

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**

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

**JUNE 30, 2021 AND 2020**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
JUNE 30, 2021 AND 2020**

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## **FINANCIAL SECTION**

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## 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, 2021 and 2020, 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.

## 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, 2021 and 2020, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021, 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

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

Bakersfield, California  
December 13, 2021

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021 AND 2020**

## **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, 2021 and 2020. 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. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The 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 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.

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, 2021, resulting in a Total Net Position (Deficit) of \$(43.4 million).
- Of this amount, \$85.6 million consisted of Net Investment in Capital Assets, which reflects investment in capital assets used for operational and administrative functions (e.g., facilities, vehicles, and equipment), net of accumulated depreciation and related debt. Accordingly, these assets are not available for future spending.
- The remaining balance of Total Net Position (Deficit) represents Unrestricted Net Position (Deficit) of \$(129.0 million). The Unrestricted Net Position (Deficit) is the result, in large part, of the District incurring increasing pension obligations (Net Pension Liability) that reached \$64.2 million by June 30, 2021, and increasing retiree medical benefits obligations (OPEB) in fiscal year 2021 totaling \$132.4 million 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 replaced 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 \$2.8 million - a 37% decline - to \$4.9 million due to reduced ridership across all categories because of the COVID-19 pandemic, in addition to the temporary fare reduction, implemented in March 2021, which consisted of a 50% discount on regular fares, and free fares for riders with an eligible discount card.
- Operating expenses (excluding depreciation) decreased 6.6% during the year ended June 30, 2021, to \$56.1 million compared to a 13.1% increase during the year ended June 30, 2020, over the previous year. The decrease in the current year was mainly attributable to the significant reduction in straight and overtime wages, due to an increased number of vacant positions along with extended unpaid leaves of absence. In the prior year, the increase was mainly attributable to the increase in workers' compensation and pension costs.
- In 2021, Santa Cruz METRO's capital assets (after the application of accumulated depreciation) increased \$793 thousand, compared to an increase in fiscal year 2020 of \$2.0 million over the previous year. Depreciable asset additions and transfers were \$6.2 million, offset by asset retirements and transfers of \$2.3 million and an increase in accumulated depreciation of \$5.3 million (from the current year depreciation expense adjustment) offset by a \$2.3 million write-off of accumulated depreciation associated with retired assets. Current year capital asset additions were attributed primarily to the purchase of four (4) new zero-emission buses (ZEBs), along with several maintenance facilities upgrades and improvement projects. See Note 4 to the financials for a schedule of changes in capital asset balances. Capital procurements are funded by a combination of federal, state, and local grants, Measure D sales tax proceeds, and Operating and Capital Reserves.

## Financial Activities - Operations

The following discussion provides an overview of the financial activities related to operations (operating revenue and expense) for the year ended June 30, 2021. 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, 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 faced financial challenges in the decade pre-pandemic, due to significant increases in operating and capital costs with lagging increases in operating or capital contributions. Operating expenses nearly doubled in the last ten years, primarily in the categories of labor and fringe benefits due to substantial increases in the retirement and medical insurance costs. Furthermore, the recurring costs for health benefits, retirement, services, materials and supplies, insurance, and utilities have significantly exceeded the annual Consumer Price Index (CPI) for the region since 2012. Faced with constantly increasing costs, Santa Cruz METRO is constantly analyzing the economic and political landscape and redesigning its operations in order to align expenses with the available revenue stream in the current and future fiscal years. Significant fluctuations in the five primary operating revenue sources year-over-year are frequent and in direct correlation to the economy. Periods of economic downturns translate into sharp declines in sales and use tax revenues, and local 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 proceeds. Total sales tax revenues account for approximately 45% of Santa Cruz METRO's operating revenue sources as per the fiscal year 2021 Budget, adopted in June 2020.

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 improved with this much-needed influx of operating and capital funding. The combined share of TDA and STA Operating Assistance is approaching 20% of Santa Cruz METRO's non-operating revenues. The recent decline in the available funding for the fiscal year that ended June 30, 2021, 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 2021 brought unprecedented disruption to METRO's service, as well as the communities we serve. System performance in fiscal year 2021 was characterized by a slow and steady recovery and impacted Santa Cruz METRO's Passenger and Special Transit Fares revenue accordingly. Fiscal year 2021 fixed-route ridership was 82% below pre-COVID-19 levels, down from over \$5.0 million annual passenger boardings in fiscal year 2019, to just over 900 thousand in the current year. The direct result of the pandemic and measures taken to halt the spread of the virus caused a 37% decline in passenger and special fares from fiscal year 2020 to fiscal year 2021. Advertising and

Rent income were also negatively impacted, as the Santa Cruz and Watsonville Transit Centers lobbies closed at mid-March 2020 and remained closed partially during fiscal year 2021. Consequently, current year rental income declined by over 47% in comparison to last 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 was provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed by President Donald J. Trump on March 27, 2020. Additionally, on March 11, 2021 President Biden signed the American Rescue Plan Act (ARP) into law. Which provided \$30.5 billion in Federal funding to assist transit systems as communities across the country focus on recovering from the pandemic. The funding provided through the CARES Act; the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA); and ARP allowed for changes in how recipients use FTA funds. The most significant of these changes has been allowing all recipients, regardless of size or urbanized area population, to charge operating expenses to these supplemental FTA grants at 100% Federal share, with no local match required. The funds are available to support eligible operating expenses to maintain transit services as well as paying for administrative leave for transit personnel due to reduced operations during an emergency. Total FTA operating assistance accounts for approximately 28% of total revenue, largely due to reimbursements of FTA-qualifying operating expenses related to the CARES Act and CRRSAA. Furthermore, the CARES Act and CRRSAA funding allowed Santa Cruz METRO to reinvest other fungible revenues sources, comprised of Santa Cruz METRO's 1979 Local Sales Tax, TDA-STA, TDA-LTF and Farebox revenues into the fiscal year 2022 operating budget and beyond, in order to sustain services to the greatest extent possible during the economic recovery, or until these funds are exhausted.

Operating expenses decreased by 6.4% year-over-year, with personnel expenses, comprising 77% of total operating expenses, decreasing by 7.5%. The decrease was primarily due to vacant funded positions along with extended unpaid leaves of absence, partially offset by higher costs for retirement and medical insurance, which increased by 10% and 4%, respectively, as a result of increased unfunded accrued liability (UAL) payments, employer normal cost for retirement, and medical insurance premiums. Due to implemented service modifications related to COVID-19, total overtime costs, bus operator and other overtime, decreased by more than 66%. Paid absences decreased by approximately 18% year-over-year, but remained relatively high, compared to pre-COVID-19 years. The extension of the Family First Coronavirus Response Act (FFCRA) until the end of December 2020, and the California Supplemental Paid Sick Law (SPSL), which was enacted on March 29, 2021 retroactive to January 1, 2021, provided public employees with paid time for qualifying reasons related to COVID-19.

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:**

At the end of fiscal year 2021, the Santa Cruz METRO fixed-route bus system consisted of 24 routes, and provided 907,140 rides with a fleet of 96 CNG and diesel buses. Ridership decreased by 1,092,970 fixed-route rides (-54.65%) from the previous year. As with many transit agencies across the nation, ridership declined significantly due to Shelter-in-Place orders, social distancing measures and widespread telecommuting. Public concern with crowding and disease transmission persisted throughout fiscal year 2021, contributing to a sustained loss of transit ridership, even after restrictions were eased and many activities resumed. There may be long-term negative impacts on transit ridership if transit users with access to cars are more likely to avoid public transit in the future.

Paratransit: Paracruz, Santa Cruz METRO's paratransit service, provided 38,726 paratransit rides to mobility-impaired patrons on 32 specially equipped minibuses and minivans during fiscal year 2021. This represents a 37.16% decrease in Paracruz ridership from the prior year (22,905 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

