



**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT (METRO)  
FINANCE, BUDGET AND AUDIT STANDING COMMITTEE AGENDA  
REGULAR MEETING**

**JANUARY 13, 2023 – 8:00 AM**

**DUE TO COVID-19, THIS MEETING WILL BE CONDUCTED VIA  
TELECONFERENCE ONLY (NO PHYSICAL LOCATION) PURSUANT TO  
ASSEMBLY BILL 361(GOVERNMENT CODE SECTION 54953)**

**MEMBERS OF THE PUBLIC MAY NOT ATTEND THIS MEETING IN PERSON**

Directors, staff and the public may participate remotely via the Zoom website [at this link](#) or by calling 1-669-900-9128 Meeting ID: 821 2290 0535 Passcode: 014391.

Public comment may be submitted via email to [boardinquiries@scmttd.com](mailto:boardinquiries@scmttd.com). Please indicate in your email the agenda item to which your comment applies. Comments submitted before the meeting will be provided to the Directors before or during the meeting. Comments submitted after the meeting is called to order will be included in the meeting packet link or minutes. Oral public comments will also be accepted during the meeting through Zoom. Should Zoom not be operational, please check online at: [www.scmttd.com](http://www.scmttd.com) for any updates or further instruction.

The Finance, Budget and Audit Standing Committee Meeting Agenda Packet can be found online at [www.SCMTD.com](http://www.SCMTD.com).

The Committee may take action on each item on the agenda. The action may consist of the recommended action, a related action or no action. Staff recommendations are subject to action and/or change by the Board of Directors.

**COMMITTEE ROSTER**

Director Shebreh Kalantari-Johnson  
Director Manu Koenig  
Director Donna Lind  
Director Mike Rotkin

City of Santa Cruz  
County of Santa Cruz  
City of Scotts Valley  
County of Santa Cruz

Michael Tree  
Julie Sherman

METRO CEO/General Manager  
METRO District Counsel

**MEETING TIME: 8:00 AM**

**1 CALL TO ORDER**

**2 ROLL CALL**

**3 ORAL AND WRITTEN COMMUNICATIONS TO THE FINANCE, BUDGET & AUDIT STANDING COMMITTEE**

This time is set aside for Directors and members of the public to address any item not on the Agenda, but which is within the matter jurisdiction of the Committee. If you wish to address the Committee, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Committee and included for the official record, please include it in your email. Comments that require a response may be deferred for staff reply.

**4 ADDITIONS OR DELETIONS FROM AGENDA/ADDITIONAL DOCUMENTATION TO SUPPORT EXISTING AGENDA ITEMS**

**5 YEAR TO DATE MONTHLY FINANCIAL REPORT AS OF DECEMBER 31, 2022**  
Chuck Farmer, CFO

**6 ORAL SUMMARY OF AUDITED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED JUNE 30, 2022**  
Chuck Farmer, CFO

**A. FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT - JUNE 30, 2022**

**B. BROWN ARMSTRONG LETTER – REQUIRED COMMUNICATION TO THE BOARD**

**C. MEASURE D PROGRAM FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED JUNE 30, 2022**

**7 ADJOURNMENT**

**Accessibility for Individuals with Disabilities**

This document has been created with accessibility in mind. With the exception of certain 3rd party and other attachments, it passes the Adobe Acrobat XI Accessibility Full Check. If you have any questions about the accessibility of this document, please email your inquiry to [accessibility@scmtcd.com](mailto:accessibility@scmtcd.com). Upon request, Santa Cruz METRO will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in and provide comments at/related to public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, auxiliary aid, service or alternative format requested at least two days before the meeting. Requests should be emailed to [boardinquiries@scmtcd.com](mailto:boardinquiries@scmtcd.com) or submitted by phone to the Executive Assistant at 831.426.6080. Requests made by mail (sent to the Executive Assistant, Santa Cruz METRO, 110 Vernon Street, Santa Cruz, CA 95060) must be received at least two days before the meeting. Requests will be granted whenever possible and resolved in favor of accessibility.

**Public Comment**

If you wish to address the Board, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Board and included in the official report, please include it in your email. Comments that require a response may be deferred for staff reply.



# **Year to Date Monthly Financial Report as of December 31, 2022**

Finance, Budget & Audit Standing Committee

*January 13, 2023*

Chuck Farmer, Chief Financial Officer

# December 2022 Key Financial Highlights

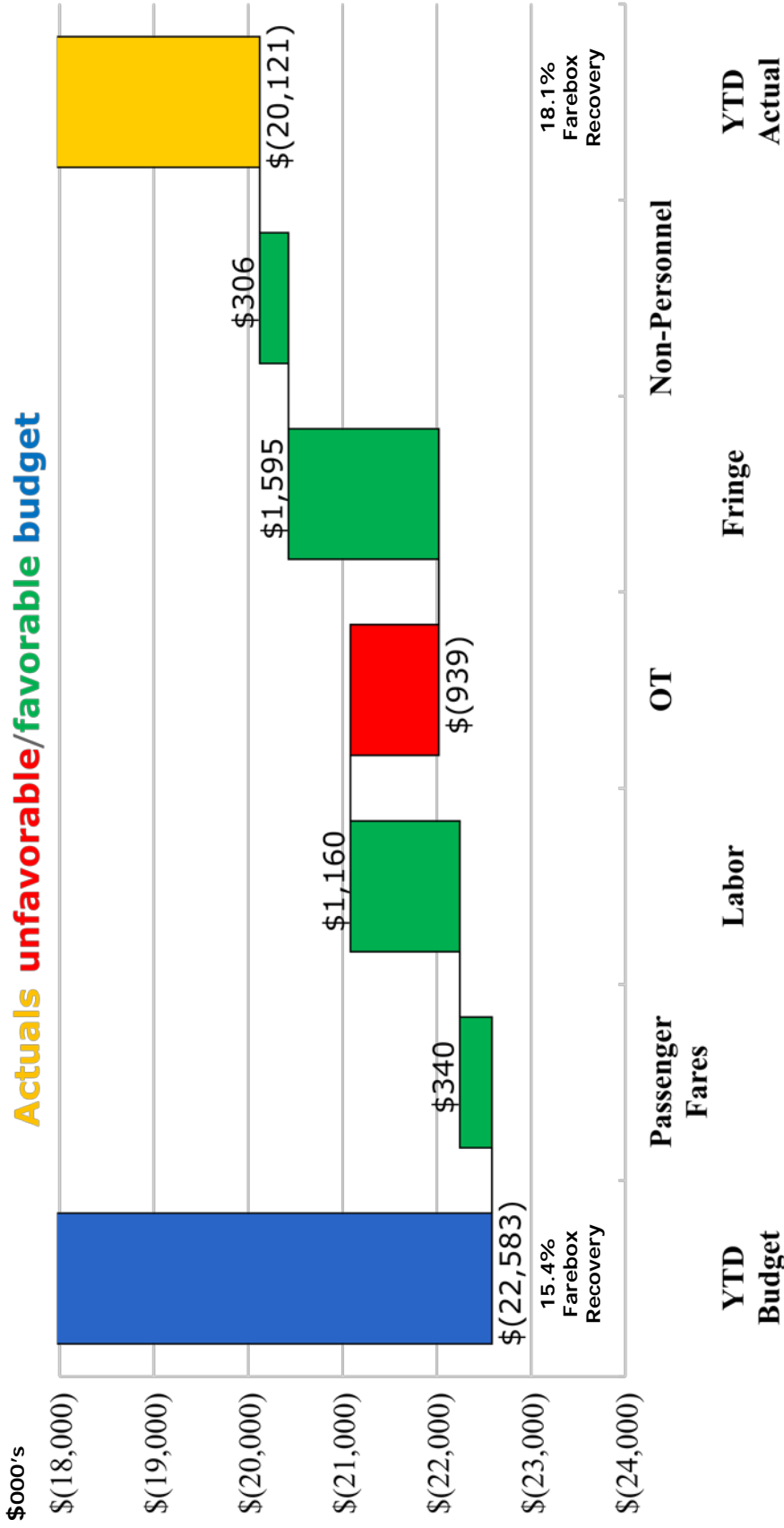
<p>Service</p>	<ul style="list-style-type: none"><li>• Fixed Route (including Hwy 17) Cost per Revenue Service Hour is \$XXX vs Budget of \$449<ul style="list-style-type: none"><li>• XX canceled trips –</li></ul></li><li>• ParaCruz Cost per Trip is \$xx vs Budget of \$90</li><li>• Non-Student/Hwy 17 Passengers is XXXX vs Budget of 101,443</li></ul>
<p>Financials</p>	<ul style="list-style-type: none"><li>• Total Operating Surplus/(Deficit) is favorable \$0.7M driven by lower wages of \$0.3M, fringe of \$0.4M, and Non-Personnel of \$0.1M; partially offset by higher OT of \$0.2M</li><li>• Non-Operating Revenues/Expense of \$6.0M are \$1.3M unfavorable vs budget of \$7.3M driven primarily by lower COVID ARPA drawdown in December.</li></ul>
<p>Capital</p>	<ul style="list-style-type: none"><li>• Capital spending of \$153K is under budget of \$320K primarily due delayed billing on Demo/Parking lot rehab</li></ul>
<p>Personnel</p>	<ul style="list-style-type: none"><li>• xxx Active Personnel vs 329* Funded Personnel</li><li>• xx Vacancies at end of December, xx related to Paratransit and Bus Operators</li></ul>

# **December 2022, YTD Pre-Close Financials**

# December YTD FY23 Operating Surplus/(Deficit)

## Actual\* vs. Budget

Overall \$2.5M favorable



# December 31, 2022

## YTD Operating Revenue and Expenses

\$ 000's	Actual*	Budget	Fav / (Unfav)
<b>Operating Revenue</b>			
Passenger Fares	\$ 1,482	\$ 1,237	\$ 244
Special Transit Fares	2,972	2,876	96
<b>Total Operating Revenue</b>	<b>\$ 4,454</b>	<b>\$ 4,114</b>	<b>\$ 340</b>
<b>Operating Expense</b>			
Labor - Regular	\$ 8,486	\$ 9,645	\$ 1,160
Labor - OT	1,713	774	(939)
Fringe	8,915	10,510	1,595
Non-Personnel (excludes COVID costs)	5,460	5,767	306
<b>Total OpEx</b>	<b>\$ 24,574</b>	<b>\$ 26,696</b>	<b>\$ 2,123</b>
<b>Operating Surplus/(Deficit)</b>	<b>(\$ 20,120)</b>	<b>(\$ 22,583)</b>	<b>\$ 2,462</b>
<i>Farebox Recovery</i>	<i>18.1%</i>	<i>15.4%</i>	<i>2.7%</i>
<b>Non-Operating Revenue/(Expense)</b>			
Sales Tax/including Measure D	\$ 16,790	\$ 15,533	\$ 1,257
Federal/State Grants	8,402	6,847	1,554
COVID Relief Grants	5,384	7,738	(2,355)
COVID Related Costs	(69)	(164)	95
Pension UAL/Bond Interest Payment	(1,307)	(1,307)	0
All Other	592	340	251
<b>Total Non-Operating Revenue/(Expense)</b>	<b>\$ 29,791</b>	<b>\$ 28,987</b>	<b>\$ 804</b>
<b>Operating Surplus/(Deficit) before Transfers</b>	<b>\$ 9,671</b>	<b>\$ 6,404</b>	<b>\$ 3,266</b>
<b>Transfers and Other</b>			
Transfers to Bus Replacement Fund	(\$ 1,437)	(\$ 1,188)	(\$ 249)
<b>Operating Surplus/(Deficit) after Transfers</b>	<b>\$ 8,234</b>	<b>\$ 5,217</b>	<b>\$ 3,017</b>

- \$2.5M Operating Surplus driven by lower labor & fringe due to shortage of bus drivers; partially offset by increased OT
- Revenues favorable due to higher Sales Tax revenues, TDA/STA Grants, and Interest Income; partially offset by lower ARPA COVID drawdowns as a result of lower reimbursable costs

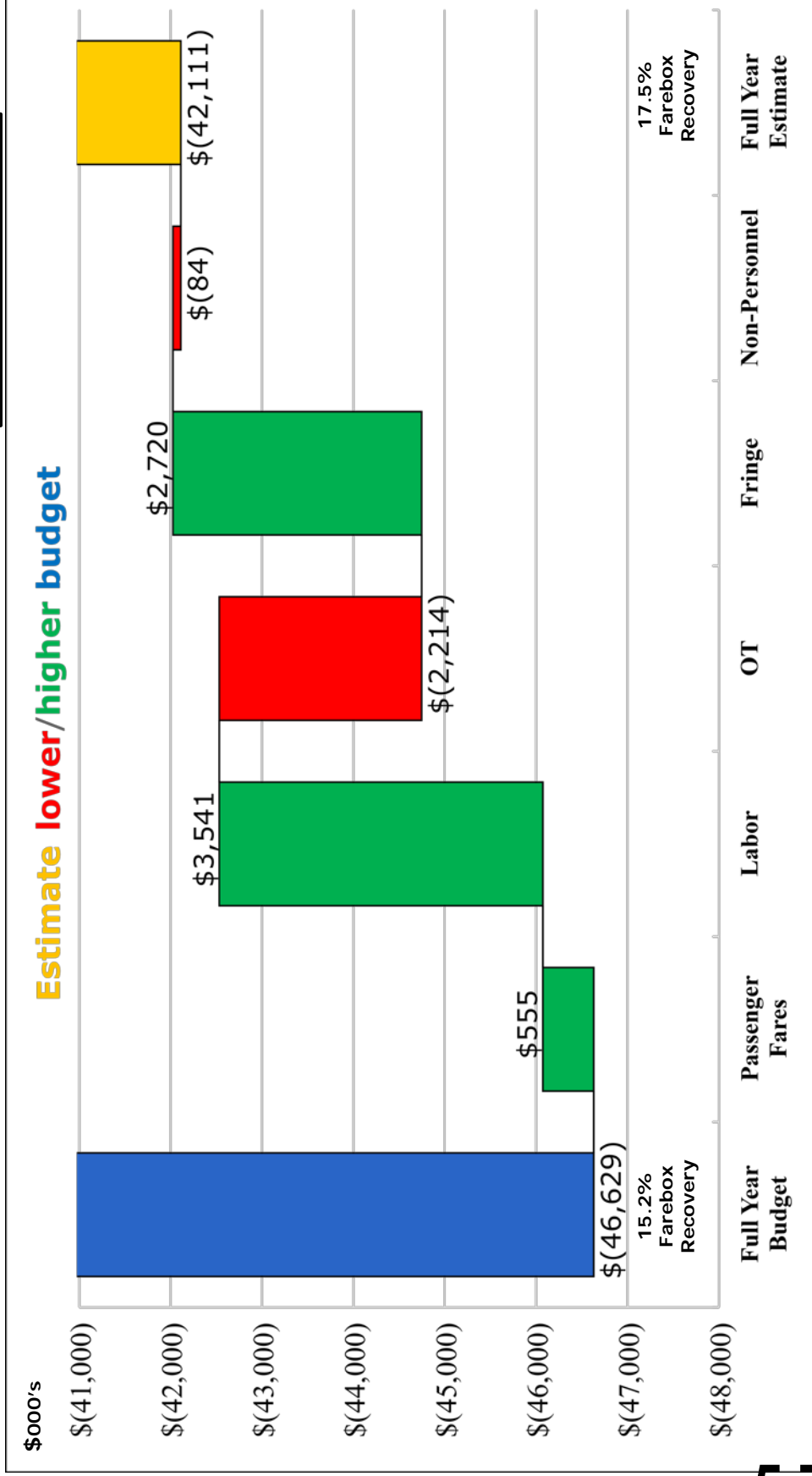
**5.5**

# **Year End June 2023, Forecast Financials**



# Full Year FY23 Operating Revenue Surplus/(Deficit)

Overall \$4.5M higher



5.7

# June 30, 2023

## Full Year Operating Revenue and Expenses\*

	Forecast*	Budget	Fav / (Unfav)
<b>Operating Revenue</b>			
Passenger Fares	\$ 3,094	\$ 2,437	\$ 657
Special Transit Fares	5,851	5,953	( 101)
<b>Total Operating Revenue</b>	<b>\$ 8,945</b>	<b>\$ 8,390</b>	<b>\$ 555</b>
<b>Operating Expense</b>			
Labor - Regular	\$ 16,873	\$ 20,415	\$ 3,541
Labor - OT	3,538	1,325	(2,214)
Fringe	18,452	21,172	2,720
Non-Personnel ( <i>excludes COVID costs</i> )	12,193	12,108	(84)
<b>Total OpEx</b>	<b>\$ 51,056</b>	<b>\$ 55,019</b>	<b>\$ 3,963</b>
<b>Operating Surplus/(Deficit)</b>	<b>(\$ 42,111)</b>	<b>(\$ 46,629)</b>	<b>\$ 4,518</b>
	17.5%	15.2%	2.3%
	<i>Farebox Recovery</i>		
<b>Non-Operating Revenue/(Expense)</b>			
Sales Tax/including Measure D	\$ 31,929	\$ 30,775	\$ 1,154
Federal/State Grants	16,050	14,496	1,554
COVID Relief Grants	11,927	15,477	(3,549)
COVID Related Costs	(142)	(298)	155
Pension UAL/Bond Interest Payment	(5,643)	(5,643)	0
All Other	997	676	322
<b>Total Non-Operating Revenue/(Expense)</b>	<b>\$ 55,118</b>	<b>\$ 55,483</b>	<b>(\$ 364)</b>
<b>Operating Surplus/(Deficit) before Transfers</b>	<b>\$ 13,007</b>	<b>\$ 8,853</b>	<b>\$ 4,154</b>
<b>Transfers and Other</b>			
Transfers to Bus Replacement Fund	(\$ 2,854)	(\$ 2,353)	(\$ 501)
Transfers to Capital, UAL/OPEB Funds, and Reserves Replenishment	(6,500)	(6,500)	-
<b>Operating Surplus/(Deficit) after Transfers</b>	<b>\$ 3,653</b>	<b>-</b>	<b>\$ 3,653</b>

