



**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT (METRO) FINANCE, BUDGET  
AND AUDIT STANDING COMMITTEE AGENDA REGULAR MEETING  
JANUARY 8, 2021 – 8:00AM**

**DUE TO COVID-19, THE JANUARY 8, 2021 SANTA CRUZ METRO FINANCE, BUDGET AND  
AUDIT STANDING COMMITTEE MEETING WILL BE CONDUCTED AS A  
TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR’S EXECUTIVE  
ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS OF THE  
RALPH M. BROWN ACT**

**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](#) and entering the passcode (547670) or by calling 1-669-900-9128 Meeting ID 890 2782 1506

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 Board’s correspondence that is posted online at the board meeting packet link.

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 Trina Coffman-Gomez  
Director Donna Lind  
Director Donna Meyers  
Director Mike Rotkin

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

Alex Clifford  
Julie Sherman

METRO CEO/General Manager  
METRO District Counsel

**MEETING TIME: 8:00AM**

**NOTE: THE COMMITTEE CHAIR MAY TAKE ITEMS OUT OF ORDER**

**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 MONTHLY FINANCIAL UPDATE**

Kristina Mihaylova, Finance Deputy Director

**6 ORAL SUMMARY OF FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED JUNE 30, 2020**

Kristina Mihaylova, Finance Deputy Director

**A. BROWN ARMSTRONG LETTER**

**B. AGREED UPON CONDITIONS REPORT**

**C. FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT - JUNE 30, 2020 AND 2019**

**D. MEASURE D PROGRAM FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED JUNE 30, 2020**

**7 CEO COVID UPDATE**

Alex Clifford, CEO/General Manager

**8 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@scmtd.com](mailto:accessibility@scmtd.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@scmtd.com](mailto:boardinquiries@scmtd.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 November 30, 2020**

Finance, Budget & Audit Standing Committee Meeting

*January 8, 2021*

Kristina Mihaylova, Finance Deputy Director

# FY21 Operating Revenue and Expenses For the Month Ending November 30, 2020

42% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
<b>Operating Revenue:</b>	<b>\$3,198</b>	<b>\$3,830</b>	<b>(\$633)</b>
<b>Operating Expenses:</b>			
Labor - Regular	\$1,284	\$1,563	\$279
Labor - Overtime	\$109	\$130	\$21
Fringe Benefits	\$1,547	\$1,719	\$172
Non-Personnel Expenses	\$666	\$803	\$137
<b>Total Operating Expenses:</b>	<b>\$3,606</b>	<b>\$4,214</b>	<b>\$608</b>
<b>Transfers:</b>	<b>(\$121)</b>	<b>(\$174)</b>	<b>(\$53)</b>
<b>Operating Balance:</b>			<b>\$28</b>

# FY21 Operating Revenue and Expenses

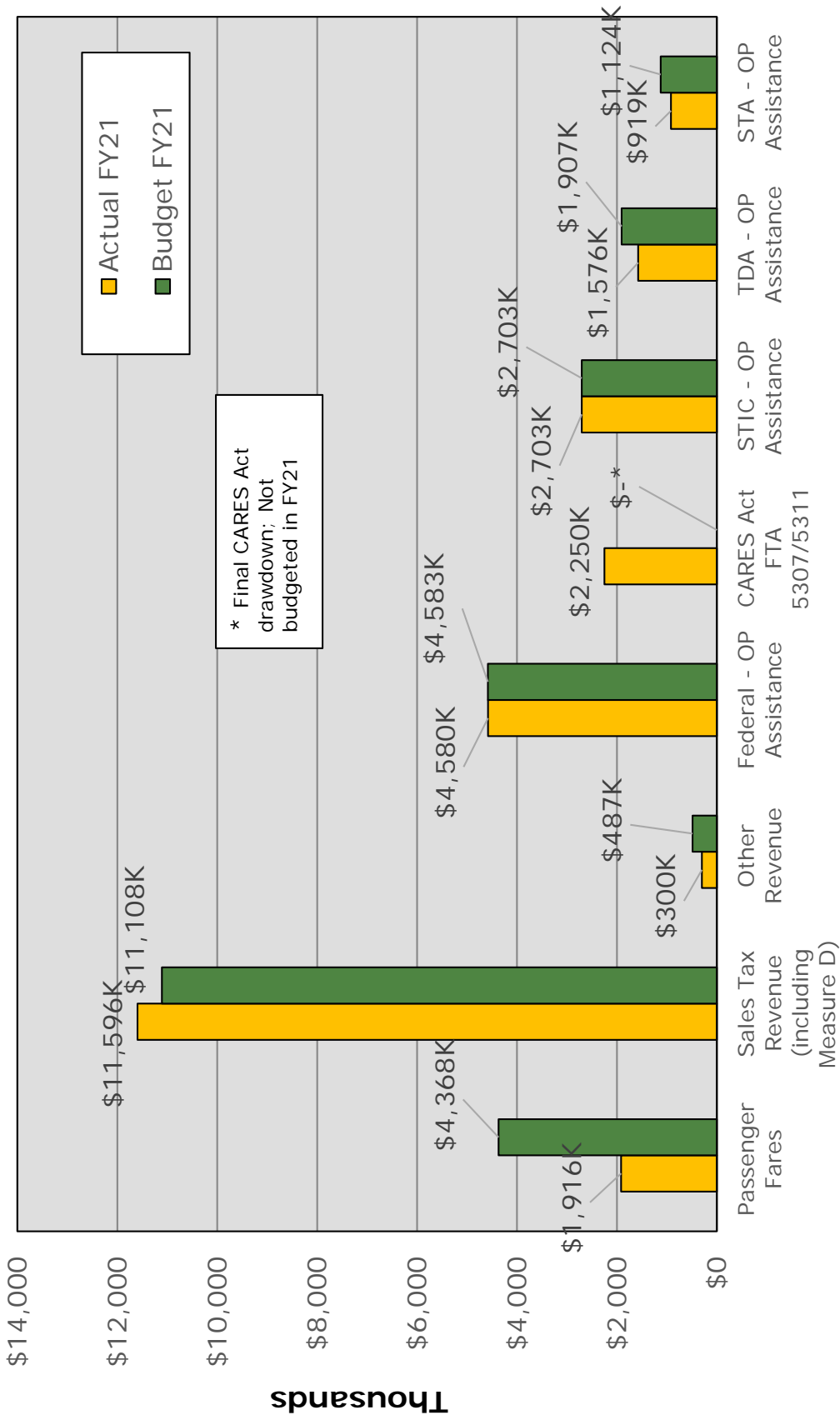
## Year to Date as of November 30, 2020

42% of Fiscal Year Elapsed

\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
<b>Operating Revenue:</b>	<b>\$25,841</b>	<b>\$26,279</b>	<b>(\$438)</b>
<b>Operating Expenses:</b>			
Labor - Regular	\$6,704	\$7,813	\$1,109
Labor - Overtime	\$377	\$649	\$272
Fringe Benefits	\$12,161	\$13,027	\$866
Non-Personnel Expenses	\$3,499	\$4,014	\$515
<b>Total Operating Expenses:</b>	<b>\$22,741</b>	<b>\$25,503</b>	<b>\$2,762</b>
<b>Transfers to Capital Budget:</b>	<b>(\$973)</b>	<b>(\$871)</b>	<b>\$102</b>
<b>Transfers from COVID Reserves:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Operating Balance:</b>	<b><u>\$2,127*</u></b>	<b>(\$95)</b>	<b>\$2,222</b>

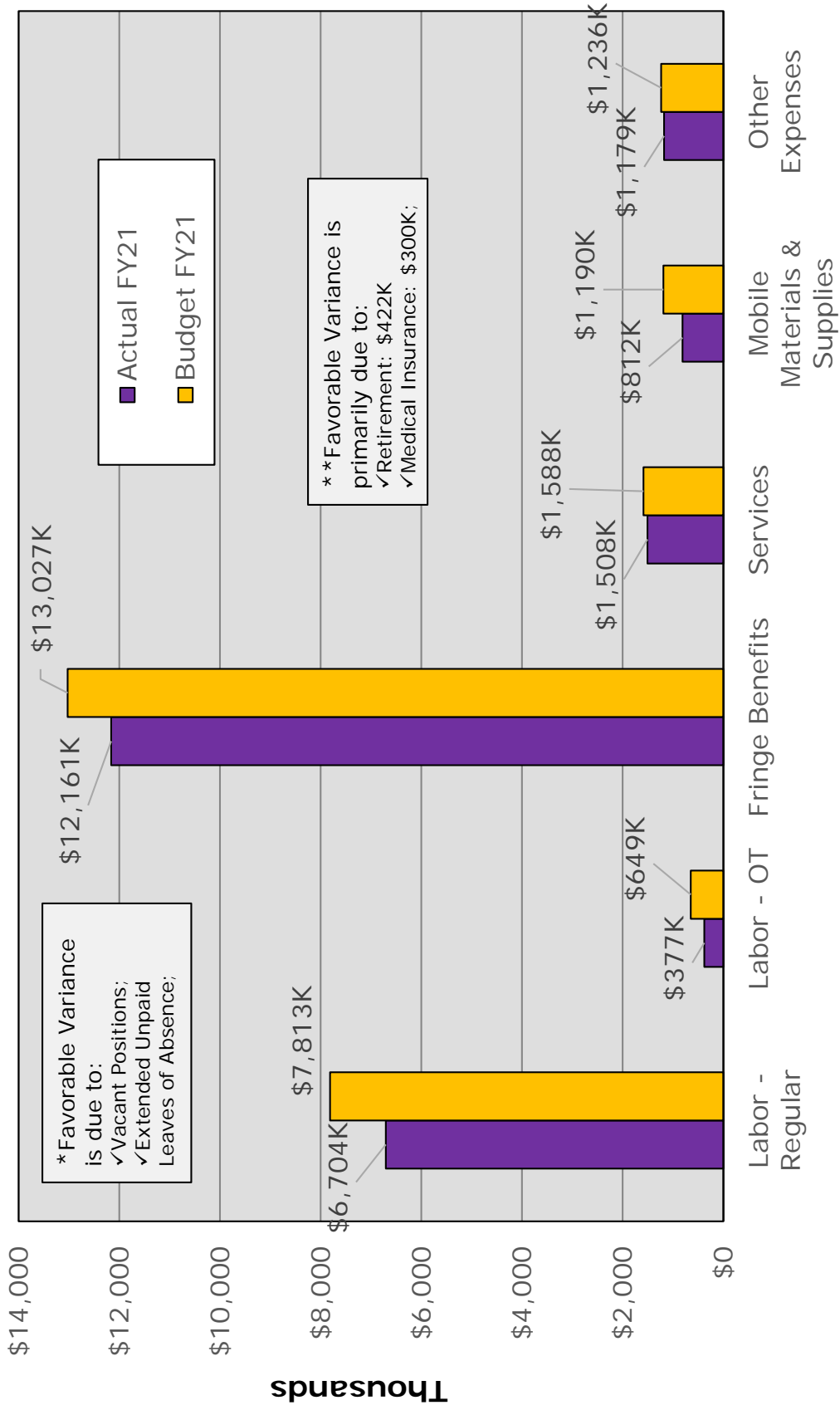
\*COVID Reserve balance remains **\$18M**, as the Operating Balance YTD is positive (see slide #13 for most recent final FY20 Schedule of Reserve Account Balances, as of 06/30/2020)

# FY21 Operating Revenue by Major Funding Source Year to Date as of November 30, 2020 42% of Fiscal Year Elapsed

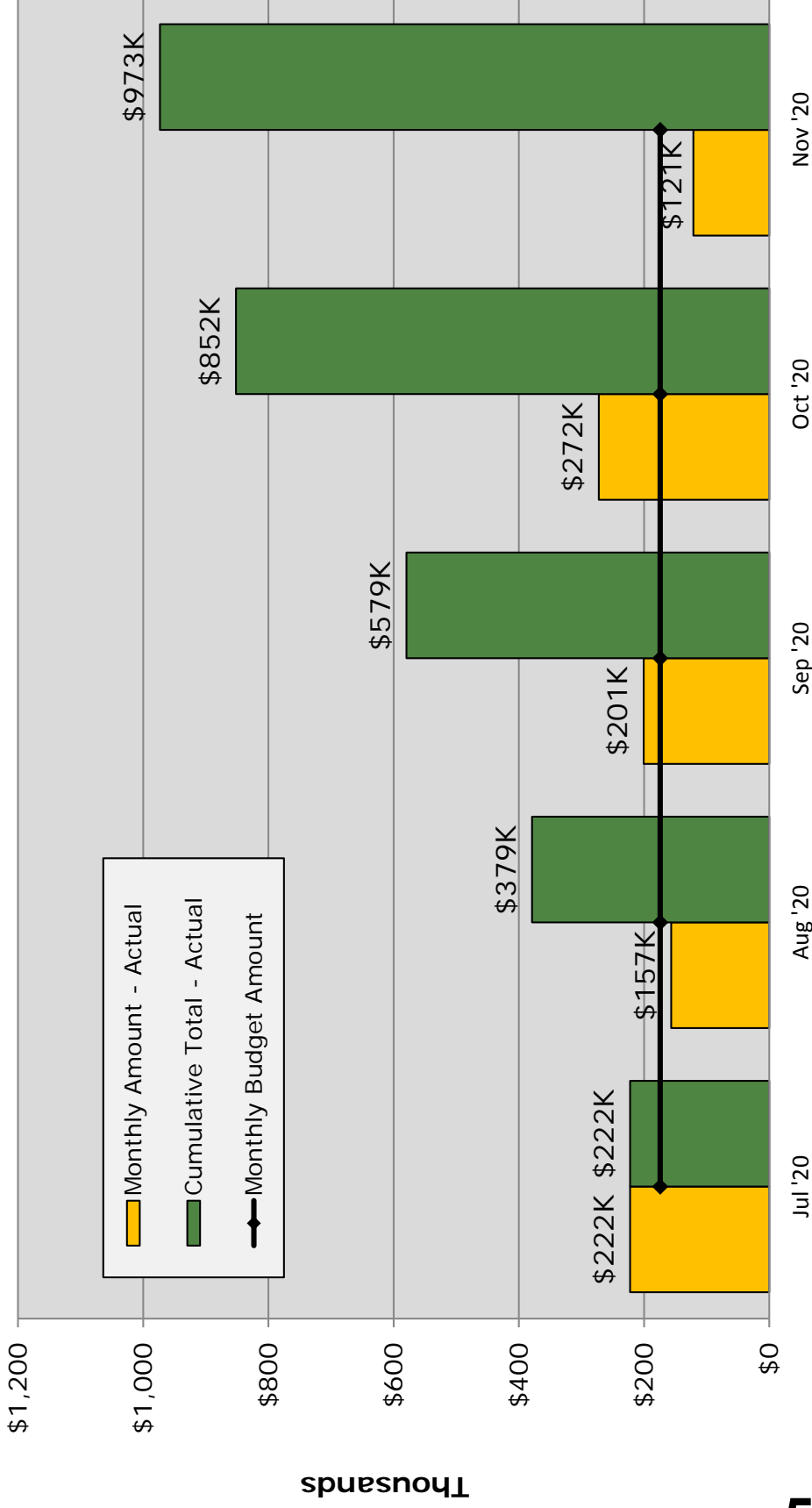


# FY21 Operating Expenses by Major Expense Category Year to Date as of November 30, 2020

42% of Fiscal Year Elapsed



**FY21 Transfers to Capital Budget: Measure D)**  
**Year to Date as of November 30, 2020**  
**42% of Fiscal Year Elapsed**



