn and other factors, the Former Agency Board and City Council approved an early retirement incentive program (ERIP) in September 2010 aimed at reducing 20 percent of staff costs over the next two years. The ERIP estimated savings was capped at \$6.4 million in salary costs. Employees with at least 15 years of qualifying CalPERS service were eligible to apply for the full ERIP package consisting of (1) reimbursement for up to three years of service credit; (2) cash payment of \$1,000 for every year of service with a minimum of \$25,000 and a maximum of \$40,000; and, (3) 100 percent subsidy for health care (employees qualify for four percent health care subsidy for every year of service, i.e. it takes 25 years of service to qualify for 100 percent health subsidy). Employees with at least five years of qualifying CalPERS service were eligible to retire with an additional two years of service credit (Partial ERIP). Employees taking advantage of the Partial ERIP were given priority. To the extent that the Partial ERIP staff costs savings did not exceed the \$6.4 million cap, the Full ERIP was then made available to eligible employees based on seniority.

The enrollment period ended on December 16, 2010 and a total of 43 eligible employees participated. The estimated costs of the ERIP of \$7,400,000 to be paid by employee contributions will be calculated at 2.25% of gross wages. All employees were required to make the 2.25% contribution as of July 1, 2010 and such contributions will continue until the end of their employment or June 30, 2030.

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**NOTE 3 - OTHER INFORMATION (continued)**

*Reduction in Force – June 30, 2013 and 2014*

Due to the enactment of the Dissolution Act, CRA/LA-DLA was required to reduce its workforce from 216 Full Time Employees (FTE's) to 57 FTE's in fiscal year 2013 and again from 57 FTE's to 35 FTE's in fiscal year 2014. CRA/LA-DLA agreed to include in the ROPS the amount representing the difference in ERIP withholdings between what the 216 employees would have contributed and what the current employees will contribute based on the agreed upon 2.25% of gross wages. As a result, CRA/LA-DLA has estimated its share of the ERIP costs to be \$2,094,000 and \$2,484,000 at June 30, 2017 and 2016, respectively, which was included in deposits and other liabilities of the statements of fiduciary net position. The ERIP costs represent the difference in ERIP withholdings between what employees would have contributed and what the post reduction in force employees will contribute.

*Reduction in Force – December 30, 2015*

On July 1, 2015, CRA/LA-DLA's workforce totaled 29 FTE's. As a result of completing certain wind down activities, CRA/LA-DLA implemented a reduction in force on December 30, 2015 further reducing its workforce from 29 FTE's to 19 FTE's. Of the 10 FTE's separating from CRA/LA-DLA, 8 FTE's opted to retire resulting in no foreseeable material financial impact.

*Reduction in Force – June 30, 2018*

On July 1, 2017, CRA/LA-DLA's workforce totaled 15 FTE's. As a result of completing certain wind down activities, CRA/LA-DLA implemented a reduction in force on June 30, 2018 further reducing its workforce from 15 FTE's to 8 FTE's. Of the 7 FTE's separating from CRA/LA-DLA, 6 FTE's opted to retire resulting in no foreseeable material financial impact.

*Elimination of the ERIP Receivable – June 30, 2018*

Due to continued reductions in CRA/LA-DLA's workforce, the Governing Board approved the elimination of the ERIP employee and non-employee ERIP, and the cancellation of the employee 2.25% contributions at the September 6, 2018 Governing Board meeting.

**E. Risk Management**

CRA/LA-DLA is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which CRA/LA-DLA carries commercial insurance policies. During the last three fiscal years, insurance claims have not exceeded commercial insurance coverages. Potential and actual claims, if any against CRA/LA-DLA not covered by commercial insurance are disclosed in note 3-I.

**F. Pledges of Future Revenues**

Prior to its dissolution, the Former Agency pledged a portion of its future tax increment revenues to repay \$431,380,000 in principal from outstanding tax allocation bonds which had been issued to finance various redevelopment activities. These bonds are payable solely from the respective redevelopment project area's tax increment. Total principal and interest remaining on these bonds is \$558,334,000 payable through fiscal year 2041. For the year ended June 30, 2018, CRA/LA-DLA's principal and interest paid on these bonds were \$32,620,000 and \$16,250,000 respectively.