- Revenues favorable due to higher Sales Tax revenues, TDA/STA Grants, and Interest Income; partially offset by lower ARPA COVID drawdowns
- Expenses unfavorable due to higher OT costs as a result of unfilled Bus Operator vacancies and increased spending for CNG fuel as a result of new contract; partially offset by lower labor/fringe costs as a result of vacant positions and extended unpaid leaves of absence
- Bus Replacement Fund favorable due to net Measure D sales tax revenues of \$0.5M (less average of five Bus Operators' compensation)
- All Other Transfers: \$2M UAL, \$4.5M Operations Sustainability Reserve, \$3.7M COVID Recovery

# Capital Spending

# December 31, 2022 Capital Budget Spend

Project Category:	Month to Date		Year to Date		Full Year	
	Actuals*	Budget	Actuals*	Budget	Budget**	% Spend
Construction Related Projects	\$ -	\$ -	\$ 10	\$ 9	\$ 1,050	1.0%
IT Projects	101	72	603	574	1,650	36.5%
Facilities Repair & Improvements	2	147	44	318	992	4.4%
Revenue Vehicle Replacement	50	73	483	531	2,666	18.1%
Revenue Vehicle Electrification Projects	-	-	34	6	1,251	2.7%
Non-Revenue Vehicle Replacement	-	-	63	63	468	13.5%
Fleet & Maintenance Equipment	-	-	-	-	75	0.0%
Misc.	-	28	69	99	692	10.0%
<b>Total</b>	<b>\$ 153</b>	<b>\$ 320</b>	<b>\$ 1,306</b>	<b>\$ 1,600</b>	<b>\$ 8,844</b>	<b>14.8%</b>

- Overall YTD spending is at 82%, or \$1.3M, of budget of \$1.6M; primarily lower due to delayed billing from work done on Demo of two structures, repair sinkhole project
- Active Projects include:
  - ERP Financial System
  - AVL/ITS, Automatic Passenger Counter
  - ZEB Chargers/Infrastructure

\* Pre-close financials, subject to adjustments post close

\*\* Revised budget approved in December, 2022

**Questions?**

# Appendix

# December 31, 2022

## Monthly Operating Revenue and Expenses

\$ 000's	Actual*	Budget	Fav / (Unfav)
<b>Operating Revenue</b>			
Passenger Fares	\$ 247	\$ 192	\$ 54
Special Transit Fares	355	448	( 93)
<b>Total Operating Revenue</b>	<b>\$ 601</b>	<b>\$ 640</b>	<b>(\$ 39)</b>
<b>Operating Expense</b>			
Labor - Regular	\$ 1,396	\$ 1,736	\$ 340
Labor - OT	302	104	(198)
Fringe	1,511	1,958	447
Non-Personnel ( <i>excludes COVID costs</i> )	866	1,008	142
<b>Total OpEx</b>	<b>\$ 4,076</b>	<b>\$ 4,806</b>	<b>\$ 730</b>
<b>Operating Surplus/(Deficit)</b>	<b>(\$ 3,474)</b>	<b>(\$ 4,166)</b>	<b>\$ 691</b>
	<i>14.8%</i>	<i>13.3%</i>	<i>1.4%</i>
	<i>Farebox Recovery</i>		
<b>Non-Operating Revenue/(Expense)</b>			
Sales Tax/including Measure D	\$ 2,531	\$ 2,456	\$ 74
Federal/State Grants	1,481	1,119	362
COVID Relief Grants	2,112	3,869	(1,757)
COVID Related Costs	(12)	(31)	19
Pension UAL/Bond Interest Payment	(217)	(217)	-
All Other	77	61	16
<b>Total Non-Operating Revenue/(Expense)</b>	<b>\$ 5,972</b>	<b>\$ 7,257</b>	<b>(\$ 1,286)</b>
<b>Operating Surplus/(Deficit) before Transfers</b>	<b>\$ 2,497</b>	<b>\$ 3,092</b>	<b>(\$ 594)</b>
<b>Transfers and Other</b>			
Transfers to Bus Replacement Fund	(\$ 189)	(\$ 188)	(\$ 1)
<b>Operating Surplus/(Deficit) after Transfers</b>	<b>\$ 2,308</b>	<b>\$ 2,904</b>	<b>(\$ 595)</b>

**5.13**

\* Pre-close financials, subject to adjustments post close

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# Attachment A

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2022**

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT JUNE 30, 2022

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# Attachment A

## FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the accompanying financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Santa Cruz METRO, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Cruz METRO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Change in Accounting Principle**

As described in Note 15 to the financial statements, in 2022, Santa Cruz METRO adopted new accounting guidance, Governmental Accounting Standards Board No. 87, *Leases*. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

# Attachment A

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Cruz METRO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Cruz METRO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Cruz METRO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, and Schedule of Contributions – Pension, as well as the Schedule of Changes in the Net Other Postemployment Benefits (OPEB) Liability and Schedule of Contributions – OPEB, as presented in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

# Attachment A

## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Cruz METRO's basic financial statements. The accompanying statements of operating expenses and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2022, on our consideration of Santa Cruz METRO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 9, 2022

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2022

### Introduction

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Santa Cruz Metropolitan Transit District (Santa Cruz METRO or the District) provides a narrative and analytical overview of the financial activities of Santa Cruz METRO with selected comparative information for the fiscal year ended June 30, 2022. Following the MD&A are the basic financial statements of Santa Cruz METRO together with the notes thereto, which are essential for a full understanding of the data contained in the financial statements.

### Activities and Highlights

Santa Cruz METRO is an independent special-purpose district formed in 1969 by the legislature of the State of California for the purpose of providing fixed route bus service to the general public in Santa Cruz County. Santa Cruz METRO assumed direct operation of federally mandated Americans with Disabilities Act (ADA) complementary paratransit (Paracruz) services in November 2004. Prior to 2004, the paratransit service was delivered under contract. Santa Cruz METRO also operates the Highway 17 (Commuter) Express bus service to Santa Clara County in cooperation with the Santa Clara Valley Transportation Authority (VTA), Amtrak, San Joaquin Joint Powers Authority (SJJPA), and the Capitol Corridor Joint Powers Authority (CCJPA). Overseeing the employees who work in the public interest, the Chief Executive Officer (CEO)/General Manager coordinates the operation of Santa Cruz METRO according to the policy and direction of the governing Board of Directors (Board), composed of eleven directors and two ex-officio directors as described in Note 1.A.

### The Financial Statements

Santa Cruz METRO's basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Santa Cruz METRO reports its financial results using one enterprise fund under the accrual basis of accounting, which records revenue when earned and expenses when incurred.

The Statement of Net Position presents complete information on Santa Cruz METRO's assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Position reports the operating revenues and expenses, non-operating revenues and expenses, and capital contributions. Federal capital grant expenses are listed in the Schedule of Expenditures of Federal Awards and are included in the current year increase in capital assets.

The Statement of Cash Flows reports the sources and uses of cash for the fiscal year resulting from *operating activities*, *non-capital financing activities* (operating grants and sales tax receipts), *capital and related financing activities* (capital acquisitions and disposals), and *investing activities* (interest and rental receipts). The net result of these activities, added to the cash balances at the beginning of the year, reconciles to the cash balances (current plus restricted) at the end of the current fiscal year on the Statement of Net Position.

The Notes to Basic Financial Statements are an integral component of the report, as they provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of Santa Cruz METRO's operations and significant accounting policies as well as clarify financial information unique to Santa Cruz METRO.

# Attachment A

Following the basic financial statements and footnotes is the Required Supplementary Information, which provides a schedule of changes in the net pension liability, schedule of contributions to Santa Cruz METRO's defined benefit pension plan, schedule of changes in the net other postemployment benefits (OPEB) liability, and schedule of contributions to the OPEB plan.

The Statement of Operating Expenses, located in the Supplementary Information section of the financial statements, reports expenses in greater detail.

## Financial Highlights

- Liabilities and deferred inflows of resources of Santa Cruz METRO exceeded its assets and deferred outflows of resources at the close of the fiscal year ended June 30, 2022, resulting in a Total Net Position (Deficit) of \$(20.1 million), a favorable reduction of \$23.3 million from the prior year Net Position (Deficit) of \$(43.4 million) at June 30, 2021.
- Of this amount, \$87.1 million consisted of Net Investment in Capital Assets, which reflects investment in capital assets used for operational and administrative functions (e.g., facilities, vehicles, and equipment), net of accumulated depreciation and related debt. Accordingly, these assets are not available for future spending.
- The remaining balance of Total Net Position (Deficit) represents Unrestricted Net Position (Deficit) of \$(107.2 million). The Unrestricted Net Position (Deficit) is the result, in large part, of Santa Cruz METRO's pension obligations (Net Pension Liability) associated with the District's defined benefit pension plan, that reached \$44.1 million by June 30, 2022, retiree medical benefits obligations (OPEB) in fiscal year 2022 totaling \$121.9 million at year-end, as well as pension obligation bonds debt incurred in fiscal year 2022 of \$51.75 million. The Net Pension Liability and OPEB liabilities are required to be accounted for under Governmental Accounting Standards Board (GASB) Statement No. 68, and GASB Statement No. 75 respectively, and represent future long-term retiree pension and benefits obligations, however they do not significantly affect the District's ability to meet immediate (short-term) operational cash flow needs. Therefore, although the projected long-term pension and OPEB obligation costs have generated a deficit fund net position balance on the financial statements, Santa Cruz METRO is able to utilize current, available funds to pay for ongoing obligations for pension and retiree medical expenses as they come due.
- Total passenger fares revenue increased by \$1.2 million, a 104.2% increase, to \$2.4 million and Special Transit fares increased by \$2.1 million, a 57.0% increase, to \$5.8 million. These operating revenues increased significantly due to increased ridership and steadily increasing demand across all categories as more riders returned to recreational activities, work and school in-person, and reflect a growing recovery of customer trust in public transportation. The ridership increase was largely driven by increased service on University of California Santa Cruz (UCSC) routes as students returned to campus, as well as the restoration of local service. METRO was also unable to fully return to pre-pandemic levels of service hours however, due to an ongoing operator shortage, which is affecting most transit agencies across the county.
- Operating expenses (excluding depreciation) of \$50.6 million for the year ended June 30, 2022 reflect a decrease of 9.8% over the prior year, compared to a 6.6% decrease for the year ended June 30, 2021, over the previous year. Although a steep increase in operator overtime costs was incurred (as a result of increased service hours in tandem with challenges experienced in recruiting and retaining bus operators to keep up with service demand), a net decrease in operating expenses resulted in the current year due to the actuarially-determined expense account adjustments for pension and other postemployment benefits, as required under GASB 68 and 75. In the prior year, the decrease in operating expenses was mainly attributable to the significant reduction in straight and overtime wages, due to an increased number of vacant positions along with extended unpaid leaves of absence during the pandemic.



# Attachment A

- Capital assets (after the application of accumulated depreciation and amortization) of \$87.7 million reflect a net increase of \$1.5 million over the previous year. Depreciable asset additions were \$7.8 million, offset by asset retirements of \$4.3 million. An increase in accumulated depreciation and amortization of \$5.4 million (from the current year depreciation and amortization expense adjustment) was offset by a \$3.4 million write-off of accumulated depreciation associated with retired assets. Current year capital asset additions were attributed primarily to the purchase of ten new CNG buses along with several maintenance facilities upgrades and improvement projects. See the Financial Activities – Capital section of the Management’s Discussion and Analysis for more information about capital projects and Note 4 to the financials for a schedule of changes in capital asset balances. Capital procurements are funded by a combination of federal, state, and local grants, Measure D sales tax proceeds, and Operating and Capital Reserves.

## **Financial Activities - Operations**

The following discussion provides an overview of the financial activities related to operations (operating revenue and expense) for the fiscal year ended June 30, 2022. Financial Activities related to capital (e.g., buses, equipment, and facilities improvements) are discussed later in this report.

### Operating Revenue and Expense:

Santa Cruz METRO utilizes five primary sources of revenue to operate its public transit services: passenger fares, sales and use taxes, local transportation funds (TDA), federal funds, and other non-transportation related revenues (including advertising income, investment income, and rental income). Operating expenses are classified into the following basic categories: labor and fringe benefits, services, mobile and other materials and supplies, utilities, insurance costs (casualty and liability), taxes, miscellaneous expense, interest, leases and rental expenses. These categories are consistent with the Uniform System of Accounts (USOA) and National Transit Database (NTD) reporting.

As with many transit and public agencies across the region and throughout the state, Santa Cruz METRO faced financial challenges in the decade pre-pandemic, due to significant increases in operating and capital costs with lagging increases in operating or capital contributions. Operating expenses nearly doubled in the last ten years, primarily in the categories of labor and fringe benefits due to substantial increases in the retirement and medical insurance costs. Furthermore, the recurring costs for health benefits, retirement, services, materials and supplies, insurance, and utilities have significantly exceeded the annual Consumer Price Index (CPI) for the region since 2012. Faced with constantly increasing costs, Santa Cruz METRO is constantly analyzing the economic and political landscape and redesigning its operations in order to align expenses with the available revenue stream in the current and future fiscal years. Significant fluctuations in the five primary operating revenue sources year-over-year are frequent and in direct correlation to the economy. Periods of economic downturns translate into sharp declines in sales and use tax revenues, and local and state transportation funds (TDA-LTF and TDA-STA) and vice versa.

Santa Cruz METRO receives a ½-cent sales tax levied on all taxable sales in Santa Cruz County, collected and administered by the California Department of Tax and Fee Administration (CDTFA). Additionally, in November 2016, the majority of Santa Cruz County approved Measure D, a ½-cent sales tax measure designed to fund a comprehensive and inclusive package of transportation improvements. Santa Cruz METRO receives 16% of net Measure D sales tax proceeds, in accordance with the set percentages detailed in the Measure D Expenditure Plan for direct allocations. Total sales tax receipts account for approximately 48% of Santa Cruz METRO’s operating revenue sources as per the fiscal year 2022 Budget, adopted in June 2021. Actual sales tax revenues significantly exceeded budget projections, which resulted in favorable budget, as well as year-over-year variances, 22% and 12%, respectively.

# Attachment A

Two other major sources of funding for public transportation, the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA), provided by the California Transportation Development Act (TDA), also contributed to the favorable budget variance for the year ended June 30, 2022. The combined share of TDA-LTF and TDA-STA Operating Assistance is 20% of Santa Cruz METRO's non-operating revenues & expenses. The funds are allocated to areas of each county based on population, taxable sales, and transit performance and mirrored the increase in taxable sales, fuel prices and consumption in 2021 and 2022. The year-over-year increase in TDA-LTF and TDA-STA were 21% and 29.5%, respectively.

System performance during the fiscal year was marked by slow and steady ridership and service recovery. Santa Cruz METRO restored service to pre-pandemic levels on most routes and ridership ended the year at 55% of pre-pandemic levels (fiscal year 2019). The increase was largely driven by increased service on UCSC routes as students returned to campus, as well as the full restoration of local service. Passenger and Special Transit Fares reflected the growth in ridership and service hours and increased by 104% and 57% year-over-year, respectively.

As effects of the pandemic were receding and service levels slowly restored, targeted advertising efforts and outreach contributed to the doubling of advertising income during the year that ended June 30, 2022. Year-over-year advertising revenues increased 100%. On the other hand, long-term vacancies at the two main Transit Centers, Pacific and Watsonville Stations, resulted in lower rental income – 16.2% decline year-over-year.

Santa Cruz METRO continued charging operating expenses to the supplemental FTA 5307 grants – Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) and American Rescue Plan Act (ARPA) - at 100% Federal share, with no local match requirements. FTA funds were used to support eligible operating expenses and maintain transit services during the pandemic. Total FTA operating assistance accounted for approximately 30% of total revenue, or \$20.6 million, largely due to reimbursements of FTA-qualifying operating expenses related to the CRRSAA and ARPA. Furthermore, the supplemental COVID-19 FTA funding would allow Santa Cruz METRO to continue reinvesting other fungible revenues into its operating budgets in years to come in order to sustain services to the greatest extent possible during the economic recovery, or until these funds are exhausted.

Operating expenses decreased by 8.7% year-over-year, with personnel expenses, comprising 70% of total operating expenses, decreasing by 16.7%. The decrease was primarily due to year-end Other Postemployment Benefits adjusting entries for GASB 68 and 75. As service hours increased and challenges of recruiting and retaining Bus Operators and other essential positions continued, overtime costs nearly tripled during the year. Paid absences decreased by 6% year-over-year, but remained relatively high, compared to pre-pandemic years, primarily due to the California Supplemental Sick Leave (SPSL), which provided public employees with paid time for qualifying reasons related to COVID-19.

Non-personnel operating expenses: materials and supplies and other expenses, increased by 33.9% and 23.1% year-over-year, respectively and in direct correlation with service levels. Additionally, high inflation and supply chain issues heavily contributed to the year-over-year increases in the costs of fuels and lubricants, tires and vehicle parts to name a few.

## **Ridership:**

At the end of fiscal year 2022, Santa Cruz METRO's fixed-route bus system consisted of 23 routes, and provided 2,775,283 rides with a fleet of 98 CNG, diesel, and electric buses. Ridership increased by 1,868,143 fixed-route rides (205.9%) from the previous year.

System performance in fiscal year 2022 was characterized by a near return to pre-COVID (compared to FY19) levels of service and a slow but steady recovery of ridership. After falling by half in the pandemic's early months, METRO provided 87% of pre-pandemic service in fiscal year 2022 as compared to fiscal year 2019. This increase was largely driven by increased service on UCSC routes as students returned to campus, as well as the full restoration of local service. Efforts to return to pre-pandemic levels of service were hindered however, by an ongoing operator shortage, which is affecting most transit agencies across the country. Santa Cruz METRO is working hard to address the operator shortage to meet the growing demand for service in the upcoming fiscal year.