**FY21 Transfer to Capital Budget Commitment = \$2.3M (Measure D and STA)**  
**"Bus Replacement Program"**

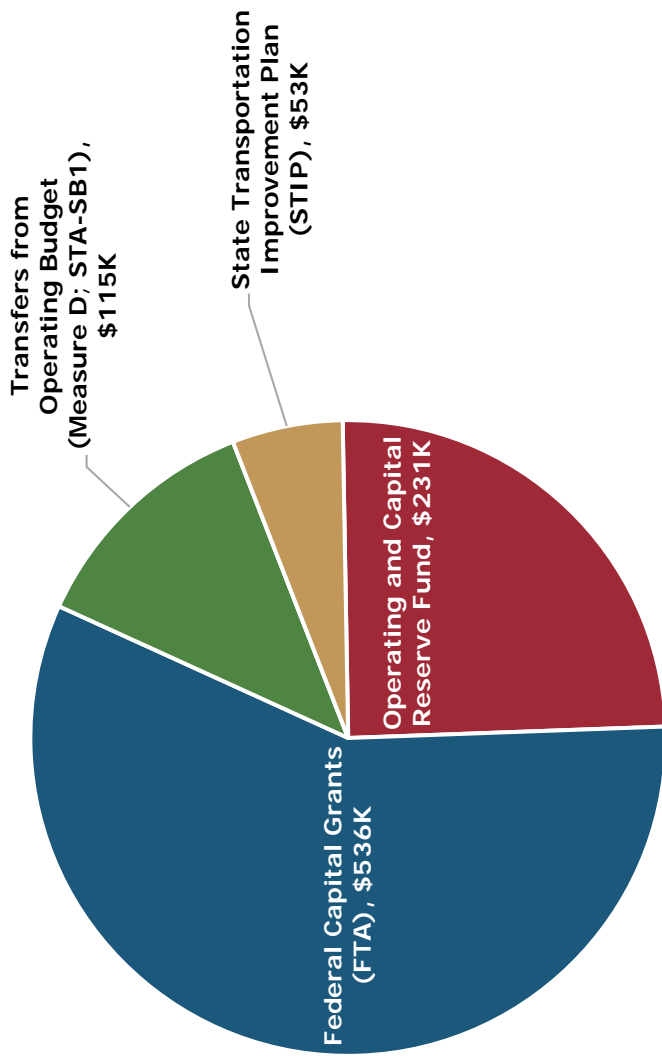


# FY21 Capital Budget

Spending Year to Date (by Funding Source) as of November 30, 2020

42% of Fiscal Year Elapsed

	Actual YTD	Total FY21 Budget	% Spent YTD
<b>Total Capital Funding:</b>	<b>\$934,684</b>	<b>\$27,628,620</b>	<b>3.3%</b>



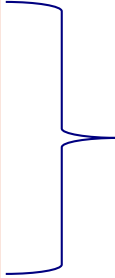
Actual YTD

# FY21 Capital Budget

Spending Year to Date as of November 30, 2020

42% of Fiscal Year Elapsed

	Actual YTD	Total FY21 Budget	% Spent YTD
<b>Total Capital Projects:</b>	\$934,684	\$27,628,620	3.3%



Project Category:	Actual Spending YTD:
Construction Related Projects	\$17K
Facilities Repair & Improvements	\$582K
Revenue Veh Replacement & Campaigns	\$180K
Revenue Veh Replacement & Campaigns - Electrification Projects	\$76K
Non-Revenue Vehicle Replacement	\$0.98K
Fleet & Maintenance Equipment	\$8K
Misc.	\$72K

# FY21 Top Nine Capital Projects

Status Report: Year to Date as of November 30, 2020

42% of Fiscal Year Elapsed

Top Capital Projects: (=> \$1M)	Actual YTD	Total FY21 Budget: \$27.6M	% Spent YTD	Status:
Electric Bus (3) + Infra & Proj Mgmt. (FTA 5339C Low-No FY16)	\$0	\$4.7M	0%	Project has been on hold due to lack of technology meeting our requirements. Procurement specifications under development for three over-the-road coaches for Hwy 17.
Replace Six (6) CNG Buses (PTMISEA)	\$0	\$4.2M	0%	Purchase placed on Dec 10, 2020
Metro owned Paracruz Facility FY20 LPP, Grant Match for 5339(b)	\$16K	\$2.3M	1%	Project currently progressing to grant application stage – expected for 2021 FTA 5339b Bus and Bus Facilities Grant application.
FY18 STIP – 2 ZEBs (STIP, LPP, HVIP = \$300K) & 2 Electric Buses (Watsonville Circulator & Service) (FY15/16 & 17/18 LCTOP)	\$0	\$4.4M	0%	Buses now scheduled to arrive in 1 <sup>st</sup> Qtr 2021; these have been delayed several months due to Altoona testing.
Pacific Station/Metro Center Redevelopment w/City of SC (Bus Replacement Funds – Baord Commitment: \$4M (\$1M/year : FY20 – FY23)	\$0.9K	\$2.1M	0%	Weekly meetings with City and consultant to prepare for AHSH grant application in early 2021. Team reviewed and identified developer to work with.

# FY21 Top Nine Capital Projects *con't.*

Status Report: Year to Date as of November 30, 2020

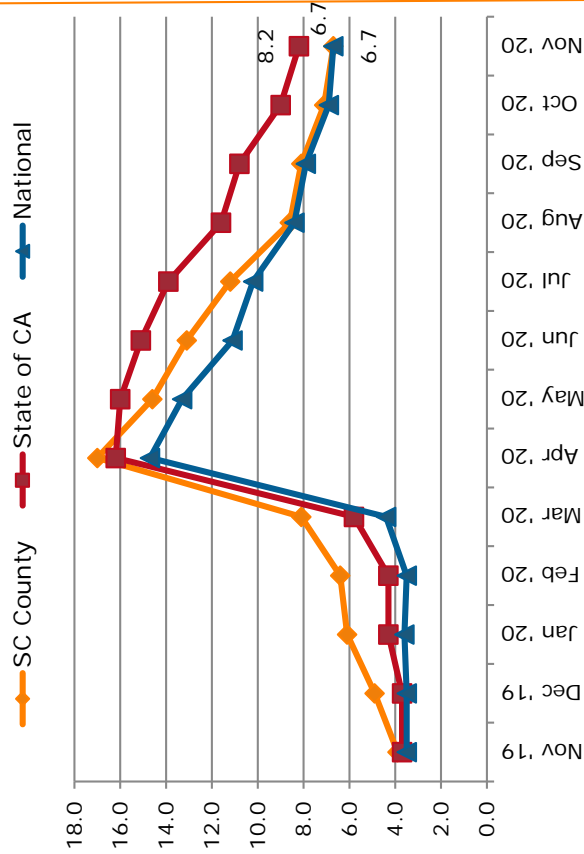
42% of Fiscal Year Elapsed

Top Capital Projects: (=>\$1M)	Actual YTD	Total FY21 Budget: \$27.6M	% Spent YTD	Status:
14 CNG Buses, Lease to Buy; Capital Lease - Year 1 of 6 Prin Only - (Bus Replacement Fund: SGR; Measure D)	\$0	\$1.5M	0%	Project is on hold pending re-evaluation after the pandemic.
2 35' CNG Buses (FY19 Caltrans Discretionary FTA 5339, Bus Replacement Fund)	\$0	\$1.4M	0%	CalTrans is working with FTA to finalize the Standard Agreement. Should be ready February 2021, then proceed with procurement.
Maint Yard-Security Hardening/Expanded Parking/Access Control	\$22K	\$1.0M	2%	Construction documents have been created. Will pursue contractor in Jan/Feb 2021 for construction to occur post rain season
7 Replacement Paracruz Vans (FY19 LLP, Measure D); 3 Paracruz Vans (STBG FY19 via RTC)	\$0	\$0.9M	0%	Funding and project has been approved. Compiling documentation to proceed with procurement.
<b>Total Top 9:</b>	<b>\$38.9K</b>	<b>\$22.5M</b>	<b>0.2%</b>	
<b>Other Smaller Projects:</b>	<b>\$896.1K</b>	<b>\$5.1M</b>	<b>17.0%</b>	
<b>Total All Projects:</b>	<b>\$935K</b>	<b>\$27.6M</b>	<b>3.3%</b>	

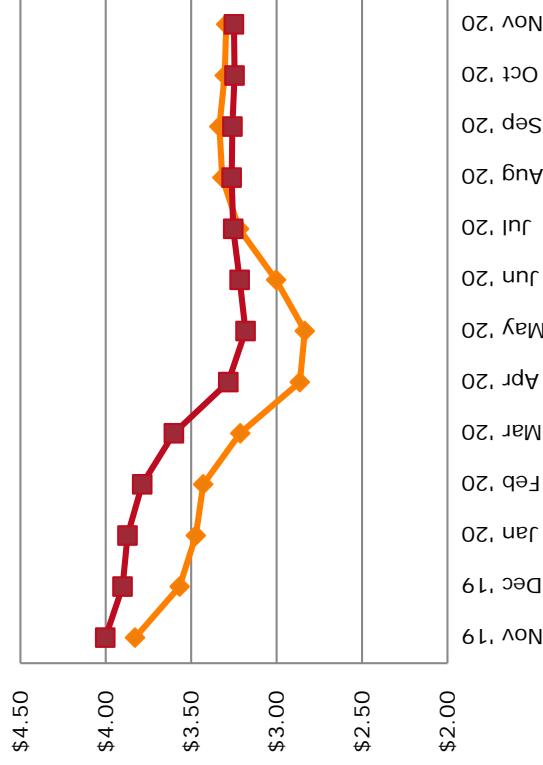
# Additional Information

# Economic Indicators & Ridership:

Unemployment Rate %



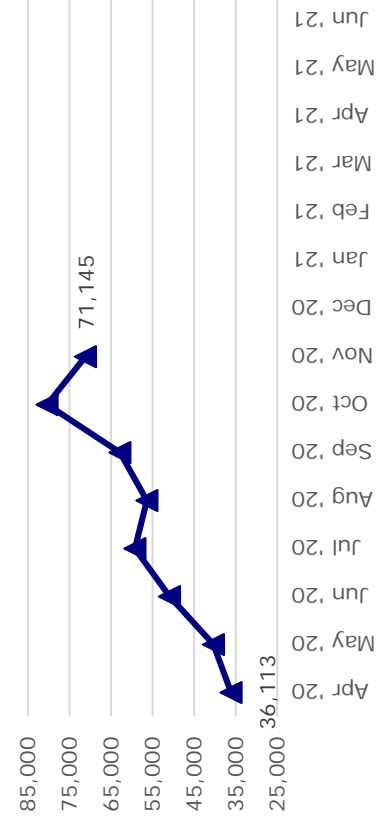
\$ Diesel/Gasoline per Gallon  
San Francisco – Oakland – San Jose  
\$ Gasoline per Gallon \$ Diesel per Gallon



FY20-FY21 Ridership: November YTD

Ridership	FY20	FY21	% Change
<b>Total</b>	2,000,143	330,291	-83.5%
Hwy 17	119,718	16,427	-86.3%
Local	1,880,425	313,864	-83.3%
UCSC	970,448	37,149	-96.2%
Cabrillo	136,746	2,284	-98.3%
Non-Student	773,231	274,431	-64.5%

FY20-FY21 Ridership Recovery



# Operating Reserves as of 06/30/2020:

**Target: \$2.2M**



**Fully Funded**

**Target: \$7.5M**



**Fully Funded**

**Target: \$3.0M**



**Fully Funded**

**Target: \$0.7M**



**Fully Funded**



**No Minimum Balance**



**No Minimum Balance**

**5.13**

\*METRO will reinvest the funds into the FY21 Operating budget, to sustain services to the greatest extent possible during the economic recovery, or until these funds are exhausted. Source of funds is FY20 Carryover comprised of METRO's 1979 Local Sales Tax, TDA-STA, TDA-LTF and Farebox revenues.

**FY21 Operating Revenue, Expenses, and Transfers:**  
**Year to Date as of December 31, 2020: PRELIMINARY:**

50% of Fiscal Year Elapsed

	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
<b>Revenue:</b>	<b>\$30,102</b>	<b>\$31,372</b>	<b>(\$1,269)</b>
<b>Operating Expenses:</b>			
Personnel Expenses	\$22,275	\$24,900	\$2,625
Non-Personnel Expenses	\$4,225	\$4,817	\$592
<b>Total Operating Expenses:</b>	<b>\$26,500</b>	<b>\$29,717</b>	<b>\$3,217</b>
<b>Transfers:</b>			
Transfers to Capital Budget	(\$1,164)	(\$1,045)	\$118
Transfers from COVID Reserves	\$0	\$0	\$0
<b>Total Transfers:</b>	<b>(\$1,164)</b>	<b>(\$1,045)</b>	<b>\$118</b>
<b>Operating Balance:</b>	<b><u>\$2,438*</u></b>	<b>\$610</b>	<b>\$1,828</b>

\*COVID Reserve balance remains \$18M, as the Operating Balance YTD is positive.



FY21 Operating Revenue, Expenses, and Transfers:  
Year to Date as of June 30, 2021: PRELIMINARY\*:

100% of Fiscal Year Elapsed

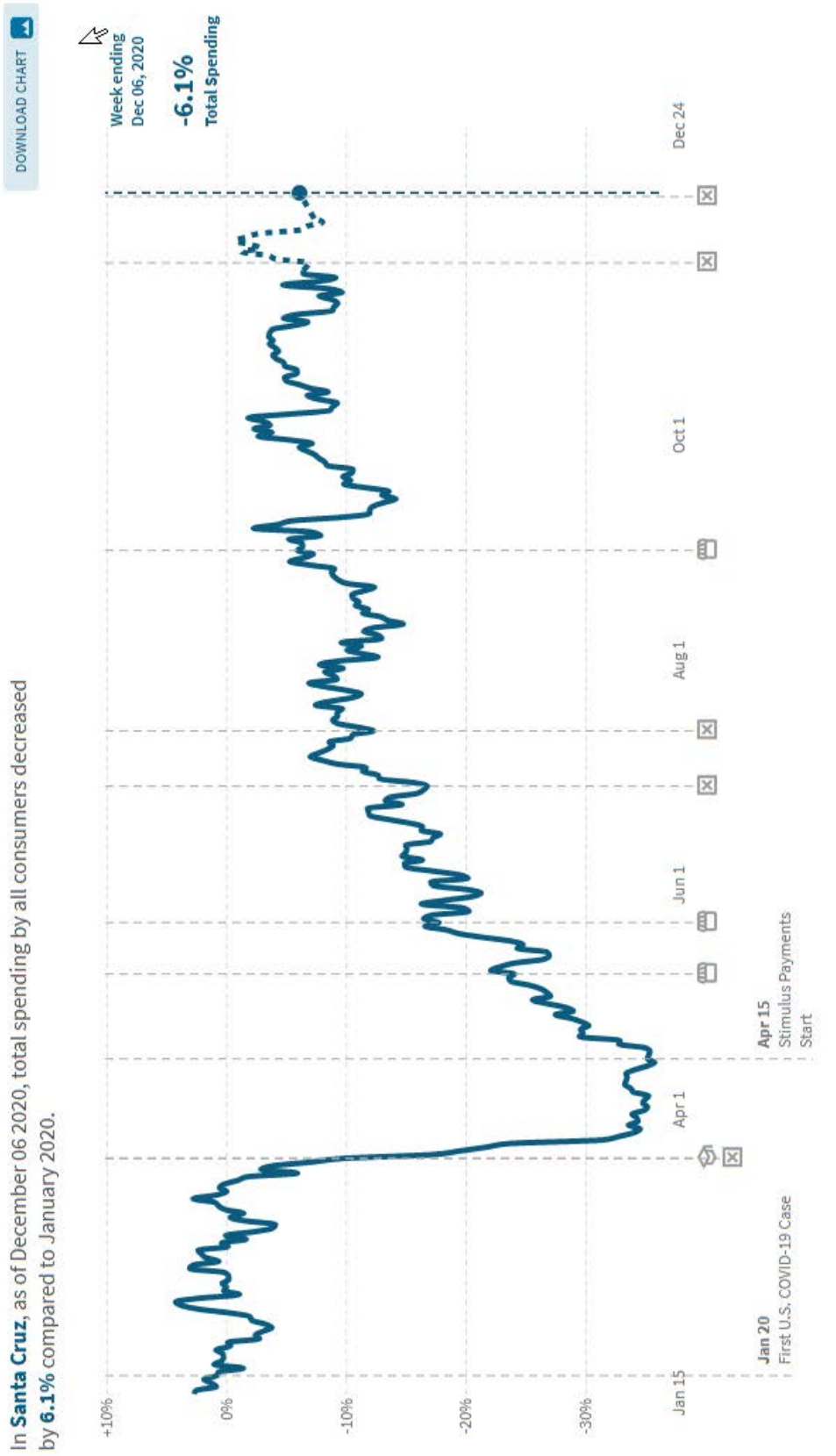
\$ In Thousands	Actual	Budget	Budget to Actual Favorable/ (Unfavorable)
<b>Revenue:</b>	<b>\$49,488</b>	<b>\$57,263</b>	<b>(\$7,775)</b>
<b>Operating Expenses:</b>			
Personnel Expenses	\$40,783	\$45,365	\$4,582
Non-Personnel Expenses	\$8,575	\$9,633	\$1,058
<b>Total Operating Expenses:</b>	<b>\$49,358</b>	<b>\$54,998</b>	<b>\$5,640</b>
<b>Transfers:</b>			
Transfers to Capital Budget	(\$2,265)	(\$2,265)	\$0
Transfers from COVID Reserves	\$2,135*	\$0	\$2,135
<b>Total Transfers:</b>	<b>(\$130)</b>	<b>(\$2,265)</b>	<b>\$2,135</b>
<b>Operating Balance:</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>*COVID Reserve balance decreased by \$2M; Anticipated FY21 Year – End Balance: \$16M.</b>			

\*Reflects Actual Data for July-Nov of FY21 and Projections for Dec and Qtrs. 3 & 4

# Percent Change in All Consumer Spending for Santa Cruz County

Source: <https://tracktherecovery.org/>

In **Santa Cruz**, as of December 06 2020, total spending by all consumers decreased by **6.1%** compared to January 2020.