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**NOTE 3 - OTHER INFORMATION (continued)**

Project site-specific and area-wide tax increment revenues have also been pledged using various debt instruments to finance certain redevelopment projects. These pledges are subordinate to senior-lien tax allocation bonds and limited to the amounts available. In accordance with the Dissolution Act, revenue pledges are to be honored. The principal balance at June 30, 2018 is \$24,361,000 and reflected on the financial statements as long-term obligations. The County will have to continue to separately account for the property tax revenues generated by each project area in order to allow the CRA/LA-DLA to honor enforceable obligations created by the pledges.

**G. Other Transactions with the City**

*Housing Assets Transfer*

On January 25, 2012, the City, acting by and through its Housing Department (LAHD), elected to retain the housing assets, functions, and obligations previously performed by the Former Agency. Pursuant to HSC Section 34176 (a) (2), the Housing Asset Transfer Schedule (HATS) prepared by CRA/LA-DLA staff was submitted by LAHD to DOF on August 1, 2012. DOF issued its final determination letter on March 27, 2013, granting approval of most of housing assets listed on the HATS. Effective May 1, 2013, the CRA/LA-DLA's housing assets including loans receivable, land held for redevelopment, and land inventory (historical value totaling \$726,684,000), unspent housing bond proceeds and functions were assumed by LAHD (subsequently renamed Housing and Community Investment Department, HCID). In fiscal year 2014, additional housing assets including loans receivable, land held for redevelopment, and land inventory (historical value totaling \$44,715,000) were transferred to HCID.

In accordance with HSC section 34176(g)(1)(A), HCID, as the housing successor, is allowed to use or commit unspent housing bond proceeds for the purpose of affordable housing. The DOF has advised the Housing Successor that, if it agrees to assume the obligations of the CRA/LA-DLA with respect to ensuring compliance with bond covenants and redevelopment objectives, it may drawdown the unspent bond proceeds in a lump sum. DOF has approved the Bond Expenditure Agreement between CRA/LA-DLA and HCID. The available unspent bond proceeds were listed on CRA/LA-DLA's ROPS 14-15B and \$12,827,000 was remitted to HCID on June 30, 2015.

CRA/LA-DLA remitted \$3,048,000 on October 15, 2015 to the HCID for the partial repayment of amounts borrowed to fulfill Supplemental Education Revenue Augmentation Fund (SERAF). HSC section 34191.4 allows successor agencies to repay loans made from the Low and Moderate Income Housing Fund for fulfilling SERAF obligations. CRA/LA-DLA remitted the balance of \$1,792,000 to the City on September 6, 2016.

*Payable to the City*

As noted in note 2-G, the payable to the City consists of loans from the City involving federal funds. These notes were to be repaid from available sources including tax increment. The Dissolution Act acknowledges that payments to the federal government are enforceable obligations and such contracts were not invalidated and therefore remain in effect. In its determination letter dated December 26, 2012 wherein DOF approved the affected ROPS line items and authorized RPTTF to repay these obligations, DOF noted that the Successor Agency had provided it with copies of loan agreements and promissory notes which indicated that the Former Agency was the party responsible for payment of the loans. Further, that the promissory notes were entered into at the time of the agreements and for the purpose of repaying the loans. Future ROPS will include interest payments for the remaining outstanding loan, with a final payment of principal and interest due upon maturity in 2021.

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**NOTE 3 - OTHER INFORMATION (continued)**

**H. Commitments**

*Operating Leases*

Prior to its dissolution, the Former Agency had several operating leases for its central office facilities and regional offices. These leases are not included in capital assets. CRA/LA-DLA is paying lease costs as part of its administrative budget. The total rent expense for operating leases for the years ended, June 30, 2018 and 2017 was \$3,368,000 and \$3,034,000, respectively.