# Attachment A

Fiscal year 2022 ridership increased threefold compared to fiscal year 2021 to just over 2.7 million annual boardings, and finished the fiscal year at 55% of fiscal year 2019 levels. Throughout the pandemic, non-student ridership decreased the least and recovered the fastest: fiscal year 2022 showed a steady increase in non-student ridership from 57% of pre-pandemic levels at the beginning of the year to 68% by year's end. This is likely due to greater numbers of employers calling employees back to physical workplace settings and the large scale return of in-person activities (e.g. shopping, doctor's appointments, etc). Highway 17 commuter ridership increased from 37% of pre-pandemic levels at the beginning of the year to 46% by year's end. This was largely driven by the return of UCSC and SJSU to in-person learning, as well as increases in weekend ridership. Cabrillo College ridership increased steadily throughout the year from 6% of pre-pandemic levels in July 2021 to 27% by June 2022. Finally, rather than increasing throughout the year, UCSC ridership returned to its pre-pandemic form of peaks and valleys coinciding with high ridership months in fall and spring when classes are in session. The peaks averaged 65% of pre-pandemic activity while the valleys hovered below 40%, likely due to less on-campus residential activity.

Paracruz, Santa Cruz METRO's paratransit service, provided 62,006 paratransit rides to mobility-impaired patrons on 32 specially equipped minibuses and minivans during fiscal year 2022. This represents a 37.54% increase in Paracruz ridership from the prior year (23,280 additional paratransit rides), resulting primarily from the COVID-19 pandemic Shelter in Place orders ending in Santa Cruz METRO's paratransit service area.

## Financial Analysis

Following are the condensed comparative financial statements, which highlight key financial data. Certain significant year-to-year variances are discussed following the statements.

### Statements of Net Position:

#### Condensed Statements of Net Position

	2022	2021	2022 to 2021	
			Increase/(Decrease) Amount	%
<b>Assets</b>				
Current Assets	\$ 81,120,074	\$ 62,759,155	\$ 18,360,919	29.3%
Capital Assets - Net	87,719,045	86,248,588	1,470,457	1.7%
Restricted Assets	15,732,891	12,716,365	3,016,526	23.7%
<b>Total Assets</b>	<b>\$ 184,572,010</b>	<b>\$ 161,724,108</b>	<b>\$ 22,847,902</b>	<b>14.1%</b>
<b>Deferred Outflows of Resources</b>				
Pension and OPEB Contributions	\$ 69,495,555	\$ 19,835,043	\$ 49,660,512	250.4%
<b>Total Deferred Outflows of Resources</b>	<b>\$ 69,495,555</b>	<b>\$ 19,835,043</b>	<b>\$ 49,660,512</b>	<b>250.4%</b>
<b>Liabilities</b>				
Current Liabilities	\$ 13,973,036	\$ 8,576,339	\$ 5,396,697	62.9%
Non-Current Liabilities	13,469,489	14,083,904	(614,415)	-4.4%
Other Long-Term Liabilities	217,080,225	198,799,403	18,280,822	9.2%
<b>Total Liabilities</b>	<b>\$ 244,522,750</b>	<b>\$ 221,459,646</b>	<b>\$ 23,063,104</b>	<b>10.4%</b>
<b>Deferred Inflows of Resources</b>				
Leases	\$ 431,003	\$ -	\$ 431,003	100.0%
Pension and OPEB Deferrals	29,213,327	3,493,401	25,719,926	736.2%
<b>Total Deferred Inflows of Resources</b>	<b>\$ 29,644,330</b>	<b>\$ 3,493,401</b>	<b>\$ 26,150,929</b>	<b>748.6%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 87,122,102	\$ 85,588,763	\$ 1,533,339	1.8%
Unrestricted Net Position (Deficit)	(107,221,617)	(128,982,659)	21,761,042	16.9%
<b>Total Net Position (Deficit)</b>	<b>\$ (20,099,515)</b>	<b>\$ (43,393,896)</b>	<b>\$ 23,294,381</b>	<b>-53.7%</b>

# Attachment A

## 2022 vs 2021 Analysis

Key changes include:

- *Current assets* increased by \$18.4 million, or 29.3%, to \$81.1 million. Change was driven by the significant increase in operating cash on hand by fiscal year 2022 year-end, a result of Coronavirus relief grants, (\$7.3 million of Federal CRRSAA and \$5.9 million of Federal ARPA operating assistance recognized in fiscal year 2022), as well as increases in sales tax, TDA-LTF and TDA-STA revenues.
- *Capital assets – net* increased by \$1.5 million, or 1.7%, to \$87.7 million. Although significant capital purchases were made in fiscal year 2022, including ten CNG buses for \$6.5 million, net capital assets reflected only a moderate increase, due to the dampening offset effect of increased accumulated depreciation balances, which decreases the carrying value of existing capital assets. Santa Cruz METRO tracks the usage (depreciation) of capital assets to inform forecasting and capital planning, as part of METRO's continuing strategy to maintain a state of good repair and working-order, manage deferred maintenance backlog, and replace, upgrade and improve aging facilities, infrastructure and fleet.
- *Restricted assets* consists of restricted cash held in segregated accounts in the Santa Cruz County Pooled Investment Fund. Total balances increased slightly from last year, by \$3.0 million, or 23.7%, resulting in a \$15.7 million balance by year end. PTMISEA restricted funds of \$3.9 million were spent down on the purchase of six CNG buses, while the accumulation of restricted unspent Measure D sales tax allocations and State Transit Assistance – State of Good Repair (STA-SGR) funds during the year tempered the decrease in total restricted assets. Unspent restricted funds are currently committed as cost-sharing on awarded capital grants. The District deposited \$3.4 million with a bond trustee for the pension obligation bond.
- *Deferred outflows of resources* totaling \$69.5 million include \$10.5 million in OPEB retiree medical, dental and vision insurance premium payments, \$7.6 million in pension contributions and actuarial adjustments that were recorded in the current fiscal year, and a \$51.4 million employer pension contribution made by the application of proceeds derived from the fiscal year 2022 issuance of pension obligation bonds. See Note 14 for further information.
- *Current liabilities* increased by \$5.4 million, or 62.9%, to \$14.0 million in total, in large part due to the current year issuance of pension obligation bonds (\$2.8 million short-term portion of the debt), and the year-end accrual of the cost of four CNG buses for \$2.6 million.
- *Non-current liabilities* decreased by \$614 thousand, or 4.4%, to \$13.5 million: Capital grant funds and subsidies received are restricted and reported as liabilities (unearned revenue); Revenue recognition is deferred until grant funds are spent on the specific project or purpose for which they were awarded. Measure D sales tax allocations and STA-SGR grant funds received during the current year (unspent and restricted for capital costs) increased unearned revenue balances. However significant capital project outlays in fiscal year 2022 using California Proposition 1B Transportation Bonds Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) grant funding resulted in a net decrease in total unearned revenue (liabilities) at year-end.
- *Other long-term liabilities* increased by \$18.3 million, or 9.2%, to \$217.1 million, primarily as a result of incurring debt related to the issuance of pension obligation bonds in fiscal year 2022.
- *Deferred inflows of resources* that netted to \$29.6 million in pension investment earnings, OPEB deferrals and leases were recognized in the current year through the application of GASB Statements No. 68, No. 75 and No. 87 respectively.

# Attachment A

## Statements of Revenues, Expenses, and Changes in Fund Net Position:

	2022	2021	2022 to 2021	
			Increase/(Decrease)	
			Amount	%
Operating Revenues	\$ 8,247,748	\$ 4,898,901	\$ 3,348,847	68.4%
Operating Expenses	56,067,764	61,432,972	(5,365,208)	-8.7%
Net Operating Loss	(47,820,016)	(56,534,071)	8,714,055	-15.4%
Non-Operating Revenues	63,785,154	54,149,739	9,635,415	17.8%
Capital Grant Contributions	7,329,243	5,485,327	1,843,916	33.6%
Increase (Decrease) in Net Position	\$ 23,294,381	\$ 3,100,995	\$ 20,193,386	651.2%

### 2022 vs 2021 Analysis

*Operating Revenues* (Passenger Fares) of \$8.2 million reflects an increase variance of \$3.3 million, or 68.4% increase, over prior year revenues, primarily due to the steady ridership and system recovery as the pandemic slowly receded.

*Operating Expenses* of \$56.1 million reflects a year-over-year decrease of \$5.4 million, or 8.7%, due to several factors: Other Postemployment Benefits adjusting entries for GASB 68 and 75, increase in the number of vacant funded positions, extended unpaid leaves of absence, offset by increases in overtime, as well as retiree-related expenses.

*Non-Operating Revenues* increased overall by \$9.6 million, or 17.8%, over last year revenues primarily due to year-over-year increases in the following revenue categories: Sales and Use Tax, Transportation Development Act – Local and State Transit Assistance, as well as supplemental FTA 5307 Operating Assistance Grants (CRRSAA and ARPA).

*Capital Grant Contributions* represents the total amount of capital grant and Measure D sales tax funds that were used to subsidize the purchase of facilities improvements and capital equipment, including revenue vehicles, during fiscal year 2022. The receipt and application of capital funds can fluctuate year over year based on a variety of factors including project eligibility conditions, formula-based funding criteria, government procurement processes, the economy, etc. Capital contributions increased by \$1.8 million, or 33.6%, from last year.

### **Budgetary Highlights**

The annual Operating and Capital budgets are used as management tools to monitor Revenues and Expenses, evaluate operating performance, and track the progress of Capital projects at any given time period. The District's Board approves these items prior to implementation. The fiscal year 2022 budget total of \$83,803,797 included \$56,614,701 for Revenue and Expenses and \$27,189,096 for Capital Projects (Capital Portfolio). The District finished fiscal year 2022 with operating expenses of \$54,328,832, net of depreciation, workers' compensation IBNR, and retirement-related actuarial adjustments; Capital expenses of \$7,799,735 included \$470,491 Capital Reserve spending and \$7,329,244 of pass-through grant

### **Financial Activities - Capital**

#### Capital Program:

In fiscal year 2022, Santa Cruz METRO spent \$7.8 million on the purchase of capital assets and on new and ongoing capital projects. A total of \$7.3 million of these capital additions were paid for with capital contributions funded by a variety of sources, including the FTA, PTMISEA, STA, STA - State of Good Repair (STA-SGR), and Measure D local sales tax allocations. A total of \$0.5 million of these capital purchases were made using Capital Reserve Funds.

# Attachment A

Noteworthy capital project activity in fiscal year 2022 includes:

- New Santa Cruz METRO-owned Paracruz facility –Ongoing efforts continue to construct a new facility for Paracruz operations at the site of the Soquel Park and Ride lot in mid-Santa Cruz County. Metro successfully submitted an application for and received the local Planning Permit to build the ParaCruz Facility at this site in fiscal year 2022. Metro successfully submitted an application for Federal funding in fiscal year 2022, however the project was not awarded. Metro is revisiting the design and scope for the property, to potentially include affordable housing, which may allow the project to be eligible for other grant funding sources/prospects as well as financing opportunities. This project is in alignment with the METRO’s “10-Year Strategic Business Plan” adopted by the Board in January 2019.
- Purchase of Ten (10) CNG Buses - METRO continues to replace aging vehicles in its fixed route fleet. METRO’s Transit Asset Management Plan (TAM) establishes the useful life of a bus as 14 years; several buses in METRO’s fleet exceed this age and need to be replaced as soon as possible. In fiscal year 2022, 10 CNG buses were purchased utilizing a combination of capital grants and Bus Replacement Funds:
  - Three Compressed Natural Gas (CNG) Bus Rapid Transit (BRT) Plus low floor buses (35-foot) and three CNG BRT Plus low floor buses (40-foot) were purchased with PTMISEA funds to replace vehicles which had reached their useful life in METRO’s fleet, for a total of six CNG BRT Plus Low Floor buses. The vehicles replaced include four 1998 diesel buses and two 2003 CNG buses.
  - Two 35-foot CNG buses purchased utilizing the Bus Replacement Fund: One funded from fiscal years 2018 and 2019 State of Good Repair (SGR) funds that were originally programmed to have been spent on a pandemic-delayed project and were due to expire, and another from the last of the remaining deferred PTMISEA funds, with the difference covered by fiscal year 2020 SGR funds. These two new bus purchases replace (and allow METRO to dispose of) two 20-year old diesels (with an average of 790,259 road miles) out of the fleet.
  - Two 35 foot CNG buses purchased utilizing FY19 FTA 5339 Caltrans Discretionary Funds and Measure D sales tax allocations. These two new bus purchases replace (and allow METRO to dispose of) two 20-year old diesels (with an average of 790,259 road miles) out of the fleet.
- Gate Control at JKS Bus Entry - METRO is in the process of enhancing security at all locations. This project focused on the JKS and Bus Wash/Fueling station to have the lot closed at all times, and open as needed for vehicle movement. Previously the lot was open and accessible to the public, for both vehicles and pedestrians, which created a safety hazard to people who are not employees of METRO, as they are not trained on the proper use of the lot. Additionally, it left METRO employees and property open to vandalism and other damaging actions. Two automated gates were installed - for vehicle and pedestrian access -that provide security to METRO’s facility while maintaining access for METRO buses and employees.
- Three (3) 2016 New Flyer Buses – Santa Cruz METRO entered into a lease-to-purchase agreement (financed purchase) in fiscal year 2018 for three New Flyer Xcelsior buses that extends through November 2023. This purchase is part of Santa Cruz METRO’s effort to replace and update its aging fleet. The principal portion of the ongoing monthly lease payments is funded by Measure D funds, and totaled \$267 thousand in fiscal year 2022.
- JKS Facility - Bus Wash Rehab - N/S Corporation installed Santa Cruz METRO’s bus washer in June 2006. With a life expectancy of 15 to 20 years, the bus washer at Santa Cruz METRO was due for and in need of rehabilitation. Staff concluded a refurbished bus wash provides Santa Cruz METRO time (at least seven years) to research the reconfiguration of the JKS bus yard to accommodate a larger footprint for a new bus wash that has the ability to wash articulated buses and allow for modifications to wash the variety of bus models and configurations. This project was completed using FTA 5339(a) grant and Capital Reserve funds.

# Attachment A

- Maintenance Facilities Improvements:
  - Upgrade to Maintstar maintenance management software to the latest version in an off-premises configuration. Funded with Capital Reserves
  - Radio console for Dispatch was replaced; The previous console was an outdated unit for radio communications and did not access the frequency required by Santa Cruz METRO. Funded with Capital Reserves
  - The Santa Cruz METRO Maintenance Facility exterior was painted in Fall 2021: Cracks had allowed for water intrusion into the interior portion of the building, resulting in damage to the wall surfaces. Water damage had occurred on metal surfaces as well, resulting in rust and degradation of the infrastructure. Rehabilitation of the external surfaces using proper methods and materials restored the building to its original functionality. FTA 5339(a) funded.
  - Various Facilities Maintenance equipment was purchased with FTA 5339(a) funds including floor scrubbers, drain snakes, pressure washers, and vacuums.
- Automatic Vehicle Location (AVL) – On board technology in the transit industry has afforded transit operators the ability to utilize detailed data to optimize services and offer an array of conveniences to their riders. An AVL system provides real-time arrival and departure information to riders via mobile and desktop web applications. Because AVL is becoming so common, it is increasingly becoming expected as standard in public transit. Accordingly, AVL was approved by the Board of Directors in fiscal year 2018. METRO partnered with Clever Devices in fiscal year 2022 to continue work on the AVL project to bring this technology to full and final system-wide implementation in the near future.

## Future Outlook

In July 2022, Santa Cruz METRO started the new fiscal year with a balanced budget and a sustainable five-year projection of revenues and expenses, providing a clear road map for the delivery of service, future planned improvements and addressing anticipated challenges. Years of fiscally responsible decisions, enhanced focus on service efficiency, productivity, and sustainability coupled with favorable economic environment all contributed to Santa Cruz METRO's improved financial position. The renewed focus on prudent financial planning by shoring up Operating and Capital reserve levels, allow public agencies the ability to navigate difficult times and respond to short-term crisis and funding disruptions. The COVID-19 pandemic that started at the beginning of 2020 is yet another example of the critical importance of sound financial planning and fiscal responsibility. Spreading with alarming speed and infecting millions, the pandemic brought the economy to a near standstill as shelter in place orders were imposed. Although the nation and world have not fully recovered, the District continues to monitor and financially plan to weather this pandemic. Over the longer horizon, inflation, personnel shortages, supply chain issues, and uncertain economic environmental landscape are expected to leave lasting scars for a long period of time. The impacts of the pandemic on transit agencies was immediate and devastating. Public transit plummeted nationwide as people telecommuted and avoided buses for fear of contracting COVID-19, resulting in less revenue from fares. However, sales tax revenues have increased more than expected due to people working from home. As we emerge from COVID-19, inflation has increased more than expected, resulting in higher costs on materials, supplies and equipment.

## Operational Improvements and Service Initiatives

Even though transit ridership has yet to return, traffic congestion has. While Santa Cruz METRO was able to increase operating speeds during a few months of the pandemic due to a lack of congestion, traffic has returned to pre-pandemic levels, with a slightly shorter a.m. congested period but a longer mid-afternoon/p.m. congested period. Changing traffic patterns have forced continual schedule adjustments while slower speeds make taking transit less attractive. This trend will continue to negatively impact transit operations unless Santa Cruz METRO can work with the cities and counties in which it operates to create dedicated roadway space for Santa Cruz METRO buses.

Santa Cruz METRO's priorities in fiscal year 2023 will continue to focus on rebuilding ridership post-pandemic, planning for Santa Cruz METRO's transition to zero-emission vehicles, and leading efforts with the City and County to develop affordable housing near key transit corridors.

# Attachment A

## Rebuilding Ridership

Efforts to rebuild ridership post-pandemic will focus on service restructuring, planning for speed and reliability improvements, and customer-focused improvements to fare options and real time passenger information.

## Better Bus Network Reimagining

Staff is currently seeking consultant assistance to develop a Five Year Bus Network Reimagining Plan scheduled for implementation between 2023 and 2028. Key project outcomes will include: 1) an evaluation of Santa Cruz METRO's current fixed route system; 2) Completion of at least two alternative scenarios illustrating different policy directions that the Santa Cruz METRO bus network might take, focusing on the tradeoffs between ridership and coverage goals; 3) final network scenarios matching three possible financial projections, one with current resources and two with additional financial resources; and 4) a process of interaction with stakeholders, city councils, the Santa Cruz METRO Board, and the public that provides opportunities to provide substantive and impactful input to the plan. Santa Cruz METRO completed its last comprehensive service analysis in 2016 on the heels of a fiscal crisis that led to service cuts. The current planning effort will focus on service expansion, with a goal of doubling ridership in five years. The first phase of the planning effort will focus on ensuring Santa Cruz METRO is making the best use of current resources while subsequent phases will envision a future transit network should additional resources become available.