# Questions

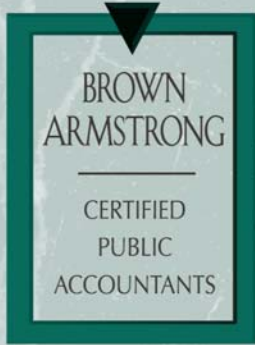
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ORAL SUMMARY OF FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT FOR THE YEAR  
ENDED JUNE 30, 2020

Kristina Mihaylova, Finance Deputy Director

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# Attachment A



## BROWN ARMSTRONG

*Certified Public Accountants*

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 year ended June 30, 2020. 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 July 22, 2020. 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. During the year ended June 30, 2020, Santa Cruz METRO adopted Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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 Santa Cruz METRO's financial statements were:

Management's estimates 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 the useful lives of 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 net pension and net OPEB liabilities 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 expected useful life. We evaluated the key factors and assumptions used to develop the estimate of the accrued claims in determining that it is reasonable in relation to the financial statements taken as a whole.

#### **BAKERSFIELD OFFICE (MAIN OFFICE)**

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#### **FRESNO OFFICE**

10 RIVER PARK PLACE EAST  
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FRESNO, CA 93720  
TEL 559.476.3592

#### **STOCKTON OFFICE**

1919 GRAND CANAL BLVD  
SUITE C6  
STOCKTON, CA 95207  
TEL 888.565.1040

WWW.BACPAS.COM

# Attachment A

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 disclosures of capital assets, unpaid claims, pension plan, and OPEB in the 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. There were no such misstatements.

## *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 11, 2020.

## *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 the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Contributions – Pension, Schedule of Changes in the Net OPEB Liability, 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.

We were engaged to report on supplementary information (Statements of Operating Expenses), 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.



# Attachment A

## Restriction on Use

This information is intended solely for the information and use of 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.

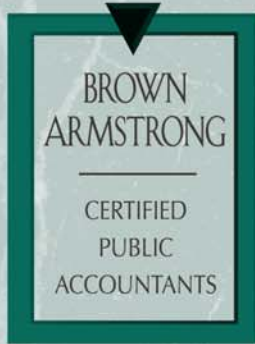
BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 11, 2020

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# Attachment B



BROWN ARMSTRONG  
*Certified Public Accountants*

## **AGREED UPON CONDITIONS DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING**

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

We have audited the basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) for the year ended June 30, 2020, and have issued our report thereon dated December 11, 2020. In planning and performing our audit of the basic financial statements of Santa Cruz METRO, we considered its internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 Santa Cruz METRO'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 Santa Cruz METRO'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 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.

During our audit we became aware of matters that are an opportunity for strengthening of internal controls and operations efficiency. The recommendation listed in this report summarizes the comments and suggestions regarding these matters.

### **Current Year Agreed Upon Conditions and Recommendations**

None.

#### **BAKERSFIELD OFFICE (MAIN OFFICE)**

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#### **STOCKTON OFFICE**

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# Attachment B

## Status of Prior Year Agreed Upon Condition and Recommendation

### Agreed Upon Condition 2019-1 – Passenger Sales

#### Condition:

All fixed route tickets for Santa Cruz METRO are electronically activated and issued by a GFI Printer Encoder Machine (PEM) or through a GFI Ticket Vending Machine (TVM) and are created on-demand; no pre-printed validated fixed route ticket stock is held in inventory by Santa Cruz METRO. During our walkthrough of the cash receipts process at the Pacific Station, we noted that ticket sales revenue reports did not reconcile to sales figures from the GFI Vendstar Information (VIP) PEM sales reports. Although reconciliation procedures are performed for ticket sales at the Infobooth, Santa Cruz METRO does not perform routine ticket reconciliations that provide assurance that all tickets that are activated and issued through all PEMs are accurately tracked and accounted for in the weekly Bus Pass Program Bank Deposit Recap report.

#### Criteria:

In accordance with Governmental Accounting Standards, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

#### Cause of Condition:

Procedures are not in place to reconcile all ticket sales to the VIP PEM sales reports. Additionally, we noted in our review of VIP PEM Sales Summary reports that some of these VIP system-generated sales reports were not consistent, accurate, or complete. In the course of our walkthrough, it was discussed that if a PEM is not networked or correctly configured, a GFI VIP-generated report does not pick up ticket sales; therefore, it will not report the correct amount of revenue.

#### Potential Effects:

Failure to reconcile ticket sales to the system-wide VIP PEM sales reports increases the opportunity for misappropriation of Santa Cruz METRO assets without detection. The absence of performing routine ticket reconciliations also provides an opportunity for errors to occur that may go undetected. Consequently, there is a lack of assurance that all ticket sales are accurately reported.

#### Recommendation:

We recommend management establish and implement policies and procedures for routine and periodic system-wide ticket reconciliations.

#### Views of Responsible Officials:

Management concurs with the auditor's recommendation and takes its responsibility to assure the prompt and proper resolution of all audit conditions seriously.

As of December 2019, the following steps were taken by Santa Cruz METRO in an effort to further improve the ticket sales reconciliation process, as well as troubleshoot and remedy the programming issues with the PEMs and the VIP application:

- New models of the PEMs were purchased in 2018 from Genfare (GFI).
- In October 2018, the IT and Planning departments worked with Genfare (GFI) to implement a system-wide software upgrade to the GFI VIP system in an attempt to resolve reporting issues.
- Numerous staff hours were devoted to documenting, reporting, and troubleshooting GFI equipment and system errors in 2018 and 2019; efforts continue to be ongoing. Santa Cruz METRO's IT department, Revenue Account Coordinator, Planning Analyst, Accountant, and Customer Service Coordinators continue to work towards resolving issues in the system, improving the reports and understanding best practices on the PEMs for ensuring accuracy of sales records. New training manuals were delivered by GFI and distributed to Customer Service

## Attachment B

to provide instruction to all Customer Service Representatives on how to properly utilize the new PEMs. As a result, user errors were identified, and updated procedures were created to reduce deviations in the accounting of pass sales.

- In an attempt to resolve the back-end reporting issues, another software system upgrade was rolled-out and implemented by Genfare in January 2019. It was anticipated that all of the previously reported and unresolved software issues would be remedied with this new system update, which would then allow Santa Cruz METRO to produce the accurate and reliable sales reports needed to track and reconcile ticket sales. The update resolved some of Santa Cruz METRO's prior issues but generated other problems with the PEMs, TVMs, and fareboxes. Weekly conference call meetings were held between Santa Cruz METRO staff and Genfare programmers for over a year to document and discuss the status of unresolved system issues. After the system was stabilized, the conference calls subsided to ad hoc communications as errors in the system occurred.
- In 2019, Santa Cruz METRO switched to a more robust Point of Sales (POS) system that provides improved retail sales tracking and reporting, as well as a more intuitive system interface for Customer Service staff.
- A new Marketing, Communications and Customer Service Director was hired in 2019 to lead the development, training, and oversight of monthly system-wide ticket reconciliation policies and procedures, as well as serve as the agency's point of contact to regulate any ongoing reporting issues with Genfare. Additionally, an accounting consultant was hired to work with Customer Service staff on site at Pacific Station to develop policies and procedures while helping to streamline and improve cash handling and balancing practices.

### Current Year Status:

Resolved.

\*\*\*\*\*

This information is intended solely for the use of the Board of Directors and management of Santa Cruz METRO and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 11, 2020

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# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**

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

**JUNE 30, 2020 AND 2019**

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT JUNE 30, 2020 AND 2019

### TABLE OF CONTENTS

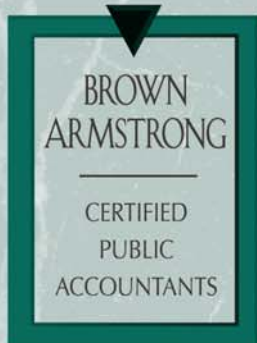
	<u>Page</u>
<u>Financial Section</u>	
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	4
 <u>Basic Financial Statements</u>	
Statements of Net Position.....	16
Statements of Revenues, Expenses, and Changes in Fund Net Position.....	18
Statements of Cash Flows .....	19
Notes to Basic Financial Statements .....	21
 <u>Required Supplementary Information</u>	
Schedule of Changes in the Net Pension Liability and Related Ratios .....	52
Schedule of Contributions – Pension.....	53
Schedule of Changes in the Net Other Postemployment Benefits (OPEB) Liability and Related Ratios .....	54
Schedule of Contributions – OPEB.....	55
 <u>Supplementary Information</u>	
Statements of Operating Expenses .....	56
 <u>Other Schedules and Reports</u>	
Schedule of Expenditures of Federal Awards.....	57
Notes to Schedule of Expenditures of Federal Awards .....	58
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 <i>Government Auditing Standards</i> .....	59
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	61
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.....	63
 <u>Findings and Questioned Costs Section</u>	
Schedule of Findings and Questioned Costs.....	65



# Attachment C

## FINANCIAL SECTION

# Attachment C



## BROWN ARMSTRONG

*Certified Public Accountants*

### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the basic financial statements, which collectively comprise Santa Cruz METRO's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

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# Attachment C

## Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Santa Cruz METRO as of June 30, 2020 and 2019, and the respective changes in financial position, and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

The statements of operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of operating expenses 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.

# Attachment C

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, 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 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

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 11, 2020

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020 AND 2019

### 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 years ended June 30, 2020 and 2019. 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 Statements of Net Position present 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. Changes in net position that occur over time may serve as an indicator of Santa Cruz METRO's financial position.

The Statements of Revenues, Expenses, and Changes in Fund Net Position report 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 Statements of Cash Flows report the sources and uses of cash for the fiscal years 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 Statements 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 C

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 Statements of Operating Expenses, located in the Supplementary Information section of the financial statements, report expenses in greater detail.

## Financial Highlights

- The 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, 2020, resulting in a Total Net Position (Deficit) of \$(46,494,891).
- Of this amount, \$84,536,118 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). Accordingly, these assets are not available for future spending.
- The remaining balance of Total Net Position (Deficit) represents Unrestricted Net Position (Deficit) of \$(131,031,009). The Unrestricted Net Position (Deficit) is the result, in large part, of the District incurring increasing pension obligations (Net Pension Liability) that reached \$60,657,487 by June 30, 2020, and increasing retiree medical benefits obligations (OPEB) in fiscal year 2020 totaling \$124,340,668 at year-end. These liabilities are required to be accounted for under Governmental Accounting Standards Board (GASB) Statement No. 68, and GASB Statement No. 75, which replaces GASB Statement No. 45, effective fiscal year 2018. Net Pension Liability represents a future long-term pension obligation, but does 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 decreased by \$2.5 million, or 24.5%, to \$7.7 million due to the suspension of fare collection from March 23, 2020, to June 14, 2020, a measure taken by Santa Cruz METRO in order to protect employee and customer health and safety during the COVID-19 pandemic, along with the implementation of passenger rear-boarding on buses and reduced rider capacities.
- Operating expenses (excluding depreciation) increased 13.1% during the year ended June 30, 2020, to \$60.1 million compared to a 0.69% decrease during the year ended June 30, 2019, over the previous year. The increase in the current year was mainly attributable to the increase in workers' compensations and pension costs net of increased insurance and settlement costs over the prior year. In the prior year, the decrease was mainly attributable to the decrease in pension and settlement costs.
- In 2020, Santa Cruz METRO's Capital Assets (after the application of accumulated depreciation) increased \$1,982,567, compared to a decrease in 2019 of \$2,383,862 over the previous year. Depreciable Asset additions and transfers were \$4.7 million, offset by asset retirements and transfers of \$5.4 million and an increase in accumulated depreciation of \$5.5 million offset by a \$5.4 million write-off of accumulated depreciation associated with retired assets. Asset additions were attributed primarily to the purchase of revenue vehicle replacements during fiscal year 2020. Capital Asset procurements are funded by a combination of federal, state, and local grants as well as Operating and Capital Reserves.

# Attachment C

## Financial Activities - Operations

The following discussion provides an overview of the financial activities related to operations (operating revenue and expense) for the year ended June 30, 2020. 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 ten basic categories: labor and fringe benefits, services, mobile materials and supplies, other materials and supplies, utilities, insurance costs (casualty and liability), taxes, purchased transportations costs, miscellaneous expense, and 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 has faced financial challenges in the past decade 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 transportation funds (TDA and 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 the Measure D Sales Tax. Sales Tax revenues account for approximately 45% of METRO's operating revenue sources.

The California Transportation Development Act (TDA) provides two major sources of funding for public transportation: the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA). These funds are for the development and support of public transportation needs that exist in California and are allocated to areas of each county based on population, taxable sales, and transit performance. STA funding is derived from the statewide sales tax on diesel fuel. Since fiscal year 2014, STA funding had been on the decline. On April 28, 2017, Governor Brown signed Senate Bill (SB) 1 (Chapter 5, Statutes of 2017), known as the Road Repair and Accountability Act of 2017. SB 1 augments the base of the STA program essentially doubling the funding for this program. Santa Cruz METRO's financial position continues to improve with this much-needed influx of operating and capital funding. The combined share of TDA and STA Operating Assistance is approaching 20% of METRO's operating revenues. The recent decline in the available funding for the fiscal year that ended June 30, 2020, is primarily due to COVID-19 related drops in fuel prices and fuel consumption that will have an impact on transportation funding for several years.

The alarming spread of the pandemic in 2020 and the tight restrictions on travel to halt the spread of the virus affected severely Santa Cruz METRO's Passenger and Special Transit Fares, as well. Ridership in the second quarter of 2020 plummeted. In an effort to respond to the severe decrease in ridership, and in an attempt to reduce Santa Cruz METRO bus operators' exposure, all service was running on weekend schedule, which resulted in fewer busses running and less frequency of service. All school term service was suspended in the second half of March 2020. Additionally, Santa Cruz METRO suspended the collection of fares on buses and paratransit vehicles. On June 15, 2020 fare collections were resumed,

# Attachment C

but going beyond health guidelines, Santa Cruz METRO has self-limited bus capacity to a maximum of 15 riders per bus. The direct result of the pandemic and measures taken to halt the spread of the virus caused a nearly 25% decline in passenger and special fares year-over-year. Advertising and Rent income were also negatively impacted, as the Santa Cruz and Watsonville Transit Centers lobbies closed at mid-March 2020. Santa Cruz METRO tenants were told to shut down in March 2020 when the Shelter in Place order for Santa Cruz County was issued and rent was held in abeyance from April 2020 until reopening of the lobbies. Consequently, rental income declined by almost 20% year-over-year.

In response to the pandemic, the U.S. Department of Transportation's Federal Transit Administration (FTA) allocated \$25 billion in federal funding to help the nation's public transportation systems respond to COVID-19. Funding is provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed by President Donald J. Trump on March 27, 2020. Funding is provided at a 100% federal share, with no local match required. The funds are available to support capital, operating, and other expenses generally eligible under those programs to prevent, prepare for, and respond to COVID-19. Additionally, operating expenses incurred beginning on January 20, 2020, for all rural and urban recipients, even those in large urban areas, are also eligible, including operating expenses to maintain transit services as well as paying for administrative leave for transit personnel due to reduced operations during an emergency. FTA funds account for approximately 32% of the total operating revenues for Santa Cruz METRO for the fiscal year that ended June 30, 2020, which is a substantial increase year-over-year, primarily due to reimbursements of FTA qualifying operating expenses related to the CARES Act. Furthermore, the CARES Act funding would allow Santa Cruz METRO to reinvest other fungible revenues sources, comprised of Santa Cruz METRO's 1979 Local Sales Tax and 2016 Measure D Sales Tax, TDA-STA, TDA-LTF and Farebox revenues into the FY21 Operating budget, to sustain services to the greatest extent possible during the economic recovery, or until these funds are exhausted.

