

AGENDA
SANTA CRUZ METRO BOARD OF DIRECTORS
REGULAR MEETING OF FEBRUARY 10, 2012
8:30 AM



Mission Statement: "To provide a public transportation service that enhances personal mobility and creates a sustainable transportation option in Santa Cruz County through a cost-effective, reliable, accessible, safe, clean and courteous transit service."

**THE BOARD MEETING AGENDA PACKET CAN BE FOUND ONLINE AT
WWW.SCMTD.COM AND IS AVAILABLE FOR INSPECTION AT SANTA CRUZ METRO'S
ADMINISTRATIVE OFFICES LOCATED AT 110 VERNON STREET, SANTA CRUZ, CA**

Director Margarita Alejo, City of Watsonville
Director Hilary Bryant, City of Santa Cruz
Director Dene Bustichi, City of Scotts Valley
Director Daniel Dodge, City of Watsonville
Director Ron Graves, City of Capitola
Director Michelle Hinkle, County of Santa Cruz
Director Deborah Lane, County of Santa Cruz
Director John Leopold, County of Santa Cruz
Director Ellen Pirie, County of Santa Cruz
Director Lynn Robinson, City of Santa Cruz
Director Mark Stone, County of Santa Cruz
Ex-Officio Director Donna Blitzer, UC Santa Cruz

Leslie R. White, General Manager / Secretary of the Board
Margaret Gallagher, District Counsel

SANTA CRUZ METRO ADMINISTRATIVE OFFICES
110 VERNON STREET
SANTA CRUZ, CALIFORNIA

INTERPRETATION SERVICES / SERVICIOS DE TRADUCCIÓN

Spanish language translation is available on an as needed basis. Please make advance arrangements with Tony Tapiz, Administrative Services Coordinator at 831-426-6080. Traducción al español está disponible de forma según sea necesario. Por favor, hacer arreglos por adelantado con Tony Tapiz, Coordinador de Servicios Administrativos al numero 831-426-6080.

AMERICANS WITH DISABILITIES ACT

 The METRO Administrative Offices are located in an accessible facility. Any person who requires an accommodation or an auxiliary aid or service to participate in the meeting, or to access the agenda and the agenda packet, should contact Tony Tapiz, Administrative Services Coordinator, at 831-426-6080 as soon as possible in advance of the Board of Directors meeting. Hearing impaired individuals should call 711 for assistance in contacting Santa Cruz METRO regarding special requirements to participate in the Board meeting. For information regarding this agenda or interpretation services, please call Santa Cruz METRO at 831-426-6080.

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**SANTA CRUZ METRO
ADMINISTRATIVE OFFICES
110 VERNON STREET
SANTA CRUZ, CA**

8:30 A.M.

NOTE: THE BOARD CHAIR MAY TAKE ITEMS OUT OF ORDER

SECTION I: OPEN SESSION

1.0 ROLL CALL

2.0 ORAL AND WRITTEN COMMUNICATIONS

This time is set aside for Directors and members of the general public to address any item not on the Agenda which is within the subject matter jurisdiction of the Board. No action or discussion shall be taken on any item presented except that any Director may respond to statements made or questions asked, or may ask questions for clarification. All matters of an administrative nature will be referred to staff. All matters relating to Santa Cruz METRO will be noted in the minutes and may be scheduled for discussion at a future meeting or referred to staff for clarification and report. Any Director may place matters brought up under Oral and Written Communications on a future agenda. In accordance with District Resolution 69-2-1, speakers appearing at a Board meeting shall be limited to three minutes in his or her presentation. Any person addressing the Board may submit written statements, petitions or other documents to complement his or her presentation. When addressing the Board, the individual may, but is not required to, provide his/her name and address in an audible tone for the record.

3.0 LABOR ORGANIZATION COMMUNICATIONS

4.0 ADDITIONAL DOCUMENTATION TO SUPPORT EXISTING AGENDA ITEMS

CONSENT AGENDA

All items appearing on the Consent Agenda are recommended actions which are considered to be routine and will be acted upon as one motion. All items removed will be considered later in the agenda. The Board Chair will allow public input prior to the approval of the Consent Agenda items.