	2021	2020	2019	2021 to 2020		2020 to 2019		
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%	
<b>Assets</b>								
Current Assets	\$ 62,759,155	\$ 53,220,748	\$ 33,112,067	\$ 9,538,407	17.9%	\$ 20,108,681	60.7%	
Capital Assets - Net	86,248,588	85,455,125	83,472,558	793,463	0.9%	1,982,567	2.4%	
Restricted Assets	12,716,365	12,283,925	11,059,070	432,440	3.5%	1,224,855	11.1%	
<b>Total Assets</b>	<b>\$ 161,724,108</b>	<b>\$ 150,959,798</b>	<b>\$ 127,643,695</b>	<b>\$ 10,764,310</b>	<b>7.1%</b>	<b>\$ 23,316,103</b>	<b>18.3%</b>	
<b>Deferred Outflows of Resources</b>								
Pension and OPEB Contributions	\$ 19,835,043	\$ 17,880,660	\$ 13,543,340	\$ 1,954,383	10.9%	\$ 4,337,320	32.0%	
<b>Total Deferred Outflows of Resources</b>	<b>\$ 19,835,043</b>	<b>\$ 17,880,660</b>	<b>\$ 13,543,340</b>	<b>\$ 1,954,383</b>	<b>10.9%</b>	<b>\$ 4,337,320</b>	<b>32.0%</b>	
<b>Liabilities</b>								
Current Liabilities	\$ 8,576,339	\$ 9,531,089	\$ 7,220,527	\$ (954,750)	-10.0%	\$ 2,310,562	32.0%	
Non-Current Liabilities	14,083,904	12,297,999	11,633,273	1,785,905	14.5%	664,726	5.7%	
Other Long-Term Liabilities	198,799,403	187,419,193	174,972,058	11,380,210	6.1%	12,447,135	7.1%	
<b>Total Liabilities</b>	<b>\$ 221,459,646</b>	<b>\$ 209,248,281</b>	<b>\$ 193,825,858</b>	<b>\$ 12,211,365</b>	<b>5.8%</b>	<b>\$ 15,422,423</b>	<b>8.0%</b>	
<b>Deferred Inflows of Resources</b>								
Pension and OPEB Deferrals	\$ 3,493,401	\$ 6,087,068	\$ 5,818,771	\$ (2,593,667)	-42.6%	\$ 268,297	4.6%	
<b>Total Deferred Inflows of Resources</b>	<b>\$ 3,493,401</b>	<b>\$ 6,087,068</b>	<b>\$ 5,818,771</b>	<b>\$ (2,593,667)</b>	<b>-42.6%</b>	<b>\$ 268,297</b>	<b>4.6%</b>	
<b>Net Position</b>								
Net Investment in Capital Assets	\$ 85,588,763	\$ 84,536,118	\$ 82,302,120	\$ 1,052,645	1.2%	\$ 2,233,998	2.7%	
Unrestricted Net Position (Deficit)	(128,982,659)	(131,031,009)	(140,759,714)	2,048,350	1.6%	9,728,705	-6.9%	
<b>Total Net Position (Deficit)</b>	<b>\$ (43,393,896)</b>	<b>\$ (46,494,891)</b>	<b>\$ (58,457,594)</b>	<b>\$ 3,100,995</b>	<b>-6.7%</b>	<b>\$ 11,962,703</b>	<b>-20.5%</b>	

### 2021 vs 2020 Analysis

Key changes include:

- *Current assets* increased by \$9.5 million, or 17.9%, to \$62.8 million; Change was driven by the significant increase in operating cash on hand by year-end, due to the receipt of \$18 million for fiscal year 2020 Federal CARES Act operating assistance in July and August 2020.
- *Capital assets – net* increased by \$0.8 million, or 0.9%, to \$86.2 million. Although significant capital purchases were made in fiscal year 2021 for four Zero-Emission buses, as well as building improvements and infrastructure, net capital assets reflected only a minimal increase, due to increased accumulated depreciation balances that resulted in decreasing the carrying value of existing capital assets. Santa Cruz METRO tracks the usage (depreciation) of capital assets to inform forecasting and capital planning, as part of METRO’s continuing strategy to maintain a state of good repair and working-order, manage deferred maintenance backlog, and replace, upgrade and improve aging facilities, infrastructure and fleet.
- *Restricted assets* consists of restricted cash held in segregated accounts in the Santa Cruz County Pooled Investment Fund; Total balances increased by \$0.4 million, or 3.5%, to \$12.7 million due to the accumulation of 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 \$19.8 million reflect \$11.2 million in OPEB retiree medical, dental and vision insurance premium payments and \$8.7 million in pension contributions that were recorded in the current fiscal year, as required by GASB Statements No. 75 and No. 68, respectively.

- *Current liabilities* decreased by \$1.0 million, or 10.0%, to \$8.6 million in total, in large part due to the reduction in the accrued payables year-end balance, year over year; \$1.1 million in costs for the refurbishment of four (4) CNG buses had been accrued at fiscal year-end of the prior year, and was subsequently paid off in early fiscal year 2021, which significantly reduced total current liabilities.
- *Non-current liabilities* increased by \$1.8 million, or 14.5%, to \$14.1 million: Capital grant funds and subsidies received are restricted and reported as liabilities (unearned revenue); revenue recognition is deferred until grant funds are spent on the specific project or purpose for which they were awarded. Capital project outlays using California Proposition 1B Transportation Bonds Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) and California Low Carbon Transit Operations Program (LCTOP) grant funding reduced deferred revenue balances during fiscal year 2021. However, Measure D sales tax allocations and STA-SGR grant funds received during the current year (unspent and restricted for capital costs) resulted in an increase in total unearned revenue (liabilities) at year-end.
- *Other long-term liabilities* increased by \$11.4 million, or 6.1%, to \$198.8 million, primarily as a result of the increases in retirement-related obligations: the actuarially-determined Net OPEB Liability (NOL) balance increased \$8.0 million and the Net Pension Liability (NPL) increased \$3.6 million over prior year.
- *Deferred inflows of resources* that netted to \$3.5 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:**

	2021	2020	2021 to 2020	
			Increase/(Decrease)	
			Amount	%
Operating Revenues	\$ 4,898,901	\$ 7,733,701	\$ (2,834,800)	-36.7%
Operating Expenses	61,432,972	65,613,570	(4,180,598)	-6.4%
Net Operating Loss	(56,534,071)	(57,879,869)	1,345,798	-2.3%
Non-Operating Revenues	54,149,739	62,797,855	(8,648,116)	-13.8%
Capital Grant Contributions	5,485,327	7,044,717	(1,559,390)	-22.1%
Increase (Decrease) in Net Position	\$ 3,100,995	\$ 11,962,703	\$ (8,861,708)	-74.1%

  

	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%

## **2021 vs 2020 Analysis**

*Operating Revenues* (Passenger Fares) of \$4.9 million reflects a decrease variance of \$2.8 million, or 37% decline, over prior year revenues, primarily due to reduced ridership across all categories because of the COVID-19 pandemic, as well as the temporary fare reduction, implemented in March 2021, which consisted of a 50% discount on regular fares, and free fares for riders with an eligible discount card. It should be noted that fiscal year 2020 operations weathered only four months of significantly depressed ridership due to the pandemic, whereas a full year of COVID-19 financial and service impacts were experienced during fiscal year 2021.

*Operating Expenses* of \$61.4 million reflects a year over year decrease of \$4.2 million, or 6.4%, due to several factors: increase in the number of vacant funded positions, extended unpaid leaves of absence, and a significant reduction in overtime costs, offset by increases in retiree-related expenses (pension and OPEB), direct COVID-19 response-related costs (e.g., temporary workers to sanitize buses), as well as a rise in medical insurance costs.

*Non-Operating Revenues* decreased overall by \$8.6 million, or 13.8%, over last year revenues. The CARES Act operating assistance awarded METRO in the prior year was over \$9.5 million higher than the current year \$8.9 million in operating assistance from the CARES Act and CRRSAA 5307 and 5311 FTA grants.

*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 2021. 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 decreased by \$1.6 million, or 22.1%, from last year.

## **Budgetary Highlights**

The annual Operating and Capital budgets are used as management tools to monitor Revenues and Expenses, evaluate operating performance, and track the progress of Capital projects at any given time period. The District's Board approves these items prior to implementation. The fiscal year 2021 budget total of \$82,787,778 included \$54,998,409 for Revenue and Expenses and \$27,789,367 for Capital Projects (amended). The District finished fiscal year 2021 with operating expenses of \$48,983,216, net of depreciation, workers' compensation IBNR, and retirement-related actuarial adjustments; Capital expenses of \$6,367,076 included \$881,750 Capital Reserve spending and \$5,485,325 of pass-through grant expenses.

## **Financial Activities - Capital**

### **Capital Program:**

In fiscal year 2021, Santa Cruz METRO spent \$6.4 million on the purchase of capital assets and on new and ongoing capital projects. A total of \$5.5 million of these capital additions were paid for with capital contributions funded by a variety of sources, including from the FTA, PTMISEA, LCTOP, California Transportation Commission Local Partnership Program (LPP), 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 \$0.9 million of these capital purchases were made using Operating and Capital Reserve Funds.

Noteworthy capital project activity in fiscal year 2021 includes:

- New Santa Cruz METRO-owned Paracruz facility –Ongoing efforts continue to construct a new facility for Paracruz operations at the site of the Soquel Park and Ride lot in mid-Santa Cruz County. Several stages of plans, permitting, and construction documents have been processed in the effort to get the project “shovel-ready” and eligible for Federal grant funding. Construction is

anticipated to start in fiscal year 2022, with a completion date of mid-to late 2023. This project is in alignment with the METRO's "10-Year Strategic Business Plan" adopted by the Board in January 2019.