Operating expenses increased by 12% year-over-year, with personnel expenses, comprising 78% of total operating expenses, increasing by 17%. The increase was primarily due to wage increases and contractual obligations, pursuant to labor agreements negotiated and effective during the fiscal year that ended June 30, 2020. Additionally, costs for retirement and medical insurance increased by 11% and 9%, respectively, due to increased unfunded accrued liability (UAL) payments, employer normal cost for retirement, and medical insurance premiums. Due to implemented service modifications related to COVID-19, overtime costs, bus operator and other overtime, decreased by 18% and 10%, respectively. The reduction in regular and overtime labor costs was offset by an increase in the category of other paid absences, directly related to COVID-19. Paid leaves of absence introduced during the first quarter of calendar 2020, along with the implementation of alternative work schedules, were intended to limit the potential exposure of employees to COVID-19. In addition, the Family First Coronavirus Response Act (FFCRA) expanded the Family and Medical Leave Act (FMLA) temporarily (until the end of December 2020) to cover leave and loss of income when an employee needs to care for children because of school and childcare COVID-19 closures. Furthermore, under FFCRA two weeks of paid sick leave for childcare and other leave related to COVID-19 were also made available. The law became effective on April 1, 2020.

Non-personnel operating expenses decreased approximately 3% year-over-year, primarily due to service modifications related to COVID-19, resulting in decreased service hours, mileage, and consequently consumables (mobile materials and supplies). Other expenditures also contracted, as projects, training and travel were put on hold due to the pandemic. There were significant increases in expense categories directly related to the prevention and response to COVID-19.

## Ridership:

Fixed Route: At the end of fiscal year 2020, the Santa Cruz METRO fixed-route bus system consisted of 24 routes, and provided 3,544,455 rides with a fleet of 94 CNG and diesel buses. Ridership decreased by 1,501,517 fixed-route rides (-29.76%) from the previous year. As with many transit agencies across the nation, ridership declined significantly due to shelter-in-place directives and ongoing COVID-19 responses.



# Attachment C

Paratransit: Paracruz, Santa Cruz METRO's paratransit service, provided 61,631 paratransit rides to mobility-impaired patrons on 32 specially equipped minibuses and minivans during fiscal year 2020. This represents a 16.11% decrease in Paracruz ridership from the prior year (11,836 fewer paratransit rides), resulting primarily from the COVID-19 pandemic Shelter in Place orders in Santa Cruz METRO's paratransit service

## 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

	2020	2019	2018	2020 to 2019		2019 to 2018		
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%	
<b>Assets</b>								
Current Assets	\$ 53,220,748	\$ 33,112,067	\$ 28,260,602	\$ 20,108,681	60.7%	\$ 4,851,465	17.2%	
Capital Assets - Net	85,455,125	83,472,558	85,856,420	1,982,567	2.4%	(2,383,862)	-2.8%	
Restricted Assets	12,283,925	11,059,070	8,513,085	1,224,855	11.1%	2,545,985	29.9%	
<b>Total Assets</b>	<b>\$ 150,959,798</b>	<b>\$ 127,643,695</b>	<b>\$ 122,630,107</b>	<b>\$ 23,316,103</b>	<b>18.3%</b>	<b>\$ 5,013,588</b>	<b>4.1%</b>	
<b>Deferred Outflows of Resources</b>								
Pension and OPEB Contributions	\$ 17,880,660	\$ 13,543,340	\$ 16,717,218	\$ 4,337,320	32.0%	\$ (3,173,878)	-19.0%	
<b>Total Deferred Outflows of Resources</b>	<b>\$ 17,880,660</b>	<b>\$ 13,543,340</b>	<b>\$ 16,717,218</b>	<b>\$ 4,337,320</b>	<b>32.0%</b>	<b>\$ (3,173,878)</b>	<b>-19.0%</b>	
<b>Liabilities</b>								
Current Liabilities	\$ 9,531,089	\$ 7,220,527	\$ 6,735,562	\$ 2,310,562	32.0%	\$ 484,965	7.2%	
Non-Current Liabilities	12,297,999	11,633,273	9,339,794	664,726	5.7%	2,293,479	24.6%	
Other Long-Term Liabilities	187,419,193	174,972,058	170,972,880	12,447,135	7.1%	3,999,178	2.3%	
<b>Total Liabilities</b>	<b>\$ 209,248,281</b>	<b>\$ 193,825,858</b>	<b>\$ 187,048,236</b>	<b>\$ 15,422,423</b>	<b>8.0%</b>	<b>\$ 6,777,622</b>	<b>3.6%</b>	
<b>Deferred Inflows of Resources</b>								
Pension and OPEB deferrals	\$ 6,087,068	\$ 5,818,771	\$ 8,918,033	\$ 268,297	4.6%	\$ (3,099,262)	-34.8%	
<b>Total Deferred Inflows of Resources</b>	<b>\$ 6,087,068</b>	<b>\$ 5,818,771</b>	<b>\$ 8,918,033</b>	<b>\$ 268,297</b>	<b>4.6%</b>	<b>\$ (3,099,262)</b>	<b>-34.8%</b>	
<b>Net Position</b>								
Net Investment in Capital Assets	\$ 84,536,118	\$ 82,302,120	\$ 84,442,069	\$ 2,233,998	2.7%	\$ (2,139,949)	-2.5%	
Unrestricted Net Position (Deficit)	(131,031,009)	(140,759,714)	(141,061,013)	9,728,705	6.9%	301,299	-0.2%	
<b>Total Net Position (Deficit)</b>	<b>\$ (46,494,891)</b>	<b>\$ (58,457,594)</b>	<b>\$ (56,618,944)</b>	<b>\$ 11,962,703</b>	<b>-20.5%</b>	<b>\$ (1,838,650)</b>	<b>3.2%</b>	

### 2020 vs 2019 Analysis

Key changes include:

- *Current assets* increased by \$20.1 million, or 60.7%, to \$53.2 million, primarily due to the significant increase in grants receivables for Federal CARES Act funding operating assistance at year-end. These funds were received in July and August 2020.
- *Capital assets – net* increased by \$2.0 million, or 2.4%, to \$85.5 million, primarily due to the acquisition of 6 CNG buses in fiscal year 2020.
- *Restricted assets* increased by \$1.2 million, or 11.1%, to \$12.3 million due to Measure D sales tax allocations and State Transit Assistance – State of Good Repair (STA-SGR) unspent funds that are currently committed as cost sharing on awarded grants.
- *Deferred outflows of resources* totaling \$17.9 million reflect \$9.6 million in OPEB retiree medical, dental and vision insurance premium payments and \$8.3 million in pension contributions that were recorded in the current fiscal year, as required by GASB Statements No. 75 and No. 68, respectively.

# Attachment C

- *Current liabilities* increased by \$2.3 million, or 32.0%, to \$9.5 million in total, in large part due to costs incurred at year-end: the purchase of one CNG bus and the refurbishment of 4 CNG buses were accrued in June 2020.
- *Non-current liabilities* increased by \$0.7 million, or 5.7%, to \$12.3 million due to the receipt of Measure D sales tax allocations restricted for capital costs, LCTOP and STA-SGR grant funding throughout fiscal year 2020. Capital grant funds and subsidies received are restricted and reported as liabilities (unearned revenue) until spent on the specific project or purpose for which they were awarded.
- *Other long-term liabilities* increased by \$12.4 million, or 7.1%, to \$187.4 million, primarily as a result of the increases in retirement-related obligations: the actuarially-determined Net OPEB Liability (NOL) balance increased \$ 9.8 million and the Net Pension Liability (NPL) increased \$2.8 million over prior year.
- *Deferred inflows of resources* that netted to \$6.1 million in pension investment earnings and OPEB deferrals were recognized in the current year through the application of GASB Statements No. 68 and No. 75, respectively.

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

	2020	2019	2020 to 2019	
			Increase/(Decrease)	
			Amount	%
Operating Revenues	\$ 7,733,701	\$ 10,238,963	\$ (2,505,262)	-24.5%
Operating Expenses	65,613,570	58,447,338	7,166,232	12.3%
Net Operating Loss	(57,879,869)	(48,208,375)	(9,671,494)	20.1%
Non-Operating Revenues	62,797,855	43,341,253	19,456,602	44.9%
Capital Grant Contributions	7,044,717	3,028,472	4,016,245	132.6%
Increase (Decrease) in Net Position	\$ 11,962,703	\$ (1,838,650)	\$ 13,801,353	-750.6%

	2019	2018	2019 to 2018	
			Increase/(Decrease)	
			Amount	%
Operating Revenues	\$ 10,238,963	\$ 10,280,559	\$ (41,596)	-0.4%
Operating Expenses	58,447,338	58,054,672	392,666	0.7%
Net Operating Loss	(48,208,375)	(47,774,113)	(434,262)	0.9%
Non-Operating Revenues	43,341,253	40,580,481	2,760,772	6.8%
Capital Grant Contributions	3,028,472	2,594,506	433,966	16.7%
Decrease in Net Position	\$ (1,838,650)	\$ (4,599,126)	\$ 2,760,476	-60.0%

### 2020 vs 2019 Analysis

*Operating Revenues* (Passenger Fares) of \$7.7 million reflects a decrease variance of \$2.5 million, or 24.5%, over prior year revenues, primarily due to the suspension of fare collection from March 23, 2020, to June 14, 2020, a measure taken to protect employee and customer health and safety during the COVID-19 pandemic.

# Attachment C

*Operating Expenses* of \$65.6 million reflects a year over year adverse increase variance of \$7.2 million, or 12.3%, due to several factors: increases in retiree-related expenses (pension and OPEB), negotiated wage increases, direct COVID-19 response-related costs (e.g., temporary workers to sanitize buses), increase in Workers' Compensation year-end reserves, as well as a rise in medical insurance costs.

*Non-Operating Revenues* increased overall by \$19.5 million, or 44.9%, over last year revenues, primarily due to the receipt of \$18.5 million in CARES Act emergency operating assistance.

*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 2020. 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 \$4.0 million, or 132.6%, over last year. The purchase of six (6) CNG buses for \$3.9 million in fiscal year 2020, which was fully funded with federal grant and Measure D sales tax capital contributions, significantly contributed to the increase.

## **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 2020 budget total of \$85,325,061 included \$51,717,646 for Operating Expenses and \$33,607,415 for Capital Projects (amended). The District finished fiscal year 2020 with operating expenses of \$51,440,857, net of depreciation, workers' compensation IBNR, and retirement-related actuarial adjustments; Capital expenses of \$7,750,816 included \$706,099 Capital Reserve spending and \$7,044,717 of pass-through grant expenses.

## **Financial Activities - Capital**

### Capital Program:

In fiscal year 2020, Santa Cruz METRO spent \$7.8 million on the purchase of capital assets and on new and ongoing capital projects. A total of \$7.0 million of these capital additions were paid for with capital contributions funded by a variety of sources, including from the Federal Transit Administration (FTA), California Proposition 1B Transportation Bonds Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) and California Office of Emergency Services California Transit Security Grant Program (Cal-OES CTSGP), STA, STA State of Good Repair (STA-SGR). Surface Transportation Block Grant (STBG), the State Transportation Improvement Program (STIP), and Measure D local sales tax allocations. A total of \$0.7 million of these capital purchases were made using Operating and Capital Reserve Funds.

### Zero Emission Buses (ZEBs):

In early 2017, the Santa Cruz METRO Board renewed their commitment to air quality and sustainability by adopting a resolution to achieve a fully zero emissions bus fleet by 2040, in anticipation of the California Air Resources Board mandating this goal in late 2018 for all publicly operated bus fleets in California. Santa Cruz METRO has secured funding that will purchase seven (7) zero emissions buses. Two of the buses that are being funded with assistance from LCTOP are required to serve Watsonville's designated Disadvantaged Community. Currently, an order is in progress with Proterra for four ZEBs with a delivery commitment to Santa Cruz METRO by the end of fiscal year 2021.

- In June 2016, Santa Cruz METRO was awarded a grant for the its first electric bus from the LCTOP administered through Caltrans, to be run as a circulator in Watsonville – see additional information in the section below.
- In July 2016, Santa Cruz METRO was awarded a FTA 5339(c) Low-No grant for three zero emissions buses.

# Attachment C

- In October 2018, the California Transportation Commission approved an allocation of State Transportation Improvement Program (STIP)/Local Partnership Program (LPP) funding to Santa Cruz METRO for the purchase of two electric buses.
- In June 2018, the fiscal year 2017 and fiscal year 2018 LCTOP awards, in combination, were approved to fund two ZEBs to be operated as Watsonville Circulators. Fiscal year 2019 LCTOP funding will fund EV charging infrastructure for electric buses.

## Electric Bus Infrastructure and Implementation:

- Santa Cruz METRO is working with the Center for Transportation and the Environment (CTE) to develop Santa Cruz METRO's Zero Emission Bus Implementation plan, including a ZEB transition plan, service and fuel assessments, route and charge modeling and the creation of an EV charging master plan.
- Electric Vehicle Charging Infrastructure – The first phase of Santa Cruz METRO's first EV charging station was completed in Fall 2020 at the Judy K. Souza Operations Facility. Four electric vehicle chargers have been installed initially on the site, with three additional charging pedestals planned in anticipation of the delivery of four Proterra electric buses in fiscal year 2021.
- Watsonville Circulator – Two Zero Emission Buses (ZEB) are expected to arrive in fiscal year 2021 with this service to start in early fiscal year 2022. Depending on the final routing, two buses are assumed to be needed to run the Watsonville Circulator for service all day. However, if a two-way loop is implemented then it could require all four buses to operate this service. Monterey Bay Air Resources District (MBARD) gave Santa Cruz METRO a one-year operating grant for \$200,000. Delays in delivery of the buses have required an extension for the operating grant.
- Charging Infrastructure at Watsonville Transit Center – Consulting work continues on Santa Cruz METRO's FTA § 5339 Low and No Emission Bus Program (Low-No) project to install EV charging infrastructure in South County. The State of California Low-No program (Low-No) makes funding available nationwide to purchase battery-electric, fuel cell, or hybrid-energy buses and infrastructure to accelerate the deployment and acceptance of advanced vehicle technologies to reduce greenhouse gas emissions. This project is in alignment with the District's "Electric Bus Implementation Strategy" adopted in September 2015.

The ITS (Intelligent Transportation System) Project, which encompasses both AVL and an Audio/Visual Annunciation System (AVAS), commenced in fiscal year 2019 with funding received from the Transportation Improvement Program (STIP) in October 2018, and is expected to be completed by fiscal year 2021:

- AVL (Automatic Vehicle Location) describes the use of computers and Global Positioning Systems (GPS) in dispatching and tracking transit vehicles. 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. Santa Cruz METRO is utilizing GMV Syncromatics for the purchase and installation of an AVL system to maximize operational efficiency and customer amenity. The AVL system is scheduled to be implemented system-wide in late fiscal year 2021. The Planning and Information Technology (IT) Departments are coordinating to introduce this technology to improve operational efficiency, data gathering and analysis, and provide a customer facing Predictive Arrival and Departure System (PADS). Transit agencies and its riders benefit from these improvements to service planning and customer service through real-time location information, accessible to the public through a smartphone application. This technology will provide Santa Cruz METRO with much needed data that will be used to improve the accuracy of on-time performance, making for better system service. AVL will also significantly enhance the customer's experience by providing up to date information on bus arrival times and system disruptions. The successful passage of SB 1 resulted in providing Santa Cruz METRO with state funds to purchase components of an AVL system for the fixed-route bus network in fiscal year 2019 and fiscal year 2020, with implementation system-wide expected by late fiscal year 2021.

# Attachment C

- AVAS provides automatic audio announcements and visual displays of destination and stop information for passengers with disabilities utilizing GPS to obtain a vehicle's location on a path of travel. Santa Cruz METRO procured an AVAS in response to ADA-related litigation in 2002. Santa Cruz METRO's current AVAS is no longer supported and is faced with dwindling parts availability. Therefore, an updated AVAS is deemed an essential element to this project.