CRA/LA-DLA has the following contractual agreements for future rental payments at June 30, 2018 (dollars in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 2,089
2020	344
2021	257
2022	<u>43</u>
Total	<u>\$ 2,733</u>

*Pollution Remediation Obligations*

CRA/LA-DLA has estimated cleanup costs at one brownfields redevelopment site to be approximately \$127,000 at June 30, 2018 and approximately \$46,000 at June 30, 2017. The estimate is based on a reasonable range of potential outlay and their probability of occurring. At June 30, 2018 and 2017, the amount expected to be recovered from external sources or retained escrow funds is \$360,000 and \$447,000, respectively. No costs were capitalized nor accrued as a liability during the fiscal years 2018 and 2017 due to the immateriality of the cleanup costs incurred by CRA/LA-DLA (note 1-J).

**I. Contingencies**

*North Hollywood HUD Section 108 Loan*

The City provided the Former Agency in fiscal year 2004, a \$14,000,000 Section 108 loan to partially fund acquisition and relocation costs for the NOHO Commons in the North Hollywood Redevelopment Project area. The agreement with the City allows the Former Agency to assign the Section 108 loan to the developer.

The Section 108 loan was subsequently assigned to the developer retroactively to August 27, 2004. As a condition of the developer's assumption of the loan, the Former Agency conveyed Subarea B of the NOHO Commons and executed a note payable to the developer, at an interest rate of six percent. The note, which is secured by a pledge of the NOHO Commons' site-specific tax increment, was executed to reimburse certain project costs paid for in advance by the developer. In addition, the Former Agency has pledged to the developer the site-specific tax increment on the NOHO Commons to the extent that the developer's annual return on investment rate is less than 10 percent. These pledges to the developer are subordinate to the North Hollywood Project's existing and future senior-lien bonds and the area-wide tax increment pledge to the City.

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**NOTE 3 - OTHER INFORMATION (continued)**

Although there has been an assignment of the City loan to the developer, the Former Agency agreed to maintain its pledge to the City of area-wide tax increment revenues as security for the repayment of the \$14,000,000 loan. However, this area-wide tax increment pledge is subordinate to the North Hollywood Project's existing and future senior-lien bonds. The loan is further secured by an unconditional guaranty of payment not to exceed \$12,307,000; J.H. Snyder Company, a company related to the developer issued the guaranty.

*Slauson Central Shopping Center*

The DDA for the development of the Slauson Central Shopping Center (Center) between Slauson Central LLC (the developer) and the Former Agency provides for the developer to enter into a loan agreement with the City in the amount of \$2,005,000 as a condition of conveyance of the property acquired by the Former Agency and to be conveyed to the developer. This loan will be secured by deed of trust on the property from the developer to the City, subordinate only to the permanent financing on the property. The Former Agency had executed a cooperation agreement with the City for use of Section 108 funds and had also pledged site-specific tax increment on the Center to the City for use in repayment of Section 108 Loan funds borrowed by the developer for the Center (note 3-F). This pledge is subordinate to the project area's existing and future senior-lien tax increment bonds. The developer will be responsible for the annual repayment of the loan if site generated taxes from the Center and the CRA/LA-DLA's pledged site-specific tax increment revenue are insufficient to service the loan.

*Los Angeles Unified School District and Los Angeles Community College School District*

The Los Angeles Unified School District (LAUSD) filed a Writ of Mandate in which it named the County of Los Angeles, more than 50 cities, former redevelopment agencies (now successor agencies), and special districts as defendants and real parties in interest. LAUSD alleged that the County incorrectly apportioned tax increment pass-throughs paid by former redevelopment agencies pursuant to the HSC. The Superior Court heard the case on October 17, 2008 and issued its judgment in favor of the County. LAUSD filed its notice of appeal. In January 2010, the Court of Appeals reversed the Superior Court's decision.

The case was returned to the Superior Court for the determination of the proper method for apportioning tax increment funds and LAUSD's claim for damages. On July 3, 2012, the Superior Court issued a Writ of Mandate Granting Retrospective Relief and a judgment was entered. The Writ and Judgment require the County and successor agencies, including CRA/LA-DLA, to recalculate the amount of property tax funds to which LAUSD is entitled from fiscal year 2004 through January 31, 2012. To date the recalculation by successor agencies has not been done since the County's calculation and supporting information is required; LAUSD has objected to the methodology adopted by the Superior Court in the Judgment. By statute, the unpaid balances accrue interest at the rate of 7% per year. The recalculated payments are to be made through the ROPS. Los Angeles Community College District has also filed a similar case addressing the same issues as LAUSD. This case is presently pending before the same Court and has been stayed pending resolution of the LAUSD case. CRA/LA-DLA has retained \$9,000,000 through the Other Funds and Accounts (OF&A) Due Diligence Review (DDR) process to pay any contingent liability related to the LAUSD and Los Angeles Community College School District cases. There are continuing settlement discussions between the Plaintiffs and County on a global settlement of all claims.