- Zero-emission Buses (ZEBs) – Four (4) Proterra zero-emission buses were delivered in spring 2021, the first electric buses in METRO's fleet. Two of the buses are in service in South County, dedicated to running a "circular" (loop) route exclusively in Watsonville, providing more frequent service that connects the downtown transit center with primary retail and medical destinations in Watsonville. The remaining two electric buses will be placed into service in Santa Cruz County. Funding was provided by a combination of STIP, LCTOP, PTMISEA, and LPP capital grants, Measure D sales tax allocations, and Operating and Capital Reserves.
- Electric Vehicle (EV) 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 the future; working towards meeting the CARB mandate requiring transit agencies transition their fleet exclusively to zero-emission transit buses by 2040. Funding provided from LCTOP grant.
- 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.
- ParaCruz Shuttle Buses – Three (3) Starcraft Starlite shuttle buses were purchased and put into service in fiscal year 2021, replacing expiring vans that were approaching the end of their useful life. Funding was provided by a combination of Measure D sales tax revenue, STBG grant funds through SCCRTC, as well as Operating and Capital Reserves.
- Maintenance/Fleet Facility Improvements:
  - A fire egress bridge was completed in fiscal year 2021, which provides an emergency exit from the second floor of the Fleet Maintenance building, exiting to Vernon Street - FTA 5339(a) funded.
  - METRO Maintenance Facility roof replaced in August 2020 – FTA 5339(a) funded
  - Access control system installed at Maintenance Facility – Funded through Operating and Capital Reserves
- Fuel Management system –a combination of hardware and software was installed at METRO's fueling station and loggers installed in fixed route buses, which will provide reliable and accurate, real-time control and data acquisition for vehicles, fuel/fluids and tank monitor systems. The fuel system will be used to track vehicle mileage, monitor fuel and fluid usage, and schedule preventative maintenance. Installation of the system is anticipated for ParaCruz operations in fiscal year 2022. FTA 5339(a) funded.

## **Future Outlook**

In July 2021, Santa Cruz METRO started the new fiscal year with a balanced budget and a sustainable five-year projection of revenues and expenses, providing a clear road map for the delivery of service, future planned improvements and addressing anticipated challenges. Years of fiscally responsible decisions, enhanced focus on service efficiency, productivity, and sustainability coupled with favorable economic environment all contributed to Santa Cruz METRO's improved financial position. The renewed focus on prudent financial planning by shoring up Operating and Capital reserve levels, allow public agencies the ability to navigate difficult times and respond to short-term crisis and funding disruptions. The COVID-19 pandemic that started at the beginning of 2020 is yet another example of the critical importance of sound financial planning and fiscal responsibility. Spreading with alarming speed and infecting millions, the pandemic brought the economy to a near standstill as shelter in place orders were imposed. Although the nation and world have not fully recovered, the District continues to monitor and

financially plan to weather this pandemic. Over the longer horizon, inflation, personnel shortages, supply chain issues, and uncertain economic environmental landscape are expected to leave lasting scars for a long period of time. The impacts of the pandemic on transit agencies was immediate and devastating. Public transit plummeted nationwide as people telecommuted and avoided buses for fear of contracting COVID-19, resulting in less revenue from fares. However, sales tax revenues have increased more than expected due to people working from home. 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. A paradigm shift in remote education and workplace arrangements could permanently alter transit ridership in the future.

#### Operational Improvements and Service Initiatives

The COVID-19 pandemic continues to disrupt Santa Cruz METRO service and planning activities as depressed demand and lingering concerns over public health and safety take their toll. Since declining by over 90%, ridership has recovered to 55% of pre-pandemic levels, in line with industry trends. Santa Cruz METRO welcomed a significant boost in ridership in fall 2021 with the return of university students, which account for 50% of Santa Cruz METRO ridership. Student ridership is expected to grow in the coming year as campuses return to more and more in-person instruction but will likely stay below pre-pandemic levels. Local, non-student ridership has shown slow but steady growth and is currently 65% of pre-pandemic levels. Commute focused routes, however, are 65% below pre-pandemic levels as employers delay return to office dates or embrace hybrid working schedules. This trend will have a significant long-term impact on Santa Cruz METRO ridership and fare revenue; there is consensus in the industry that transit ridership may never recover above 75% of pre-pandemic levels.

Despite this significant drop in demand, Santa Cruz METRO has worked to retain the workforce necessary to maintain service levels to near pre-pandemic levels. Santa Cruz METRO will continue to pursue a strategy of maintaining service ahead of demand, so that as the economy continues to reopen, service will be available when customers return. That said, a nationwide bus operator shortage will preclude Santa Cruz METRO from fully restoring service for the next year or more. At some point in the near future, Santa Cruz METRO will need to reevaluate the goal of fully restoring service with the realities of depressed ridership and diminished workforce.

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

Given these trends, it is imperative that Santa Cruz METRO continually evaluate its mission, service standards, and service operation in the coming year to identify ways to create value for customers while continuing to serve those who rely on public transportation. Santa Cruz METRO will continue to work to restore service strategically and to restart projects delayed due to the pandemic, as outlined below. Efforts will be focused on retaining customers through service restoration, restoring public and customer confidence in the safety of public transportation, and developing programs to enhance the ease and convenience of riding the bus.

#### Cashless/Contactless Fare Payment

Spurred in part by the need to reduce contact between bus operators and passengers as a continued COVID-19 safety measure, many agencies, including Santa Cruz METRO, are looking toward contactless onboard fare payment as the future of fare collection. Besides reducing the risk of exposure to COVID-19, these programs have the additional benefits of reducing the cost of cash collection, speeding up the boarding process, and improving convenience and access to fare products. In September 2020, METRO launched a mobile ticket "Splash Pass," which lets customers purchase Santa Cruz METRO fare products using a smartphone. Splash Pass tickets were extended to all downtown Santa Cruz employees in April 2021 through a partnership with the City of Santa Cruz. Also in April of 2021, Santa Cruz METRO completed the installation of electronic validators on all Highway 17 buses for more accurate and efficient

validation of tickets. Mobile validators will also allow for contactless credit and smart card transactions to happen with the tap of a card. The validators are anticipated to accept “cEMV” contactless credit and debit card payments directly as an additional non-cash fare payment option. If successful, 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

In response to changing customer expectations, competition from ride-hailing companies, and in an effort to expand service into harder to serve areas of the district while making more efficient use of Santa Cruz METRO’s existing paratransit operation, Santa Cruz METRO launched a new on-demand service in April 2021 called Cruz On-Demand. Cruz On-Demand is a shared ride experience on smaller vans, operated by Santa Cruz METRO’s trained ParaCruz operators, extending Santa Cruz METRO’s service area to  $\frac{3}{4}$ s of a mile from any of Santa Cruz METRO’s fixed bus routes. Pick-up locations can be any address within Santa Cruz METRO’s service area and drop-off locations can be anywhere within a three mile radius of a pick-up address. Trips can be booked up to 24 hours in advance and customers can schedule trips on demand or for later in the day. To date, ridership has been lower than expected, which is in line with other agencies that have launched similar “microtransit” programs. Santa Cruz METRO will continue to refine the program to improve the customer experience while balancing the need to provide more productive fixed-route service.

#### Bus Stop Signage

Santa Cruz METRO has worked over the past year to completely redesign Santa Cruz METRO’s bus stop signage to bring it in line with industry best practices and reduce future maintenance costs associated with updating schedules and maps during service changes. The new design features double-sided signs with highly visible route numbers, stop names and stop IDs. The project required the installation of new poles at all stops to raise sign heights to seven feet and relocate signage from inside bus shelters to outside. Installation began in summer 2021 and is now complete. Nearly a third of stops feature at-stop schedule inserts with maps, route arrival and departure times updated quarterly. As transit ridership declines in the wake of the COVID-19 pandemic, this effort aims to strengthen Santa Cruz METRO’s brand identity as a safe, reliable transportation option and improve the customer experience.

#### Watsonville – Santa Cruz Intercity Transit Speed and Reliability Study

Santa Cruz METRO was recently awarded a Caltrans Sustainable Transportation Planning Grant Program (STPG) to fund the Watsonville - Santa Cruz Intercity Transit Speed and Reliability Study. The funds will be used to assist in evaluating traffic and travel conditions along the primary transit corridors connecting Watsonville and Santa Cruz in order to identify opportunities for pedestrian, bus stop and transit priority improvements aimed at improving the convenience, access and reliability of Santa Cruz METRO’s core service. The aim of the study is to contribute to a sustainable transportation system that reduces vehicle miles traveled (VMT), reduces greenhouse gas (GHGs) emissions and congestion, improves the transit and active transportation network, and serves communities that are transportation disadvantaged.

#### Watsonville – Santa Cruz Multimodal Corridor Program

In December 2020, the California Transportation Commission approved over \$100 million in funding for the Watsonville-Santa Cruz Multimodal Corridor Program Cycle 2 Project, which will construct auxiliary lanes with bus-on-shoulder operation on underpasses on Highway 1 between Soquel Ave and State Park Drive. The project will also add buffered/protected bike lanes and transit signal priority (TSP) on Soquel Drive along the same segment. Santa Cruz METRO will continue coordinating with Caltrans on a maintenance agreement for the Bus on Shoulder facility and work with the County to implement the TSP project on Soquel Drive. Construction on both projects is expected to be complete by 2023.