## New Service Initiatives

Staff continuously seeks grant opportunities to fund new service. In fiscal year 2021, staff completed planning for a new zero-emission, free fare circulator in the Watsonville area, funded by a grant from the California Department of Transportation. Launched last fall, the service connects the downtown Watsonville Transit Center with retail and medical destinations, operating as a loop along Main Street, Green Valley Road, Freedom Centre, Freedom Boulevard and Lincoln Street. New service takes time to build ridership and in fiscal year 2022, the Watsonville Circulator was the fifth least productive route in the METRO system. Staff will continue to evaluate ridership on the circulator as part of the Better Bus Network Reimagining Plan and make recommendations for future service changes.

## Speed and Reliability Improvements

Throughout Santa Cruz County, Santa Cruz METRO buses travel along congested streets and corridors without the benefit of transit supportive elements such as bus only lanes, traffic queue jumps, or bus boarding islands. This means travel by bus takes significantly longer and is less reliable than private automobile. In fiscal year 2021, Caltrans awarded Santa Cruz METRO a Caltrans Sustainable Transportation Planning Grant (STPG) to fund the Watsonville - Santa Cruz Intercity Transit Speed and Reliability Study. In fiscal year 2022, staff released a request for proposals for the project and awarded a consultant contract to Kimley-Horn to assist in evaluating traffic and travel conditions along the primary transit corridors connecting Watsonville and Santa Cruz, including Main Street and Freedom Boulevard in Watsonville, and Soquel Avenue and Capitola Road, in order to identify opportunities for pedestrian, bus stop and transit priority improvements aimed at improving the accessibility, speed and reliability of METRO's core intercity routes. Besides recommending improvements for existing service, the study will lay the groundwork for planned rapid service along the Soquel Avenue/Main Street corridor. The project kicked off in September and is expected to be complete by the spring of 2024.

In addition, staff continues to coordinate with the Santa Cruz County Regional Transportation Commission (RTC), Caltrans and Santa Cruz County on the Watsonville – Santa Cruz Multimodal Corridor Program (WSC-MCP), including the Highway 1 Auxiliary Lanes/Bus On Shoulder component and Soquel Avenue/Drive to Freedom Boulevard bicycle/pedestrian improvements. In fiscal year 2021, the California Transportation Commission approved over \$100 million in funding for the WSC-MCP Cycle 2 Project, which will construct auxiliary lanes on Highway 1 between Soquel Ave and State Park Drive and add buffered/protected bike lanes and transit signal priority (TSP) on Soquel Drive along the same segment. Staff is currently coordinating with the regional partners on a SB1 Cycle 3 grant application, a



# Attachment A

\$200 million project to extend the corridor improvements to Freedom Boulevard. As part of the application, Santa Cruz METRO is planning to install bus boarding islands, new bus shelters, and real time passenger information displays at up to 30 locations along the corridor. Application and announcement of award are expected in fiscal year 2023.

## Fare Programs

Besides a focus on service and operations, staff is also working to build ridership through more convenient fare programs. In fiscal year 2021, Santa Cruz METRO launched a mobile ticket “Splash Pass,” which lets customers purchase Santa Cruz METRO fare products using a smartphone, and completed the installation of electronic validators on all Highway 17 buses for more accurate and efficient validation of tickets. Mobile fare payment can help reduce the cost of cash collection, speed up the boarding process, and improve convenience and access to fare products. The next phase of the project, planned for fiscal year 2023, will allow for contactless credit and smart card transactions to happen with the tap of a card on the Highway 17 validators. If successful, staff will seek funding to purchase and install validators fleet-wide. The final phase will involve the rollout of a new smart card and account based ticketing system using stored value accounts. Account-based ticketing will allow riders to exchange cash for pass products at an expanded local retailer network, enabling customers without a bank account to tap and ride. It will also allow Santa Cruz METRO to introduce fare-capping at day- or monthly-pass rates, so that customers will know they are always getting the best value no matter how much they ride.

In addition, Santa Cruz METRO continued its partnership in fiscal year 2022 with the City of Santa Cruz Go Pass program, providing free rides to all 4,000+ downtown Santa Cruz employees, paid for by the City. The project aims to increase Santa Cruz METRO ridership while reducing the demand for parking in downtown Santa Cruz. Staff is looking to expand the program to County employees in fiscal year 2023.

Finally, Santa Cruz METRO supported Assembly Bill 1919, as amended, which would have established a five-year Youth Transit Pass Pilot Program in California. While Governor Newsom vetoed the bill due to lack of funding in the state budget, staff will continue to explore funding opportunities to implement free fare programs, particularly for youth under 18.

## Real Time Passenger Information

Staff is also working to improve the customer experience through improving access to real time information. Staff is currently implementing a Computer-Aided Dispatch / Automatic Vehicle Location (CAD/AVL) system on its fleet, which will allow real time vehicle location tracking and help the agency better track bus speed and reliability. Besides providing better data with which to plan and schedule, the system will provide customers with real time bus location and next bus arrival predictions, allowing customers to track vehicles in real time. The system is expected to go live in early 2023.

Additionally, Santa Cruz METRO plans to install new Automated Passenger Counters (APCs) on its fleet in fiscal year 2023. APCs will provide the Planning Department with a rich dataset for route and service planning, including boarding and alighting information at the level of individual bus stops for all trips. It will also provide real time crowding information to customers so that they can make more informed decisions when trip planning.

## Zero-Emission Vehicle Transition

Santa Cruz METRO has set an ambitious goal of purchasing only zero emission buses (ZEB) moving forward, converting the entire 96 bus Santa Cruz METRO fleet by 2037. Phase 1 of this plan involved the procurement and deployment of four battery electric buses (BEB) on the Watsonville Circulator Route, which was completed in fiscal year 2022. Phase 2 will convert 100% of Santa Cruz METRO’s fleet serving Watsonville to ZEB by 2027. Phase 3 will involve the full transition of Santa Cruz METRO’s fleet to ZEB by the end of 2037, through a mix of fuel cell electric buses (FCEB) and BEB. This would put the agency ahead of the California Air Resources Board (CARB) mandate that all transit agencies in California operate 100% ZEB by 2040. In fiscal year 2022, the Planning and Development Department worked with the Federal Transit Administration (FTA) to use funding available for Highway 17 service to procure four

# Attachment A

additional BEBs. Staff also submitted a highly competitive grant to the FTA Low or No Emission Vehicle and Bus and Bus Facilities Programs for 20 hydrogen fuel cell buses and construction of a hydrogen fueling facility and associated improvements. While the FTA did not select the proposal for funding, staff will continue to support METRO's transition to a 100% ZEB fleet in fiscal year 2023 by identifying funding opportunities and preparing grant applications.

## Supporting Affordable Housing Development in Santa Cruz County

The housing market in the Santa Cruz – Watsonville area is by many measures one of the least affordable housing markets in the country. In the last on-board survey (2019), half of respondents reported household incomes below \$50,000. Providing access to affordable housing near transit corridors is therefore critical to supporting future ridership. Access to high quality transit also makes housing more affordable by reducing the need to build expensive parking, while the ability to live a car-free or car-light lifestyle reduces the costs of transportation for residents.

In the next decade, Santa Cruz METRO plans to develop 175 affordable housing units at Santa Cruz METRO transit centers and facilities, including Pacific Station, the Watsonville Transit Center and the Soquel Park and Ride. In fiscal year 2022, Santa Cruz METRO and the City of Santa Cruz were awarded \$30 million from the state's Affordable Housing and Sustainable Communities (AHSC) grant to redevelop the current Pacific Station site and adjacent City owned properties into 120 affordable housing units and a new bus station and tarmac. The project is currently in design and is expected to break ground in fall 2023. Building on the success of the Pacific Station project, staff is working to develop conceptual design concepts for affordable housing projects at the Watsonville and Soquel Park and Ride sites.

## Marketing Initiatives

In November 2022, Santa Cruz METRO hired an external marketing firm, Celtis Ventures Inc., to assist the agency in promotions, included in the contract is the design and implementation of a new website, development of a customer loyalty program, update to Santa Cruz METRO's existing brand standards, creation of a video/photo library, marketing materials, social media support, and community engagement.

Santa Cruz METRO's marketing will be targeted at increasing environmental awareness in the community and the emissions savings that occurs from riding public transit over personal vehicle use. Campaigns will also tie into Santa Cruz METRO's ZEB transition plan.

In late fiscal year 2023, Santa Cruz METRO hopes to launch a customer loyalty program via a website that will track riders trips with a point system, the accumulated points can then be used to donate to a local environmental non-profit. Omissions savings from riding public transit will also be tracked. This loyalty program will be promoted through bus wraps encouraging riders to join the program.

By fiscal year 2024, Santa Cruz METRO hopes to unveil a new website that will be more user-friendly and mobile responsive. The site will focus on connecting riders to service maps and schedules and highlight Santa Cruz METRO's sustainability initiatives, specifically the emissions savings of our ridership. Additionally, Santa Cruz METRO will increase our social media footprint by creating an Instagram account and doubling our posts across all platforms to increase awareness. Santa Cruz METRO also plans to participate in more community outreach events including parades, fairs, holiday events, community meetings, etc.

## Enterprise Resource Planning (ERP)

Santa Cruz METRO has selected Workday as its ERP with Avaap as the consultant to configure and install Workday at METRO. The first phase will replace our HR system and bring in all payroll services from Santa Cruz County to Santa Cruz METRO. The second phase will be to replace our legacy finance and purchasing systems that are not interconnected. An ERP will provide Santa Cruz METRO with the tools to expediently make informed business decisions and realize efficiencies in the staff workflow. In addition, as part of the ERP project, Santa Cruz METRO will be evaluating its existing systems as their viability within the ERP ecosystem.

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

State law requires Santa Cruz METRO to adopt an annual budget by resolution of the Board. In the spring preceding the start of each fiscal year, staff presents an annual budget based on established District goals, objectives and performance measures to the Board.

The Santa Cruz METRO Board approves the annual budget prior to implementation. Once adopted, the Board has the authority to amend the budget. While the legal level of budgetary control is at the entity level, the District maintains stricter control at departmental and line item levels to serve various needs. Any increase to the expense budget as a whole requires the approval of the Board.

During the fiscal year, the adopted Operating and Capital budgets are used as management tools to monitor revenues and expenses and evaluate operating performance at any given time period. The Board of Directors monitors budget-to-actual performance through monthly staff reports and presentations. Department managers monitor budget-to-actual performance on an accrual basis and meet with the Finance team periodically to review significant variances.

The Board adopted the fiscal year 2023 Operating budget on June 24, 2022, totaling Revenue of \$69,813,238; Operating Expenses of \$60,959,938, and Transfers of \$8,853,300.

Total Operating Revenues are expected to increase 27.5% compared to the fiscal year 2022 budget primarily due to the inclusion of the American Rescue Plan Act of 2021 (ARPA) Covid-19 Relief grant, as well as increased TDA-LTF and TDA–STA, and Sales Tax (including Measure D) revenues. Additionally Passenger Fares (Fixed Route, Paratransit, and Highway 17 Fares) are projected to increase as recovery from the pandemic continues and riders return. Modest increases are anticipated in Special Transit Fares (contracts with UCSC, Cabrillo College, and Highway 17 Partners – Amtrak and VTA).

Total Operating Expenses are projected to increase 7.7% compared to the fiscal year 2022 budget, driven by Labor and Fringe benefits increases such as cost of living adjustments, annual step increases, as well as anticipated higher medical costs. Non-personnel expenses are increasing as general inflationary adjustments are applied across all categories.

Budgeted transfers are a combination of commitments made to maintain assets in a state of good repair, pre-funding of pension and other postemployment benefits liabilities, as well as excess fungible revenues set aside to be used in the future for Capital and/or Operating expenses.

The Capital Budget Portfolio, adopted by the Board in June 2022 is \$87,030,558, approximately 30% of which (or \$25,500,773) is anticipated to be spent by the end of fiscal year 2023. Over 85% of the fiscal year 2023 Capital Budget Portfolio is allocated to bus and paratransit vehicle replacement projects and related infrastructure.

## **Contacting Santa Cruz METRO's Financial Management**

Santa Cruz METRO's financial report is designed to provide Santa Cruz METRO's Board of Directors, management, and the public with an overview of Santa Cruz METRO's finances. For additional information about this report, please contact Chuck Farmer, Chief Financial Officer, at 110 Vernon Street, Santa Cruz, CA 95060.

# Attachment A

## BASIC FINANCIAL STATEMENTS

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENT OF NET POSITION JUNE 30, 2022

### ASSETS

#### CURRENT ASSETS

Cash and Cash Equivalents	\$ 62,094,202
Sales Taxes and Other Receivables	6,466,567
Grants Recivables	10,342,102
Lease Receivable	438,208
Inventory	889,761
Prepaid Expenses	889,234

**Total Current Assets** 81,120,074

#### RESTRICTED ASSETS

Cash and Cash Equivalents	<u>15,732,891</u>
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#### CAPITAL ASSETS

Building and Improvements	80,124,319
Revenue Vehicles	48,809,131
Operations Equipment	7,852,739
Other Equipment	2,355,853
Other Vehicles	1,242,443
Office Equipment	3,950,861

Total Depreciated Capital Assets 144,335,346  
Less Accumulated Depreciation and Amortization (73,044,294)

Total Depreciated Capital Assets Net of Accumulated Depreciation 71,291,052

Construction-in-Progress 4,622,870  
Land 11,596,311

Right-to-use Leased Asset, Net 208,812

**Total Capital Assets** 87,719,045

**Total Assets** 184,572,010

#### DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts from Other Postemployment Benefits (OPEB) 10,450,283  
Deferred Amounts from Pension Activities 59,045,272

**Total Deferred Outflows of Resources** \$ 69,495,555

The accompanying notes are an integral part of these financial statements.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENT OF NET POSITION (Continued) JUNE 30, 2022

### LIABILITIES

#### CURRENT LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 4,345,545
Accrued Payroll and Employee Benefits	5,163,969
Interest Payable	503,420
Deferred Rent	3,543
Workers' Compensation Liabilities, Current	461,764
Other Accrued Liabilities	331,715
Security Deposit	10,470
Financed Purchase, Current	275,409
Lease Liability, Current	92,201
Pension Obligation Bonds, Current	2,785,000

**Total Current Liabilities** 13,973,036

#### NON-CURRENT LIABILITIES

Unearned Revenue - State Transit Assistance (STA)	220,696
Unearned Revenue - State of Good Repair (SGR)	2,936,015
Unearned Revenue - PTMISEA Grant	584,864
Unearned Revenue - Proposition 1B Grant	2
Unearned Revenue - Measure D	7,577,895
Unearned Revenue - LCTOP	2,150,017

**Total Non-Current Liabilities** 13,469,489

#### OTHER LONG-TERM LIABILITIES

Workers' Compensation Liabilities, Net of Current	1,845,571
Financed Purchase, Net of Current	117,244
Lease Liability, Net of Current	112,089
Pension Obligation Bonds, Net of Current	48,965,000
Net OPEB Liability	121,906,043
Net Pension Liability	44,134,278

**Total Other Long-Term Liabilities** 217,080,225

**Total Liabilities** 244,522,750

### DEFERRED INFLOWS OF RESOURCES

Deferred Amounts from Leases	431,003
Deferred Amounts from OPEB	14,559,778
Deferred Amounts from Pension Activities	14,653,549

**Total Deferred Inflows of Resources** 29,644,330

### NET POSITION (DEFICIT)

Net Investment in Capital Assets	87,122,102
Unrestricted Net Position (Deficit)	(107,221,617)

**Total Net Position (Deficit)** \$ (20,099,515)

The accompanying notes are an integral part of these financial statements.

# Attachment A

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

<b>OPERATING REVENUES</b>	
Passenger Fares	\$ 2,400,603
Special Transit Fares	5,847,145
	<hr/>
<b>Total Operating Revenues</b>	8,247,748
	<hr/>
<b>OPERATING EXPENSES</b>	
Wages, Salaries, and Employee Benefits	39,323,131
Materials and Supplies	4,002,037
Other Expenses	7,321,146
Depreciation and Amortization	5,421,450
	<hr/>
<b>Total Operating Expenses</b>	56,067,764
	<hr/>
<b>Net Operating Loss</b>	(47,820,016)
	<hr/>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Sales and Use Taxes	29,313,308
Transportation Development Act (TDA) Assistance	8,592,943
State Transit Assistance (STA)	4,437,224
Federal Transit Administration (FTA) Section 5307 Operating Assistance	20,454,906
FTA Section 5311 Rural Operating Assistance	198,586
Low Carbon Transit Operations Program	405,067
Alternative Fuel Credit	148,777
Interest Income	239,452
Interest Expense	(523,059)
Rental Income	52,787
Other Revenue	361,819
Lease Revenue	76,592
Gain on Sale and Disposal of Property, Equipment, and Inventory	26,752
	<hr/>
<b>Total Non-Operating Revenues (Expenses)</b>	63,785,154
	<hr/>
<b>Net Income Before Capital Contributions</b>	15,965,138
	<hr/>
<b>CAPITAL CONTRIBUTIONS</b>	
Grants Restricted for Capital Expenditures	7,329,243
	<hr/>
<b>NET POSITION</b>	
Change in Net Position	23,294,381
	<hr/>
Net Position (Deficit), Beginning of Year	(43,393,896)
	<hr/>
Total Net Position (Deficit), End of Year	\$ (20,099,515)
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 8,028,579
Payments to Employees	(87,800,555)
Payments to Suppliers	(9,571,529)
Payments from Other	<u>(5,394,067)</u>
Net Cash Used in Operating Activities	<u>(94,737,572)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating Grants Received, Including Sales and Use Taxes	<u>63,395,626</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Sale of Property and Equipment	26,752
Capital Grants Received/(Used)	7,695,220
Capital Expenditures	(7,532,563)
Gain on Sale of Assets	945,843
Payments Made on Financed Purchase	(368,069)
Proceeds from Pension Obligation Bonds	<u>51,750,000</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>52,517,183</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment and Rental Income Received	<u>292,239</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,467,476
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>56,359,617</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 77,827,093</u>
FINANCIAL STATEMENT PRESENTATION:	
Cash and Cash Equivalents	\$ 62,094,202
Cash and Cash Equivalents - Restricted	<u>15,732,891</u>
Total Cash and Cash Equivalents	<u>\$ 77,827,093</u>

The accompanying notes are an integral part of these financial statements.



# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENT OF CASH FLOWS (Continued) FOR THE FISCAL YEAR ENDED JUNE 30, 2022

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Net Operating Loss	\$ (47,820,016)
Adjustments to Reconcile Net Operating Loss to Net Cash	
Used in Operating Activities:	
Depreciation and Amortization	5,421,450
Changes in Assets and Liabilities:	
Decrease in Receivables	(211,964)
Decrease in Lease Receivables	(7,205)
Decrease in Inventory	(115,577)
Decrease in Prepaid Expenses	(54,075)
Increase in Accounts Payable and Accrued Liabilities	1,747,675
Decrease in Interest Payable	503,420
Decrease in Net Pension Liability	(56,270,878)
Increase in Net OPEB Liability	1,796,768
Increase in Other Liabilities	<u>272,830</u>
Net Cash Used in Operating Activities	<u>\$ (94,737,572)</u>

The accompanying notes are an integral part of these financial statements.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2022

### **NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### A. Description of Organization

The Santa Cruz Metropolitan Transit District (Santa Cruz METRO) was formed February 9, 1969, following a favorable election in conformity with Section 9800 et. seq. of the Public Utilities Code (PUC). The transit system serves the general public in the cities of Santa Cruz, Watsonville, Scotts Valley, Capitola, and the unincorporated areas of Santa Cruz County. The Board of Directors (Board) consisting of eleven directors and two ex-officio directors representing the University of California, Santa Cruz and Cabrillo College govern Santa Cruz METRO. At June 30, 2022, the Board was as follows:

Chairperson:	Larry Pageler		
Vice Chair:	Jimmy Dutra		
Members:	Shebreh Kalantari-Johnson	Donna Meyers	Bruce McPherson
	Ari Parker	Manu Koenig	Rebecca Downing
	Kristen Brown	Donna Lind	Mike Rotkin
Ex-Officios:	Dan Henderson	Alta Northcutt	

Santa Cruz METRO also serves the Highway 17 corridor into Santa Clara County to provide a commuter express service through a memorandum of understanding with the San Joaquin Joint Powers Authority (SJJPA), the Capitol Corridor Joint Powers Authority (CCJPA), and the Santa Clara Valley Transportation Authority (VTA). Amtrak Thruway bus service is also provided by Santa Cruz METRO on the same corridor.

#### B. Reporting Entity

Santa Cruz METRO and the Santa Cruz Civic Improvement Corporation (the Corporation) have a financial and operational relationship, which meets the reporting entity definition criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, for inclusion of the Corporation as a blended component unit of Santa Cruz METRO. Accordingly, the financial activities of the Corporation have been included in the basic financial statements of Santa Cruz METRO. For the fiscal year ended June 30, 2022, these activities were minimal.

#### **Scope of Public Service:**

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in July 1986. The Corporation was formed for the sole purpose of providing financial assistance to Santa Cruz METRO for the construction and acquisition of major capital facilities.

The following are those aspects of the relationship between Santa Cruz METRO and the Corporation which satisfy GASB Statement No. 14/39 criteria.

#### Accountability:

1. Santa Cruz METRO's Board appointed the Corporation's Board of Directors.

# Attachment A

## NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Reporting Entity (Continued)

2. Santa Cruz METRO is able to impose its will upon the Corporation based on the following:
  - All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of Santa Cruz METRO.
  - Santa Cruz METRO exercises significant influence over operations of the Corporation as it is anticipated that Santa Cruz METRO will be the sole lessee of all facilities owned by the Corporation. Likewise, it is anticipated that Santa Cruz METRO's lease payments will be the sole revenue source of the Corporation.
3. The Corporation provides specific financial benefits or imposes specific financial burdens on Santa Cruz METRO based upon the following:
  - Santa Cruz METRO has assumed a “moral obligation,” and potentially a legal obligation, for any debt incurred by the Corporation.

### C. Basis of Accounting and Presentation

Santa Cruz METRO is accounted for as a Business-Type Activity, as defined by GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, and its basic financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Santa Cruz METRO adopted GASB Statement No. 34, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of and for the fiscal year ended June 30, 2003, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into three net position categories, namely, net investment in capital assets, restricted net position, and unrestricted net position.

#### **Contributed Capital/Reserved Retained Earnings:**

Santa Cruz METRO receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant had been incurred. Capital grant funds earned, less amortization, equal to accumulated depreciation of the related assets, were included in contributed capital. As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Santa Cruz METRO changed its method of accounting for capital grants from capital contributions to reserved non-operating revenues. In accordance with GASB Statement No. 33, capital grants are required to be included in the determination of net income (loss) resulting in an increase in net revenue of \$7,329,243 for the fiscal year ended June 30, 2022.

Under GASB Statement No. 34, contributed capital and reserved retained earnings are presented in the net position section as net investment in capital assets.

# Attachment A

## **NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### C. Basis of Accounting and Presentation (Continued)

#### **Proprietary Accounting and Financial Reporting:**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods, in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Santa Cruz METRO are passenger fares and special transit fares. Operating expenses for Santa Cruz METRO include wages, benefits, professional services, materials and supplies, casualty and liability costs, depreciation/amortization on capital assets, and other expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Net Position:**

Net position represents the residual interest in Santa Cruz METRO's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. In accordance with GASB Statement No. 34, the fund equity section on the statements of net position was combined to report total net position and present it in three broad components: net investment in capital assets, restricted, and unrestricted. Net position invested in capital assets includes capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted.

When both restricted and unrestricted resources are available for use, generally it is Santa Cruz METRO's policy to use restricted resources first, and then unrestricted resources as they are needed.

### D. Cash and Cash Equivalents

Santa Cruz METRO considers all highly liquid investments with a maturity date within three months of the date acquired to be cash equivalents. Santa Cruz METRO deposits funds into an external investment pool maintained by Santa Cruz County. These deposits are considered cash equivalents. The Santa Cruz County Pooled Investment Fund is authorized to invest in obligations of the U.S. Treasury agencies and instrumentalities, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. Cash and cash equivalents are stated at fair value. For purposes of the statements of cash flows, Santa Cruz METRO considers all highly liquid investments (including restricted assets) to be cash equivalents.

### E. Inventory

Inventory is carried at cost using the first-in/first-out (FIFO) method. Inventory held by Santa Cruz METRO consists of spare bus parts and operating supplies that are consumed by Santa Cruz METRO and are not for resale purposes.

### F. Restricted Assets

Certain assets are classified as restricted assets on the statements of net position because their use is subject to externally imposed stipulations, either by laws or regulations.

Unspent grant funds from the State Transit Assistance (STA) and State Transit Assistance - State of Good Repair (STA-SGR) programs; Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA); Proposition 1B Office of Homeland Security (OHS) and the California Transit Security Grant Program (CTSGP); the Low Carbon Transit Operations Program (LCTOP); State Transportation Improvement Program (STIP) and a portion of Measure D sales tax allocations are restricted for capital expenditures. Additionally, the District has \$3,423,140 of restricted cash deposited with a fiscal agent to meet pension obligation bonds debt reserve fund requirements.

# Attachment A

## NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Restricted Assets (Continued)

Restricted assets at June 30 are as follows:

Cash and Cash Equivalents	
Proposition 1B PTMISEA Grant	\$ 584,864
Proposition 1B OHS and CTSGP Grants	2
STA Grant	220,696
STA - State of Good Repair (SGR) Grant	2,811,084
Measure D	6,820,314
LCTOP Grant	1,075,446
STIP	797,345
Pension Obligation Bonds	3,423,140
	<hr/>
Total Restricted Assets	<u>\$ 15,732,891</u>

### G. Property and Equipment

Property and equipment are recorded at cost. Depreciation for all such assets is computed on a straight-line basis. Estimated useful lives of assets are as follows:

Buildings and improvements	20-39 years
Revenue vehicles	12 years
Other vehicles and equipment	3-10 years

Depreciation expense on assets acquired with capital grant funds are transferred to net position, net investment in capital assets, after being charged to operations.

Major improvements and betterments to existing facilities and equipment are capitalized. Costs for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expense as incurred. Upon disposition, costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations.

Santa Cruz METRO completed and capitalized the Scotts Valley Transit Center in fiscal year 1999. The cost of this facility totaled \$4,063,634, which was funded by federal, state, and local funds. The former Scotts Valley Redevelopment Agency, a political subdivision of the State of California, was one of Santa Cruz METRO's funding sources for this project and the Successor Agency has retained an interest in the property. The title to the property is retained by both Santa Cruz METRO and the Successor Agency as tenants in common with each party holding an individual interest in proportion to each party's financial participation in the project. The Successor Agency's portion of the property is 13.87%. The Successor Agency's portion is not recorded in Santa Cruz METRO's basic financial statements.

### H. Sales and Use Taxes Receipts

1979 Gross Sales Tax (1/2-cent): In June 1978, voters in Santa Cruz County approved Measure G which changed the basis of transit support for Santa Cruz METRO from property tax to a ½-cent sales and use tax effective January 1979. This ½-cent sales and use tax levied on all taxable sales in Santa Cruz County is collected and administered by the California State Board of Equalization. Actual receipts of Measure G sales and use tax for the fiscal year ended June 30, 2022 was \$27,902,479.

# Attachment A

## **NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### H. Sales and Use Taxes Receipts (Continued)

2017 Net Sales Tax (Measure D): This local ordinance to fund a comprehensive package of county-wide transportation improvements passed in November 2016 by over 2/3 of Santa Cruz County voters. The transportation tax measure levies a 0.5% sales and use tax on retail sales within Santa Cruz County for a thirty-year period, effective April 1, 2017. Measure D sales and use tax receipts are administered by the Santa Cruz County Regional Transportation Commission according to the Expenditure Plan identified in the ordinance. Santa Cruz METRO is allocated 16% of Measure D local sales and use tax receipts collected, net of administrative costs, to provide transit and paratransit service for seniors and people with disabilities. Measure D sales and use tax receipts were \$4,327,486 for the fiscal year ended June 30, 2022. During fiscal year 2022, \$1,410,829 of Measure D funds were earned and spent on operating expenses, and \$603,522 of Measure D funds were earned and spent on capital projects. At June 30, 2022, \$7,577,895, of Measure D funds were unspent and recorded as unearned (deferred) revenue.

Additionally, Santa Cruz METRO is allocated, through the Santa Cruz County Regional Transportation Commission, a portion of the 0.025% sales and use tax levied by the Transportation Development Act (TDA).

### I. Operating Assistance Grants

Operating assistance grants are recognized as revenue in the grant period when earned.

### J. Self-Insurance

Santa Cruz METRO is self-insured for the first \$250,000 of general and vehicular liability. For settlements in excess of \$250,000, Santa Cruz METRO has total coverage up to \$25,000,000 per occurrence. The District also self-insures for vehicle physical damage coverage with a deductible option of \$5,000 per vehicle and coverage up to \$30,000,000 per occurrence. Additionally, Santa Cruz METRO is self-insured up to \$350,000 for workers' compensation claims. Santa Cruz METRO has recorded a liability for estimated claims to be paid, including incurred but not reported claims (IBNR).

### K. Employee Benefits

Annual and medical leave benefits are accrued when earned and reduced when used. Any paid medical leave accrued beyond 96 hours may, at the employee's option, be converted to annual leave and credited to the employee's annual leave schedule or paid in cash, depending on the bargaining unit, at 100% of the earned rate. Employees are paid accrued and unused annual leave at the time of separation from Santa Cruz METRO service.

### L. Payroll

Santa Cruz METRO contracts with the Santa Cruz County Auditor-Controller to provide payroll processing services.

### M. Pension Costs

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

# Attachment A

## **NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### N. Other Postemployment Benefits (OPEB)

For purposes 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 Santa Cruz METRO's OPEB plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Accounting principles generally accepted in the United States of America require that the reported results must pertain to liability and asset information within certain defined timeframes.

### O. Use of Estimates

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

### P. Implementation of GASB Statements

**GASB Statement No. 87 – Leases.** The requirements of this statement are effective for fiscal years beginning after June 15, 2021. On July 1, 2021, Santa Cruz METRO implemented the provisions of GASB Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, the District's financial statements have been modified to reflect the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the contract payment provisions. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about a government's leasing activities. See Notes 14 and 15 for detailed discussion of the effects of Santa Cruz METRO's financial statements as a result of implementing this standard.

**GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans—an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32.** The requirements are applicable for fiscal years beginning after June 15, 2021. There was no effect on Santa Cruz METRO's accounting and financial reporting as a result of implementing this standard.

### Q. Future GASB Statements

**GASB Statement No. 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period.** The requirements of this statement are effective for fiscal years beginning after December 15, 2021. Santa Cruz METRO has not fully judged the effect of implementation of GASB Statement No. 89 as of the date of the basic financial statements.

**GASB Statement No. 91 – Conduit Debt Obligations.** The requirements of this statement are effective for fiscal years beginning after December 15, 2021. Santa Cruz METRO will implement GASB Statement No. 91 if and where applicable.

**GASB Statement No. 92 – Omnibus 2020.** The requirements of this statement related to Statement No. 87, implementation guide 2019-3, and reinsurance recoveries are to be implemented with GASB Statement No. 87; all other requirements are effective for fiscal years beginning after June 15, 2022. Santa Cruz METRO will implement GASB Statement No. 92 if and where applicable.

# Attachment A

## NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Q. Future GASB Statements (Continued)

**GASB Statement No. 93** – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Early application is encouraged. Santa Cruz METRO will implement GASB Statement No. 93 if and where applicable.

**GASB Statement No. 94** – *Public-Private and Public-Private Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Early application is encouraged. Santa Cruz METRO will implement GASB Statement No. 94 if and where applicable.

**GASB Statement No. 96** – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Santa Cruz METRO will implement GASB Statement No. 96 if and where applicable.

**GASB Statement No. 99** – *Omnibus 2022*. The requirements of this statement are effective as follows:

- The requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.
- The requirements related to leases, public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Santa Cruz METRO will implement GASB Statement No. 99 if and where applicable.

**GASB Statement No. 100** – *Accounting Changes and Error Corrections*. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all fiscal years thereafter. Earlier application is encouraged. Santa Cruz METRO will implement GASB Statement No. 100 if and where applicable.

**GASB Statement No. 101** – *Compensated Absences*. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all fiscal years thereafter. Earlier application is encouraged. The Authority will implement GASB Statement No. 101 if and where applicable.

## NOTE 2 – CASH AND CASH EQUIVALENTS

Total cash and cash equivalents (restricted and unrestricted) consist of the following at June 30, 2022:

Cash on Hand	\$ 12,930
Demand Deposits	1,215,467
Certificates of Deposit (CD)	111,728
Deposits with Trustee	3,423,140
Deposits in Santa Cruz County Pooled Investment Fund	<u>73,063,828</u>
	<u>\$ 77,827,093</u>



# Attachment A

## NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

### Cash on Hand and Cash in Banks

### **Investments Authorized by the California Government Code and Santa Cruz METRO’s Investment Policy**

The table below identifies the **investment types** that are authorized for Santa Cruz METRO by the California Government Code (or Santa Cruz METRO’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or Santa Cruz METRO’s investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers’ Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable CDs	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
Santa Cruz County Pooled Investment Fund	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of Santa Cruz METRO’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of Santa Cruz METRO’s investments by maturity:

# Attachment A

## NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

### Cash on Hand and Cash in Banks (Continued)

#### Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Santa Cruz County Pooled Investment Fund	\$ 73,063,828	\$ 73,063,828	\$ -	\$ -	\$ -

#### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or Santa Cruz METRO's investment policy, and the actual rating as of year-end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	\$ 73,063,828	N/A	\$ -	\$ -	\$ -	\$ 73,063,828

#### Concentration of Credit Risk

The investment policy of Santa Cruz METRO contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Santa Cruz METRO did not have any investments in any one issuer (other than external investment pools) that represent 5% or more of total Santa Cruz METRO's investments at June 30, 2022.

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and Santa Cruz METRO's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: None of Santa Cruz METRO's deposits with financial institutions in excess of Federal Deposit Insurance Corporation limits were held in uncollateralized accounts.

# Attachment A

## NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

### Cash on Hand and Cash in Banks (Continued)

#### **Investment in Santa Cruz County Pooled Investment Fund**

Santa Cruz METRO is a voluntary participant in the Santa Cruz County Pooled Investment Fund. The fair value of Santa Cruz METRO's investment in this pool is reported in the accompanying basic financial statements at amounts based upon Santa Cruz METRO's pro-rata share of the fair value provided by Santa Cruz County for the entire Santa Cruz County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by Santa Cruz County, which are recorded on an amortized cost basis.

#### **Fair Value Measurements**

Santa Cruz METRO categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset, either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

Santa Cruz METRO has the following recurring fair value measurements as of June 30, 2022:

		Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
Certificates of Deposit (CD)	\$ 111,728	\$ 111,728	\$ -	\$ -
Total investments measured at fair value	111,728	<u>\$ 111,728</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	<u>73,063,828</u>			
Total pooled and directed investments	<u>\$ 73,175,556</u>			

Investments in the Santa Cruz County Pooled Investment Fund totaling \$73,063,828 as of June 30, 2022, are measured at amortized cost, which approximates fair value.