Additional noteworthy capital project activity in fiscal year 2020 includes:

- Cameras on Buses – Santa Cruz METRO was one of the last public transit agencies in the nation operating without an onboard security surveillance system; however, with funding from Cal-OES California Transit Security Grant Program funds (CTSGP), Measure D sales tax revenues and Capital Reserves, cameras were installed on most Santa Cruz METRO's buses in fiscal years 2020 through 2018. This project will be completed in fiscal year 2021. All future new buses purchased by Santa Cruz METRO will come outfitted and installed with fully operational cameras. Having this type of equipment on Santa Cruz METRO's buses and paratransit vehicles is important to the safety and security of bus riders and employees, and fulfills Santa Cruz METRO's commitment to follow TDA triennial audit recommendations to install them.
- Purchase of six (6) CNG Buses – Six replacement CNG buses were acquired with funding from the FTA 5339(b) program, Caltrans FTA 5339 Statewide Discretionary funds, and a Surface Transportation Block Grant (STBG). Matching funds were provided by Santa Cruz METRO's Bus Replacement Fund which includes STA-SGR and Measure D funding.
- Three (3) 2016 New Flyer Buses – Santa Cruz METRO entered into a lease-to-purchase agreement (capital lease) 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.
- Mid-Life Bus Engine Overhauls Campaign – The Mid-Life Bus Engine Overhauls Campaign increases bus reliability and reduces maintenance cost during years 7 to 12 of the life of a bus, usually enabling an additional 2 years of lower maintenance cost. This project is funded by FTA § 5339 funds matched with Capital Reserve funds. Four (4) buses received a mid-life engine overhaul in fiscal year 2020.
- Refurbishing Fleet – Four (4) older CNG buses in the Santa Cruz METRO fleet were refurbished in fiscal year 2020, through STIP grant funds and Measure D sales tax revenues. This reconditioning will add 4-6 years to their useful life and serve to maintain the fleet in a state of good repair while new buses are procured to replace them in the future.

## Future Outlook

In July 2019, 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 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. According to the June 2020 Global Economic Prospects report from the World Bank, global GDP will contract by 5.2% in 2020 – the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturns with fiscal and monetary policy support. Over the longer horizon, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investments, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages. The impacts of the pandemic on transit agencies was immediate and devastating. Public transit

# Attachment C

has plummeted nationwide as people telecommuted and avoided buses for fear of contracting COVID-19, resulting in less revenue from fares. And as the economy cratered, so too have the sales tax revenues upon which many transit systems depend. Transit agencies in California are especially sensitive to this drop because they rely more on sales tax funding for their core, non-fare-based revenue than most other agencies across the country. Pandemic uncertainties, fires, childcare issues, and bankruptcies are expected to shape the future economic landscape. Even with effective COVID-19 vaccines developed by Pfizer, Moderna, and others, it is unclear how many remote workers will return to the office or to what extent virtual instruction will be integrated into schools permanently once vaccines are available and widely distributed. A paradigm shift in remote education and workplace arrangements could permanently alter transit ridership in the future.

## Operational Improvements and Service Initiatives

The ability to restore public and customer confidence when riding a bus is a priority for Santa Cruz METRO and it would be an essential step in the long and uncertain journey ahead. The ability to retain existing customers and ideally attract new ones is of vital importance for the survival of the organization. To that end, Santa Cruz METRO will focus the first phase of the recovery planning to retain frequent riders by restoring service to previous pre-pandemic levels, while ensuring a safer customer experience through enhanced cleaning and requiring that all customers wear personal protective equipment. The second phase of the recovery would be centered on the concept of adding additional value to services provided to our customers by exploring and expanding mobile ticketing technologies.

## Cashless/Contactless Fare Payment

Due to strict physical distancing requirements related to COVID-19, transit agencies moved away from on-board fare payment to halt the spread of the virus. As agencies resumed fare collection, many looked toward contactless onboard fare payment due to a number of benefits of these programs, such as lower risk of exposure to COVID-19, reduced cost of cash collection and processing, faster boarding process, improved convenience and expanded access.

Santa Cruz METRO launched a Masabi mobile ticketing system in September 2020 on local routes and the Highway 17 Express, with tickets visually validated by bus operators. Electronic validators are slated to be installed on Highway 17 Express vehicles as a pilot program later in fiscal year 2021. The validators will electronically validate QR codes on mobile tickets (replacing visual validation). In addition, the validators are anticipated to accept “cEMV” contactless credit and debit card payment directly as an additional non-cash fare payment option. After the pilot phase of 3-6 months, Santa Cruz METRO may deploy these electronic validators on local routes, as well. Additional features in the roadmap include transit smart cards that can be reloaded online (current Santa Cruz METRO Cruz Pass cards lack this capability) and a retail network that allows customers to load value on a card at a neighborhood retailer. The overall goal is reduced cash intake/handling by Santa Cruz METRO, contactless fare payment onboard the bus, and greater ease and convenience for Santa Cruz METRO customers.

## On – Demand Service

Envisioned as a pilot program, this service will allow customers to book on-demand trips. It would take advantage of existing capacity and allow customers to make reservations through Santa Cruz METRO’s Eco Pass mobile application, as well as by phone. Additionally, customers will be able to board according to a published schedule available at Santa Cruz METRO transit centers.

## Bus Stop Signage

Santa Cruz METRO has 798 active bus stops and the signage update will be in line with industry best practices and would guide customers through Santa Cruz METRO’s service and information system. Furthermore, it would reduce maintenance costs associated with updating schedules and maps at all active stops due to service modifications. This effort aims to strengthen Santa Cruz METRO’s brand identity as a safe, reliable transportation provider and ultimately improve the customer experience.

# Attachment C

## Bus On Shoulders

Santa Cruz METRO collaborated with the Santa Cruz County Regional Transportation Commission (SCCRTC) on a Caltrans Planning Grant to assess the feasibility of bus on shoulders operations on the Highway 1 corridor. Santa Cruz METRO contributed to the environmental/design costs and will ultimately contribute to California Highway Patrol (CHP) and Caltrans operational support costs as the project commences. SCCRTC is managing the bus on shoulder project in conjunction with an auxiliary lane project with Caltrans, which will allow transit buses the ability to travel in an auxiliary lane between intersections and on the shoulders at intersections to bypass traffic, thereby improving on-time reliability and decreasing overall trip time. Construction will begin in fiscal year 2021 on the first segment from Soquel Avenue to 41<sup>st</sup> Avenue, with the other two segments of Highway 1 to follow pending funding.

## Other Initiatives

In addition to the physical distancing concerns related to COVID-19, Santa Cruz METRO plans to install new automated passenger counters (APCs) which will help monitor passenger levels in real time. The APC module will also provide passengers the opportunity to make more informed travel plans when using local public transit and will provide Santa Cruz METRO with a rich dataset for future route and service planning.

The third phase of the recovery will be dedicated to the analysis and response to the post COVID-19 Transit Service. A number of pilot programs and concepts, including the on - demand service, would be evaluated. As much as financially feasible, the pre-COVID levels of service will be restored and will be available for customers when they return. Additionally, the focus will shift towards evaluating and rethinking the role, functionality and layout of Transit Centers, Ticket Vending Machines, Paper fare media, cash and coins.

## **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 presentation may recommend using financial reserves to balance the budget when proposed expenses exceed projected revenues.

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. Department managers monitor budget-to-actual performance on an accrual basis and meet with the CEO monthly to review significant variances.

The Board adopted the fiscal year 2021 Operating budget on June 26, 2020, totaling \$54,998,408 representing a 6.3% growth over that of the previous year. The fiscal year 2021 budget does not factor in a projection for the passage of an additional federal pandemic relief aid package for the nation's public transit systems nor does it include receipt of emergency federal funding to cover pandemic-related costs. The adopted budget reflects pre-COVID-19 data and assumptions regarding revenues and expenses; Consequently, significant budget fluctuations are anticipated due to the unprecedented nature of the pandemic. Reductions in all forms of Revenues, particularly in Passenger & Special Transit Fares and Sales Tax based revenue sources are currently expected and various budget-balancing actions in fiscal year 2021 will be considered and analyzed, as more information becomes available.

The Capital budget of \$29,136,935 contains projects necessary and essential to sustain the District's existing service and operating facilities.

# Attachment C

These significant factors were considered as budget assumptions when preparing Santa Cruz METRO's budget for the fiscal year 2021:

- Expectation that passenger fare revenue will experience a 2.2% decrease from prior year budget primarily due to decreased fixed-route ridership.
- Anticipated slight decrease in Special Transit (contract) fares revenue: 0.8% from prior year as there are no anticipated contract increases for the University of Santa Cruz (UCSC) and Cabrillo College in FY21.
- Expectation that sales and use tax revenues will decrease by 1.0% from prior year budget due to the general economic outlook for 2020 and 2021.
- Expectation that Santa Cruz County Measure D will infuse approximately \$3.5 million of sales tax revenue funding into the annual budget for fiscal year 2021.
- TDA – STA Operating revenue to decrease by 0.8% from prior year budget.
- Bus service plans must continue to be sensitive to funding constraints and revenue projections due to economic uncertainty and legislative issues.
- California Public Employees Retirement System (CalPERS) retirement employer contribution rate increases from 29.4% in fiscal year 2020 to 32.8% in fiscal year 2021.
- An average increase of 5% in medical insurance premiums is anticipated.
- Sensitivity to and monitoring of controllable costs and consumables.
- Continued efforts to identify efficiencies in costs.

## **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 Kristina Mihaylova, Finance Deputy Director, at 110 Vernon Street, Santa Cruz, CA 95060.



# Attachment C

## BASIC FINANCIAL STATEMENTS

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF NET POSITION JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 23,614,362	\$ 17,015,381
Sales and Use Taxes, Grants, and Other Receivables	27,940,861	14,597,555
Inventory	780,278	783,335
Prepaid Expenses	885,247	715,796
<b>Total Current Assets</b>	<b>53,220,748</b>	<b>33,112,067</b>
<b>RESTRICTED ASSETS</b>		
Cash and Cash Equivalents	12,283,925	11,059,070
<b>CAPITAL ASSETS</b>		
Building and Improvements	78,316,464	78,251,147
Revenue Vehicles	43,574,425	44,779,255
Operations Equipment	7,399,411	6,856,983
Other Equipment	2,131,733	2,131,733
Other Vehicles	1,280,286	1,328,914
Office Equipment	3,983,176	4,019,562
Total Depreciated Capital Assets	136,685,495	137,367,594
Less Accumulated Depreciation	(68,106,307)	(67,975,486)
Total Depreciated Capital Assets Net of Accumulated Depreciation	68,579,188	69,392,108
Construction-in-Progress	5,279,626	2,484,139
Land	11,596,311	11,596,311
<b>Total Capital Assets</b>	<b>85,455,125</b>	<b>83,472,558</b>
<b>Total Assets</b>	<b>150,959,798</b>	<b>127,643,695</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts from Other Postemployment Benefits (OPEB)	9,599,183	3,906,373
Deferred Amounts from Pension Activities	8,281,477	9,636,967
<b>Total Deferred Outflows of Resources</b>	<b>\$ 17,880,660</b>	<b>\$ 13,543,340</b>

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

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF NET POSITION (Continued) JUNE 30, 2020 AND 2019

LIABILITIES	2020	2019
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 3,603,186	\$ 1,833,617
Accrued Payroll and Employee Benefits	5,023,324	4,257,786
Deferred Rent	3,365	3,275
Workers' Compensation Liabilities, Current	458,313	437,183
Other Accrued Liabilities	169,910	423,426
Security Deposit	13,809	13,809
Capital Lease	259,182	251,431
<b>Total Current Liabilities</b>	9,531,089	7,220,527
<b>NON-CURRENT LIABILITIES</b>		
Unearned Revenue	64,077	-
Unearned Revenue - State Transit Assistance (STA)	243,612	271,804
Unearned Revenue - State of Good Repair (SGR)	1,433,329	1,359,574
Unearned Revenue - PTMISEA Grant	4,802,783	4,778,292
Unearned Revenue - Proposition 1B Grant	2	1,737
Unearned Revenue - Measure D	3,266,636	2,953,657
Unearned Revenue - LCTOP	2,487,560	2,268,209
<b>Total Non-Current Liabilities</b>	12,297,999	11,633,273
<b>OTHER LONG-TERM LIABILITIES</b>		
Workers' Compensation Liabilities, Net of Current	1,761,213	1,668,551
Capital Lease	659,825	919,007
Net OPEB Liability	124,340,668	114,516,198
Net Pension Liability	60,657,487	57,868,302
<b>Total Other Long-Term Liabilities</b>	187,419,193	174,972,058
<b>Total Liabilities</b>	209,248,281	193,825,858
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts from OPEB	3,810,361	3,003,868
Deferred Amounts from Pension Activities	2,276,707	2,814,903
<b>Total Deferred Inflows of Resources</b>	6,087,068	5,818,771
<b>NET POSITION (DEFICIT)</b>		
Net Investment in Capital Assets	84,536,118	82,302,120
Unrestricted Net Position (Deficit)	(131,031,009)	(140,759,714)
<b>Total Net Position (Deficit)</b>	\$ (46,494,891)	\$ (58,457,594)

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

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<b>OPERATING REVENUES</b>		
Passenger Fares	\$ 3,139,475	\$ 4,382,160
Special Transit Fares	4,594,226	5,856,803
<b>Total Operating Revenues</b>	7,733,701	10,238,963
<b>OPERATING EXPENSES</b>		
Wages, Salaries, and Employee Benefits	50,993,087	43,409,624
Materials and Supplies	3,136,730	3,255,180
Other Expenses	5,969,465	6,495,732
Depreciation	5,514,288	5,286,802
<b>Total Operating Expenses</b>	65,613,570	58,447,338
<b>Net Operating Loss</b>	(57,879,869)	(48,208,375)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales and Use Taxes	22,899,749	23,842,398
Transportation Development Act (TDA) Assistance	7,930,060	7,288,209
State Transit Assistance (STA)	4,346,687	4,253,929
Federal Transit Administration (FTA) Section 5307 Operating Assistance	25,371,205	6,794,772
FTA Section 5311 Rural Operating Assistance	381,393	174,321
Alternative Fuel Tax Credit	826,532	-
Interest Income	456,082	319,195
Rental Income	120,566	147,301
Other Revenue	424,224	492,562
Gain on Sale and Disposal of Property, Equipment, and Inventory	41,357	28,566
<b>Total Non-Operating Revenues (Expenses)</b>	62,797,855	43,341,253
<b>Net Loss Before Capital Contributions</b>	4,917,986	(4,867,122)
<b>CAPITAL CONTRIBUTIONS</b>		
Grants Restricted for Capital Expenditures	7,044,717	3,028,472
<b>NET POSITION</b>		
Change in Net Position	11,962,703	(1,838,650)
Net Position, Beginning of Year	(58,457,594)	(56,618,944)
<b>Total Net Position (Deficit), End of Year</b>	\$ (46,494,891)	\$ (58,457,594)

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

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 8,406,716	\$ 9,973,392
Payments to Employees	(43,820,114)	(37,383,679)
Payments to Suppliers	(7,756,446)	(9,394,655)
Payments from (to) Other	2,250,989	(1,786,464)
Net Cash Used in Operating Activities	<u>(40,918,855)</u>	<u>(38,591,406)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating Grants Received, Including Sales and Use Taxes	<u>61,800,531</u>	<u>42,694,343</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Sale of Property and Equipment	41,357	28,566
Capital Grants Received	(5,927,559)	(1,400,327)
Capital Expenditures	(7,496,855)	(2,902,940)
Payments Made on Capital Lease	<u>(251,431)</u>	<u>(243,913)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(13,634,488)</u>	<u>(4,518,614)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment and Rental Income Received	<u>576,648</u>	<u>466,496</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,823,836	50,819
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>28,074,451</u>	<u>28,023,632</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 35,898,287</u>	<u>\$ 28,074,451</u>
FINANCIAL STATEMENT PRESENTATION:		
Cash and Cash Equivalents	\$ 23,614,362	\$ 17,015,381
Cash and Cash Equivalents - Restricted	<u>12,283,925</u>	<u>11,059,070</u>
Total Cash and Cash Equivalents	<u>\$ 35,898,287</u>	<u>\$ 28,074,451</u>

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

# Attachment C

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net Operating Loss	\$ (57,879,869)	\$ (48,208,375)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	5,514,288	5,286,802
Changes in Assets and Liabilities:		
Decrease (Increase) in Receivables	673,015	(265,571)
Decrease (Increase) in Inventory	3,057	(60,402)
(Increase) in Prepaid Expenses	(169,451)	(146,532)
Increase in Accounts Payable and Accrued Liabilities	1,769,569	304,920
Increase in Net Pension Liability	3,606,479	1,509,176
Increase in Net OPEB Liability	4,938,153	3,932,379
Increase/(Decrease) in Other Liabilities	625,904	(943,803)
Net Cash Used in Operating Activities	<u>\$ (40,918,855)</u>	<u>\$ (38,591,406)</u>

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

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

### **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, 2020, the Board was as follows:

Chairperson:	Ed Bottorff		
Vice Chair:	Mike Rotkin		
Members:	Bruce McPherson	John Leopold	Trina Coffman-Gomez
	Donna Lind	Dan Rothwell	Cynthia Mathews
	Donna Meyers	Aurelio Gonzalez	Larry Pageler
Ex-Officio:	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 years ended June 30, 2020 and 2019, 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 C

## **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 \$7,044,717 and \$3,028,472 for the fiscal years ended June 30, 2020 and 2019, respectively.