### ParaCruz Facility

Santa Cruz METRO plans to construct an approximate 4,800 square foot Operations and Administrative Building for its Paratransit (ParaCruz) Operations and Santa Cruz METRO's Customer Service Center. Santa Cruz METRO is currently leasing the ParaCruz Operations Facility located on 2880 Research Park Drive, at an annual expense of over \$200 thousand. The operations have outgrown the existing space, and is at risk for lease cancellations. The current location for the Customer Service Staff on Pacific Avenue is undergoing plans for demolition, and building plans for Affordable Housing and a new Transit Center, which will include minimal offices for Santa Cruz METRO's staff. Santa Cruz METRO's Paratransit Operations and Customer Service Center will both be relocated and share the new facility. Overall, the new centralized location will bring efficiency for Santa Cruz METRO's staff to perform services, provide travel training and Paratransit eligibility functions in its new mobility center, creating a central hub for service to Santa Cruz METRO customers. The construction of the facility will include parking for employee vehicles and up to 32 paratransit vehicles, house administrative offices, a fully functioning operations facility, a Mobility Center, security features, and will be in full compliance with the ADA. The operations area will include a dispatch area, scheduling office, reservations area, copier room, storage area, server room, training room, driver breakroom/lunch room and management offices. The Customer Service Department will include offices, restroom, breakroom, copier room. The conference room and lactation room will be shared among the various occupants of the new building. Santa Cruz METRO has successfully received the Commercial Development Permit, applied for multiple grants for construction funding, and will be engaging with consultants to create design build plans.

### Pacific Station

Santa Cruz METRO's primary transit center at 920 Pacific Avenue is in need of significant investment and the City is interested in the economic revitalization of lower Pacific Avenue. The City and Santa Cruz METRO share the same vision and goals to make Metro Center more effective and efficient; to work in collaboration towards the concept of a transit-oriented and pedestrian-friendly mixed-use joint development project, to be known herein as "Pacific Station." The development will include a multi-modal regional transit facility in conjunction with a mixed-use commercial and residential development, which may feature offices, parking, affordable housing and ground-floor retail space. Santa Cruz METRO and the City are working collaboratively through project development, financing, and implementation to ensure that Santa Cruz METRO's local, regional, and rapid public transit services are maintained and expanded and that the overall project meets the City's interests of supporting the continued revitalization of the downtown area and creating much needed affordable housing for the greater community. Both Santa Cruz METRO and the City jointly acknowledge the importance of their collaboration and leadership to ensure that the project realizes its full potential and maximizes the long-term benefits for the downtown area and the entire Santa Cruz community. The project has successfully received the Coastal Permit, applied for multiple grants for construction funding, and continues to engage with consultants to create design build plans.

### South County Zero Emission Bus Division

Santa Cruz METRO has recognized the need to expand functions and services, focusing in the area of South County Santa Cruz. Efforts are in progress to develop a thorough vision and scope of work for this new location, and will seek Board approval and federal funding sources. The need is driven by several factors, to include disaster relief, sustainable solutions, and impact to the local community. With the current mandate of having a zero emissions fleet by 2040, Santa Cruz METRO requires additional capacity to expand infrastructure to support new charging and fueling systems. The current location on River Street is too small to support expansion, and is also at risk for experiencing power outages that would have a negative effect on services. Having a South County location is key to providing disaster relief services. The site is envisioned to be a 100% zero emission bus division, including both revenue vehicles and non-revenue vehicles. There is potential to have a combined fleet of Battery Electric Buses and Fuel Cell Electric Buses. Currently, Santa Cruz METRO has four Proterra Electric Buses, with an option through the State of California to add six more buses. Santa Cruz METRO is in the process of obtaining funding to purchase several Fuel Cell Electric Buses to test the ability and viability in providing the services required. Impacts to the local community has far reach, as many of our riders reside in this area. Additionally, the new South County Division will be a full service facility, providing many employment opportunities to local and nearby residents.

### Zero Emission Bus Analysis and Rollout Plan

Santa Cruz METRO continues to progress towards meeting the CARB mandate that all transit agencies in California operate 100% zero-emission transit buses by 2040. In 2021, Santa Cruz METRO received delivery and put in service four battery electric buses (BEBs), and staff plans to work with the FTA to use funding available for Highway 17 service to procure four additional BEBs. In addition, METRO has contracted the Center for Transportation and the Environment (CTE) for the development of a Master Plan meeting the CARB mandate, to include both vehicles and facility requirements. CTE will also research and analyze renewable power generation and stationary storage options. The CARB mandate will require Santa Cruz METRO to come up with significant additional funding to transition its fleet from a mix of diesel and CNG buses to fully zero-emission technology.

### Enterprise Resource Planning (ERP)

Santa Cruz METRO is currently developing a specification to procure an ERP system. The first phase will replace legacy finance and purchasing systems that are not interconnected. An ERP will provide Santa Cruz METRO with the tools to expediently make informed business decisions and realize efficiencies in the staff workflow. In addition, as part of the ERP project, Santa Cruz METRO will be evaluating its existing systems as their viability within the ERP ecosystem. System example under consideration include and are not limited to our HRIS, EAM and Payroll solutions.

### Intelligent Transportation System (ITS)

Santa Cruz METRO has already adopted some elements that comprise an ITS such as an Audio/Visual Annunciation System (AVAS) in 2002 and more recently an on-board Surveillance System for its Fixed Route and Paracruz fleet. METRO has had the need to incorporate additional ITS technologies most specifically Automatic Vehicle Location (AVL) which includes Real Time Passenger Applications and options such as Automated Passenger Counter (APC) systems to maximize operational efficiency and customer amenity.

### Other Initiatives

In addition to the physical distancing concerns related to COVID-19, Santa Cruz METRO plans to install new 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.

### **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 and the Finance team periodically to review significant variances.

The Board adopted the fiscal year 2022 Operating budget on June 26, 2021, totaling \$56,614,701 representing a 2.9% growth over that of the previous year. The fiscal year 2022 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 some pre-COVID-19 data and assumptions regarding revenues and expenses during the pandemic. 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 some Sales Tax based revenue sources are currently expected and various budget-balancing actions in fiscal year 2022 will be considered and analyzed, as more information becomes available.

The Capital budget/portfolio of \$27,189,096 contains projects necessary and essential to sustain the District's existing service and operating facilities.

These significant factors were considered as budget assumptions when preparing Santa Cruz METRO's budget for the fiscal year 2022:

- Expectation that passenger fare revenue will experience a 39.5% decrease from prior year budget primarily due to decreased fixed-route ridership. The anticipated decrease correlates to COVID-19 Rider survey from the spring of fiscal year 2020, which indicates a long-term ridership loss of 25% (from fiscal year 2020) driven by: frequent riders not returning or riding less, an increase in telecommuting, and lingering concerns of vehicle cleanliness and physical distancing.
- Anticipated slight decrease in Special Transit (contract) fares revenue: 1.5% from prior year due to continued COVID-19 restrictions for on-campus operations and in-person learning.
- Expectation that sales and use tax revenues will increase by 1.6% from prior year budget due to the favorable fiscal year 2021 budget variance for the year and the general economic outlook for 2021 and 2022 as we emerge from pandemic restrictions. .
- Expectation that Santa Cruz County Measure D will infuse approximately \$3.6 million of sales tax revenue funding into the annual budget for fiscal year 2022.
- TDA – STA Operating revenue to decrease by 2.1% 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 32.8% in fiscal year 2021 to 34.7%% in fiscal year 2022.
- An average increase of 5.6% 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 Chuck Farmer, Chief Financial Officer, at 110 Vernon Street, Santa Cruz, CA 95060.

## **BASIC FINANCIAL STATEMENTS**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2021 AND 2020**

<b>ASSETS</b>	2021	2020
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 43,643,252	\$ 23,614,362
Sales and Use Taxes, Grants, and Other Receivables	17,506,560	27,940,861
Inventory	774,184	780,278
Prepaid Expenses	835,159	885,247
<b>Total Current Assets</b>	<b>62,759,155</b>	<b>53,220,748</b>
<b>RESTRICTED ASSETS</b>		
Cash and Cash Equivalents	12,716,365	12,283,925
<b>CAPITAL ASSETS</b>		
Building and Improvements	79,602,688	78,316,464
Revenue Vehicles	45,946,726	43,574,425
Operations Equipment	7,740,769	7,399,411
Other Equipment	2,147,277	2,131,733
Other Vehicles	1,210,602	1,280,286
Office Equipment	3,911,209	3,983,176
Total Depreciated Capital Assets	140,559,271	136,685,495
Less Accumulated Depreciation	(71,098,101)	(68,106,307)
Total Depreciated Capital Assets Net of Accumulated Depreciation	69,461,170	68,579,188
Construction-in-Progress	5,191,107	5,279,626
Land	11,596,311	11,596,311
<b>Total Capital Assets</b>	<b>86,248,588</b>	<b>85,455,125</b>
<b>Total Assets</b>	<b>161,724,108</b>	<b>150,959,798</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts from Other Postemployment Benefits (OPEB)	11,163,162	9,599,183
Deferred Amounts from Pension Activities	8,671,881	8,281,477
<b>Total Deferred Outflows of Resources</b>	<b>\$ 19,835,043</b>	<b>\$ 17,880,660</b>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**  
**STATEMENTS OF NET POSITION (Continued)**  
**JUNE 30, 2021 AND 2020**