# Attachment A

## NOTE 3 – RECEIVABLES

Sales taxes and other receivables at June 30, 2022 are as follows:

Sales and Use Tax Revenue	\$ 5,724,714
Other	741,853
	<u>6,466,567</u>
	<u>\$ 6,466,567</u>

Grant receivables at June 30, 2022 are as follows:

Federal Grants	\$ 5,140,755
State Grants	4,597,825
Local Grants	603,522
	<u>10,342,102</u>
	<u>\$ 10,342,102</u>

## NOTE 4 – CHANGES IN CAPITAL ASSETS

Facilities, property, and equipment at June 30 are summarized as follows:

	Balance July 1, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
Non-Depreciated Assets					
Land	\$ 11,596,311	\$ -	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	5,191,107	7,520,623	(945,843)	(7,143,017)	4,622,870
Total Non-Depreciated Assets	16,787,418	7,520,623	(945,843)	(7,143,017)	16,219,181
Depreciated Assets					
Building and Improvements	79,602,688	11,940	(12,028)	521,719	80,124,319
Revenue Vehicles	45,946,726	-	(3,309,447)	6,171,852	48,809,131
Operations Equipment	7,740,769	-	-	111,970	7,852,739
Other Equipment	2,147,277	-	(4,484)	213,060	2,355,853
Other Vehicles	1,210,602	-	-	31,841	1,242,443
Office Equipment	3,911,209	-	(52,923)	92,575	3,950,861
Right-to-Use Leased Asset	-	305,187	-	-	305,187
Total Depreciated Assets	140,559,271	317,127	(3,378,882)	7,143,017	144,640,533
Less Accumulated Depreciation and Amortization	(71,098,101)	(5,421,450)	3,378,882	-	(73,140,669)
Depreciated Assets Net of Accumulated Depreciation	69,461,170	(5,104,323)	-	7,143,017	71,499,864
Total Capital Assets	<u>\$ 86,248,588</u>	<u>\$ 2,416,300</u>	<u>\$ (945,843)</u>	<u>\$ -</u>	<u>\$ 87,719,045</u>

Depreciation and amortization expense for the fiscal year ended June 30, 2022, was \$5,421,450.

## NOTE 5 – CAPITAL CONTRIBUTIONS

Santa Cruz METRO receives capital grants from the FTA, which provide financing for the acquisition of rolling stock and construction of facilities. Santa Cruz METRO also receives capital grants under the State TDA primarily for the acquisition of rolling stock, support equipment, and the purchase of furniture and fixtures. Additionally, a portion of sales tax allocations received through local Measure D are restricted for use on capital projects, as specified in Santa Cruz METRO's Measure D funds annual expenditure plan approved by the Santa Cruz County Regional Transportation Commission (SCRTC).

# Attachment A

## **NOTE 5 – CAPITAL CONTRIBUTIONS** (Continued)

A summary of federal, state, and local capital grants and sales tax allocations for the fiscal years ended June 30 is as follows:

Federal Grants	\$ 1,496,889
State Grants	5,228,832
Measure D Local Sales Tax Allocations	<u>603,522</u>
Total Capital Contributions	<u>\$ 7,329,243</u>

## **NOTE 6 – JOINT VENTURES (JOINT POWERS AUTHORITY WITH CalTIP)**

Santa Cruz METRO participates in a joint power authority (JPA), the California Transit Indemnity Pool (CalTIP). The relationship between Santa Cruz METRO and the JPA is such that the JPA is not a component unit of Santa Cruz METRO for financial reporting purposes.

CalTIP arranges for and provides property and liability insurance for its 34 members. CalTIP is governed by a board that controls the operations of CalTIP, including selection of management and approval of operating budgets, independent of any influence by the member districts. Each member of the district pays a premium commensurate with the level of coverage requested and shares in surpluses and deficits proportionate to their participation in CalTIP.

Condensed audited financial information of CalTIP for the year ended April 30 (most recent information available) is as follows:

Total Assets	\$ 48,536,262
Total Liabilities	<u>22,421,134</u>
Fund Balance	<u>\$ 26,115,128</u>
Total Revenues	\$ 15,106,543
Total Expenditures	<u>14,136,598</u>
Net Increase in Fund Balance	<u>\$ 969,945</u>

CalTIP has not calculated Santa Cruz METRO's share of year-end assets, liabilities, or fund balance.

## **NOTE 7 – CONTINGENCIES**

Santa Cruz METRO has received state and federal funds for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, Santa Cruz METRO believes that any required reimbursement will not be material.

Additionally, Santa Cruz METRO is party to various claims and litigation in the normal course of business. In the opinion of management and in-house counsel, any ultimate losses have been adequately provided for in the basic financial statements.

# Attachment A

## **NOTE 8 – DEFINED BENEFIT PENSION PLAN**

### A. General Information About the Pension Plan

#### Plan Description

Santa Cruz METRO's defined benefit pension plan, the Miscellaneous Plan for Santa Cruz Metropolitan Transit District (the Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers with the State of California. A menu of benefit provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. Santa Cruz METRO selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board action. CalPERS issues a separate annual comprehensive financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

#### Funding Policy

There were 290 active members in the Plan as of June 30, 2022, who were required to contribute a percentage of their annual covered salary. Santa Cruz METRO is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Beginning in fiscal year 2018, CalPERS changed how it bills/collects employer contributions. The total minimum required employer contribution is now the sum of the Plan's Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars). The required employer contribution for fiscal year 2022 was 9.96% of covered payroll plus twelve (12) monthly payments of \$427,165. The contribution requirements of the Plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

The Plan's provisions and benefits in effect at June 30, 2022, are summarized as follows:

Hire Date	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit Formula	2.5%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50	52
Monthly Benefits, as a Percentage of Eligible Compensation	2.000% - 2.500%	1.000%-2.500%
Required Employee Contribution Rates	8.000%	7.000%
Required Employer Normal Cost Contribution Rates	9.960%	9.960%
Required Monthly Employer Dollar UAL Payment	\$427,165/month	\$427,165/month

***Employees Covered*** – At June 30, 2022, the following employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	413
Inactive Employees Entitled to but not yet Receiving Benefits	175
Active Employees	<u>290</u>
Total	<u><u>878</u></u>

# Attachment A

## NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

### B. Net Pension Liability

Santa Cruz METRO's net pension liability for the Plan is measured as the total pension liability, less the Plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Assumptions** – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age and Service <sup>(1)</sup>
Investment Rate of Return	7.00% <sup>(2)</sup>
Mortality	Derived using <sup>(3)</sup> CalPERS' Membership Data for all Funds

<sup>(1)</sup> Depending on age, service, and type of employment.

<sup>(2)</sup> Net of pension plan investment and administrative expenses, including inflation.

<sup>(3)</sup> The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability for June 30, 2022, was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate for 2022 is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% for 2022 will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the reporting period ended June 30, 2022, the 7.15% discount rate was not reduced for administrative expenses.

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.

# Attachment A

## NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

### B. Net Pension Liability (Continued)

In determining the long-term expected rate of return, CalPERS 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 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 table below reflects the 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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Public Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
Total	100.0%		

<sup>(a)</sup> An expected inflation of 2.00% used for this period.

<sup>(b)</sup> An expected inflation of 2.92% used for this period.



# Attachment A

## NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

### C. Changes in the Net Pension Liability

The changes in the net pension liability for the Plan follow:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2020 <sup>(1)</sup>	\$ 195,087,165	\$ 130,877,015	\$ 64,210,150
Changes in the year:			
Service Cost	3,290,053	-	3,290,053
Interest on the Total Pension Liability	13,685,292	-	13,685,292
Differences between Actual and Expected Experience	276,385	-	276,385
Contribution - Employer	-	6,469,902	(6,469,902)
Contribution - Employee	-	1,514,329	(1,514,329)
Net Investment Income <sup>(2)</sup>	-	29,474,109	(29,474,109)
Administrative Expenses	-	(130,738)	130,738
Benefit Payments, Including Refunds of Employee Contributions	(11,211,777)	(11,211,777)	-
Net Changes	6,039,953	26,115,825	(20,075,872)
Balance at June 30, 2021 <sup>(1)</sup>	\$ 201,127,118	\$ 156,992,840	\$ 44,134,278

<sup>(1)</sup> The plan fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance, and other postemployment benefits (OPEB) expense. This may differ from the Plan assets reported in the funding actuarial valuation report.

<sup>(2)</sup> Net of administrative expenses.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the net pension liability of the Plan, calculated using the discount rate for the Plan, as well as what Santa Cruz METRO's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	\$ 68,449,412
Current Discount Rate	7.15%
Net Pension Liability	\$ 44,134,278
1% Increase	8.15%
Net Pension Liability	\$ 23,824,424

**Pension Plan Fiduciary Net Position** – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

# Attachment A

## NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

### D. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2022, Santa Cruz METRO recognized a pension expense of \$1,940,239. At June 30, 2022, Santa Cruz METRO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 58,203,721	\$ -
Differences between Actual and Expected Experience	841,551	-
Changes in Assumptions	-	-
Net Differences Between Projected and Actual Earnings on Plan Investments	-	(14,653,549)
Total	\$ 59,045,272	\$ (14,653,549)

The \$58,203,721 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, as determined by CalPERS, in the measurement periods ended June 30, 2022. These subsequent contributions include \$51,364,266 of net proceeds from the sale of pension obligation bonds in fiscal year 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2022	\$ (3,120,564)
2023	(3,171,887)
2024	(3,465,728)
2025	(4,053,819)
Total	\$ (13,811,998)

### E. Payable to the Pension Plan

At June 30, 2022, Santa Cruz METRO reported a payable of \$0 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2022.

## NOTE 9 – DEFERRED COMPENSATION PLAN

Santa Cruz METRO offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and provisions of the Government Code of the State of California. The plan, available to all Santa Cruz METRO employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Santa Cruz METRO employees participate in two such plans, the Great-West Life and Annuity Insurance (Great-West) plan and the other through CalPERS.

At June 30, 2022 and 2021, all amounts held under the Great-West plan and the CalPERS plan are held in trust and are not reflected on the accompanying statements of net position as required under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Complete financial statements for Great-West can be obtained from Great-West at P.O. Box 173764, Denver, Colorado 80217-3764. Complete financial statements for CalPERS can be obtained from CalPERS at Lincoln Plaza North, 400 Q Street, Sacramento, California 94229.

# Attachment A

## **NOTE 10 – RISK MANAGEMENT**

Santa Cruz METRO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which Santa Cruz METRO carries commercial insurance. Santa Cruz METRO has also established limited risk management programs for workers' compensation, and general and vehicular liability, as described in Note 1.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been IBNR.

The IBNR for workers' compensation was based on an actuarial study dated March 2022. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Changes in the balances of claims liabilities are as follows:

Workers' Compensation Liabilities:	
Unpaid Claims, Beginning of Fiscal Year	\$ 2,333,954
Claim Payments	(967,267)
Other Adjustments (Including IBNRs)	<u>940,648</u>
Unpaid Claims Liability, End of Fiscal Year	<u>\$ 2,307,335</u>

## **NOTE 11 – TRANSPORTATION DEVELOPMENT ACT/CALIFORNIA CODE OF REGULATIONS**

Santa Cruz METRO is subject to compliance with the TDA provisions; Sections 6634 and 6637 of the California Code of Regulations; and Sections 99267, 99268.1, and 99314.6 of the PUC.

### Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund (LTF) and the STA Fund in an amount which exceeds the claimant's operating costs, less fares, federal funding, and local support. Santa Cruz METRO did not receive TDA, STA, or LTF revenues in excess of the prescribed formula amounts.

### Section 6637

Pursuant to Section 6637, a claimant must maintain its accounts and records in accordance with the Uniform System of Accounts and Records for Transit Operators adopted by the State Controller. Santa Cruz METRO did maintain its accounts and records in accordance with the Uniform System of Accounts and Records for Transit Operators.

### Sections 99267, 99268.1, and 99314.6

Santa Cruz METRO is defined in the TDA as an older operator, having started service prior to July 1, 1974. Older operators may qualify for TDA under the 50% expenditure limitation (PUC Section 99268.1) or the farebox recovery ratio (PUC Section 99268.2). Pursuant to the TDA, Santa Cruz METRO meets the 50% expenditure limitation required by PUC §99268 and does not use the alternative revenue ratio to determine eligibility for TDA funds.

# Attachment A

**NOTE 12 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)**

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Proposition 1B. Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State, as instructed by the statute, as PTMISEA. These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

The audit of public transportation operator finances, pursuant to Section 99245 of the PUC and required under the TDA, was expanded to include verification of receipt and appropriate expenditure of PTMISEA bond funds.

The Santa Cruz County Regional Transportation Commission (SCCRTC) is responsible for allocating the Proposition 1B PUC Section 99313 funds in Santa Cruz County. In December 2007, the SCCRTC programmed 100% of its share of Section 99313 Proposition 1B PTMISEA funds (approximately \$2.1 million) to Santa Cruz METRO for the Consolidated MetroBase Project. Funds audited include the SCCRTC share of PUC Section 99313 Proposition 1B transit funds that have been passed-through to Santa Cruz METRO.

During the fiscal year ended June 30, 2022, Santa Cruz METRO earned interest of \$12,130 from the State’s PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2022, qualifying expenditures of \$3,905,392 were incurred and the remaining balance of \$584,864, including accrued interest, was deferred. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of encumbrance.

**Schedule of PTMISEA Proposition 1B Grants  
For the Year Ended June 30, 2022**

<b>Balance - beginning of the year</b>	\$ 4,478,126
<b>Receipts:</b>	
Interest accrued 7/1/2021 through 6/30/2022	12,130
<b>Expenses:</b>	
Transit bus	(3,905,392)
<b>Balance - end of year</b>	<b>\$ 584,864</b>

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description** – Santa Cruz METRO provides post-retirement CalPERS medical benefits to qualified retired employees age 50 and older (including eligible dependents) who have completed at least five years of CalPERS eligible service. Santa Cruz METRO pays medical premiums depending on bargaining union and Public Employees’ Medical and Hospital Care Act (PEMHCA) contract requirements. If the retiree has ten years of Santa Cruz METRO eligible service, Santa Cruz METRO provides post-retirement dental and vision benefits for qualified retirees (including eligible dependents), and life insurance for the retiree only, until the retiree reaches age 65. The costs of providing these benefits are recognized when paid.

# Attachment A

## NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

**Employees Covered** – As of the June 30, 2021 valuation, the following current and former employees were covered by the benefit terms for the OPEB Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	320
Inactive Employees Entitled to but not yet Receiving Benefits	24
Active Employees	297
 Total	 641

**Contributions** – The contribution requirements of OPEB Plan members and Santa Cruz METRO are established and may be amended by Santa Cruz METRO's Board. These contributions are neither mandated nor guaranteed. Santa Cruz METRO has retained the right to unilaterally modify its payment for retiree health care benefits. For the fiscal year ended June 30, 2022, Santa Cruz METRO contributed \$4,259,836. Employees are not required to contribute to the OPEB Plan.

**Net OPEB Liability** – Santa Cruz METRO's net OPEB liability was measured as of June 30, 2021 and 2020, and the total OPEB liability used to calculate the net OPEB liability was the OPEB Plan Fiduciary Net Position of the OPEB trust held with CalPERS as of those dates. The following actuarial methods and assumptions were used:

Reporting Date	June 30, 2022
Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	2.18%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	5.8% in 2023, fluctuating down to 3.9% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2022

The long-term expected rate of return on OPEB Plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Public Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
 Total	 100.00%		

<sup>(a)</sup> An expected inflation of 2.00% used for this period.

<sup>(b)</sup> An expected inflation of 2.92% used for this period.

# Attachment A

## NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

**Discount Rate** – The discount rate used to measure the total OPEB liability was 2.18% June 30, 2022. The projection of cash flows used to determine the discount rate assumed that Santa Cruz METRO contributions will be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 30-year real rates of return for each asset class along with the assumed long-term inflation assumption were used to set the discount rate. The expected investment return was offset by the investment expenses of 15 basis points. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive members and beneficiaries. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Liability** – The changes in the net OPEB liability for the OPEB Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2020	\$ 132,363,695	\$ -	\$ 132,363,695
Changes in the Year:			
Service Cost	6,234,396	-	6,234,396
Interest	3,632,144	-	3,632,144
Changes of Benefit Terms	(1,866,384)	-	(1,866,384)
Differences Between Expected and Actual Experience	(14,678,446)	-	(14,678,446)
Changes in Assumptions	347,863	-	347,863
Contribution - Employer	-	4,127,225	(4,127,225)
Benefit Payments	(4,127,225)	(4,127,225)	-
Net Changes	(10,457,652)	-	(10,457,652)
Balance at June 30, 2021	\$ 121,906,043	\$ -	\$ 121,906,043

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** – The following presents the net OPEB liability of Santa Cruz METRO if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2021:

1% Decrease	1.18%
Net OPEB Liability	\$ 143,896,953
Current Discount Rate	2.18%
Net OPEB Liability	\$ 121,906,043
1% Increase	3.18%
Net OPEB Liability	\$ 104,545,025

**OPEB Plan Fiduciary Net Position** – Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Recognition of Deferred Outflows and Deferred Inflows of Resources** – Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

# Attachment A

## NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** – For the fiscal year ended June 30, 2022, Santa Cruz METRO recognized OPEB expense of \$6,056,604. As of fiscal year ended June 30, 2022, Santa Cruz METRO reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	\$ 4,259,836	\$ -
Differences between Actual and Expected Experience	-	(14,559,778)
Changes in Assumptions	6,190,447	-
<b>Total</b>	<b>\$ 10,450,283</b>	<b>\$ (14,559,778)</b>

The \$4,259,836 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2021 measurement dates will be recognized as a reduction in the net OPEB liability in the measurement periods ended June 30, 2023. In addition, future recognition of the deferred inflows of resources is shown below.