5-1. CONSIDERATION OF AUTHORIZING THE GENERAL MANAGER TO SIGN A CONTRACT EXTENSION WITH SC FUELS FOR DIESEL FUEL PURCHASE AND DELIVERY THROUGH MARCH 31, 2012

Submitted by: Erron Alvey, Purchasing Agent

5-2. CONSIDERATION OF AUTHORIZING THE GENERAL MANAGER TO SIGN A CONTRACT RENEWAL WITH THE LAW OFFICES OF MARIE F. SANG FOR LEGAL SERVICES IN THE AREA OF WORKERS COMPENSATION

Submitted by: Erron Alvey, Purchasing Agent

5-3. CONSIDERATION OF DECLARING FIVE (5) NEW FLYER BUSES AS EXCESS FOR PURPOSES OF DISPOSAL OR AUCTION

Submitted by: Angela Aitken, Finance Manager

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5-4. CONSIDERATION OF RESOLUTION NO. 12-02-01 APPROVING THE AMENDED JOINT POWERS AGREEMENT FORMING THE CALIFORNIA TRANSIT SYSTEMS JOINT POWERS AUTHORITY

Submitted by: Angela Aitken, Finance Manager

REGULAR AGENDA

6.0 ACCEPT AND FILE FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS REPORT FOR YEAR ENDING JUNE 30, 2011

Presented by: Angela Aitken, Finance Manager

7.0 CONSIDERATION OF PROPOSED SMART CARD PROGRAM

Presented by: Ciro Aguirre, Operations Manager

8.0 ORAL ANNOUNCEMENT: THE NEXT REGULARLY SCHEDULED BOARD MEETING WILL BE HELD FRIDAY, FEBRUARY 24, 2012 AT 9:00 A.M. AT THE WATSONVILLE CITY COUNCIL CHAMBERS, 275 MAIN STREET, WATSONVILLE

Presented by: Daniel Dodge, Vice Chair

9.0 REVIEW OF ITEMS TO BE DISCUSSED IN CLOSED SESSION: District Counsel

10.0 ORAL AND WRITTEN COMMUNICATIONS REGARDING CLOSED SESSION

SECTION II: CLOSED SESSION

1. CONFERENCE WITH LABOR NEGOTIATOR

(Pursuant to Government Code Section 54957.6)

a. Agency Negotiators: Leslie R. White, General Manager, Robyn Slater, Human Resources, Ciro Aguirre, Operations Manager

1. Employee Organization: United Transportation Union (UTU), Local 23 Fixed Route

2. Employee Organization: United Transportation Union (UTU), Local 23 Paracruz

3. Employee Organization: Service Employees International Union (SEIU), Local 521

SECTION III: RECONVENE TO OPEN SESSION

11.0 REPORT OF CLOSED SESSION

12.0 ADJOURNMENT

ADJOURN TO THE NEXT REGULARLY SCHEDULED BOARD MEETING ON FRIDAY, FEBRUARY 24, 2012.

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Pursuant to Section 54954.2(a)(1) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

The agenda packet and materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the Santa Cruz METRO Administrative Office (110 Vernon Street, Santa Cruz) during normal business hours. Such documents are also available on the Santa Cruz METRO website at www.scmtd.com subject to staff's ability to post the document before the meeting.

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012

TO: Board of Directors

FROM: Erron Alvey, Purchasing Agent

SUBJECT: CONSIDERATION OF AUTHORIZING THE GENERAL MANAGER TO EXECUTE A CONTRACT WITH SC FUELS FOR DIESEL FUEL PURCHASE AND DELIVERY FOR AN AMOUNT NOT TO EXCEED \$200,000

I. RECOMMENDED ACTION

That the Board of Directors authorize the General Manager to execute a contract with SC Fuels for Diesel Fuel and Delivery for a short term contract effective February 10, 2012 through April 30, 2012 in an amount not to exceed \$200,000.

II. SUMMARY OF ISSUES

- Santa Cruz METRO entered into a contract with SC Fuels for Purchase and Delivery of Diesel Fuel on February 1, 2007, as part of the Regional Transit Coordinating Council (RTCC) procurement for a two year term with three one year renewals.
- In November 2011, Santa Cruz METRO contacted the lead agency on the consortium diesel bid, Contra Costa County Transit Authority (CCCTA), and inquired if it was going to perform a collective bid for the purchase and delivery of diesel fuel again. At that time CCCTA informed Santa Cruz METRO staff that they had negotiated additional options to extend the term of the contracts.
- On December 20, 2011, Santa Cruz METRO was notified by CCCTA that it had decided to re-bid the diesel fuel purchase and delivery instead of negotiating an extension of the contract term. Santa Cruz METRO confirmed its continuing participation in the bid and subsequent ability to contract directly with SC Fuel. This Request for Bids is due on March 16, 2012.
- Santa Cruz METRO requires a short term contract to ensure Santa Cruz METRO's diesel needs are met until a new contract is established through the formal bidding process with the RTCC.
- SC Fuels has offered a short term contract under the existing terms, with the exception of a request to change the Oil Price Information Service (OPIS) rack rate from a weekly fixed price to a daily price.
- Staff is recommending that the Board of Directors authorize the General Manager to execute a contract for Purchase and Delivery of Diesel Fuel with SC Fuels for a term of February 10, 2012 through April 30, 2012 in an amount not to exceed \$200,000.