<b>LIABILITIES</b>	<u>2021</u>	<u>2020</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 2,597,870	\$ 3,603,186
Accrued Payroll and Employee Benefits	5,038,151	5,023,324
Deferred Rent	5,818	3,365
Workers' Compensation Liabilities, Current	501,049	458,313
Other Accrued Liabilities	151,841	169,910
Security Deposit	14,438	13,809
Capital Lease	267,172	259,182
<b>Total Current Liabilities</b>	<u>8,576,339</u>	<u>9,531,089</u>
<b>NON-CURRENT LIABILITIES</b>		
Unearned Revenue	-	64,077
Unearned Revenue - State Transit Assistance (STA)	221,922	243,612
Unearned Revenue - State of Good Repair (SGR)	2,182,052	1,433,329
Unearned Revenue - PTMISEA Grant	4,478,126	4,802,783
Unearned Revenue - Proposition 1B Grant	2	2
Unearned Revenue - Measure D	5,727,632	3,266,636
Unearned Revenue - LCTOP	1,474,170	2,487,560
<b>Total Non-Current Liabilities</b>	<u>14,083,904</u>	<u>12,297,999</u>
<b>OTHER LONG-TERM LIABILITIES</b>		
Workers' Compensation Liabilities, Net of Current	1,832,905	1,761,213
Capital Lease	392,653	659,825
Net OPEB Liability	132,363,695	124,340,668
Net Pension Liability	64,210,150	60,657,487
<b>Total Other Long-Term Liabilities</b>	<u>198,799,403</u>	<u>187,419,193</u>
<b>Total Liabilities</b>	<u>221,459,646</u>	<u>209,248,281</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts from OPEB	3,018,237	3,810,361
Deferred Amounts from Pension Activities	475,164	2,276,707
<b>Total Deferred Inflows of Resources</b>	<u>3,493,401</u>	<u>6,087,068</u>
<b>NET POSITION (DEFICIT)</b>		
Net Investment in Capital Assets	85,588,763	84,536,118
Unrestricted Net Position (Deficit)	<u>(128,982,659)</u>	<u>(131,031,009)</u>
<b>Total Net Position (Deficit)</b>	<u>\$ (43,393,896)</u>	<u>\$ (46,494,891)</u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES</b>		
Passenger Fares	\$ 1,175,708	\$ 3,139,475
Special Transit Fares	3,723,193	4,594,226
	<u>4,898,901</u>	<u>7,733,701</u>
<b>OPERATING EXPENSES</b>		
Wages, Salaries, and Employee Benefits	47,187,323	50,993,087
Materials and Supplies	2,988,758	3,136,730
Other Expenses	5,949,204	5,969,465
Depreciation	5,307,687	5,514,288
	<u>61,432,972</u>	<u>65,613,570</u>
<b>Total Operating Revenues</b>	<u>4,898,901</u>	<u>7,733,701</u>
<b>Total Operating Expenses</b>	<u>61,432,972</u>	<u>65,613,570</u>
<b>Net Operating Loss</b>	<u>(56,534,071)</u>	<u>(57,879,869)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales and Use Taxes	26,246,454	22,899,749
Transportation Development Act (TDA) Assistance	7,096,904	7,930,060
State Transit Assistance (STA)	3,425,215	4,346,687
Federal Transit Administration (FTA) Section 5307 Operating Assistance	15,828,667	25,371,205
FTA Section 5311 Rural Operating Assistance	575,480	381,393
Alternative Fuel Tax Credit	253,765	826,532
Interest Income	260,974	456,082
Rental Income	63,024	120,566
Other Revenue	383,670	424,224
Gain on Sale and Disposal of Property, Equipment, and Inventory	15,586	41,357
	<u>54,149,739</u>	<u>62,797,855</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>54,149,739</u>	<u>62,797,855</u>
<b>Net Loss Before Capital Contributions</b>	<u>(2,384,332)</u>	<u>4,917,986</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Grants Restricted for Capital Expenditures	5,485,327	7,044,717
	<u>5,485,327</u>	<u>7,044,717</u>
<b>NET POSITION</b>		
Change in Net Position	3,100,995	11,962,703
Net Position (Deficit), Beginning of Year	<u>(46,494,891)</u>	<u>(58,457,594)</u>
<b>Total Net Position (Deficit), End of Year</b>	<u>\$ (43,393,896)</u>	<u>\$ (46,494,891)</u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 4,659,468	\$ 8,406,716
Payments to Employees	(41,781,548)	(43,820,114)
Payments to Suppliers	(9,902,083)	(7,756,446)
Payments from Other	<u>1,751,120</u>	<u>2,250,989</u>
Net Cash Used in Operating Activities	<u>(45,273,043)</u>	<u>(40,918,855)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating Grants Received, Including Sales and Use Taxes	<u>52,720,671</u>	<u>61,800,531</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from Sale of Property and Equipment	15,586	41,357
Capital Grants Received/(Used)	19,034,450	(5,927,559)
Capital Expenditures	(6,107,893)	(7,496,855)
Gain on Sale of Assets	6,743	-
Payments Made on Capital Lease	<u>(259,182)</u>	<u>(251,431)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>12,689,704</u>	<u>(13,634,488)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment and Rental Income Received	<u>323,998</u>	<u>576,648</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>20,461,330</b>	<b>7,823,836</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>35,898,287</b></u>	<u><b>28,074,451</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u><b>\$ 56,359,617</b></u></u>	<u><u><b>\$ 35,898,287</b></u></u>
<b>FINANCIAL STATEMENT PRESENTATION:</b>		
Cash and Cash Equivalents	\$ 43,643,252	\$ 23,614,362
Cash and Cash Equivalents - Restricted	<u>12,716,365</u>	<u>12,283,925</u>
Total Cash and Cash Equivalents	<u><u><b>\$ 56,359,617</b></u></u>	<u><u><b>\$ 35,898,287</b></u></u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net Operating Loss	\$ (56,534,071)	\$ (57,879,869)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	5,307,687	5,514,288
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(239,433)	673,015
Decrease in Inventory	6,094	3,057
(Increase) Decrease in Prepaid Expenses	50,088	(169,451)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(1,005,316)	1,769,569
Increase in Net Pension Liability	1,360,716	3,606,479
Increase in Net OPEB Liability	5,666,924	4,938,153
Increase in Other Liabilities	114,268	625,904
Net Cash Used in Operating Activities	\$ (45,273,043)	\$ (40,918,855)

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**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, 2021, the Board was as follows:

Chairperson:	Donna Lind		
Vice Chair:	Bruce McPherson		
Members:	Shebreh Kalantari-Johnson	Donna Meyers	Jimmy Dutra
	Aurelio Gonzalez	Manu Koenig	Larry Pageler
	Kristen Petersen	Dan Rothwell	Mike Rotkin
Ex-Officios:	Dan Henderson	Alta Northcutt	

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

B. Reporting Entity

Santa Cruz METRO and the Santa Cruz Civic Improvement Corporation (the Corporation) have a financial and operational relationship, which meets the reporting entity definition criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, for inclusion of the Corporation as a blended component unit of Santa Cruz METRO. Accordingly, the financial activities of the Corporation have been included in the basic financial statements of Santa Cruz METRO. For the fiscal years ended June 30, 2021 and 2020, 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.

**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 \$5,485,327 and \$7,044,717 for the fiscal years ended June 30, 2021 and 2020, 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.

## **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.

Grant funds from the State Transit Assistance (STA) and State Transit Assistance - State of Good Repair (STA-SGR) programs; Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA); Proposition 1B Office of Homeland Security (OHS) and the California Transit Security Grant Program (CTSGP); the Low Carbon Transit Operations Program (LCTOP); and a portion of Measure D sales tax allocations are restricted for capital expenditures.

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

F. Restricted Assets (Continued)

Restricted assets at June 30 are as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents		
Proposition 1B PTMISEA Grant	\$ 4,478,126	\$ 4,802,783
Proposition 1B OHS and CTSGP Grants	2	2
STA Grant	221,922	243,612
STA - State of Good Repair (SGR) Grant	2,057,607	1,308,569
Measure D	4,973,751	4,410,793
LCTOP Grant	<u>984,957</u>	<u>1,518,166</u>
Total Restricted Assets	<u>\$ 12,716,365</u>	<u>\$ 12,283,925</u>

G. Property and Equipment

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

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

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

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

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

H. Sales and Use Taxes Receipts

1979 Gross Sales Tax (1/2-cent): In June 1978, voters in Santa Cruz County approved Measure G which changed the basis of transit support for Santa Cruz METRO from property tax to a ½-cent sales and use tax effective January 1979. This ½-cent sales and use tax levied on all taxable sales in Santa Cruz County is collected and administered by the California State Board of Equalization. Actual receipts of Measure G sales and use tax for the fiscal years ended June 30, 2021 and 2020, were \$24,836,116 and \$21,587,491, respectively.

## **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 \$3,871,334 and \$3,376,695 for the fiscal years ended June 30, 2021 and 2020, respectively. During fiscal year 2021, \$1,410,338 of Measure D funds were earned and spent on operating expenses, and \$1,066,394 of Measure D funds were earned and spent on capital projects. 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. At June 30, 2021 and 2020, \$5,727,632 and \$3,266,636, 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.