On November 14, 2017, the Superior Court made certain findings and issued several orders regarding the process for payment of damages. The Court ordered CRA/LA-DLA to release all redevelopment pass-through funds impounded by the Former Agency to the County for distribution to the Los Angeles Unified School District and the Los Angeles Community Colleges District. On July 9, 2018, CRA/LA-DLA remitted \$9,906,000 to the County in partial settlement of this matter.

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**NOTE 3 - OTHER INFORMATION (continued)**

*Independent Living Center of Southern California*

Independent Living Center of Southern California (ILCSC) and its co-plaintiffs sued the City and the Former Agency (subsequently amended to name the CRA/LA-DLA as a defendant), based on the City's and Former Agency's purported failure to provide adequate accessible housing to the disabled in alleged violation of Section 504 of the Rehabilitation Act, Title II of the Americans with Disabilities Act ("ADA"), and California Government Code section 11135. The case involves a portfolio of 61 housing projects which received federal funding from the City and Former Agency. The 61 project owners have been joined in the suit as necessary parties. Plaintiffs have requested injunctive relief from the court through which the CRA/LA-DLA and the City would be required to ensure that any of those properties that received funding, not currently meeting federally accessibility standards would be brought into compliance with the federal standards.

In May 2016, the City settled its claims with the Plaintiffs. The City settlement excludes 22 multifamily projects which were financed by CRA/LA-DLA, with federal funding received from the City.

During a court-ordered mediation held in April and September 2017, ILCSC agreed to settle all claims against the Former Agency and CRA/LA-DLA. CRA/LA-DLA has agreed to work with owners of 250 multifamily rental units to make them accessible to persons with mobility and sensory disabilities. The cost of the retrofit is estimated at \$12,757,000 and accrued as other liabilities. The settlement agreement provides for damages of \$3,000,000 to be paid to three nonprofit plaintiff organizations and attorneys' fees of \$2,250,000 to plaintiff's counsel. CRA/LA-DLA's insurer was paid \$5,125,000. The balance, \$125,000, was paid directly by CRA/LA-DLA.

*Legal Action by the City*

On August 6, 2013, the City filed a claim for repayment of approximately \$50,700,000 in no-term CDBG obligations. The Dissolution Legislation identified a three-part test to assess whether a loan qualified as an enforceable obligation. It required a loan agreement, a promissory note, and repayment terms, all existing prior to June 28, 2011. Applying this standard, CRA/LA-DLA denied the City's claim. The City filed a lawsuit on March 5, 2014 in Sacramento Superior Court naming CRA/LA-DLA as the defendant. CRA/LA-DLA was served with the City's complaint in March 2016 which CRA/LA-DLA answered to in May 2016.

In 2015, the Dissolution Legislation was amended (SB107) to include among other items a new enforceable obligation for repayment of federal funds provided to a former redevelopment agency by a City.

In settlement of a lawsuit brought against CRA/LA-DLA by the City, an agreement was made to list \$20,000,000 as the total obligation, to be paid over four fiscal years and accrued as other liabilities. The City dismissed the lawsuit following Governing Board approval to list the payments on the ROPS. The obligation has been listed in ROPS 18-19. Future ROPS will include the obligation for the remaining balance, with a final payment due in fiscal year 2022.

*U.S. Department Of Justice*

In response to a whistleblower complaint, the U.S. Department of Justice (DOJ) initiated an investigation in 2011 regarding the Former Agency's compliance, as a sub-recipient of federal funds passed through the City, with federal regulations under the American with Disabilities Act, Section 504 and the Fair Housing Act.