III. DISCUSSION

Santa Cruz METRO is a member and participates in the Regional Transit Coordinating Council (RTCC) which consists of procurement agents and staff from other local public transit agencies. The purpose of the RTCC is to provide support to the participating agencies in how procurements work and to enable the agencies to conduct joint procurements in order to obtain better pricing. In furtherance of these goals, in September 2006, Costa County Transit Authority (CCCTA) acted as the lead agency for the RTCC in issuing an Invitation for Bids to obtain the best pricing for the purchase and delivery of diesel fuel. Santa Cruz METRO participated in this procurement along with other transit agencies. Southern Counties Oil Company dba SC Fuels was the lowest responsible, responsive bidder and as a result, Santa Cruz METRO entered into a contract with SC Fuels for the purchase and delivery of diesel fuel on February 1, 2007. The contract term was for two years with three one-year extensions. Santa Cruz METRO exercised each of the extensions as provided for in the contract. The contract expired on January 31, 2012.

Since the Santa Cruz METRO contract has expired, it can no longer process an extension on the original contract and requires a new contract. SC Fuels has offered a short term contract until a new contract has been established through the RTCC formal bidding process. The only change requested is the use of a daily OPIS rack rate instead of the fixed weekly rate.

The Oil Price Information Service (OPIS) weekly rack rate (by metropolitan cities) was established in 1980 when rates were published in hard copy newsletter and mailed out. The 2007 contract utilized the weekly rack rate. Today, these rates are available electronically minute to minute. A daily rate has been established that if used, will minimize risk for SC Fuels when there is a price increase, and Santa Cruz METRO would benefit when there is a reduction in price. The pricing structure remains the OPIS rack rate (San Jose) plus an add-on profit rate. The difference between the 2007 contract and the proposed short term contract is that in the 2007 contract the weekly rack rate was utilized and in the short term contract the daily rack rate will be utilized.

This contract will ensure Santa Cruz METRO's diesel needs are met until the RTCC bidding process is completed and a new vendor is selected.

Staff recommends that the Board of Directors authorize the General Manager to execute a contract with SC Fuels for Purchase and Delivery of Diesel Fuel effective February 10, 2012 through April 30, 2012 on the same terms and conditions as the 2007 contract with the exception that OPIS daily rack rate be utilized with a total not to exceed of \$200,000. Robert Cotter will continue to serve as the Contract Administrator.

IV. FINANCIAL CONSIDERATIONS

Santa Cruz METRO requires a fuel delivery approximately once every two weeks. Deliveries average \$25,000 each, therefore a contract total not to exceed of \$200,000 would cover

anticipated needs through April 30, 2012. Contract costs are covered in the FY12 Fleet Maintenance Diesel Fuel operating budget.

V. ATTACHMENTS

Attachment A: Contract with SC Fuels

Attachment A

CONTRACT FOR DELIVERY OF CARB ULTRA-LOW SULFUR DIESEL FUEL (2007-MA-01RTCC)

THIS CONTRACT is made effective on February 10, 2012 between the SANTA CRUZ METROPOLITAN TRANSIT DISTRICT, a political subdivision of the State of California ("District"), and **Southern Counties Oil Co., L.P. d.b.a. SC Fuels** ("Contractor").

1. RECITALS

1.01 District's Primary Objective

District is a public entity whose primary objective is providing public transportation and has its principal office at 110 Vernon Street, Santa Cruz, California 95060.

1.02 District's Need for Delivery of CARB Ultra-Low Sulfur Diesel Fuel

District requires the delivery of CARB ultra-low sulfur diesel fuel to be used for standard purposes. In order to obtain said delivery of CARB ultra-low sulfur diesel fuel, the District participated in an Regional Transit Coordinating Council (RTCC) Invitation for Bids, dated September 1, 2006 setting forth specifications for such purchase and delivery of CARB ultra-low sulfur diesel fuel. The Invitation for Bids is attached hereto and incorporated herein by reference as Exhibit A.

1.03 Contractor's Bid Form

Contractor is a supplier of CARB ultra-low sulfur diesel fuel desired by the District and whose principal place of business is 1800 W. Katella Avenue, Suite 400, Orange, California. Pursuant to the Invitation for Bids by the RTCC, Contractor submitted a bid for purchase and delivery of CARB ultra-low sulfur diesel fuel which is attached hereto and incorporated herein by reference as Exhibit B.

1.04 Selection of Contractor and Intent of Contract

On January 26, 2007 District selected Contractor as the lowest responsive, responsible bidder to provide CARB ultra-low sulfur diesel fuel, which was executed on February 1, 2007 and was for a two-year period with three one-year extension.