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 C

## **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, purchased transportation, materials and supplies, 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.

The cash resulting from a design and construction settlement agreement, as described in Note 8, represents proceeds restricted by the FTA. Grants from the State Transit Assistance (STA) program; Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA); Proposition 1B Office of Homeland Security (OHS); California Transit Security Grant Program (CTSGP); and the Low Carbon Transit Operations Program (LCTOP) are restricted for capital expenditures.

# Attachment C

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

### F. Restricted Assets (Continued)

Restricted assets at June 30 are as follows:

	2020	2019
Cash and Cash Equivalents		
Proposition 1B PTMISEA Grant	\$ 4,802,783	\$ 4,778,292
Proposition 1B OHS and CTSGP Grants	2	1,737
STA Grant	243,612	271,804
STA- SGR Grant	1,308,569	1,247,795
Measure D	4,410,793	3,137,729
LCTOP Grant	1,518,166	1,621,713
 Total Restricted Assets	 \$ 12,283,925	 \$ 11,059,070

### 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 years ended June 30, 2020 and 2019, were \$21,587,491 and \$22,473,422, respectively.

# Attachment C

## 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 \$3,376,695 and \$3,491,041 for the fiscal years ended June 30, 2020 and 2019, respectively. During fiscal year 2020, \$1,312,258 of Measure D funds were earned and spent on operating expenses, and \$1,751,458 of Measure D funds were earned and spent on capital projects. During fiscal year 2019, \$1,368,976 of Measure D funds were earned and spent on operating expenses, and \$730,075 of Measure D funds were earned and spent on capital projects. At June 30, 2020 and 2019, \$3,266,636 and \$2,953,657, respectively, 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 C

## 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. 95** – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this standard are effective immediately. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. There was no effect on the District's accounting and financial reporting as a result of implementing this standard.

### Q. Future GASB Statements

**GASB Statement No. 84** – *Fiduciary Activities*. The requirements for this statement are effective for reporting period beginning after December 15, 2019. Santa Cruz METRO believes the statement will not apply.

**GASB Statement No. 87** – *Leases*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. Santa Cruz METRO has not fully judged the effect of implementation of GASB Statement No. 87 as of the date of the basic financial 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 reporting periods beginning after December 15, 2020. 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. 90** – *Majority Equity Interests—an Amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Santa Cruz METRO has not fully judged the effect of implementation of GASB Statement No. 90 as of the date of the basic financial statements.

**GASB Statement No. 91** – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods 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 for paragraphs related to Statement No. 87 and implementation guide 2019-3, reinsurance recoveries, to implement with GASB Statement No. 87; all others are effective reporting periods beginning June 15, 2021. Early application is encouraged. Santa Cruz METRO will implement GASB Statement No. 92 if and where applicable.

# Attachment C

## 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 reporting periods beginning after June 15, 2021. 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 Partnership and Availability Payment Arrangements. The requirements of this statement are effective for reporting periods 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 reporting periods 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. 97** – Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans. The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution OPEB plans, and other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for reporting periods beginning after June 15, 2021. Santa Cruz METRO will implement GASB Statement No. 97 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash on Hand	\$ 11,391	\$ 15,384
Demand Deposits	711,938	280,035
Certificates of Deposit (CD)	111,538	110,150
Deposits in Santa Cruz County Pooled Investment Fund	<u>35,063,420</u>	<u>27,668,882</u>
	<u>\$ 35,898,287</u>	<u>\$ 28,074,451</u>

# Attachment C

## 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.

# Attachment C

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

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

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

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:

2020

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	\$ 35,063,420	\$ 35,063,420	\$ -	\$ -	\$ -

2019

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	\$ 27,668,882	\$ 27,668,882	\$ -	\$ -	\$ -

#### 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:

2020

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	\$ 35,063,420	N/A	\$ -	\$ -	\$ -	\$ 35,063,420

2019

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	\$ 27,668,882	N/A	\$ -	\$ -	\$ -	\$ 27,668,882

# Attachment C

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

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

#### **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, 2020 or 2019.

#### **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.

#### **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.



# Attachment C

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

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

### Fair Value Measurements (Continued)

Santa Cruz METRO has the following recurring fair value measurements as of June 30, 2020 and 2019:

2020

		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)	\$ 111,538	\$ 111,538	\$ -	\$ -
Total investments measured at fair value	111,538	<u>\$ 111,538</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	<u>35,063,420</u>			
Total pooled and directed investments	<u>\$ 35,174,958</u>			

2019

		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)	\$ 110,150	\$ 110,150	\$ -	\$ -
Total investments measured at fair value	110,150	<u>\$ 110,150</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	<u>27,668,882</u>			
Total pooled and directed investments	<u>\$ 27,779,032</u>			

Investments in the Santa Cruz County Pooled Investment Fund totaling \$35,063,420 and \$27,668,882 as of June 30, 2020 and 2019, respectively, are measured at amortized cost, which approximates fair value.

## NOTE 3 – RECEIVABLES

Receivables at June 30 are as follows:

	2020	2019
Federal Grants	\$ 18,915,063	\$ 6,986,648
State Grants	4,170,650	2,466,345
Sales and Use Tax Revenue	4,564,693	4,185,374
Other	<u>290,455</u>	<u>959,188</u>
	<u>\$ 27,940,861</u>	<u>\$ 14,597,555</u>

# Attachment C

## NOTE 4 – CHANGES IN CAPITAL ASSETS

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

June 30, 2020

	Balance July 1, 2019	Additions and Transfers	Retirements and Transfers	Balance June 30, 2020
<b>Non-Depreciated Assets</b>				
Land	\$ 11,596,311	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	2,484,139	7,750,816	(4,955,329)	5,279,626
<b>Total Non-Depreciated Assets</b>	<b>14,080,450</b>	<b>7,750,816</b>	<b>(4,955,329)</b>	<b>16,875,937</b>
<b>Depreciated Assets</b>				
Building and Improvements	78,251,147	65,317	-	78,316,464
Revenue Vehicles	44,779,255	3,971,483	(5,176,313)	43,574,425
Operations Equipment	6,856,983	587,201	(44,773)	7,399,411
Other Equipment	2,131,733	-	-	2,131,733
Other Vehicles	1,328,914	-	(48,628)	1,280,286
Office Equipment	4,019,562	77,467	(113,853)	3,983,176
<b>Total Depreciated Assets</b>	<b>137,367,594</b>	<b>4,701,468</b>	<b>(5,383,567)</b>	<b>136,685,495</b>
<b>Less Accumulated Depreciation</b>	<b>(67,975,485)</b>	<b>(5,514,288)</b>	<b>5,383,466</b>	<b>(68,106,307)</b>
<b>Depreciated Assets Net of Accumulated Depreciation</b>	<b>69,392,109</b>	<b>(812,820)</b>	<b>(101)</b>	<b>68,579,188</b>
<b>Total Capital Assets</b>	<b>\$ 83,472,559</b>	<b>\$ 6,937,996</b>	<b>\$ (4,955,430)</b>	<b>\$ 85,455,125</b>

Depreciation expense at June 30, 2020, was \$5,514,288.

June 30, 2019

	Balance July 1, 2018	Additions and Transfers	Retirements and Transfers	Balance June 30, 2019
<b>Non-Depreciated Assets</b>				
Land	\$ 11,596,311	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	4,058,623	3,146,852	(4,721,336)	2,484,139
<b>Total Non-Depreciated Assets</b>	<b>15,654,934</b>	<b>3,146,852</b>	<b>(4,721,336)</b>	<b>14,080,450</b>
<b>Depreciated Assets</b>				
Building and Improvements	76,426,089	1,825,058	-	78,251,147
Revenue Vehicles	48,319,563	2,164,832	(5,705,140)	44,779,255
Operations Equipment	6,570,546	293,393	(6,956)	6,856,983
Other Equipment	2,131,733	-	-	2,131,733
Other Vehicles	1,244,205	136,708	(51,999)	1,328,914
Office Equipment	3,962,129	57,433	-	4,019,562
<b>Total Depreciated Assets</b>	<b>138,654,265</b>	<b>4,477,424</b>	<b>(5,764,095)</b>	<b>137,367,594</b>
<b>Less Accumulated Depreciation</b>	<b>(68,452,779)</b>	<b>(5,286,802)</b>	<b>5,764,095</b>	<b>(67,975,486)</b>
<b>Depreciated Assets Net of Accumulated Depreciation</b>	<b>70,201,486</b>	<b>(809,378)</b>	<b>-</b>	<b>69,392,108</b>
<b>Total Capital Assets</b>	<b>\$ 85,856,420</b>	<b>\$ 2,337,474</b>	<b>\$ (4,721,336)</b>	<b>\$ 83,472,558</b>

Depreciation expense at June 30, 2019, was \$5,286,802.

# Attachment C

## **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 SCCRTC.

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

	<u>2020</u>	<u>2019</u>
Federal Grants	\$ 2,531,116	\$ 1,231,017
State Grants	2,762,143	1,067,380
Measure D Local Sales Tax Allocations	<u>1,751,458</u>	<u>730,075</u>
Total Capital Contributions	<u>\$ 7,044,717</u>	<u>\$ 3,028,472</u>

## **NOTE 6 – COMMITMENTS**

Santa Cruz METRO leases its Paracruz facilities under an operating lease that extends through August 2021. For the fiscal years ended June 30, 2020 and 2019, rental costs relating to the leases were \$184,627 and \$189,742, respectively. In addition, Santa Cruz METRO receives rent income from retail space in its transit centers. Minimum net lease payments for existing operating leases are as follows:

<u>Year Ending June 30</u>	<u>Lease Commitments</u>	<u>Rental Income</u>	<u>Net</u>
2021	\$ 186,586	\$ 225,104	\$ (38,518)
2022	33,552	74,102	(40,550)
2023	-	27,786	(27,786)
2024	-	14,438	(14,438)
2025	-	14,727	(14,727)
2026-2027	<u>-</u>	<u>3,700</u>	<u>(3,700)</u>
	<u>\$ 220,138</u>	<u>\$ 359,857</u>	<u>\$ (139,719)</u>

## **NOTE 7 – 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.

# Attachment C

## **NOTE 7 – JOINT VENTURES (JOINT POWERS AUTHORITY WITH CalTIP)** (Continued)

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

	<u>2020</u>	<u>2019</u>
Total Assets	\$ 41,204,259	\$ 36,325,260
Total Liabilities	<u>18,200,833</u>	<u>19,256,672</u>
Fund Balance	<u>\$ 23,003,426</u>	<u>\$ 17,068,588</u>
Total Revenues	\$ 16,065,565	\$ 14,862,694
Total Expenditures	<u>10,130,727</u>	<u>7,640,584</u>
Net Increase in Fund Balance	<u>\$ 5,934,838</u>	<u>\$ 7,222,110</u>

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

## **NOTE 8 – WATSONVILLE FLEET MAINTENANCE FACILITY SETTLEMENT RECEIPT**

Santa Cruz METRO's fleet maintenance facility in Watsonville was damaged in the Loma Prieta earthquake (the earthquake) in October 1989. An engineering study concluded that the demolition of the existing facility and construction of a new facility was the most practical course of action. Therefore, the net book value of the facility was written off the books in a prior year.

In addition, due to design and construction deficiencies by the design and building contractors involved in the original project, Santa Cruz METRO initiated litigation against the contractors and came to a settlement agreement with said contractors on May 30, 1995. In accordance with this agreement, the contractors remitted \$4,776,858 (including \$171,538 in costs) to Santa Cruz METRO during fiscal year 1996, representing damages less attorney fees. FTA Section 3/5309 restricts the use of these proceeds, and the interest earned thereon. As of June 30, 2020, all settlement funds have been expended.

## **NOTE 9 – 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.

## **NOTE 10 – 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

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### A. General Information About the Pension Plan (Continued)

#### Plan Description (Continued)

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 comprehensive annual 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 301 and 302 active members in the Plan as of June 30, 2020 and 2019, respectively, 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 2020 was 9.439% of covered payroll plus twelve (12) monthly payments of \$349,071. The required employer contribution for fiscal year 2019 was 9.211% of covered payroll plus twelve (12) monthly payments of \$300,849. 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, 2020, are summarized as follows:

Hire Date	Prior to <u>January 1, 2013</u>	On or after <u>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%	6.250%
Required Employer Normal Cost Contribution Rates	9.439%	9.439%
Required Monthly Employer Dollar UAL Payment	\$349,071/month	\$349,071/month

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

Hire Date	Prior to <u>January 1, 2013</u>	On or after <u>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%	6.250%
Required Employer Normal Cost Contribution Rates	9.211%	9.211%
Required Monthly Employer Dollar UAL Payment	\$300,849/month	\$300,849/month

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### A. General Information About the Pension Plan (Continued)

#### Funding Policy (Continued)

**Employees Covered** – At June 30, 2020 and 2019, the following employees were covered by the benefit terms for the Plan:

	2020	2019
Inactive Employees or Beneficiaries Currently Receiving Benefits	383	366
Inactive Employees Entitled to but not yet Receiving Benefits	201	180
Active Employees	301	302
Total	885	848

### 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, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, 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 liabilities in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions:

	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by Entry Age and Service <sup>(1)</sup>	Varies by Entry Age and Service <sup>(1)</sup>
Investment Rate of Return	7.375% <sup>(2)</sup>	7.50% <sup>(2)</sup>
Mortality	Derived using <sup>(3)</sup> CalPERS' Membership Data for all Funds	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 expenses, including inflation.

<sup>(3)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 and 2016 valuations were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### B. Net Pension Liability (Continued)

**Discount Rate** – The discount rate used to measure the total pension liabilities for June 30, 2020 and 2019, 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 2020 and 2019, is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate 7.15% for 2020 and 2019, 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 periods ended June 30, 2020 and 2019, the 7.15% discount rate was not reduced for administrative expenses.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require the CalPERS Board of Administration action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statements No. 67 and No. 68 calculations through at least the 2018-19 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, 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.

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### B. Net Pension Liability (Continued)

The tables below reflect 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.

#### 2019 Measurement Date

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Global 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.

#### 2018 Measurement Date

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Global 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 2.5% used for this period.

<sup>(b)</sup> An expected inflation of 3.0% used for this period.



# Attachment C

## NOTE 10 – 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, 2018 <sup>(1)</sup>	\$ 180,968,790	\$ 123,100,488	\$ 57,868,302
Changes in the year:			
Service Cost	3,267,506	-	3,267,506
Interest on the Total Pension Liability	12,800,717	-	12,800,717
Differences between Actual and Expected Experience	1,427,437	-	1,427,437
Contribution - Employer	-	5,300,243	(5,300,243)
Contribution - Employee	-	1,560,484	(1,560,484)
Net Investment Income <sup>(2)</sup>	-	7,933,310	(7,933,310)
Administrative Expenses	-	(87,847)	87,847
Benefit Payments, Including Refunds of Employee Contributions	(9,997,925)	(9,997,925)	-
Other Miscellaneous Income/(Expense)	-	285	(285)
Net Changes	<u>7,497,735</u>	<u>4,708,550</u>	<u>2,789,185</u>
Balance at June 30, 2019 <sup>(1)</sup>	<u>\$ 188,466,525</u>	<u>\$ 127,809,038</u>	<u>\$ 60,657,487</u>

<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.