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**NOTE 3 - OTHER INFORMATION (continued)**

In January 2017, DOJ contacted CRA/LA-DLA management to review their preliminary findings and discuss informal settlement terms. The DOJ intervened in a relator lawsuit on July 31, 2017 alleging that the City and CRA/LA-DLA made certain false claims in requesting and using federal funds to facilitate construction of 22 affordable housing projects.

The CRA/LA-DLA asserts that the 22 affordable housing projects it financed with federal funds were constructed in compliance with Federal Regulations. The housing projects achieved the required CDBG/HOME national objectives, the required covenants were recorded, and housing is being operated in accordance with all affordability requirements. As such, an appropriate remedy would be to require retrofits to the housing projects to ensure they comply with federal accessibility requirements. The government has partially acknowledged this “benefit of the bargain” argument, but is demanding significant monetary damages. Settlement discussions are ongoing.

*Other Litigation*

A number of claims are pending against the CRA/LA-DLA for writs of mandamus and for alleged damages to persons and/or property for other alleged liabilities arising out of matters usually incident to the operation of a large redevelopment agency. Outcome of these lawsuits and claims are subjected to uncertainties and the potential liability cannot be determined as of the date of this report.

*Third-Party Indebtedness*

Prior to its dissolution, it was the Former Agency’s policy to encourage redevelopment activities undertaken by the private sector. To this end, the Former Agency had authorized the issuance of tax-exempt long-term financing for activities which promote redevelopment within the City. Such debt instruments are collateralized by private sector assets and are payable solely from the respective revenues generated thereon. Since this indebtedness is not a liability of CRA/LA-DLA it does not appear in the accompanying financial statements. At June 30, 2018, the balance of long-term tax-exempt third-party indebtedness was \$80,185,000 as shown on page 49.

**J. California Redevelopment Agencies Dissolution**

As discussed in Note 1, on December 29, 2011, the California Supreme Court upheld AB 1X26 that provides for the dissolution of all redevelopment agencies in the State of California. AB 1X26 provides that upon dissolution of a redevelopment agency, either the city or another unit of local government may agree to serve as the Successor Agency to hold the assets until they are monetized and/or distributed to other units of state and local government.

On January 11, 2012, the City Council elected not to become the Successor Agency for the former redevelopment agency as part of City Council File No. 12-0049. On January 25, 2012, the City Council instead adopted Council File 12-0002-S3, to assume only the housing functions and activities of the Former Agency, excluding any amount on deposit in the Low and Moderate Income Housing Fund. Subsequently, and as authorized by State Law, the Governor appointed three County residents to serve as the Designated Local Authority (DLA) and CRA/LA-DLA was duly established on February 3, 2012 to serve as the Successor Agency. On February 1, 2012, net assets of the Former Agency in the amount of \$97,391,000 were transferred to the newly formed CRA/LA-DLA.

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After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California are prohibited from entering into new agreements, obligations or commitments. Subject to the control of a newly established oversight board, remaining 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, Successor Agencies will only be allocated property taxes in the amount that is necessary to pay approved scheduled payments until all enforceable obligations of the Former Agency have been paid in full and all assets have been liquidated.

The Dissolution Act further directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the Successor Agency.

Furthermore, pursuant to the Dissolution Act, all agreements between the City and the Former Agency are invalidated and are not enforceable obligations [HSC Section 34171(d)(2)]. To the extent that any of the invalidated City agreements were loan agreements, the Dissolution Act provides a process for such loan agreements to be reinstated as enforceable obligations on a future ROPS. However, CRA/LA-DLA must first secure a Finding of Completion from DOF and subsequently, the Oversight Board must adopt a resolution (subject to DOF approval) that the loan agreements to be reinstated were for legitimate redevelopment purposes. Such reinstated loan agreements are required to be redocumented, with the accumulated interest recalculated from the origination at the Local Agency Investment Fund rate and payment terms subject to additional conditions [HSC Section 34191.4(b)].