1.05 District exercised the extensions. Therefore, by its term the contract concluded on January 31, 2012.

1.06 District is currently participating in a diesel purchase and delivery bid through the Regional Transit Coordinating Council (RTCC), which is scheduled to conclude on or about March 16, 2012. Santa Cruz METRO has a need to maintain its ability to purchase and have delivered diesel fuel. Therefore, it is entering into this short term contract in order to meet its diesel fuel needs during the contract period.

District and Contractor agree as follows:

2. INCORPORATED DOCUMENTS AND APPLICABLE LAW

2.01 Documents Incorporated in This Contract

The documents below are attached to this Contract and by reference made a part hereof. This is an integrated Contract. This writing constitutes the final expression of the parties' Contract, and it is a complete and exclusive statement of the provisions of that Contract, except for written amendments, if

any, made after the date of this Contract in accordance with Section 13.14 of the General Conditions of the Contract.

a) Exhibit A

Central Contra Costa Transit Authority's "Invitation for Bids" No. 2007-MA-01RTCC dated September 1, 2006 including addendum numbers 1 and 2.

b) Exhibit B (Bid Form)

Contractor's Bid Form for delivery of CARB ultra-low sulfur diesel fuel, signed by Contractor and dated October 11, 2006.

2.02 Conflicts

Where in conflict, the provisions of this writing supersede those of the above-referenced documents, Exhibits A and B. Where in conflict, the provisions of Exhibit A supersede Exhibit B.

2.03 Recitals

The Recitals set forth in Article 1 are part of this Contract.

2.04 Contractor and Supplier Synonymous

For the purposes of this Contract, the terms "contractor" and "supplier" are synonymous.

3. TIME OF PERFORMANCE

3.01 General

Contractor shall perform work under this Contract at such times to enable it to meet the time schedules specified in the Specifications Section of the IFB. The Contractor shall not be responsible for delays caused by force majeure events described in Section 2 of the General Conditions of the Contract.

3.02 Term

3.02 Term

The term of this Contract shall be from February 10, 2012 through April 30, 2012.

4. COMPENSATION

4.01 Terms of Payment

Upon written acceptance, District agrees to pay Contractor for delivery of CARB ultra-low sulfur diesel fuel as identified in the Bid Form, Exhibit B, at a unit price calculated using the San Jose, California OPIS rack average daily price per gallon plus an add on of \$0.0209 per gallon plus any applicable taxes.

4.02 Invoices

Contractor shall submit invoices with a purchase order number provided by the District on a monthly basis. Contractor's invoices shall include detailed records showing: date of fuel delivery; number of gallons delivered;

and the San Jose, California OPIS rack average daily price per gallon plus an add on of \$0.0209 per gallon plus any applicable taxes.

Said invoice records shall be kept up-to-date at all times and shall be available for inspection by the District (or any grantor of the District, including, without limitation, any State or Federal agency providing project funding or reimbursement) at any time for any reason upon demand for not less than four (4) years after the date of expiration or termination of the contract. Under penalty of law, Contractor represents that all amounts billed to the District are (1) actually incurred; (2) reasonable in amount; (3) related to this contract; and (4) necessary for performance of the services. No expenses shall be paid by the District unless specifically allowed by this contract.

5. NOTICES

All notices under this Contract shall be deemed duly given upon delivery, if delivered by hand; or three (3) days after posting, if sent by registered mail, receipt requested; to a party hereto at the address hereinunder set forth or to such other address as a party may designate by notice pursuant hereto.

DISTRICT

Santa Cruz Metropolitan Transit District
110 Vernon Street
Santa Cruz, CA 95060

Attention: General Manager

CONTRACTOR

SC Fuels
1800 W. Katella Avenue
Suite 400
Orange CA 92867

Attention: Karen Koep, Manager, Bid and Contract Sales

6. AUTHORITY

Each party has full power and authority to enter into and perform this Contract and the person signing this Contract on behalf of each has been properly authorized and empowered to enter into it. Each party further acknowledges that it has read this Contract, understands it, and agrees to be bound by it.

Signed on _____

DISTRICT--SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

Leslie R. White
General Manager

CONTRACTOR—SOUTHERN COUNTIES OIL COMPANY, L.P. D.B.A. SC FUELS

By _____
Mimi S. Taylor
CFO

By _____
Robert W. Bollar
Corp. Sec.

Approved as to Form:

Margaret R. Gallagher
District Counsel

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012

TO: Board of Directors

FROM: Erron Alvey, Purchasing Agent

SUBJECT: CONSIDERATION OF AUTHORIZING THE GENERAL MANAGER TO SIGN A CONTRACT RENEWAL WITH THE LAW OFFICES OF MARIE F. SANG FOR LEGAL SERVICES IN THE AREA OF WORKERS' COMPENSATION

I. RECOMMENDED ACTION

That the Board of Directors authorize the General Manager to enter into a one-year contract extension with the Law Offices of Marie F. Sang for Legal Services in the area of Workers' Compensation.