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### C. Changes in the Net Pension Liability (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2017 <sup>(1)</sup>	\$ 177,020,413	\$ 116,948,291	\$ 60,072,122
Changes in the year:			
Service Cost	3,267,575	-	3,267,575
Interest on the Total Pension Liability	12,278,470	-	12,278,470
Differences between Actual and Expected Experience	(1,025,273)	-	(1,025,273)
Changes in Assumptions	(1,231,759)	-	(1,231,759)
Net Plan to Plan Resource Movement	-	(285)	285
Contribution - Employer	-	4,686,264	(4,686,264)
Contribution - Employee (Paid by Employer)	-	-	-
Contribution - Employee	-	1,592,606	(1,592,606)
Net Investment Income <sup>(2)</sup>	-	9,742,558	(9,742,558)
Administrative Expenses	-	(182,238)	182,238
Benefit Payments, Including Refunds of Employee Contributions	(9,340,636)	(9,340,636)	-
Other Miscellaneous Income/(Expense)	-	(346,072)	346,072
Net Changes	3,948,377	6,152,197	(2,203,820)
Balance at June 30, 2018 <sup>(1)</sup>	\$ 180,968,790	\$ 123,100,488	\$ 57,868,302

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

(2) 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:

#### 2019

1% Decrease Net Pension Liability	\$ 83,854,188
Current Discount Rate Net Pension Liability	\$ 60,657,487
1% Increase Net Pension Liability	\$ 41,322,388

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

### C. Changes in the Net Pension Liability (Continued)

2018

1% Decrease Net Pension Liability	\$ 80,255,613
Current Discount Rate Net Pension Liability	\$ 57,868,302
1% Increase Net Pension Liability	\$ 39,202,910

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

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

For the fiscal years ended June 30, 2020 and 2019, Santa Cruz METRO recognized a pension expense of \$9,492,662 and \$6,802,193, respectively. At June 30, 2020 and 2019, Santa Cruz METRO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 5,886,183	\$ -
Differences between Actual and Expected Experience	1,061,428	(1,086,917)
Changes in Assumptions	1,333,866	(583,465)
Net Differences Between Projected and Actual Earnings on Plan Investments	-	(606,325)
Total	\$ 8,281,477	\$ (2,276,707)

2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 5,293,017	\$ -
Differences between Actual and Expected Experience	30,681	(1,907,291)
Changes in Assumptions	4,001,597	(907,612)
Net Differences Between Projected and Actual Earnings on Plan Investments	311,672	-
Total	\$ 9,636,967	\$ (2,814,903)

# Attachment C

## NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

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

The \$5,886,183 and \$5,293,017 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, 2020 and 2019, respectively. 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	
2020	\$ 1,306,229
2021	(1,166,699)
2022	159,234
2023	<u>(180,177)</u>
Total	<u>\$ 118,587</u>

### E. Payable to the Pension Plan

At June 30, 2020 and 2019, Santa Cruz METRO reported a payable of \$0 for the outstanding amount of contributions to the Plan required for the fiscal years ended June 30, 2020 and 2019.

## NOTE 11 – 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, 2020 and 2019, 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.

## NOTE 12 – 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.

# Attachment C

## **NOTE 12 – RISK MANAGEMENT** (Continued)

The IBNR for workers' compensation was based on an actuarial study dated April 2016. 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:

	2020	2019
Workers' Compensation Liabilities:		
Unpaid Claims, Beginning of Fiscal Year	\$ 2,105,734	\$ 3,495,798
Other Adjustments (Including IBNRs)	(1,014,694)	(2,200,996)
Claim Payments	1,128,486	810,932
Unpaid Claims Liability, End of Fiscal Year	\$ 2,219,526	\$ 2,105,734

## **NOTE 13 – 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.

## **NOTE 14 – 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.

# Attachment C

**NOTE 14 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) (Continued)**

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, 2020, Santa Cruz METRO applied for and received proceeds of \$0 and earned interest of \$94,574 from the State's PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2020, qualifying expenditures of \$70,083 were incurred and the remaining balance of \$4,802,783, 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, 2020**

	2020
<b>Balance - beginning of the year</b>	\$ 4,778,292
<b>Receipts:</b>	
Interest accrued 7/1/2019 through 6/30/2020	94,574
<b>Expenses:</b>	
Transit bus	(70,083)
<b>Balance - end of year</b>	\$ 4,802,783

During the fiscal year ended June 30, 2019, Santa Cruz METRO applied for and received proceeds of \$0 and earned interest of \$95,307 from the State's PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2019, qualifying expenditures of \$93,970 were incurred and the remaining balance of \$4,778,292, 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, 2019**

	2019
<b>Balance - beginning of the year</b>	\$ 4,776,955
<b>Receipts:</b>	
Interest accrued 7/1/2018 through 6/30/2019	95,307
<b>Expenses:</b>	
MetroBase Construction	(85,049)
LoNo Spending	(8,921)
<b>Balance - end of year</b>	\$ 4,778,292

# Attachment C

## NOTE 15 – 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.

**Employees Covered** – As of the June 30, 2019 and 2018 valuations, the following current and former employees were covered by the benefit terms for the OPEB Plan:

	2019	2018
Inactive Employees or Beneficiaries Currently Receiving Benefits	298	277
Inactive Employees Entitled to but not yet Receiving Benefits	20	20
Active Employees	303	322
Total	621	619

**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 years ended June 30, 2020 and 2019, Santa Cruz METRO contributed \$4,125,446 and \$3,906,373, respectively. 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, 2019 and 2018, 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, 2020	June 30, 2019
Valuation Date	June 30, 2019	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	2.79%	2.98%
Inflation	2.50%	2.75%
Salary Increases	3.00%	3.25%
Healthcare Cost Trend Rates	6.5% in 2021, fluctuating down to 4% by 2076	8.0% in 2019, step down 0.5% per year to 5.0% by 2025
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2020	CalPERS 2014 Experience Study; Projected with MW Scale 2017

# Attachment C

## NOTE 15 – OPEB (Continued)

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:

### 2019 Measurement Date

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Global 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.

### 2018 Measurement Date

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>(a)</sup>	Real Return Years 11+ <sup>(b)</sup>
Global 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 2.5% used for this period.

<sup>(b)</sup> An expected inflation of 3.0% used for this period.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 2.79% and 2.98% for June 30, 2020 and 2019, respectively. 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.



# Attachment C

**NOTE 15 – OPEB** (Continued)

**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, 2018	\$ 114,516,198	\$ -	\$ 114,516,198
Changes in the Year:			
Service Cost	5,638,591	-	5,638,591
Interest	3,522,407	-	3,522,407
Plan experience	(4,602,485)	-	(4,602,485)
Changes in Assumptions	9,172,330	-	9,172,330
Contribution - Employer		3,906,373	(3,906,373)
Benefit Payments	(3,906,373)	(3,906,373)	-
Net Changes	9,824,470	-	9,824,470
Balance at June 30, 2019	\$ 124,340,668	\$ -	\$ 124,340,668
	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2017	\$ 106,945,439	\$ -	\$ 106,945,439
Changes in the Year:			
Service Cost	5,259,186	-	5,259,186
Interest	3,452,776	-	3,452,776
Changes in Assumptions	2,643,408	-	2,643,408
Contribution - Employer	-	3,784,611	(3,784,611)
Benefit Payments	(3,784,611)	(3,784,611)	-
Net Changes	7,570,759	-	7,570,759
Balance at June 30, 2018	\$ 114,516,198	\$ -	\$ 114,516,198

# Attachment C

## NOTE 15 – OPEB (Continued)

**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 periods ended June 30, 2019 and 2018:

2019	
1% Decrease	1.79%
Net OPEB Liability	\$ 146,740,074
Current Discount Rate	2.79%
Net OPEB Liability	\$ 124,340,668
1% Increase	3.79%
Net OPEB Liability	\$ 106,670,982
2018	
1% Decrease	1.98%
Net OPEB Liability	\$ 134,857,885
Current Discount Rate	2.98%
Net OPEB Liability	\$ 114,516,198
1% Increase	3.98%
Net OPEB Liability	\$ 98,538,068

**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 C

## NOTE 15 – OPEB (Continued)

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** – For the fiscal years ended June 30, 2020 and 2019, Santa Cruz METRO recognized OPEB expense of \$9,063,599 and \$7,838,752, respectively. As of fiscal years ended June 30, 2020 and 2019, Santa Cruz METRO reported deferred outflows of resources related to OPEB from the following sources:

2020	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	\$ 4,125,446	\$ -
Differences between Actual and Expected Experience	-	3,810,361
Changes in Assumptions	5,473,737	-
Net Differences between Projected and Actual Earnings on Plan Investments	-	-
Total	\$ 9,599,183	\$ 3,810,361
2019	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	\$ 3,906,373	\$ -
Differences between Actual and Expected Experience	-	-
Changes in Assumptions	-	3,003,868
Net Differences between Projected and Actual Earnings on Plan Investments	-	-
Total	\$ 3,906,373	\$ 3,003,868

The \$4,125,446 and \$3,906,373 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 and 2018 measurement dates will be recognized as a reduction in the net OPEB liability in the measurement periods ended June 30, 2020 and 2019, respectively. In addition, future recognition of the deferred inflows of resources is shown below.

Fiscal Year Ended June 30	
2021	\$ (97,399)
2022	(121,983)
2023	40,745
2024	1,081,091
2025	533,754
Thereafter	227,168
Total	\$ 1,663,376

# Attachment C

## **NOTE 16 – CAPITAL LEASE**

The following is a summary of Santa Cruz METRO's capital lease activity for the fiscal years ended June 30, 2020 and 2019:

	Balance June 30, 2019	Additions	Payments	Balance June 30, 2020	Due Within One Year
Capital Lease	\$ 1,170,438	\$ -	\$ (251,431)	\$ 919,007	\$ 259,182
Total Long-Term Debt	<u>\$ 1,170,438</u>	<u>\$ -</u>	<u>\$ (251,431)</u>	<u>\$ 919,007</u>	<u>\$ 259,182</u>

	Balance June 30, 2018	Additions	Payments	Balance June 30, 2019	Due Within One Year
Capital Lease	\$ 1,414,351	\$ -	\$ (243,913)	\$ 1,170,438	\$ 251,431
Total Long-Term Debt	<u>\$ 1,414,351</u>	<u>\$ -</u>	<u>\$ (243,913)</u>	<u>\$ 1,170,438</u>	<u>\$ 251,431</u>

Santa Cruz METRO entered into a lease/purchase agreement with Key Government Finance, Inc., on November 21, 2017, for the purchase of three CNG buses. The terms of the lease/purchase 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, 2020, the outstanding balance was \$919,007.

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

Fiscal Year	Principal	Interest	Total
2021	\$ 259,182	\$ 24,347	\$ 283,529
2022	267,172	16,357	283,529
2023	275,409	8,121	283,530
2024	<u>117,244</u>	<u>893</u>	<u>118,137</u>
Total	<u>\$ 919,007</u>	<u>\$ 49,718</u>	<u>\$ 968,725</u>

## **NOTE 17 – STATE OF GOOD REPAIR**

State Transit Assistance - State of Good Repair (STA-SGR) grant funding of \$722,808 was received for fiscal year 2020. Interest earned on STA-SGR funds was \$22,025 during fiscal year 2020. The unspent (unearned) balance of STA-SGR funds was \$1,433,329 at June 30, 2020

## **NOTE 18 – DEFICIT NET POSITION**

As of June 30, 2020, Santa Cruz METRO had a deficit net position of \$46,494,891. 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.

# Attachment C

## **NOTE 19 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through December 11, 2020, which is the date of issuance.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the County of Santa Cruz, followed by the Governor of California, issued a Shelter at Home order effective March 19, 2020, requiring non-essential businesses to temporarily close to the public. At the current time, management is unable to quantify the potential effects of this pandemic on its future financial statements.

# Attachment C

**REQUIRED SUPPLEMENTARY INFORMATION**

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE FISCAL YEAR ENDED JUNE 30, 2020 LAST 10 YEARS\*

	Measurement Period 2018/19	Measurement Period 2017/18	Measurement Period 2016/17	Measurement Period 2015/16	Measurement Period 2014/15	Measurement Period 2013/14
<b>Total Pension Liability</b>						
Service Cost	\$ 3,267,506	\$ 3,267,575	\$ 3,422,455	\$ 3,160,455	\$ 3,294,147	\$ 3,200,114
Interest on Total Pension Liability	12,800,717	12,278,470	12,002,686	11,775,833	11,234,261	10,709,850
Differences between Expected and Actual Experience	1,427,437	(1,025,273)	(1,952,270)	162,174	(414,257)	-
Changes in Assumptions	-	(1,231,759)	9,337,059	-	(2,564,554)	-
Changes in Benefits	-	-	-	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(9,997,925)	(9,340,636)	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Net Change in Total Pension Liability	7,497,735	3,948,377	13,683,476	7,195,283	4,364,041	7,249,370
Total Pension Liability - Beginning	180,968,790	177,020,413	163,336,937	156,141,654	151,777,613	144,528,243
Total Pension Liability - Ending (a)	<u>\$ 188,466,525</u>	<u>\$ 180,968,790</u>	<u>\$ 177,020,413</u>	<u>\$ 163,336,937</u>	<u>\$ 156,141,654</u>	<u>\$ 151,777,613</u>
<b>Plan Fiduciary Net Position</b>						
Net Plan to Plan Resource Movement	\$ -	\$ (285)	\$ 107	\$ -	\$ -	\$ -
Contributions - Employer	5,300,243	4,686,264	4,047,221	3,991,447	4,086,806	3,668,004
Contributions - Employee	1,560,484	1,592,606	1,556,993	1,603,071	1,645,356	1,573,391
Net Investment Income	7,933,310	9,742,558	12,015,977	608,702	2,493,939	16,262,179
Administrative Expense	(87,847)	(182,238)	(160,362)	(67,272)	(124,362)	-
Benefit Payments	(9,997,925)	(9,340,636)	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Other Miscellaneous Income/(Expense)	285	(346,072)	-	-	-	-
Net Change in Plan Fiduciary Net Position	4,708,550	6,152,197	8,333,482	(1,767,231)	916,183	14,842,980
Plan Fiduciary Net Position - Beginning	123,100,488	116,948,291	108,614,809	110,382,040	109,465,857	94,622,877
Plan Fiduciary Net Position - Ending (b)	<u>\$ 127,809,038</u>	<u>\$ 123,100,488</u>	<u>\$ 116,948,291</u>	<u>\$ 108,614,809</u>	<u>\$ 110,382,040</u>	<u>\$ 109,465,857</u>
Net Pension Liability [(a) - (b)]	<u>\$ 60,657,487</u>	<u>\$ 57,868,302</u>	<u>\$ 60,072,122</u>	<u>\$ 54,722,128</u>	<u>\$ 45,759,614</u>	<u>\$ 42,311,756</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.82%	68.02%	66.06%	66.50%	70.69%	72.12%
Covered Payroll	\$ 18,780,928	\$ 19,075,163	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839	\$ 18,385,116
Net Pension Liability as a Percentage of Covered Payroll	322.97%	303.37%	310.55%	279.91%	234.77%	230.14%

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

### Notes to Schedule:

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

**Changes in assumptions.** In 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 C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CONTRIBUTIONS – PENSION FOR THE FISCAL YEAR ENDED JUNE 30, 2020 LAST 10 YEARS\*

	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contributions	\$ 5,300,243	\$ 4,686,264	\$ 4,047,221	\$ 3,991,447	\$ 4,086,806	\$ 3,668,004
Contributions in Relation to the Actuarially Determined Contributions	<u>(5,300,243)</u>	<u>(4,686,264)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 18,780,928	\$ 19,075,163	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839	\$ 18,385,116
Contributions as a Percentage of Covered Payroll	28.22%	24.57%	20.92%	20.42%	20.97%	19.95%

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



# Attachment C

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

<i>Measurement Period</i>	2019	2018	2017
<b>Total OPEB Liability</b>			
Service Cost	\$ 5,638,591	\$ 5,259,186	\$ 5,708,352
Interest	3,522,407	3,452,776	3,047,381
Actual and Expected Experience Difference	(4,602,485)	-	-
Changes in Assumptions	9,172,330	2,643,408	(7,860,824)
Benefit Payments	(3,906,373)	(3,784,611)	(3,898,705)
Net Change in Total OPEB Liability	9,824,470	7,570,759	(3,003,796)
Total OPEB Liability - Beginning	114,516,198	106,945,439	109,949,235
Total OPEB Liability - Ending (a)	<u>\$ 124,340,668</u>	<u>\$ 114,516,198</u>	<u>\$ 106,945,439</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 3,906,373	\$ 3,784,611	\$ 3,898,705
Benefit Payments	(3,906,373)	(3,784,611)	(3,898,705)
Net Change in Plan Fiduciary Net Position	-	-	-
Plan Fiduciary Net Position - Beginning	-	-	-
Plan Fiduciary Net Position - Ending (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability [(a) - (b)]	<u>\$ 124,340,668</u>	<u>\$ 114,516,198</u>	<u>\$ 106,945,439</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%
Covered Payroll	\$ 22,768,353	\$ 22,116,603	\$ 22,483,538
Net OPEB Liability as a Percentage of Covered Payroll	546.11%	517.78%	475.66%

\* Fiscal year 2018 was the 1<sup>st</sup> year of implementation; therefore, only three 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 C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF CONTRIBUTIONS – OPEB FOR THE FISCAL YEAR ENDED JUNE 30, 2020 LAST 10 YEARS\*

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Actuarially Determined Contributions	\$ 3,906,373	\$ 3,784,611	\$ 3,898,705
Contributions in Relation to the Actuarially Determined Contributions	(3,906,373)	(3,784,611)	(3,898,705)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 22,768,353	\$ 22,116,603	\$ 21,929,916
Contributions as a Percentage of Covered Payroll	17.16%	17.11%	17.78%

**Notes to the Schedule:**

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019, were from the June 30, 2018 actuarial valuation.