On September 22, 2015, SB107 was signed into law by Governor Jerry Brown. SB107 amends various sections of the California Health and Safety Code related to the dissolution of the redevelopment agencies. SB107 contains various provisions which may impact, among other things, repayment of prior city RDA loans, use of 2011 bond proceeds, re-entered city-RDA agreements under the Dissolution Act, public parking facilities, agreements between RDA and city to repay federal (HUD/CDBG) grants or loans, limitation on future legal expenses, and other special provisions. Additionally, enforceable obligations may not be created for planning, design, demolition, construction, site remediation and other similar with respect to the winding down, unless such work is required by an enforceable obligation.

*Finding of Completion*

On September 10, 2013, the DOF issued CRA/LA-DLA's Finding of Completion. Pursuant to HSC section 34179.7, the DOF has verified that CRA/LA-DLA does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. With the Finding of Completion, CRA/LA-DLA may proceed to utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants and may submit the Board approved LRPMP to DOF for approval.

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**NOTE 3 - OTHER INFORMATION (continued)**

*Long Range Property Management Plan*

Pursuant to HSC Section 34191.5(b), the Successor Agency must prepare the LRPMP which addresses the disposition and use of the real properties of the Former Agency and submit the Board approved LRPMP to DOF for approval no later than six months following the issuance of a Finding of Completion by DOF. The DOF issued a Finding of Completion on September 10, 2013. On November 7, 2013 and November 12, 2013, the Governing Board and Oversight Board, respectively, approved the submission of the LRPMP to the DOF to review and approve the plan to dispose of real property interests. On February 27, 2014, DOF approved the transfer of Government Use Properties to the City and the Retention of Properties Held to Fulfill Enforceable Obligations (with historical value of \$19,218,000). On October 7, 2014, CRA/LA-DLA received DOF's determination letter approving the LRPMP relating to the Properties Held for Future Development and For Sale (with historical value of \$94,059,000). The LRPMP contemplates that CRA/LA-DLA will enter into Option Agreements with the City for future development of 20 CRA/LA-DLA owned real property assets. The 20 properties have been grouped for development purposes and are contained within 10 Option Agreements. Upon exercise of each option, the City will be required to purchase the properties at fair market value.

The City exercised its options and acquired 3 properties from CRA/LA-DLA. The sales proceeds received by CRA/LA-DLA were transferred on June 13, 2018 and December 13, 2018 to the County for distribution to ATE's.

*Repayment of Low and Moderate Income Housing Funds (LMIHF) used for SERAF Payments*

HSC section 34191.4 allows successor agencies to repay loans made from LMIHF for fulfilling SERAF obligations. At June 30, 2016 and 2015, the outstanding balance of \$1,792,000 and \$4,840,000, respectively, was accrued and reported as other liabilities in the financial statements. On October 15, 2015, CRA/LA-DLA remitted \$3,048,000 to the City for the partial repayment of amounts borrowed to fulfill Supplemental Education Revenue Augmentation Fund (SERAF). On September 6, 2016, the remaining balance of \$1,792,000 was remitted to the City.

**K. Subsequent Events**

Subsequent events were evaluated through January 31, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)

**Required Supplementary Information**

**Schedule of CRA/LA-DLA's Proportionate Share of the Net Pension  
Liability and Related Ratios - Miscellaneous Plan  
Last Ten Years \***

**As of June 30, 2018  
(Dollars In Thousands)  
(Unaudited)**

Description	2018	2017	2016	2015
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability/(asset)	2.14046%	2.25776%	2.50938%	1.09334%
Proportionate share of the net pension liability/(asset)	\$ 84,378	\$ 78,432	\$ 68,844	\$ 68,033
Covered-employee payroll	\$ 1,981	\$ 2,653	\$ 3,280	\$ 4,426
Proportionate share of the net pension liability/(asset) as percentage of covered-employee payroll	4259.36%	2956.35%	2098.69%	1537.26%
Plan fiduciary net position as a percentage of the total pension liability	75.39%	75.87%	71.41%	72.41%

\*Fiscal Year 2015 was the first year of implementation, therefore, only four years are shown.

**Notes to Schedule:**

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Credit Service (a.k.a. Golden Handshake).

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68, states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expenses. The discount rate of 7.50% used for June 30, 2014 measurement date was net of administrative expense. The discount rate of 7.65% used for June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate changed from 7.65% to 7.15%.