II. SUMMARY OF ISSUES

- Santa Cruz METRO requires representation and litigation of Worker's Compensation claims on an as needed basis.
- Santa Cruz METRO has a contract with the Law Offices of Marie F. Sang for Legal Services in the area of Workers' Compensation, established on March 1, 2008 for a three-year period with two optional one-year extensions.
- The current contract approved by the Board of Directors will expire on February 28, 2012.
- The Law Offices of Marie F. Sang has requested no changes for the new contract period.

III. DISCUSSION

Santa Cruz METRO has a contract with the Law Offices of Marie F. Sang for Legal Services in the area of Workers' Compensation that is due to expire on February 28, 2012. The Law Offices of Marie F. Sang has reviewed the contract and responded they would agree to renew under the existing terms.

Staff recommends that Santa Cruz METRO exercise the option for a one-year contract extension with the Law Offices of Marie F. Sang. No additional funds are required at this time. Staff further recommends that the Board of Directors authorize the General Manager to sign a one-year contract extension on behalf of Santa Cruz METRO. Robyn Slater, Human Resources Manager will serve as the Contract Administrator and will ensure contract compliance.

IV. FINANCIAL CONSIDERATIONS

This contract has a not to exceed total of \$115,000.00. To date, Santa Cruz METRO has encumbered \$30,886.45, with \$84,113.55 remaining. Funds to support this contract are included in the Human Resources Department FY12 Workers' Compensation Insurance budget.

V. ATTACHMENTS

Attachment A: Response Letter from Law Offices of Marie F. Sang

Attachment B: Contract Amendment with Law Offices of Marie F. Sang

MARIE F. SANG *

* Certified Specialist
Workers' Compensation Law
The State Bar of California
Board of Legal Specialization

LAW OFFICES OF
MARIE F. SANG
1875 S WINCHESTER BOULEVARD
SUITE 201
CAMPBELL, CA 95008

Telephone (408) 866-7974
Facsimile (408) 866-1797

January 3, 2012

Attention: Erron Alvey - Purchasing Agent
Santa Cruz Metropolitan Transit District
110 Vernon Street,
Santa Cruz, CA 95060

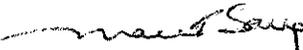
**RE: SANTA CRUZ METRO CONTACT No. 08-11 FOR LEGAL SERVICES
IN THE AREA OF WORKERS' COMPENSATION**

Dear Ms. Alvey:

I am in receipt of your 12/23/11 letter in which you state that METRO proposes a second amendment to the above contract to extend the agreement from 3/1/12-2/28/13 under the same terms of reimbursement

I am honored that METRO proposes a second amendment to the contract and please consider this letter my intent to extend the contact from 3/1/12-2/28/13 under the same terms of reimbursement.

Very truly yours,


MARIE F. SANG

ls\scmttd5 ltr

5-2.a1

Attachment B

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SECOND AMENDMENT TO CONTRACT NO. 08-11 FOR LEGAL SERVICES IN THE AREA OF WORKERS' COMPENSATION

This Second Amendment to Contract No. 08-11 for Legal Services in the area of Workers' Compensation is made effective March 1, 2012 between the Santa Cruz Metropolitan Transit District ("Santa Cruz METRO"), a political subdivision of the State of California and The Law Offices of Marie F. Sang ("Contractor").

I. RECITALS

- 1.1 Santa Cruz METRO and Contractor entered into a Contract for Legal Services in the area of Workers' Compensation ("Contract") on March 1, 2008.
- 1.2 The Contract allows for the extension upon mutual written consent.

Therefore, Santa Cruz METRO and Contractor amend the Contract as follows:

II. TERM

- 2.1 Article 4.01 is amended to include the following language:

This Contract shall continue through February 29, 2013. There are no further options for renewal on this contract.

III. REMAINING TERMS AND CONDITIONS

- 3.1 All other provisions of the Contract that are not affected by this amendment shall remain unchanged and in full force and effect.

IV. AUTHORITY

- 4.1 Each party has full power to enter into and perform this Second Amendment to the Contract and the person signing this Second Amendment on behalf of each has been properly authorized and empowered to enter into it. Each party further acknowledges that it has read this Second Amendment to the Contract, understands it, and agrees to be bound by it.

SIGNATURES ON NEXT PAGE

Signed on _____

Santa Cruz METRO
SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

Leslie R. White
General Manager

CONTRACTOR
The Law Offices of Marie F. Sang

By _____
Marie F. Sang
Owner

Approved as to Form:

Margaret R. Gallagher
District Counsel

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012
TO: Board of Directors
FROM: Angela Aitken, Finance Manager
SUBJECT: CONSIDERATION OF DECLARING FIVE (5) NEW FLYER BUSES AS EXCESS FOR PURPOSES OF DISPOSAL OR AUCTION

I. RECOMMENDED ACTION

That the Board of Directors declare five (5) New Flyer buses as excess for purposes of disposal or auction and direct staff to use appropriate action for disposal.