**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. 84 – *Fiduciary Activities*.** There was no net effect on Santa Cruz METRO's accounting and financial reporting as a result of implementing this standard.

**GASB Statement No. 90 – *Majority Equity Interests—an Amendment of GASB Statements No. 14 and No. 61*.** There was no effect on Santa Cruz METRO's accounting and financial reporting as a result of implementing this standard.

Q. Future GASB Statements

**GASB Statement No. 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. 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 GASB 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.

**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.

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

Q. Future GASB Statements (Continued)

**GASB Statement No. 94** – *Public-Private and Public-Private Partnerships 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 Internal Revenue Code (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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash on Hand	\$ 12,930	\$ 11,391
Demand Deposits	1,800,602	711,938
Certificates of Deposit (CD)	111,705	111,538
Deposits in Santa Cruz County Pooled Investment Fund	<u>54,434,380</u>	<u>35,063,420</u>
	<u>\$ 56,359,617</u>	<u>\$ 35,898,287</u>

**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.

**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:

2021

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	\$ 54,434,380	\$ 54,434,380	\$ -	\$ -	\$ -

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	\$ -	\$ -	\$ -

**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:

2021

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	\$ 54,434,380	N/A	\$ -	\$ -	\$ -	\$ 54,434,380

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

## **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, 2021 or 2020.

#### **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.

**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, 2021 and 2020:

2021

Investments by fair value level	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)
Certificates of Deposit (CD)	\$ 111,705	\$ 111,705	\$ -	\$ -
Total investments measured at fair value	111,705	\$ 111,705	\$ -	\$ -
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	54,434,380			
Total pooled and directed investments	\$ 54,546,085			

2020

Investments by fair value level	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)
Certificates of Deposit (CD)	\$ 111,538	\$ 111,538	\$ -	\$ -
Total investments measured at fair value	111,538	\$ 111,538	\$ -	\$ -
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	35,063,420			
Total pooled and directed investments	\$ 35,174,958			

Investments in the Santa Cruz County Pooled Investment Fund totaling \$54,434,380 and \$35,063,420 as of June 30, 2021 and 2020, respectively, are measured at amortized cost, which approximates fair value.

**NOTE 3 – RECEIVABLES**

Receivables at June 30 are as follows:

	2021	2020
Federal Grants	\$ 7,971,489	\$ 18,915,063
State Grants	2,284,611	4,170,650
Local Grants	1,066,394	-
Sales and Use Tax Revenue	5,654,177	4,564,693
Other	529,889	290,455
	\$ 17,506,560	\$ 27,940,861

#### NOTE 4 – CHANGES IN CAPITAL ASSETS

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

##### June 30, 2021

	<u>Balance July 1, 2020</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2021</u>
Non-Depreciated Assets				
Land	\$ 11,596,311	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	5,279,626	6,107,893	(6,196,412)	5,191,107
Total Non-Depreciated Assets	16,875,937	6,107,893	(6,196,412)	16,787,418
Depreciated Assets				
Building and Improvements	78,316,464	1,289,388	(3,164)	79,602,688
Revenue Vehicles	43,574,425	4,378,437	(2,006,136)	45,946,726
Operations Equipment	7,399,411	420,240	(78,882)	7,740,769
Other Equipment	2,131,733	15,544	-	2,147,277
Other Vehicles	1,280,286	24,902	(94,586)	1,210,602
Office Equipment	3,983,176	67,901	(139,868)	3,911,209
Total Depreciated Assets	136,685,495	6,196,412	(2,322,636)	140,559,271
Less Accumulated Depreciation	<u>(68,106,307)</u>	<u>(5,307,687)</u>	<u>2,315,893</u>	<u>(71,098,101)</u>
Depreciated Assets Net of Accumulated Depreciation	<u>68,579,188</u>	<u>888,725</u>	<u>(6,743)</u>	<u>69,461,170</u>
Total Capital Assets	<u>\$ 85,455,125</u>	<u>\$ 6,996,618</u>	<u>\$ (6,203,155)</u>	<u>\$ 86,248,588</u>

Depreciation expense at June 30, 2021, was \$5,307,687.

##### June 30, 2020

	<u>Balance July 1, 2019</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2020</u>
Non-Depreciated Assets				
Land	\$ 11,596,311	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	2,484,139	7,750,816	(4,955,329)	5,279,626
Total Non-Depreciated Assets	14,080,450	7,750,816	(4,955,329)	16,875,937
Depreciated Assets				
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
Total Depreciated Assets	137,367,594	4,701,468	(5,383,567)	136,685,495
Less Accumulated Depreciation	<u>(67,975,485)</u>	<u>(5,514,288)</u>	<u>5,383,466</u>	<u>(68,106,307)</u>
Depreciated Assets Net of Accumulated Depreciation	<u>69,392,109</u>	<u>(812,820)</u>	<u>(101)</u>	<u>68,579,188</u>
Total Capital Assets	<u>\$ 83,472,559</u>	<u>\$ 6,937,996</u>	<u>\$ (4,955,430)</u>	<u>\$ 85,455,125</u>

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

**NOTE 5 – CAPITAL CONTRIBUTIONS**

Santa Cruz METRO receives capital grants from the FTA, which provide financing for the acquisition of rolling stock and construction of facilities. Santa Cruz METRO also receives capital grants under the State TDA primarily for the acquisition of rolling stock, support equipment, and the purchase of furniture and fixtures. Additionally, a portion of sales tax allocations received through local Measure D are restricted for use on capital projects, as specified in Santa Cruz METRO’s Measure D funds annual expenditure plan approved by the Santa Cruz County Regional Transportation Commission (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>2021</u>	<u>2020</u>
Federal Grants	\$ 977,997	\$ 2,531,116
State Grants	3,440,936	2,762,143
Measure D Local Sales Tax Allocations	<u>1,066,394</u>	<u>1,751,458</u>
Total Capital Contributions	<u>\$ 5,485,327</u>	<u>\$ 7,044,717</u>

**NOTE 6 – COMMITMENTS**

Santa Cruz METRO leases its Paracruz facilities under an operating lease that extends through August 2024. For the fiscal years ended June 30, 2021 and 2020, rental costs relating to the leases were \$192,736 and \$184,627, 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>
2022	\$ 132,862	\$ 110,900	\$ 21,963
2023	119,792	91,103	28,689
2024	122,802	69,678	53,124
2025	20,548	35,641	(15,093)
2026	-	25,055	(25,055)
2027	-	33,063	(33,063)
	<u>\$ 396,004</u>	<u>\$ 365,439</u>	<u>\$ 30,564</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.

**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>2021</u>	<u>2020</u>
Total Assets	\$ 46,512,537	\$ 41,204,259
Total Liabilities	<u>21,367,354</u>	<u>18,200,833</u>
Fund Balance	<u>\$ 25,145,183</u>	<u>\$ 23,003,426</u>
Total Revenues	\$ 15,456,236	\$ 16,065,565
Total Expenditures	<u>13,314,479</u>	<u>10,130,727</u>
Net Increase in Fund Balance	<u>\$ 2,141,757</u>	<u>\$ 5,934,838</u>

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

**NOTE 8 – 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 9 – DEFINED BENEFIT PENSION PLAN**

A. General Information About the Pension Plan

Plan Description

Santa Cruz METRO's defined benefit pension plan, the Miscellaneous Plan for Santa Cruz Metropolitan Transit District (the Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers with the State of California. A menu of benefit provisions, as well as other requirements, is established by state statutes within the

Public Employees' Retirement Law. Santa Cruz METRO selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board action. CalPERS issues a separate 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.

**NOTE 9 – DEFINED BENEFIT PENSION PLAN** (Continued)A. General Information About the Pension Plan (Continued)Funding Policy

There were 308 and 301 active members in the Plan as of June 30, 2021 and 2020, 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 2021 was 9.96% of covered payroll plus twelve (12) monthly payments of \$427,165. The required employer contribution for fiscal year 2020 was 9.439% of covered payroll plus twelve (12) monthly payments of \$349,071. 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, 2021, are summarized as follows:

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

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

Hire Date	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit Formula	2.5%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50	52
Monthly Benefits, as a Percentage of Eligible Compensation	2.000% - 2.500%	1.000%-2.500%
Required Employee Contribution Rates	8.000%	6.250%
Required Employer Normal Cost Contribution Rates	9.439%	9.439%
Required Monthly Employer Dollar UAL Payment	\$349,071/month	\$349,071/month

**NOTE 9 – DEFINED BENEFIT PENSION PLAN** (Continued)

A. General Information About the Pension Plan (Continued)

Funding Policy (Continued)

**Employees Covered** – At June 30, 2021 and 2020, the following employees were covered by the benefit terms for the Plan:

	2021	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	392	383
Inactive Employees Entitled to but not yet Receiving Benefits	173	201
Active Employees	308	301
Total	873	885

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, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, 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, 2019 and 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.63%	2.75%
Payroll Growth	2.88%	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	7.250% <sup>(2)</sup>	7.375% <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 and administrative expenses, including inflation.