Measurement Period Ended June 30,	
2023	\$ (1,780,824)
2024	(744,854)
2025	(1,327,584)
2026	(2,089,614)
2027	(1,629,629)
Thereafter	(796,826)
<b>Total</b>	<b>\$ (8,369,331)</b>

## NOTE 14 – LONG-TERM DEBT

The following is a summary of Santa Cruz METRO's long-term debt activity for the fiscal year ended June 30, 2022:

	Balance June 30, 2021	Additions	Payments	Balance June 30, 2022	Due Within One Year
Financed Purchase	\$ 659,825	\$ -	\$ (267,172)	\$ 392,653	\$ 275,409
Lease Liability	-	305,187	(100,897)	204,290	92,201
Pension Obligation Bonds	-	51,750,000	-	51,750,000	2,785,000
<b>Total Long-Term Debt</b>	<b>\$ 659,825</b>	<b>\$ 52,055,187</b>	<b>\$ (368,069)</b>	<b>\$ 52,346,943</b>	<b>\$ 3,152,610</b>

### Financed Purchase:

Santa Cruz METRO has acquired three CNG buses under a financed purchase agreement for a total purchase price of \$1,553,250 (principal amount). The terms of the contract call for monthly payments of \$23,627 over a 72-month period beginning in December 2017, and include a 3.04% effective interest rate. At June 30, 2022, the outstanding balance was \$392,653.

# Attachment A

## NOTE 14 – LONG-TERM DEBT (Continued)

The following schedule details debt service requirements to maturity for the District's financed purchase at June 30, 2022:

Fiscal Year	Principal	Interest	Total
2023	\$ 275,409	\$ 8,121	\$ 283,530
2024	117,244	893	118,137
Total	<u>\$ 392,653</u>	<u>\$ 9,014</u>	<u>\$ 401,667</u>

### Lease Liability:

On July 1, 2021, the District entered into a 38-month lease as lessee for Paracruz facilities for the use of approximately 9,318 rentable square feet of floor space. As of June 30, 2022, the value of the lease liability is \$204,290. The District is required to make monthly fixed payments of \$7,650. Effective September 1, 2022 and 2023, the fixed payments increase to \$7,900 and \$8,100, respectively. The lease has an interest rate of 1.29%. The right-to-use leased asset useful life was 38 months as of the contract commencement. The value of the right-to-use leased asset as of June 30, 2022, was \$305,187, and accumulated amortization was \$96,375. Refer to Note 4 of the financial statements.

The annual requirements to amortize the lease liability outstanding, including interest, are as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 92,201	\$ 2,099	\$ 94,300
2024	95,916	884	96,800
2025	16,173	26	16,199
Total	<u>\$ 204,290</u>	<u>\$ 3,009</u>	<u>\$ 207,299</u>

### Pension Obligation Bonds (POBs):

In fiscal year 2022, pension obligation bonds (POBs) were issued by the District to reduce its pension unfunded actuarial liability, with the intended purpose of achieving interest rate savings by issuing the bonds at interest rates which would be less than the assumed rate of return earned on proceeds placed in the CalPERS pension plan. Santa Cruz Metropolitan Transit District issued its Sales Tax Revenue Bonds (Measure G), Series 2022 (Federally Taxable) under an Indenture of Trust, dated as of March 1, 2022, by and between the District and U.S. Bank National Association, as trustee, totaling \$51,750,000. Net proceeds of \$51,364,266 from the sale of the bonds were used to repay a portion of the District's unfunded accrued actuarial liability to CalPERS in March 2022.

The payment of debt service on the Bonds is secured solely by Measure G sales tax revenues, which are received by the District from a 0.5% sales tax collected in the County of Santa Cruz, for deposit in the debt service fund in accordance with the Indenture. The Measure G sales tax revenues are the sole source of payment of the bonds.

The pension obligation bonds are structured as fixed rate bonds with a 15-year final maturity and 10-year call (refinance) option, and were sold as a series of 15 bonds with 1 Year to 15 Year maturities, yielding interest rates from 1.539% to 3.842%, increasing with the term to maturity. The final maturity date is August 1, 2037.



# Attachment A

## NOTE 14 – LONG-TERM DEBT (Continued)

The annual requirements to amortize the pension obligation bonds liability outstanding, including interest, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,785,000	\$ 1,362,973	\$ 4,147,973
2024	2,700,000	1,445,271	4,145,271
2025	2,750,000	1,397,858	4,147,858
2026	2,805,000	1,342,107	4,147,107
2027	2,870,000	1,277,638	4,147,638
2028-2032	15,535,000	5,196,286	20,731,286
2033-2037	18,240,000	2,492,071	20,732,071
2038-2042	4,065,000	78,089	4,143,089
Total	<u>\$ 51,750,000</u>	<u>\$ 14,592,293</u>	<u>\$ 66,342,293</u>

## NOTE 15 – LESSOR TRANSACTIONS

Retail spaces at Pacific Station, Watsonville Transit Center and Scotts Valley Transit Center are leased to commercial organizations and small businesses under financing lease agreements with terms ranging from 2 to 10 years, with fixed 3% - 3.5% annual lease escalations and options to extend the leases for a period ranging from 1 to 5 additional years. Santa Cruz METRO had six financing leases subject to GASB Statement No. 87 (GASB 87) accounting treatment in this first year of implementation. Under GASB 87, leases receivable totaled \$438 thousand, lease revenue totaled \$77 thousand, and deferred inflows of resources from leases totaled \$431 thousand for the year ended June 30, 2022.

## NOTE 16 – STATE TRANSIT ASSISTANCE - STATE OF GOOD REPAIR (STA-SGR)

Santa Cruz METRO was allocated \$742,920 of State Transit Assistance - State of Good Repair (STA-SGR) program funds for fiscal year 2022. Interest earned on STA-SGR funds held in the Santa Cruz County Pooled Investment Fund during fiscal year 2022 was \$11,043. The unspent (unearned) balance of STA-SGR funds was \$2,936,015 at June 30, 2022.

## NOTE 17 – DEFICIT NET POSITION

As of June 30, 2022, Santa Cruz METRO had a deficit net position of \$20,099,515. The deficit was primarily due to the reporting of the net pension liability and the net liability for OPEB, pursuant to the implementation of GASB Statement No. 68 and GASB Statement No. 75. Santa Cruz METRO is committed to fully funding the actuarially determined contributions annually.

## NOTE 18 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management through December 9, 2022, which is the date of issuance.

# Attachment A

**REQUIRED SUPPLEMENTARY INFORMATION**

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE FISCAL YEAR ENDED JUNE 30, 2022 LAST 10 YEARS\*

	Measurement Period 2020/21	Measurement Period 2019/20	Measurement Period 2018/19	Measurement Period 2017/18
<b>Total Pension Liability</b>				
Service Cost	\$ 3,290,053	\$ 3,235,943	\$ 3,267,506	\$ 3,267,575
Interest on Total Pension Liability	13,685,292	13,261,238	12,800,717	12,278,470
Differences between Expected and Actual Experience	276,385	651,255	1,427,437	(1,025,273)
Changes in Assumptions	-	-	-	(1,231,759)
Changes in Benefits	-	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(11,211,777)</u>	<u>(10,527,796)</u>	<u>(9,997,925)</u>	<u>(9,340,636)</u>
Net Change in Total Pension Liability	6,039,953	6,620,640	7,497,735	3,948,377
Total Pension Liability - Beginning	<u>195,087,165</u>	<u>188,466,525</u>	<u>180,968,790</u>	<u>177,020,413</u>
Total Pension Liability - Ending (a)	<u><u>\$ 201,127,118</u></u>	<u><u>\$ 195,087,165</u></u>	<u><u>\$ 188,466,525</u></u>	<u><u>\$ 180,968,790</u></u>
<b>Plan Fiduciary Net Position</b>				
Net Plan to Plan Resource Movement	\$ -	\$ -	\$ -	\$ (285)
Contributions - Employer	6,469,902	5,889,484	5,300,243	4,686,264
Contributions - Employee	1,514,329	1,552,782	1,560,484	1,592,606
Net Investment Income	29,474,109	6,333,686	7,933,310	9,742,558
Administrative Expense	(130,738)	(180,179)	(87,847)	(182,238)
Benefit Payments	(11,211,777)	(10,527,796)	(9,997,925)	(9,340,636)
Other Miscellaneous Income/(Expense)	<u>-</u>	<u>-</u>	<u>285</u>	<u>(346,072)</u>
Net Change in Plan Fiduciary Net Position	26,115,825	3,067,977	4,708,550	6,152,197
Plan Fiduciary Net Position - Beginning	<u>130,877,015</u>	<u>127,809,038</u>	<u>123,100,488</u>	<u>116,948,291</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 156,992,840</u></u>	<u><u>\$ 130,877,015</u></u>	<u><u>\$ 127,809,038</u></u>	<u><u>\$ 123,100,488</u></u>
Net Pension Liability [(a) - (b)]	<u><u>\$ 44,134,278</u></u>	<u><u>\$ 64,210,150</u></u>	<u><u>\$ 60,657,487</u></u>	<u><u>\$ 57,868,302</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.06%	67.09%	67.82%	68.02%
Covered Payroll	\$ 19,677,351	\$ 18,956,899	\$ 18,780,928	\$ 19,075,163
Net Pension Liability as a Percentage of Covered Payroll	224.29%	338.72%	322.97%	303.37%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only eight years are shown.

### Notes to Schedule:

**Benefit changes.** In 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

**Changes in assumptions.** In 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (Continued) FOR THE FISCAL YEAR ENDED JUNE 30, 2022 LAST 10 YEARS\*

	Measurement Period 2016/17	Measurement Period 2015/16	Measurement Period 2014/15	Measurement Period 2013/14
<b>Total Pension Liability</b>				
Service Cost	\$ 3,422,455	\$ 3,160,455	\$ 3,294,147	\$ 3,200,114
Interest on Total Pension Liability	12,002,686	11,775,833	11,234,261	10,709,850
Differences between Expected and Actual Experience	(1,952,270)	162,174	(414,257)	-
Changes in Assumptions	9,337,059	-	(2,564,554)	-
Changes in Benefits	-	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(9,126,454)</u>	<u>(7,903,179)</u>	<u>(7,185,556)</u>	<u>(6,660,594)</u>
Net Change in Total Pension Liability	13,683,476	7,195,283	4,364,041	7,249,370
Total Pension Liability - Beginning	<u>163,336,937</u>	<u>156,141,654</u>	<u>151,777,613</u>	<u>144,528,243</u>
Total Pension Liability - Ending (a)	<u><u>\$ 177,020,413</u></u>	<u><u>\$ 163,336,937</u></u>	<u><u>\$ 156,141,654</u></u>	<u><u>\$ 151,777,613</u></u>
<b>Plan Fiduciary Net Position</b>				
Net Plan to Plan Resource Movement	\$ 107	\$ -	\$ -	\$ -
Contributions - Employer	4,047,221	3,991,447	4,086,806	3,668,004
Contributions - Employee	1,556,993	1,603,071	1,645,356	1,573,391
Net Investment Income	12,015,977	608,702	2,493,939	16,262,179
Administrative Expense	(160,362)	(67,272)	(124,362)	-
Benefit Payments	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Other Miscellaneous Income/(Expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	8,333,482	(1,767,231)	916,183	14,842,980
Plan Fiduciary Net Position - Beginning	<u>108,614,809</u>	<u>110,382,040</u>	<u>109,465,857</u>	<u>94,622,877</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 116,948,291</u></u>	<u><u>\$ 108,614,809</u></u>	<u><u>\$ 110,382,040</u></u>	<u><u>\$ 109,465,857</u></u>
Net Pension Liability [(a) - (b)]	<u><u>\$ 60,072,122</u></u>	<u><u>\$ 54,722,128</u></u>	<u><u>\$ 45,759,614</u></u>	<u><u>\$ 42,311,756</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.06%	66.50%	70.69%	72.12%
Covered Payroll	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839	\$ 18,385,116
Net Pension Liability as a Percentage of Covered Payroll	310.55%	279.91%	234.77%	230.14%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only eight years are shown.

### Notes to Schedule:

**Benefit changes.** In 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

**Changes in assumptions.** In 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CONTRIBUTIONS – PENSION FOR THE FISCAL YEAR ENDED JUNE 30, 2022 LAST 10 YEARS\*

	Fiscal Year 2021-22	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19
Actuarially Determined Contributions	\$ 6,469,902	\$ 5,889,484	\$ 5,300,243	\$ 4,686,264
Contributions in Relation to the Actuarially Determined Contributions	<u>(6,469,902)</u>	<u>(5,889,484)</u>	<u>(5,300,243)</u>	<u>(4,686,264)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 19,677,351	\$ 16,874,245	\$ 18,956,899	\$ 18,780,928
Contributions as a Percentage of Covered Payroll	32.88%	34.90%	27.96%	24.95%
	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contributions	\$ 4,047,221	\$ 3,991,447	\$ 4,086,806	\$ 3,668,004
Contributions in Relation to the Actuarially Determined Contributions	<u>(4,047,221)</u>	<u>(3,991,447)</u>	<u>(4,086,806)</u>	<u>(3,668,004)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 19,075,163	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839
Contributions as a Percentage of Covered Payroll	21.22%	20.63%	20.90%	18.82%

\*Fiscal year 2015 was the 1<sup>st</sup> year of implementation; therefore, only eight years are shown.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS FOR THE FISCAL YEAR ENDED JUNE 30, 2022 LAST 10 YEARS\*

<i>Measurement Period Date</i>	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>					
Service Cost	\$ 6,234,396	\$ 5,853,462	\$ 5,638,591	\$ 5,259,186	\$ 5,708,352
Interest	3,632,144	3,574,866	3,522,407	3,452,776	3,047,381
Actual and Expected Experience Difference	(14,678,446)	-	(4,602,485)	-	-
Changes in Assumptions	347,863	2,720,145	9,172,330	2,643,408	(7,860,824)
Changes in Benefits Terms	(1,866,384)	-	-	-	-
Benefit Payments	<u>(4,127,225)</u>	<u>(4,125,446)</u>	<u>(3,906,373)</u>	<u>(3,784,611)</u>	<u>(3,898,705)</u>
Net Change in Total OPEB Liability	(10,457,652)	8,023,027	9,824,470	7,570,759	(3,003,796)
Total OPEB Liability - Beginning	<u>132,363,695</u>	<u>124,340,668</u>	<u>114,516,198</u>	<u>106,945,439</u>	<u>109,949,235</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 121,906,043</u></u>	<u><u>\$ 132,363,695</u></u>	<u><u>\$ 124,340,668</u></u>	<u><u>\$ 114,516,198</u></u>	<u><u>\$ 106,945,439</u></u>
<b>Plan Fiduciary Net Position</b>					
Contributions - Employer	\$ 4,127,225	\$ 4,125,446	\$ 3,906,373	\$ 3,784,611	\$ 3,898,705
Benefit Payments	<u>(4,127,225)</u>	<u>(4,125,446)</u>	<u>(3,906,373)</u>	<u>(3,784,611)</u>	<u>(3,898,705)</u>
Net Change in Plan Fiduciary Net Position	-	-	-	-	-
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Net OPEB Liability [(a) - (b)]	<u><u>\$ 121,906,043</u></u>	<u><u>\$ 132,363,695</u></u>	<u><u>\$ 124,340,668</u></u>	<u><u>\$ 114,516,198</u></u>	<u><u>\$ 106,945,439</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Payroll	\$ 21,475,538	\$ 23,485,892	\$ 22,768,353	\$ 22,116,603	\$ 22,483,538
Net OPEB Liability as a Percentage of Covered Payroll	567.65%	563.59%	546.11%	517.78%	475.66%

\* Fiscal year 2018 was the 1<sup>st</sup> year of implementation; therefore, only five years are shown.

### Notes to the Schedule:

Historical information is required only for measurement periods for which GASB Statement No. 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CONTRIBUTIONS – OPEB FOR THE FISCAL YEAR ENDED JUNE 30, 2022 LAST 10 YEARS\*

	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Actuarially Determined Contributions	\$ 4,127,225	\$ 4,125,446	\$ 3,906,373	\$ 3,784,611	\$ 3,898,705
Contributions in Relation to the Actuarially Determined Contributions	<u>(4,127,225)</u>	<u>(4,125,446)</u>	<u>(3,906,373)</u>	<u>(3,784,611)</u>	<u>(3,898,705)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 21,336,510	\$ 21,475,538	\$ 23,485,892	\$ 22,768,353	\$ 22,116,603
Contributions as a Percentage of Covered Payroll	19.34%	19.21%	16.63%	16.62%	17.63%

### Notes to the Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2021, were from the June 30, 2020 actuarial valuation.

### Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	2.18%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	5.8% in 2023, fluctuating down to 3.9% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2022

\* Fiscal year 2018 was the 1<sup>st</sup> year of implementation; therefore, only five years are shown.

# Attachment A

**SUPPLEMENTARY INFORMATION**



# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENT OF OPERATING EXPENSES FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Labor	
Operators' salaries and wages	\$ 7,724,637
Other salaries and wages	8,440,598
Overtime	2,838,450
	<hr/>
	19,003,685
	<hr/>
Fringe Benefits	
Absence with pay	4,141,354
Pension plans	6,839,455
Vision, medical, and dental plans	6,547,961
Workers' compensation insurance	914,029
Disability insurance	384,699
Other fringe benefits	341,956
Other postemployment benefits	1,149,992
	<hr/>
	20,319,446
	<hr/>
Services	
Accounting	96,013
Administrative and banking	383,565
Professional and technical services	1,756,076
Security	660,931
Outside repairs	1,591,858
Other services	173,304
	<hr/>
	4,661,747
	<hr/>
Materials and Supplies Consumed	
Fuels and lubricants	1,981,109
Tires and tubes	204,954
Vehicle parts	1,200,681
Other materials and supplies	615,293
	<hr/>
	4,002,037
	<hr/>
Utilities	617,567
Casualty and Liability Costs	1,171,441
Taxes and Licenses	48,449
Miscellaneous Expenses	252,083
Equipment and Facility Lease	192,494
Debt Issuance Cost	377,365
Depreciation and Amortization	5,421,450
	<hr/>
Total Operating Expenses	<u>\$ 56,067,764</u>

# Attachment A

**OTHER SCHEDULES AND REPORTS**

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
Federal Transit Administration (FTA)				
Cluster Defined by the Department of Transportation				
<b>Section 3/5309 Consolidation</b>				
Pacific Station Expansion FY2006 (Design/Engineering)	20.500	CA-04-0021	\$ -	\$ 4,114
<b>Section 9/5307</b>				
Operating Assistance	20.507	FY-2021-113-00	-	7,297,339
Operating Assistance - CRRSAA	20.507	CA-2021-114-01	-	7,253,973
Operating Assistance - ARPA	20.507	CA-2022-044-01	-	4,250,587
Operating Assistance - ARPA	20.507	CA-2022-044-02	-	1,653,007
			-	20,454,906
<b>Section 5339</b>				
FY16 5339 (c) LoNo Discretionary	20.526	CA-2017-071-00	-	18,299
FY18 5339(a) Bus & Bus Facilities	20.526	CA-2019-070-00	-	255,310
FY19 5339(a) Bus & Bus Facilities	20.526	CA-2020-088-00	-	129,553
FY20 5339(a) Bus & Bus Facilities	20.526	CA-2021-029-00	-	31,840
FY19 5339 Discretionary (CalTrans)	20.526	CA-2021-125-00	-	1,057,776
			-	1,492,778
Total Federal Transit Cluster			-	21,951,798
Total Federal Transit Administration			-	21,951,798
<b>Section 18/5311-5317</b>				
Rural Operating Assistance - 5311	20.509	CA-2022-055	-	198,556
Rural Operating Assistance - 5311 - CARES Act	20.509	CA-2020-285	-	30
			-	198,586
Total Expenditures of Federal Awards			\$ -	\$ 22,150,384

See accompanying notes to schedule of expenditures of federal awards.