See accompanying independent auditor's report.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)**

**Required Supplementary Information**

**Schedule of CRA/LA-DLA's Contributions - Miscellaneous Plan**  
**Last Ten Years \***

**As of June 30, 2018**  
**(Dollars In Thousands)**  
**(Unaudited)**

Description	2018	2017	2016	2015
Actuarially required contribution**	\$ 160	\$ 180	\$ 225	\$ 1,444
Contributions in relation to the actuarially required contribution	(160)	(180)	(225)	(1,444)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,708	\$ 1,981	\$ 2,653	\$ 3,280
Contributions as a percentage of covered-employee payroll	9.368%	9.086%	8.481%	43.949%

\*Fiscal Year 2015 was the first year of implementation, therefore, only four years are shown.

\*\*According to CalPERS funding requirement annual valuation report, CRA/LA-DLA's required contributions for 2018, 2017, and 2016 also included unfunded liability (UAL) payment of \$3,700,000, \$3,519,000 and \$3,583,000, respectively. The UAL payment is not included in the calculation of Contributions as a Percentage of Covered-Employee Payroll.

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
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**Methods and assumptions used to determine contribution rates**

Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return, for measurement date June 30, 2014	7.50% net of pension plan investment and administrative expenses, includes inflation.
Investment rate of return, for measurement date June 30, 2015 and June 30, 2016	7.65% net of pension plan investment expenses, includes inflation.
Investment rate of return, for measurement date June 30, 2017	7.50% net of pension plan investment expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

See accompanying independent auditor's report.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)

**Required Supplementary Information**

**Schedule of CRA/LA-DLA's Changes in the Net Other Postemployment Benefits  
Liability and Related Ratios  
Last Ten Years\***

**For the year Ended June 30, 2018  
(Dollars In Thousands)  
(Unaudited)**

Total OPEB Liability	2018
Measurement date	June 30, 2017
<b>Total OPEB liability</b>	
Service cost	\$ 49
Interest on total OPEB liability	2,068
Benefit payments	(2,599)
Net change in total OPEB liability	(482)
Total OPEB liability - beginning	37,260
Total OPEB liability - ending (a)	\$ 36,778
<b>Plan fiduciary net position</b>	
Employer contributions	\$ 4,399
Net investment income	1,235
Benefit payments	(2,599)
Administrative expense	(9)
Net change in plan fiduciary net position	3,026
Plan fiduciary net position - beginning	15,338
Plan fiduciary net position - ending (b)	\$ 18,364
Net OPEB liability - ending (a) - (b)	\$ 18,414
Plan fiduciary net position as a percentage of the total OPEB liability	49.93%
Covered-employee payroll	\$ 1,981
Net OPEB liability as a percentage of covered-employee payroll	929.46%

\* Fiscal year 2018 was the first year of implementation, therefore, only one year is shown.

See accompanying independent auditor's report.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)

**Required Supplementary Information**

**Schedule of CRA/LA-DLA's Contributions - Other Post Employment Benefits Plan  
Last Ten Years \***

**As of June 30, 2018  
(Dollars In Thousands)  
(Unaudited)**

Description	2018	2017
Actuarially required contribution**	\$ 1,306	\$ 1,450
Contributions in relation to the actuarially required contributions	<u>3,727</u>	<u>3,714</u>
Contribution deficiency/(excess)	<u>\$ 2,421</u>	<u>\$ 2,264</u>
Covered-employee payroll	\$ 1,981	\$ 3,209
Contributions as a percentage of covered-employee payroll	188.14%	115.74%

\* Fiscal year 2018 was the first year of implementation, therefore, only fiscal years 2016-2017 and 2017-2018 are shown.

**Notes to Schedule**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal years 2016-2017 and 2017-2018 were from the July 1, 2015 funding valuation report.