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

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

**NOTE 9 – 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, 2021 and 2020, 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 2021 and 2020 is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% for 2021 and 2020 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, 2021 and 2020, the 7.15% discount rate was not reduced for administrative expenses.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The 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.

2020 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.

**NOTE 9 – DEFINED BENEFIT PENSION PLAN** (Continued)

B. Net Pension Liability (Continued)

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.

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, 2019 <sup>(1)</sup>	\$ 188,466,525	\$ 127,809,038	\$ 60,657,487
Changes in the year:			
Service Cost	3,235,943	-	3,235,943
Interest on the Total Pension Liability	13,261,238	-	13,261,238
Differences between Actual and Expected Experience	651,255	-	651,255
Contribution - Employer	-	5,889,484	(5,889,484)
Contribution - Employee	-	1,552,782	(1,552,782)
Net Investment Income <sup>(2)</sup>	-	6,333,686	(6,333,686)
Administrative Expenses	-	(180,179)	180,179
Benefit Payments, Including Refunds of Employee Contributions	(10,527,796)	(10,527,796)	-
Net Changes	6,620,640	3,067,977	3,552,663
Balance at June 30, 2020 <sup>(1)</sup>	\$ 195,087,165	\$ 130,877,015	\$ 64,210,150

<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.

**NOTE 9 – 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, 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
Changes in Assumptions	-	-	-
Net Plan to Plan Resource Movement	-	-	-
Contribution - Employer	-	5,300,243	(5,300,243)
Contribution - Employee (Paid by Employer)	-	-	-
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	7,497,735	4,708,550	2,789,185
Balance at June 30, 2019 <sup>(1)</sup>	\$ 188,466,525	\$ 127,809,038	\$ 60,657,487

(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:

2020

1% Decrease Net Pension Liability	\$ 87,938,257
Current Discount Rate Net Pension Liability	\$ 64,210,150
1% Increase Net Pension Liability	\$ 44,398,222

**NOTE 9 – DEFINED BENEFIT PENSION PLAN** (Continued)C. Changes in the Net Pension Liability (Continued)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

**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, 2021 and 2020, Santa Cruz METRO recognized a pension expense of \$7,823,223 and \$9,492,662, respectively. At June 30, 2021 and 2020, Santa Cruz METRO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2021

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 6,462,506	\$ -
Differences between Actual and Expected Experience	1,175,291	(215,846)
Changes in Assumptions	-	(259,318)
Net Differences Between Projected and Actual Earnings on Plan Investments	<u>1,034,084</u>	<u>-</u>
Total	<u>\$ 8,671,881</u>	<u>\$ (475,164)</u>

2020

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>-</u>	<u>(606,325)</u>
Total	<u>\$ 8,281,477</u>	<u>\$ (2,276,707)</u>

**NOTE 9 – DEFINED BENEFIT PENSION PLAN** (Continued)

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

The \$6,462,506 and \$5,886,183 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, 2021 and 2020, 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	
2021	\$ (465,412)
2022	860,521
2023	809,198
2024	<u>529,904</u>
Total	<u>\$ 1,734,211</u>

E. Payable to the Pension Plan

At June 30, 2021 and 2020, 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, 2021 and 2020.

**NOTE 10 – 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, 2021 and 2020, 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 11 – 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.

**NOTE 11 – 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:

	<u>2021</u>	<u>2020</u>
Workers' Compensation Liabilities:		
Unpaid Claims, Beginning of Fiscal Year	\$ 2,219,526	\$ 2,105,734
Claim Payments	(584,297)	(1,014,694)
Other Adjustments (Including IBNRs)	<u>698,725</u>	<u>1,128,486</u>
Unpaid Claims Liability, End of Fiscal Year	<u>\$ 2,333,954</u>	<u>\$ 2,219,526</u>

**NOTE 12 – 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 13 – 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.

**NOTE 13 – 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, 2021, Santa Cruz METRO applied for and received proceeds of \$0 and earned interest of \$32,559 from the State’s PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2021, qualifying expenditures of \$357,216 were incurred and the remaining balance of \$4,478,126, 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, 2021**

	<u>2021</u>
<b>Balance - beginning of the year</b>	\$ 4,802,783
<b>Receipts:</b>	
Interest accrued 7/1/2020 through 6/30/2021	32,559
<b>Expenses:</b>	
Transit bus	<u>(357,216)</u>
<b>Balance - end of year</b>	<u>\$ 4,478,126</u>

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**

	<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>

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

**Employees Covered** – As of the June 30, 2020 and 2019 valuations, the following current and former employees were covered by the benefit terms for the OPEB Plan:

	2020	2019
Inactive Employees or Beneficiaries Currently Receiving Benefits	298	298
Inactive Employees Entitled to but not yet Receiving Benefits	20	20
Active Employees	303	303
Total	621	621

**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, 2021 and 2020, Santa Cruz METRO contributed \$4,127,225 and \$4,125,446, 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, 2020 and 2019, 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, 2021	June 30, 2020
Valuation Date	June 30, 2019	June 30, 2019
Measurement Date	June 30, 2020	June 30, 2019
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	2.66%	2.79%
Inflation	2.50%	2.50%
Salary Increases	3.00%	3.00%
Healthcare Cost Trend Rates	6.5% in 2021, fluctuating down to 4% by 2076	6.5% in 2021, fluctuating down to 4% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2020	CalPERS 2017 Experience Study; Projected with MW Scale 2020 <sup>(1)</sup>

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (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:

## 2020 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.

## 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.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 2.66% and 2.79% for June 30, 2021 and 2020, 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.



**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (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, 2020 and 2019:

2020	
1% Decrease	1.66%
Net OPEB Liability	\$ 156,415,622
Current Discount Rate	2.66%
Net OPEB Liability	\$ 132,363,695
1% Increase	3.66%
Net OPEB Liability	\$ 113,389,587
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

**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.

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (Continued)

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** – For the fiscal years ended June 30, 2021 and 2020, Santa Cruz METRO recognized OPEB expense of \$9,794,149 and \$9,063,599, respectively. As of fiscal years ended June 30, 2021 and 2020, Santa Cruz METRO reported deferred outflows of resources related to OPEB from the following sources:

2021	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB Contributions Subsequent to Measurement Date	\$ 4,127,225	\$ -
Differences between Actual and Expected Experience	-	(3,018,237)
Changes in Assumptions	<u>7,035,937</u>	<u>-</u>
Total	<u>\$ 11,163,162</u>	<u>\$ (3,018,237)</u>
2020	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB Contributions Subsequent to Measurement Date	\$ 4,125,446	\$ -
Differences between Actual and Expected Experience	-	(3,810,361)
Changes in Assumptions	<u>5,473,737</u>	<u>-</u>
Total	<u>\$ 9,599,183</u>	<u>\$ (3,810,361)</u>

The \$4,127,225 and \$4,125,446 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 and 2019 measurement dates will be recognized as a reduction in the net OPEB liability in the measurement periods ended June 30, 2022 and 2021, respectively. In addition, future recognition of the deferred inflows of resources is shown below.

<u>Fiscal Year Ended June 30</u>	
2022	\$ 341,235
2023	503,963
2024	1,539,933
2025	957,203
2026	394,404
Thereafter	<u>280,962</u>
Total	<u>\$ 4,017,700</u>

**NOTE 15 – CAPITAL LEASE**

The following is a summary of Santa Cruz METRO’s capital lease activity for the fiscal years ended June 30, 2021 and 2020:

	Balance June 30, 2020	Additions	Payments	Balance June 30, 2021	Due Within One Year
Capital Lease	\$ 919,007	\$ -	\$ (259,182)	\$ 659,825	\$ 267,172
Total Long-Term Debt	<u>\$ 919,007</u>	<u>\$ -</u>	<u>\$ (259,182)</u>	<u>\$ 659,825</u>	<u>\$ 267,172</u>

  

	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>

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, 2021 and 2020, the outstanding balances were \$659,825 and \$919,007, respectively.

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

Fiscal Year	Principal	Interest	Total
2022	\$ 267,172	\$ 16,357	\$ 283,529
2023	275,409	8,121	283,530
2024	117,244	893	118,137
Total	<u>\$ 659,825</u>	<u>\$ 25,371</u>	<u>\$ 685,196</u>

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

Santa Cruz METRO was allocated \$738,201 of State Transit Assistance - State of Good Repair (STA-SGR) program funds for fiscal year 2021. Interest earned on STA-SGR funds held in the Santa Cruz County Pooled Investment Fund during fiscal year 2021 was \$10,522. STA-SGR grant proceeds spent on capital projects during fiscal year 2021 was \$-0-. The unspent (unearned) balance of STA-SGR funds was \$2,182,052 at June 30, 2021.

Santa Cruz METRO was allocated \$722,808 of State Transit Assistance - State of Good Repair (STA-SGR) program funds for fiscal year 2020. Interest earned on STA-SGR funds held in the Santa Cruz County Pooled Investment Fund during fiscal year 2020 was \$22,025. STA-SGR grant proceeds spent on capital projects during fiscal year 2020 was \$671,078, used for the purchase of four new 40’ CNG buses. The unspent (unearned) balance of STA-SGR funds was \$1,433,329 at June 30, 2020.