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2022

### **NOTE 1 – GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO). Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agents, is included on the schedule.

### **NOTE 2 – BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Federal capital grant funds are used to purchase property, plant, and equipment. Federal grants receivable are included in capital and operating grants receivable, which also includes receivables from state and local grant sources.

### **NOTE 3 – INDIRECT COST RATE**

Santa Cruz METRO has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, 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 Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's basic financial statements, and have issued our report thereon dated December 9, 2022.

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Cruz METRO's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz METRO's internal control. Accordingly, we do not express an opinion on the effectiveness of c'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 or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Santa Cruz METRO'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 financial statements. 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*.

# Attachment A

## 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 Santa Cruz METRO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 9, 2022

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each Major Federal Program*

We have audited Santa Cruz METRO's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Santa Cruz METRO's major federal programs for the fiscal year ended June 30, 2022. Santa Cruz METRO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Santa Cruz METRO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

#### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Santa Cruz METRO and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Santa Cruz METRO's compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Santa Cruz METRO's federal programs.

# Attachment A

## ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Santa Cruz METRO's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Santa Cruz METRO's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Santa Cruz METRO's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Santa Cruz METRO's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz METRO's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



# Attachment A

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

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Santa Cruz METRO as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Santa Cruz METROs basic financial statements. We issued our report thereon dated December 9, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 9, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE TRANSPORTATION COMMISSION**

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the U.S. Office of Management and Budget (OMB) *Compliance Supplement*; and the statutes, rules, and regulations of the California Transportation Development Act (TDA), the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) as of and for the fiscal year ended June 30, 2022, and have issued our report thereon dated December 9, 2022.

### **Compliance**

As part of obtaining reasonable assurance about whether Santa Cruz METRO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests to determine that allocations made and expenditures paid by Santa Cruz METRO were made in accordance with the allocation instructions and resolutions of the Transportation Commission and in conformance with the TDA. Specifically, we performed each of the specific tasks identified in the California Code of Regulations Sections 6666 and 6667 that are applicable to Santa Cruz METRO. In connection with our audit, nothing came to our attention that caused us to believe Santa Cruz METRO failed to comply with the statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Transportation Commission. 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.

Also as part of our audit, we performed tests of compliance to determine whether certain state funds were received and expended in accordance with the applicable bond act and state accounting requirements.

### **Other Matters**

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Of the \$19.925 billion of state general obligation bonds authorized, \$4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety, or modernization improvements; capital service enhancements or expansions; new capital projects; bus rapid transit improvements; or for rolling stock procurement, rehabilitation, or replacement.

# Attachment A

As of June 30, 2022, PTMISEA interest received and funds expended were verified in the course of our audit as follows:

## Schedule of PTMISEA Proposition 1B Grants For the Year Ended June 30, 2022

<b>Balance - beginning of the year</b>	\$ 4,478,126
<b>Receipts:</b>	
Interest accrued 7/1/2021 through 6/30/2022	12,130
<b>Expenses:</b>	
Transit bus	<u>(3,905,392)</u>
<b>Balance - end of year</b>	<u>\$ 584,864</u>

The results of our tests indicated that, with respect to the items tested, Santa Cruz METRO complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Santa Cruz METRO had not complied, in all material respects, with those provisions.

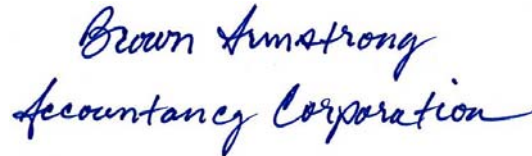
### Purpose of this Report

The purpose of this report is solely to describe the scope of our internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

### Restriction on Use

This report is intended solely for the information and use of management and the Board of Directors of Santa Cruz METRO, the California Department of Transportation, the State Controller's Office, and officials of applicable grantor agencies. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
December 9, 2022

# Attachment A

## FINDINGS AND QUESTIONED COSTS SECTION

# Attachment A

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2022

### I. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?  Yes  No

Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major federal programs:

Material weakness identified?  Yes  No

Reportable conditions identified that are not considered to be material weaknesses?  Yes  None reported

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?  Yes  No

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Clusters</u>
	Federal Transit Cluster
20.500	Federal Transit Capital Investment Grants – Section 3
20.507	Federal Transit Formula Grants – Section 9
20.526	Bus and Bus Facilities Formula and Discretionary Programs

Dollar threshold used to distinguish type A and B programs: \$750,000

Auditee qualified as low risk auditee?  Yes  No

### II. Findings Relating to Financial Statements Required Under Generally Accepted Government Auditing Standards

None.

### III. Federal Award Findings and Questioned Costs

None.

# Attachment A

## IV. State Award Findings and Questioned Costs

None.

## V. A Summary of Prior Audit (all June 30, 2021) Findings and Current Year Status Follows

None.

# Attachment B



www.ba.cpa  
661-324-4971

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

We have audited the financial statements of Santa Cruz Metropolitan Transit District (Santa Cruz METRO) for the fiscal year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 2, 2022. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Santa Cruz METRO are described in Note 1 to the financial statements. Santa Cruz METRO implemented Governmental Accounting Standard Board (GASB) Statement No. 87 – *Leases* during the fiscal year ended June 30, 2022. We noted no transactions entered into by Santa Cruz METRO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets for purposes of calculating annual depreciation expense to be reported in Santa Cruz METRO's results of operations. Estimated useful lives range from three to thirty-nine years. We evaluated the key factors and assumptions used to develop the estimates of useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of both its net pension liability and net other postemployment benefits (OPEB) liability are based on actuarial valuations that involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. We evaluated the key factors and assumptions used to develop the estimates of the net pension liability and net OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued claims is based upon management's past experience and useful lives. We evaluated the key factors and assumptions used to develop the estimates of the accrued claims in determining that they are reasonable in relation to the financial statements taken as a whole.

**BAKERSFIELD**  
4200 Truxtun Avenue, Suite 300  
Bakersfield, CA 93309  
661-324-4971

**FRESNO**  
10 River Park Place East, Suite 208  
Fresno, CA 93720  
559-476-3592

**STOCKTON**  
2423 West March Lane, Suite 202  
Stockton, CA 95219  
209-451-4833

# Attachment B

Management's estimate of the discount rate for the purpose of calculating the right-to-use leased asset and liability, and lease revenue. We evaluated the key factors and assumptions used to develop the discount rate for the purpose of calculating the right-to-use leased asset and liability, and lease revenue in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of capital assets, unpaid claims, pension plan, OPEB, lease liability and lease revenue in notes to the financial statements.

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

## *Difficulties Encountered in Performing the Audit*

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

## *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements occurred during the course of our audit.

## *Disagreements with Management*

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

## *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 9, 2022.

## *Management Consultations with Other Independent Accountants*

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

## *Other Audit Findings or Issues*

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

## **Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Contributions – Pension, Schedule of Changes in OPEB Liability and Related Ratios, and Schedule of Contributions – OPEB, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



# Attachment B

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

## **Restriction on Use**

This information is intended solely for the information and use of the Board of Directors and management of Santa Cruz METRO and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 9, 2022

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# Attachment C

**SANTA CRUZ METROPOLITAN  
TRANSIT DISTRICT  
MEASURE D PROGRAM**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2022**

# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measure D Program of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Measure D Program of Santa Cruz METRO's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure D Program of Santa Cruz METRO, as of June 30, 2022, and the respective changes in financial position for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Santa Cruz METRO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Measure D Program of Santa Cruz METRO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance

# Attachment C

and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Cruz METRO's internal control relating to the Measure D Program. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Measure D Program of Santa Cruz METRO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Measure D Program and do not purport to, and do not, present fairly the financial positions of Santa Cruz METRO as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Supplementary Information**

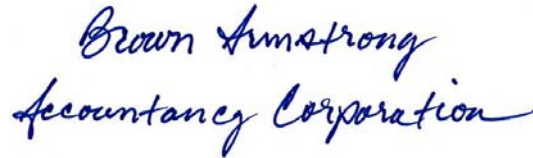
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure D Program of Santa Cruz METRO's basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balance – budget and actual is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenditures, and changes in fund balance – budget and actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

# Attachment C

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2022, on our consideration of Santa Cruz METRO's internal control over financial reporting, relating to the Measure D Program, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, relating to the Measure D Program, and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control over financial reporting or on compliance relating to the Measure D Program. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control over financial reporting and compliance relating to the Measure D Program.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 9, 2022

# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
BALANCE SHEET  
JUNE 30, 2022**

## **ASSETS**

Cash and Investments	\$ 6,820,314
Intergovernmental Receivables	
Receivables from SCCRTC for Measure D Allocations	<u>757,581</u>
<b>Total Assets</b>	<b><u><u>\$ 7,577,895</u></u></b>

## **LIABILITIES AND FUND BALANCE**

Liabilities	
Unearned Income	\$ 6,974,373
Interfund Payable	
Reimbursements for Capital Expenditures	<u>603,522</u>
Total Liabilities	<u>7,577,895</u>
Fund Balance	
Restricted	<u>-</u>
Total Fund Balance	<u>-</u>
<b>Total Liabilities and Fund Balance</b>	<b><u><u>\$ 7,577,895</u></u></b>

See accompanying Notes to Financial Statements.



# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2022**

## REVENUES

Measure D Revenue	\$ 1,984,619
Interest Income	29,732
	<hr/>
<b>Total Revenues</b>	<b>2,014,351</b>

## EXPENDITURES

Transit Operations	1,410,829
Transit Capital	603,522
	<hr/>
<b>Total Expenditures</b>	<b>2,014,351</b>

**REVENUES OVER EXPENDITURES** -

## FUND BALANCE

Beginning of Year	-
	<hr/>
End of Year	\$ -
	<hr/> <hr/>

See accompanying Notes to Financial Statements.

# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2022**

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### A. Reporting Entity

On November 8, 2016, the voters of Santa Cruz County, pursuant to the provisions of the Local Transportation Authority and Improvement Act (the Act), California Public Utilities Code, Division 19, Section 180000 et seq., adopted an ordinance approving the Santa Cruz County Transportation Improvement Plan Measure (Measure D), thereby authorizing Santa Cruz County Regional Transportation Commission (SCCRTC) to administer the proceeds from a retail transaction and use tax of one-half of one-percent (0.5%) that will last 30 years from the initial date of collection. The Measure D Ordinance authorizes SCCRTC to allocate, administer, and oversee the expenditure of all Measure D revenues and to distribute revenues no less than quarterly to local agencies (including Santa Cruz Metropolitan Transit District).

All transactions of the Measure D Program by the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) are included as an enterprise fund in the basic financial statements of Santa Cruz METRO. These statements account for Santa Cruz METRO's share of revenues earned and expenditures incurred under Santa Cruz METRO's Transportation for Seniors and People with Disabilities Program. The accompanying financial statements are for the Measure D Program only and are not intended to fairly present the financial position or results of operations of Santa Cruz METRO.

### B. Basis of Accounting and Measurement Focus

Santa Cruz METRO uses an enterprise fund format to report its activities for financial statement purposes. The accompanying financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred regardless of when the related cash flows take place.

### C. Use of Estimates

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

## **NOTE 2 – MEASURE D PROGRAM**

Under Measure D, Santa Cruz METRO receives 16% of the proceeds (after administrative costs) of a one-half cent local sales tax, to be used for transportation-related expenditures. This Measure was adopted with the intention that the funds generated by the sales tax will not fund transportation-related expenditures previously paid for by existing funds, revenues, and other resources, but rather, will be used for additional projects and programs, so as to supplement (and not replace) the revenue funds designated and used for transportation programs and expenditures.

# Attachment C

## **NOTE 2 – MEASURE D PROGRAM** (Continued)

Santa Cruz METRO must receive Board approval of a 5-year Program of Projects prior to expending Measure D funding on any project or program, in accordance with the requirements of the Measure D Master Funding Agreement. The approved 5-year Program of Projects is submitted to the SCCRTC annually, and includes information about each of the projects to be funded with the estimated annual Measure D revenues, allocated according to the Measure D Ordinance and Expenditure Plan.

The major project funded by Measure D was as follows:

*Transportation for Seniors and People with Disabilities Program* – To provide transit services to seniors and people with disabilities, and to purchase transportation capital improvements.

In fiscal year 2022, \$1,410,829 of Measure D sales tax proceeds were used to fund bus operator wages and benefits in order to sustain paratransit service levels during the year. Measure D capital outlays of \$603,522 were used to purchase three (3) New Flyer CNG buses, two (2) 35' CNG buses, and two (2) new Proterra zero-emission buses during the year.

## **NOTE 3 – CASH AND INVESTMENTS**

Cash and investments are tracked and held in a separate Measure D fund account in the Santa Cruz County Pooled Investment Fund, and consisted of \$6,820,314 of Measure D sales tax allocations and interest earnings at June 30, 2022.

See Santa Cruz METRO's basic financial statements for disclosures related to the cash and investments as prescribed by GASB Statement No. 40. The basic financial statements may be obtained from Santa Cruz METRO at 110 Vernon Street, Santa Cruz, CA 95060.

## **NOTE 4 – INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables of \$757,581 represent the Measure D Program sales tax allocations for fiscal year 2022 that were received from the Santa Cruz County Regional Transportation Commission (SCCRTC) after June 30, 2022.

## **NOTE 5 – UNEARNED INCOME**

Measure D Program sales tax allocations that are allocated to Santa Cruz METRO during the fiscal year are restricted and reported as liabilities (unearned income) until spent on the specific purpose for which they were intended, as outlined in the 5-Year Program of Projects approved by the Santa Cruz METRO Board of Directors and submitted to the SCCRTC. The balance of unearned Measure D proceeds is currently committed as cost sharing on awarded capital grants in progress.

## **NOTE 6 – INTERFUND PAYABLE**

Interfund payables of \$603,522 represent amounts due to Santa Cruz METRO's general operating fund, in order to reimburse the agency for the Measure D Program capital expenditures paid for with Santa Cruz METRO unrestricted monies during the fiscal year.

## **NOTE 7 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through December 9, 2022, which is the date of issuance.

# Attachment C

## SUPPLEMENTARY INFORMATION

# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Measure D Revenue	\$ 3,556,627	\$ 3,556,627	\$ 1,984,619	\$ (1,572,008)
Interest Income	-	-	29,732	29,732
<b>Total Revenues</b>	<u>3,556,627</u>	<u>3,556,627</u>	<u>2,014,351</u>	<u>(1,542,276)</u>
<b>EXPENDITURES</b>				
Transit Operations	1,410,829	1,410,829	1,410,829	-
Transit Capital	2,145,798	2,145,798	603,522	1,542,276
<b>Total Expenditures</b>	<u>3,556,627</u>	<u>3,556,627</u>	<u>2,014,351</u>	<u>1,542,276</u>
<b>REVENUES OVER EXPENDITURES</b>	-	-	-	-
<b>FUND BALANCE</b>				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, 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 Measure D Program of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's Measure D Program's financial statements, and have issued our report thereon dated December 9, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Cruz METRO's internal control over financial reporting (internal control), relating to the Measure D Program, as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz METRO's internal control relating to the Measure D Program. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO's internal control relating to the Measure D Program.

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 Santa Cruz METRO's Measure D Program'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.

# Attachment C

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure D Program's financial statements are free of material misstatement, we performed tests of Santa Cruz METRO's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 relating to the Measure D Program and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control or on compliance relating to the Measure D Program. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control and compliance relating to the Measure D Program. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
December 9, 2022

## INDEPENDENT AUDITOR'S REPORT ON MEASURE D PROGRAM COMPLIANCE

To the Board of Directors  
Santa Cruz Metropolitan Transit District  
Santa Cruz, California

### Compliance

We have audited 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, the basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) Measure D Program as of and for the year ended June 30, 2022, and the related notes, and have issued our report thereon dated December 9, 2022.

### Management's Responsibility

Compliance with the requirements referred to above is the responsibility of Santa Cruz METRO's management.

### Auditor's Responsibility

Our responsibility is to express an opinion on Santa Cruz METRO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the agreement between Santa Cruz METRO and Santa Cruz County Regional Transportation Commission (SCCRTC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Measure D Program occurred. An audit also includes examining, on a test basis, evidence about Santa Cruz METRO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Cruz METRO's compliance with those requirements.

### Opinion on Measure D Program

In our opinion, Santa Cruz METRO complied, in all material respects, with the compliance requirements referred to above that are applicable to the Measure D Program for the year ended June 30, 2022.



# Attachment C

## Internal Control Over Compliance

Management of Santa Cruz METRO is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Santa Cruz METRO's internal control over compliance relating to the Measure D Program as a basis for designing auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance relating to the Measure D Program. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz METRO's internal control over compliance relating to the Measure D Program.

*A deficiency in internal control over compliance* 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, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the agreement between Santa Cruz METRO and SCCRTC. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
December 9, 2022

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