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	2.79%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	6.5% in 2021, fluctuating down to 4% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2020

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

# Attachment C

**SUPPLEMENTARY INFORMATION**

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF OPERATING EXPENSES FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Labor		
Operators' salaries and wages	\$ 7,775,128	\$ 8,089,242
Other salaries and wages	8,099,757	7,583,171
Overtime	2,804,026	3,348,346
	18,678,911	19,020,759
Fringe Benefits		
Absence with pay	5,329,108	3,747,912
Pension plans	5,886,183	5,293,017
Vision, medical, and dental plans	6,657,647	6,062,385
Workers' compensation insurance	1,242,278	(579,132)
Disability insurance	353,155	347,893
Other fringe benefits	175,727	168,862
Other postemployment benefits	12,670,078	9,347,928
	32,314,176	24,388,865
Services		
Accounting	86,712	95,709
Administrative and banking	370,843	464,712
Professional and technical services	1,688,323	1,493,619
Security	575,894	518,156
Outside repairs	1,139,437	1,271,036
Other services	160,648	112,057
	4,021,857	3,955,289
Materials and Supplies Consumed		
Fuels and lubricants	1,352,349	1,627,701
Tires and tubes	208,885	190,918
Vehicle parts	958,306	1,024,093
Other materials and supplies	617,190	508,535
	3,136,730	3,351,247
Utilities	597,598	612,122
Casualty and Liability Costs	800,600	1,067,132
Taxes and Licenses	44,250	44,793
Miscellaneous Expenses	251,476	345,932
Equipment and Facility Lease	221,587	334,781
Interest expense	32,097	39,616
Depreciation	5,514,288	5,286,802
	5,546,385	5,326,418
Total Operating Expenses	\$ 65,613,570	\$ 58,447,338

# Attachment C

**OTHER SCHEDULES AND REPORTS**

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA No.	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	\$ -	\$ 9,515
Pacific Station Expansion FY2008 (Design/Engineering)	20.500	CA-04-0102	-	8,239
			-	17,754
<b>Section 9/5307</b>				
Operating Assistance	20.507	CA-2018-057	-	7,060,410
Operating Assistance - CARES Act	20.507	CA-2020-144-01	-	13,183,772
Operating Assistance - CARES Act	20.507	CA-2020-144-02	-	5,127,023
			-	25,371,205
<b>Section 5339</b>				
FY14 5339(a) Bus & Bus Facilities	20.526	CA-2017-038-00	-	122
FY13-17 5339 Statewide Discretionary	20.526	CA-2018-023	-	456,956
FY17 5339(a) Bus & Bus Facilities	20.526	CA-2019-067-00	-	146,792
FY17 5339(b) Bus - Rolling Stock	20.526	CA-2019-012-00	-	1,206,518
FY18 5339(a) Bus & Bus Facilities	20.526	CA-2019-070-00	-	202,973
			-	2,013,361
Total Federal Transit Administration			-	27,402,320
<b>Section 18/5311-5317</b>				
Rural Operating Assistance - 5311	20.509	CA-2020-015	-	180,962
Rural Operating Assistance - 5311 - CARES Act Phase I	20.509	CA-2020-054	-	200,431
			-	381,393
Surface Transportation Block Grant (STBG)	20.205	N/A	-	500,000
			-	500,000
Total Expenditures of Federal Awards			\$ -	\$ 28,283,713

See accompanying notes to schedule of expenditures of federal awards.

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2020

### **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.

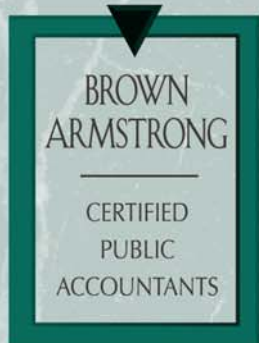
### **NOTE 2 – BASIS OF ACCOUNTING**

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.

# Attachment C



## BROWN ARMSTRONG

*Certified Public Accountants*

### **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, 2020, 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 11, 2020.

#### **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 Santa Cruz METRO'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 Santa Cruz METRO'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.

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## Compliance and Other Matters

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 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

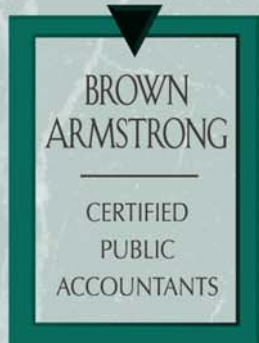
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control or on compliance. This report is an integral part of an audit performed 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 11, 2020

# Attachment C



## BROWN ARMSTRONG

*Certified Public Accountants*

### **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**

We have audited the Santa Cruz Metropolitan Transit District's (Santa Cruz METRO) compliance with the types of compliance requirements described 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, 2020. 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.

#### **Management's Responsibility**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Santa Cruz METRO's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Cruz METRO's compliance.

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

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 fiscal year ended June 30, 2020.

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## Report on Internal Control Over Compliance

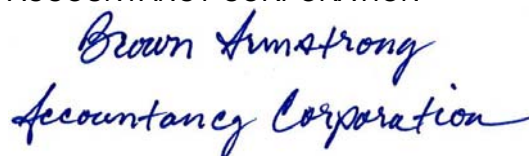
Management of Santa Cruz METRO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Cruz METRO's internal control over compliance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

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

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

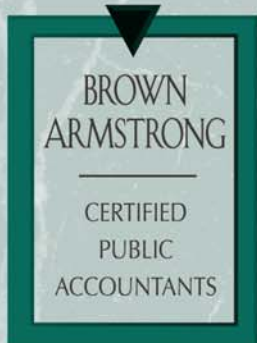
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
December 11, 2020

# Attachment C



## BROWN ARMSTRONG

*Certified Public Accountants*

### **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

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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, 2020, and have issued our report thereon dated December 11, 2020.

#### **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

# Attachment C

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.

During the fiscal year ended June 30, 2020, Santa Cruz METRO received \$0 from the State's PTMISEA funds. As of June 30, 2020, 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, 2020

	<u>2020</u>
<b>Balance - beginning of the year</b>	\$ 4,778,292
<b>Receipts:</b>	
Interest accrued 7/1/2019 through 6/30/2020	94,574
<b>Expenses:</b>	
Transit bus	<u>(70,083)</u>
<b>Balance - end of year</b>	<u>\$ 4,802,783</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

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 11, 2020

# Attachment C

## FINDINGS AND QUESTIONED COSTS SECTION

# Attachment C

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2020

### 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>CFDA Number(s)</u>	<u>Name of Federal Program or Clusters</u>
20.509	Formula Grants for Other Than Urbanized Areas
20.500	Federal Transit Cluster
20.507	Federal Transit Capital Investment Grants – Section 3
20.526	Federal Transit Formula Grants – Section 9 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 C

## IV. State Award Findings and Questioned Costs

None.

## V. A Summary of Prior Audit (all June 30, 2019) Findings and Current Year Status Follows

None.



# Attachment D

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

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

**FOR THE YEAR ENDED  
JUNE 30, 2020**

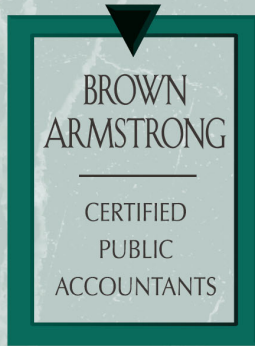
# Attachment D

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2020**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	1
 <u>Financial Statements</u>	
Balance Sheet .....	3
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	4
Notes to Financial Statements .....	5
 <u>Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual .....	7
 <u>Other Report</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 <i>Government Auditing Standards</i> .....	8
Independent Auditor's Report on Measure D Program Compliance.....	10

# Attachment D



## BROWN ARMSTRONG *Certified Public Accountants*

### 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, 2020, and the related notes to the financial statements.

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

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

#### Auditor's Responsibility

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

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

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

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## Opinions

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, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## 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, 2020, 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.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure D Program financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, 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 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 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

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 11, 2020

# Attachment D

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
BALANCE SHEET  
JUNE 30, 2020**

## **ASSETS**

Cash and investments	\$ 4,410,793
Intergovernmental receivables	
Receivables from SCCRTC for Measure D allocations	<u>607,302</u>
<b>Total assets</b>	<b><u><u>\$ 5,018,095</u></u></b>

## **LIABILITIES AND FUND BALANCE**

Liabilities	
Unearned income	\$ 3,266,636
Interfund payable	<u>1,751,459</u>
<b>Total liabilities</b>	<b><u>5,018,095</u></b>
Fund balance	
Restricted	<u>-</u>
<b>Total net position</b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u><u>\$ 5,018,095</u></u></b>

See accompanying Notes to Financial Statements.

# Attachment D

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MEASURE D PROGRAM  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2020**

**REVENUES**

Measure D revenue	\$ 2,983,768
Interest income	79,948
	<hr/>
<b>Total revenues</b>	<b>3,063,716</b>

**EXPENDITURES**

Transit operations	1,312,258
Transit capital	1,751,458
	<hr/>
<b>Total expenditures</b>	<b>3,063,716</b>

**REVENUES OVER EXPENDITURES** -

**FUND BALANCE**

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

See accompanying Notes to Financial Statements.

# Attachment D

## SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MEASURE D PROGRAM NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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, approved by the voters of Santa Cruz County in 2016, Santa Cruz METRO receives a portion of the proceeds of a one-half cent 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.

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.

### NOTE 3 – CASH AND INVESTMENTS

Cash and investments consisted of \$4,410,793 at June 30, 2020.

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.

# Attachment D

## **NOTE 4 – INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables of \$607,302 represent the Measure D Program sales tax allocations for fiscal year 2020 that were received from the Santa Cruz County Regional Transportation Commission (SCCRTC) after June 30, 2020.

## **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.

## **NOTE 6 – INTERFUND PAYABLE**

Interfund payables of \$1,751,459 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 11, 2020, which is the date of issuance.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the County, followed by the Governor of California, issued a Shelter at Home order effective March 19, 2020, requiring certain non-essential businesses to temporarily close to the public. At the current time, management is unable to quantify the potential effects of this pandemic on its future financial statements.



# Attachment D

## SUPPLEMENTARY INFORMATION

# Attachment D

**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, 2020**

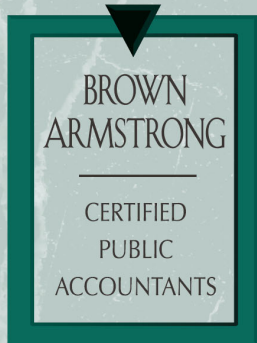
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Measure D Program revenue	\$ 3,358,289	\$ 3,358,289	\$ 2,983,768	\$ (374,521)
Interest income	-	-	79,948	79,948
<b>Total revenues</b>	<u>3,358,289</u>	<u>3,358,289</u>	<u>3,063,716</u>	<u>(294,573)</u>
<b>EXPENDITURES</b>				
Transit operations	1,312,258	1,312,258	1,312,258	-
Transit capital	2,046,031	2,046,031	1,751,458	294,573
<b>Total expenditures</b>	<u>3,358,289</u>	<u>3,358,289</u>	<u>3,063,716</u>	<u>294,573</u>
<b>REVENUES OVER EXPENDITURES</b>	-	-	-	-
<b>FUND BALANCE</b>				
Beginning of year	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EXPENDITURES IN EXCESS OF PROJECT BUDGET

Santa Cruz Metropolitan Transit District (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 fiscal year 2020 project list and expenditure plan used preliminary estimates for assigning costs of fixed-route and paratransit operator wages and benefits and vehicle consumables to various transit service improvements. Subsequent to the approval of this 5-year Program of Projects, a more accurate costing method was developed and used to identify the value of operator labor, resulting in Transit operations expenditures exceeding budget for this first year of the program.

# Attachment D



## BROWN ARMSTRONG

*Certified Public Accountants*

### **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, 2020, 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 11, 2020.

#### **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.

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# Attachment D

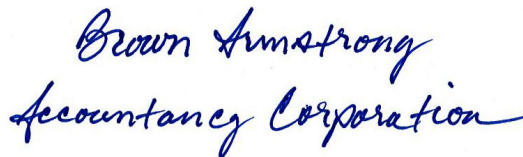
## Compliance and Other Matters

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

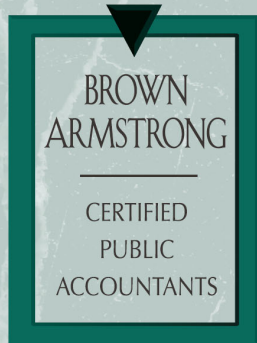
The purpose of this report is solely to describe the scope of our testing of internal control and compliance relating to the Measure D Program and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control or on compliance relating to the Measure 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 11, 2020

# Attachment D



## BROWN ARMSTRONG

*Certified Public Accountants*

### **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, 2020, and the related notes, and have issued our report thereon dated December 11, 2020.

#### **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, 2020.

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# Attachment D

## 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 to determine the 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

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 11, 2020



# CEO COVID UPDATE

January 8, 2021

Alex Clifford, CEO\General Manager  
Santa Cruz Metropolitan Transit District



## METRO's COVID Experience

- As of December 30, 2020, METRO has had 18\* employees test positive for COVID
- The first METRO employee tested positive on August 3, 2020
- To date, no positive COVID test has been traced back to transmission in the workplace
- All employees have recovered and returned to work, with the exception of the most recent cases which are still in quarantine

\* Included in the 18: Two other employees who received a “presumptive positive”, which is not a conclusive positive and requires a retest. As of December 30<sup>th</sup>, the two retests are pending. If a retest comes back negative, METRO will remove that employee from the count.



## METRO's COVID Experience

- On December 2, 2020 METRO had three positive cases in a 14-day period. This triggered compliance with the new CalOSHA Regulation, requiring, among other things, that METRO test all employees at the work-location weekly until we go 14-days without a positive test.
- METRO complied in week one by contracting with Doctors on Duty to perform 150 on-site tests.

## METRO's COVID Experience

- In the following weeks, staff assigned to the work-location were directed to schedule weekly COVID tests at one of the COVID testing facilities throughout the County.
- In parallel, the Safety & Risk Director and the COO worked together to onboard METRO with the state's Valencia Labs program. That was completed and METRO has now received the first 150 self-administered on-site COVID tests kits. Weekly testing using these kits will start the week of January 4, 2021.

# Consolidated Appropriations Act, 2021

## Omnibus bill

- **Emergency Coronavirus Relief Act (ECRA), AND**
- **2021 federal budget (includes extended FAST Act 2021 appropriations)**

# Consolidated Appropriations Act, 2021

## COVID Stimulus Dollars (ECRA)

Subject to the FTA's interpretation of the legislation and their notice of apportionment...

- METROs Estimated ECRA Allocation - 5307/5311

### **Estimated to be a little over \$12 million**

The bill limits an agency's ECRA allocation to no more than 75% of the agency's 2018 operating expenses, less their CARES Act appropriation. METRO's 2018 Operating Expenses were nearly \$46 million and 75% = \$34 million. We received a little over \$21\* million CARES Act, so our remaining ECRA capacity is about \$13 million (includes ECRA 5311)

\* Includes \$584k in 5311 CARES Act

# Consolidated Appropriations Act, 2021

## FY21 Budget – Transit

- One year extension of the Alternative Fuel Tax Credit approximately **\$300K** to METRO (Capital)
- Plus Ups (Formula Programs) - Increase from FAST Act Authorized (5307, 5311 & 5339a):
  - \$198 million - Nationwide
    - METRO's share (inclusive of STIC) approx. = **+\$205K** (Operating & Capital)
- Competitive (Discretionary) Program Plus Ups - Nationwide:
  - \$125 million Bus and Bus Facilities Program
  - \$125 million Low-No Program

(\$448 million Plus Ups - Combined 5339a, 5339b, Low-No and 5311 - \$198 in formula + \$250 competitive)

# Questions



**Thank You**

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