II. SUMMARY OF ISSUES

- In accordance with Santa Cruz METRO's policy on disposal of fixed assets and inventoriable items, at least once per year the Finance Manager shall recommend to the Board of Directors a list of items to be declared excess with appropriate action for disposal.
- Five (5) New Flyer buses have exceeded their useful life and are no longer required by Santa Cruz METRO.
- Staff recommends that the Board of Directors declare the above items as excess and direct staff to use appropriate action for disposal.

III. DISCUSSION

In accordance with Santa Cruz METRO's policy on disposal of fixed assets and inventoriable items, at least once per year the Finance Manager shall recommend to the Board of Directors a list of items to be declared excess with appropriate action for disposal.

Five (5) New Flyer buses have exceeded their useful life and are no longer required by Santa Cruz METRO.

Staff recommends that the Board of Directors declare the items on **Attachment A** as excess and direct staff to use appropriate action for disposal.

The current gross market value of these items is \$4,500 each and they are in fair condition.

IV. FINANCIAL CONSIDERATIONS

None of these items have any remaining book value. Any revenue generated from the sale of these items will be recorded as income in the current operating budget.

V. ATTACHMENTS

Attachment A: Excess Asset Listing – as of January 23, 2012

Prepared by: Debbie Kinslow, Assistant Finance Manager

Date Prepared: January 23, 2012

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT									
EXCESS ASSET LISTING AS OF 01/23/2012									
Vehicle/Asset #	Manufacturer	LTD Miles	Year	VIN	License #	Model/Description	Residual Value	Condition	
8100	NEW FLYER	941356	1989	2FYD2EC01KU013468	E114011	D40	\$4,500.00	FAIR	
8101	NEW FLYER	1019686	1989	2FYD2EC03KU013469	E114010	D40	\$4,500.00	FAIR	
8102	NEW FLYER	932451	1989	2FYD2EC0XKU013470	E114012	D40	\$4,500.00	FAIR	
8103	NEW FLYER	946709	1989	2FYD2EC01KU013471	E114013	D40	\$4,500.00	FAIR	
8105	NEW FLYER	944605	1989	2FYD2EC05KU013473	E114018	D40	\$4,500.00	FAIR	

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012

TO: Board of Directors

FROM: Angela Aitken, Finance Manager

SUBJECT: CONSIDERATION OF ADOPTING RESOLUTION NO. 12-02-01 WHICH APPROVES THE AMENDED JOINT POWERS AGREEMENT FORMING THE CALIFORNIA TRANSIT SYSTEMS JOINT POWERS AUTHORITY

I. RECOMMENDED ACTION

That the Board of Directors adopts Resolution No. 12-02-01 which approves the amended joint powers agreement forming the California Transit Systems Joint Powers Authority (CalTIP).

II. SUMMARY OF ISSUES

- Santa Cruz Metropolitan Transit District (Santa Cruz METRO) joined California Transit Systems Joint Powers Authority (CalTIP) in 1987 to obtain liability insurance coverage, vehicle physical damage insurance coverage, and risk management services through jointly pooling resources with the other transit agencies that are members of CalTIP.
- CalTIP has provided competitive and stable insurance rates and needed risk management services over the years.
- CalTIP was formed in 1987 with the signing of a joint powers agreement (agreement) by each of its members. This agreement was drafted in 1987 and has not been changed since.
- In December 2010, the Board of Directors of CalTIP decided it was time to update the agreement and reflect the changes that have occurred in the last twenty-four years.
- In February 2011, the agreement was distributed to all CalTIP members asking for comments. (Comments were provided to CalTIP by Santa Cruz METRO's Legal Counsel in February 2011.)
- The revised agreement attached has been reviewed by the CalTIP Oversight Committee, and the CalTIP Board of Directors.
- In order to become effective, the agreement needs to be adopted by the governing bodies of at least three-fourth of the members of CalTIP.
- Staff requests that the Board of Directors adopt the attached Resolution No. 12-02-01.

III. DISCUSSION

Santa Cruz Metropolitan Transit District (Santa Cruz METRO) joined California Transit Systems Joint Powers Authority (CalTIP) in 1987 to obtain liability insurance coverage, vehicle

physical damage insurance coverage, and risk management services through jointly pooling resources with the other transit agencies that are members of CalTIP.

CalTIP has provided competitive and stable insurance rates and needed risk management services over the years. CalTIP, as were many other self-insurance pools, was formed in 1987 during a difficult time for public entities to obtain coverage from the insurance market. Although the difficulty of obtaining insurance from the standard markets eventually waned, the coverage provided by the insurance industry usually was not tailored to the specific needs of public entities and did not provide the necessary tailored risk management services.