**NOTE 17 – DEFICIT NET POSITION**

As of June 30, 2021 and 2020, Santa Cruz METRO had a deficit net position of \$43,393,896 and \$46,494,891, respectively. The deficit was primarily due to the reporting of the net pension liability and the net liability for OPEB, pursuant to the implementation of GASB Statement No. 68 and GASB Statement No. 75. Santa Cruz METRO is committed to fully funding the actuarially determined contributions annually.

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through December 13, 2021, which is the date of issuance.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**  
**LAST 10 YEARS\***

	Measurement Period 2019/20	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	\$ 3,235,943	\$ 3,267,506	\$ 3,267,575	\$ 3,422,455	\$ 3,160,455	\$ 3,294,147	\$ 3,200,114
Interest on Total Pension Liability	13,261,238	12,800,717	12,278,470	12,002,686	11,775,833	11,234,261	10,709,850
Differences between Expected and Actual Experience	651,255	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	(10,527,796)	(9,997,925)	(9,340,636)	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Net Change in Total Pension Liability	6,620,640	7,497,735	3,948,377	13,683,476	7,195,283	4,364,041	7,249,370
Total Pension Liability - Beginning	188,466,525	180,968,790	177,020,413	163,336,937	156,141,654	151,777,613	144,528,243
Total Pension Liability - Ending (a)	<u>\$ 195,087,165</u>	<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	5,889,484	5,300,243	4,686,264	4,047,221	3,991,447	4,086,806	3,668,004
Contributions - Employee	1,552,782	1,560,484	1,592,606	1,556,993	1,603,071	1,645,356	1,573,391
Net Investment Income	6,333,686	7,933,310	9,742,558	12,015,977	608,702	2,493,939	16,262,179
Administrative Expense	(180,179)	(87,847)	(182,238)	(160,362)	(67,272)	(124,362)	-
Benefit Payments	(10,527,796)	(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	3,067,977	4,708,550	6,152,197	8,333,482	(1,767,231)	916,183	14,842,980
Plan Fiduciary Net Position - Beginning	127,809,038	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>\$ 130,877,015</u>	<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>\$ 64,210,150</u>	<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	67.09%	67.82%	68.02%	66.06%	66.50%	70.69%	72.12%
Covered Payroll	\$ 18,956,899	\$ 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	338.72%	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 seven years are shown.

**Notes to Schedule:**

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

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF CONTRIBUTIONS – PENSION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
LAST 10 YEARS\***

	Fiscal Year 2020-21	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	\$ 5,889,484	\$ 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>(5,889,484)</u>	<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>						
Covered Payroll	\$ 16,874,245	\$ 18,956,899	\$ 18,780,928	\$ 19,075,163	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839
Contributions as a Percentage of Covered Payroll	34.90%	27.96%	24.95%	21.22%	20.63%	20.90%	18.82%

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT  
BENEFITS (OPEB) LIABILITY AND RELATED RATIOS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
LAST 10 YEARS\***

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

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF CONTRIBUTIONS – OPEB  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021  
LAST 10 YEARS\***

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

**Notes to the Schedule:**

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020, were from the June 30, 2019 actuarial valuation.

**Methods and Assumptions Used to Determine Contributions:**

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	2.66%
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 four years are shown.

**SUPPLEMENTARY INFORMATION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENTS OF OPERATING EXPENSES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
Labor		
Operators' salaries and wages	\$ 7,649,634	\$ 7,775,128
Other salaries and wages	8,278,720	8,099,757
Overtime	945,891	2,804,026
	16,874,245	18,678,911
Fringe Benefits		
Absence with pay	4,393,575	5,329,108
Pension plans	6,462,506	5,886,183
Vision, medical, and dental plans	6,898,857	6,657,647
Workers' compensation insurance	813,153	1,242,278
Disability insurance	357,696	353,155
Other fringe benefits	232,425	175,727
Other postemployment benefits	11,154,866	12,670,078
	30,313,078	32,314,176
Services		
Accounting	93,643	86,712
Administrative and banking	269,161	370,843
Professional and technical services	1,525,891	1,688,323
Security	636,733	575,894
Outside repairs	1,265,518	1,139,437
Other services	127,581	160,648
	3,918,527	4,021,857
Materials and Supplies Consumed		
Fuels and lubricants	1,063,180	1,352,349
Tires and tubes	107,038	208,885
Vehicle parts	1,005,174	958,306
Other materials and supplies	813,366	617,190
	2,988,758	3,136,730
Utilities	580,675	597,598
Casualty and Liability Costs	912,303	800,600
Taxes and Licenses	41,634	44,250
Miscellaneous Expenses	217,099	251,476
Equipment and Facility Lease	254,620	221,587
Interest Expense	24,346	32,097
Depreciation	5,307,687	5,514,288
Total Operating Expenses	\$ 61,432,972	\$ 65,613,570

**OTHER SCHEDULES AND REPORTS**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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	\$ -	\$ 700
Pacific Station Expansion FY2008 (Design/Engineering)	20.500	CA-04-0102	-	4,906
			-	5,606
<b>Section 9/5307</b>				
Operating Assistance	20.507	FY-2020-143-00	-	7,282,012
Operating Assistance - CARES Act	20.507	CA-2020-144-01	-	105,927
Operating Assistance - CARES Act	20.507	CA-2020-144-02	-	2,143,695
Operating Assistance - CRRSAA Act	20.507	CA-2021-144-01	-	5,021,229
Operating Assistance - CRRSAA Act	20.507	CA-2021-144-02	-	1,275,804
			-	15,828,667
<b>Section 5339</b>				
FY16 5339 (c) LoNo Discretionary	20.526	CA-2017-071-00	-	41,857
FY17 5339(a) Bus & Bus Facilities	20.526	CA-2019-067-00	-	191,679
FY18 5339(a) Bus & Bus Facilities	20.526	CA-2019-070-00	-	121,792
FY19 5339(a) Bus & Bus Facilities	20.526	CA-2020-088-00	-	417,063
			-	772,391
Total Federal Transit Cluster			-	16,606,664
Total Federal Transit Administration			-	16,606,664
<b>Section 18/5311-5317</b>				
Rural Operating Assistance - 5311	20.509	CA-2021-030	-	191,234
Rural Operating Assistance - 5311 - CARES Act Phase I	20.509	CA-2020-285	-	384,246
			-	575,480
Surface Transportation Block Grant (STBG)	20.205	N/A	-	200,000
			-	200,000
Total Expenditures of Federal Awards			\$ -	\$ 17,382,144

See accompanying notes to schedule of expenditures of federal awards.

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**NOTE 1 – GENERAL**

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

**NOTE 2 – BASIS OF ACCOUNTING**

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

**NOTE 3 – INDIRECT COST RATE**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the fiscal year ended June 30, 2021, 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 13, 2021.

**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.

## 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 13, 2021

**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, 2021. 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, 2021.

## 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.

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

We have audited the financial statements of Santa Cruz METRO as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's basic financial statements. We issued our report thereon dated December 13, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 13, 2021

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the U.S. Office of Management and Budget (OMB) *Compliance Supplement*; and the statutes, rules, and regulations of the California Transportation Development Act (TDA), the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) as of and for the fiscal year ended June 30, 2021, and have issued our report thereon dated December 13, 2021.

**Compliance**

As part of obtaining reasonable assurance about whether Santa Cruz METRO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests to determine that allocations made and expenditures paid by Santa Cruz METRO were made in accordance with the allocation instructions and resolutions of the Transportation Commission and in conformance with the TDA. Specifically, we performed each of the specific tasks identified in the California Code of Regulations Sections 6666 and 6667 that are applicable to Santa Cruz METRO. In connection with our audit, nothing came to our attention that caused us to believe Santa Cruz METRO failed to comply with the statutes, rules, and regulations of the TDA and the allocation instructions and resolutions of the Transportation Commission. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

**Other Matters**

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

During the fiscal year ended June 30, 2021, Santa Cruz METRO received \$34,829 in interest from the State's PTMISEA funds. As of June 30, 2021, 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, 2021**

	2021
<b>Balance - beginning of the year</b>	\$ 4,802,783
<b>Receipts:</b>	
Interest accrued 7/1/2020 through 6/30/2021	32,559
<b>Expenses:</b>	
Transit bus	(357,216)
<b>Balance - end of year</b>	\$ 4,478,126

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 13, 2021

**FINDINGS AND QUESTIONED COSTS SECTION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2021**

**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:

CFDA Number(s)

Name of Federal Program or Clusters

	Federal Transit Cluster
20.500	Federal Transit Capital Investment Grants – Section 3
20.507	Federal Transit Formula Grants – Section 9
20.526	Bus and Bus Facilities Formula and Discretionary Programs

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

Auditee qualified as low risk auditee?  Yes  No

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

None.

**III. Federal Award Findings and Questioned Costs**

None.

**IV. State Award Findings and Questioned Costs**

None.

**V. A Summary of Prior Audit (all June 30, 2020) Findings and Current Year Status Follows**

None.