The following are the method and assumptions used to determined contribution rates for fiscal years 2016-2017 and 2017-2018:

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Closed 30-year period as a level percentage of payroll
Remaining amortization period	21 years as of valuation date
Asset valuation method	Fair market value
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	3.25%
Healthcare inflation rate	7.00%, graded down to an ultimate rate of 5%
Payroll growth	0.0325
Individual salary growth	0.0325

See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Community Redevelopment Agency of the City of Los Angeles)**

**Schedule of Third-Party Indebtedness**

**June 30, 2018**  
**(In Thousands)**

Description	Date of Issue	Maturity Date	Interest Rate	Original Issue	Balance Outstanding
Lease Revenue Bonds, Series 2005 Vermont Manchester Social Services Project	7/28/2005	9/1/2037	5.00%	\$ 98,920	\$ 80,185
Total				<u>\$ 98,920</u>	<u>\$ 80,185</u>

See accompanying independent auditor's report.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Redevelopment Agency of the City of Los Angeles)**

**The Community Redevelopment Financing Authority of the City of Los Angeles**  
**(Component Unit of CRA/LA, A Designated Local Authority)**

**Schedule of Net Position**

**June 30, 2018 and 2017**  
**(Dollars In Thousands)**

ASSETS	2018	2017
Current assets:		
Bonds receivable, current portion	\$ 215	\$ 130
Total current assets	215	130
Noncurrent assets:		
Restricted assets	-	-
Prepaid bond insurance	-	-
Due from Agency projects	-	-
Bonds receivable, net of current portion	7,790	8,005
Total noncurrent assets	7,790	8,005
Total assets	8,005	8,135
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refundings	-	-
LIABILITIES		
Current liabilities:		
Interest payable	-	-
Due to Agency projects	10	11
Other liabilities	-	-
Total current liabilities	10	11
Noncurrent liabilities:		
Due within one year	215	130
Due in more than one year	7,780	7,994
Total noncurrent liabilities	7,995	8,124
Total liabilities	8,005	8,135
NET POSITION		
Unrestricted	-	-
Total net position	\$ -	\$ -

See accompanying independent auditor's report.

**CRA/LA, A DESIGNATED LOCAL AUTHORITY**  
**(Successor Agency to the Former Redevelopment Agency of the City of Los Angeles)**

**The Community Redevelopment Financing Authority of the City of Los Angeles**  
**(Component Unit of CRA/LA, A Designated Local Authority)**

**Schedule of Changes in Net Position**

**Years Ended June 30, 2018 and 2017**  
**(Dollars In Thousands)**

	<u>2018</u>	<u>2017</u>
Nonoperating revenues:		
Interest income	\$ 646	\$ 656
Nonoperating expenses:		
Interest allocated to projects	<u>(646)</u>	<u>(656)</u>
Changes in net position	<u>-</u>	<u>-</u>
Total net position - beginning of year	<u>-</u>	<u>-</u>
Total net position - end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

## COMPLIANCE SECTION



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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

*Governing Board of  
CRA/LA, A Designated Local Authority  
The Successor Agency to The Community Redevelopment Agency of  
The City of Los Angeles, 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 CRA/LA, A Designated Local Authority (CRA/LA-DLA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CRA/LA-DLA's basic financial statements, and have issued our report thereon dated January 31, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the CRA/LA-DLA'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 CRA/LA-DLA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CRA/LA-DLA'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 CRA/LA-DLA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.





### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
January 31, 2019



SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH INDENTURE OF TRUST OF THE COUNTY TAX ALLOCATION REFUNDING BONDS

*Governing Board of  
CRA/LA, A Designated Local Authority  
The Successor Agency to The Community Redevelopment Agency of  
The City of Los Angeles, 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 CRA/LA, A Designated Local Authority (CRA/LA-DLA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CRA/LA-DLA's basic financial statements, and have issued our report thereon dated January 31, 2019.

### Compliance

As part of obtaining reasonable assurance about whether the CRA/LA-DLA's financial statements are free from material misstatement, we performed tests of its compliance with the Indenture of Trust of the Tax Allocation Refunding Bonds, Section 6.05, "Books and Accounts; Financial and Project Statements" as it relates to the funds and accounts established for the following Tax Allocation Refunding Bonds Issues: Series 2016A; Bunker Hill Series M and N; Hollywood Series G and H; North Hollywood Series I; Adelante Eastside Series E; Mid-City Recovery, Series D; and Little Tokyo Series F; and 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 compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California  
January 31, 2019