CalTIP was formed with the signing of a joint powers agreement by each of its members. This agreement was drafted in 1987 and has not been modified. Although the agreement has not been changed, CalTIP has. It has added a vehicle physical damage program, a more robust safety and loss control program, and a more refined means of accounting for funds, expenses and claims costs. It now participates in a larger public entity self-insurance pool requiring higher limits of liability. In addition to CalTIP's growth, there have been changes in the laws pertaining to joint powers authorities, such as specifically allowing distribution of excess contributions based on the claims and losses paid and acknowledging that the withdrawal of one member does not cancel CalTIP. In addition, the original joint powers agreement was restrictive in that it provided detailed information on the liability program, for which the joint powers authority was initially created. However, it did not specifically recognize the addition of new programs developed to meet the needs of the members.

In December 2010, the Board of Directors of CalTIP believed it was time to update the agreement and reflect the changes that have occurred in the last twenty-four years and have a document that will be responsive to future changes in CalTIP, its members, and the legal environment.

In February 2011, the agreement was distributed to all CalTIP members asking for comments. (Comments were provided by Santa Cruz METRO's legal counsel to CalTIP.)

The revised agreement attached has been reviewed by the CalTIP Oversight Committee and the CalTIP Board of Directors. The comments were brought back to the Oversight Committee and revisions were made to the agreement. Then the agreement was taken to the Board of Directors, who commented further and moved to have the agreement sent to the members' governing bodies for adoption.

The agreement needs to be adopted by the governing bodies of at least three-fourths of the members of CalTIP. Although not all members' adoption is needed, CalTIP believes it best to have all members adopt the amended agreement. The amendments will bring the agreement up to date with current laws and best practices within the risk management joint powers authorities. It will also provide flexibility to the Board of Directors to change its structure and function from time to time as needed. Each member, including Santa Cruz METRO, has representation on the CalTIP Board of Directors. Because all members of CalTIP are transit agencies like Santa Cruz METRO, all have similar interests and all face similar problems. Resolution No. 12-02-01, **Attachment A** was formulated by the CalTIP staff in order to facilitate approval by the member agencies of the amended joint powers agreement. By approving Resolution No. 12-02-01

Santa Cruz METRO Board of Directors will be authorizing the execution of the joint powers agreement by Santa Cruz METRO's General Manager.

IV. FINANCIAL CONSIDERATIONS

There is no cost associated with the approval of the attached revised and amended CalTIP Joint Powers Authority (JPA) Agreement.

V. ATTACHMENTS

Attachment A: Resolution No. 12-02-01

Attachment B: Amended CalTIP Joint Powers Agreement – May 2011

Prepared by Debbie Kinslow, Assistant Finance Manager

Date Prepared: January 31, 2012

Attachment A
BEFORE THE BOARD OF DIRECTORS OF THE
SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

Resolution No. 12-02-01
On the Motion of Director:
Duly Seconded by Director:
The Following Resolution is Adopted:

**A RESOLUTION APPROVING THE AMENDED JOINT POWERS AGREEMENT
FORMING THE CALIFORNIA TRANSIT SYSTEMS JOINT POWERS AUTHORITY**

WHEREAS, in 1987 by its resolution No. 87-4-1 the Board of Directors of the Santa Cruz Metropolitan Transit District (hereinafter Santa Cruz METRO) approved entering into an agreement that provided for the creation of the California Transit Systems Joint Powers Insurance Authority (hereinafter CalTIP) for the purpose of jointly funding tort liabilities and other losses and providing risk management services to reduce such losses; and

WHEREAS, CalTIP has provided Santa Cruz METRO coverage for such liabilities, including losses to vehicles at stable and overall cost-effective pricing; and

WHEREAS, the Board of Directors of Santa Cruz METRO finds it in the best interest of Santa Cruz METRO to continue its participation in CalTIP and obtain liability coverage and risk management services from CalTIP; and

WHEREAS, the joint powers agreement of CalTIP has retained its original form as drafted in 1987, and there have changes in laws and the operations of CalTIP since that time; and

WHEREAS, the Board of Directors recognizes these changes and the need to amend the CalTIP joint powers agreement to enable CalTIP to benefit from the changes in laws, adapt to changes in the environment that CalTIP operates, and to benefit from the developments in managerial and operational techniques of the joint powers authority for the purpose of jointly funding tort liabilities and other losses facing the parties to the agreement in the future.

NOW, THEREFORE BE IT RESOLVED that the Board of Directors of Santa Cruz METRO accepts the changes to the joint powers agreement as presented, and

BE IT FURTHER RESOLVED that the Board of Directors authorizes the General Manager to sign the amended joint powers agreement that shall enable Santa Cruz METRO to continue to enjoy the joint self-insurance and risk management programs provided by CalTIP.

5-4.a1

Attachment A

Resolution No. 12-02-01
Page 2

PASSED AND ADOPTED this 10th day of February, 2012 by the following vote:

AYES: Directors –

NOES: Directors –

ABSENT: Directors –

ABSTAIN: Directors –

APPROVED _____

LYNN ROBINSON
Board Chair

ATTEST _____

LESLIE R. WHITE
General Manager

APPROVED AS TO FORM:

MARGARET GALLAGHER
District Counsel

5-4.a2

Attachment B

CALIFORNIA TRANSIT SYSTEMS

JOINT POWERS AUTHORITY

JOINT POWERS AUTHORITY AGREEMENT

May 2011

5-4.b1

Attachment B

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JOINT POWERS AUTHORITY AGREEMENT

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This Agreement is executed in the State of California by and among those public entities which are parties signatory to this Agreement. All parties signatory to this Agreement shall hereinafter be called "Party" [collectively "Parties"].

RECITALS

Whereas, Article 1, Chapter 5, Division 7, Title 1 of the California Government Code (Section 6500 et seq.) permits two or more public entities, by agreement, to exercise jointly powers common to the contracting parties; and

Whereas, it is the mutual benefit of the Parties and in the public interest that the Parties join together to provide:

- Pooling of their self-insured losses caused by injury to, or disease of, a person or damage to property;
- Sharing the cost of excess insurance or reinsurance, if any, or pooling with other joint powers authorities or public entity pooling arrangement; and
- Sharing the administration of the Authority created by this document.

Whereas, each Party desires to enter into this Agreement with each of the other Parties for the purpose of joint risk sharing and/or insuring against various risk of loss jointly, rather than individually;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

AGREEMENT

This amended Agreement replaces the original Agreement and any prior amendments that may exist.

This Agreement is made under the authority of Government Code Section 6500 et seq. between the undersigned public entities, after the governing boards of the entities determine that it is in their best interest to execute this Agreement.

ARTICLE I - PURPOSE

The purpose of this Agreement is to exercise jointly powers common to each Party by:

- Creating an authority under Government Code Section 6500 et seq., a public entity that is separate and apart from the Parties, to be known as the California Transit System Joint Powers Authority, to administer a self-insurance pool,
- Sharing losses and purchase as a group, insurance or reinsurance and participate in other joint powers authorities or other public entity pooling arrangements,
- Maintaining funds sufficient to pay the losses to which the Parties agree to share through a Coverage Program, and
- Purchasing jointly administrative and other services, including risk management, loss prevention, and legal defense in connection with the Coverage Programs.

Attachment B

ARTICLE II - CREATION OF THE CALIFORNIA TRANSIT SYSTEMS JOINT POWERS AUTHORITY

Pursuant to Government Code Section 6500 et seq., the Parties to this Agreement hereby create a public entity separate and apart from the Parties. This public entity created by this Agreement shall be known as the California Transit Systems Joint Powers Authority.

ARTICLE III - DEFINITIONS

1. "Authority" shall mean the California Transit Systems Joint Powers Authority.
2. "Board" or "Board of Directors" shall mean the governing board of the Authority.
3. "Coverage Programs" shall mean programs as defined and adopted by the Board which may, but need not be limited to pooled risk programs, group purchase of insurance or reinsurance, or participation in other public entity pooling programs.
4. "Coverage Program Documents" shall mean the Master Program Document defining the policies and procedures of the program and the Memorandum of Coverage defining the coverage provided by the program.
5. "Contributions" shall mean payments by Members to the Authority, for other than interest, penalties paid, or reimbursements for payments made on behalf of the Member, for which the Authority is not liable.
6. "Governing Documents" shall be those documents described in Article VII, Governing Documents.
7. "Member" or collectively "Members" shall mean a Party who is participating in a particular Coverage Program.
8. "Party" shall mean a signatory to this Agreement.
9. "Officer" shall mean an officer of the Authority as defined in Article XIII.

ARTICLE IV - PARTIES TO THIS AGREEMENT

Each Party to this Agreement certifies that it intends to, and does, contract with all other Parties who are signatories to this Agreement, and any signatories that may sign this Agreement in the future, pursuant to Article XVI. The withdrawal of any Party to this Agreement shall not affect this Agreement as respects the remaining Parties and those remaining Parties' intent to be bound by this Agreement.

ARTICLE V - TERM OF AGREEMENT

As authorized by Government Code Section 6510, this Agreement was effective from May 1, 1987 and shall stay in full force, as is, as amended on May 1, 2012 or any other subsequent amendments, until terminated in accordance with Article XX.

Attachment B

ARTICLE VI - POWERS OF THE AUTHORITY

The powers of the Authority shall be the powers enjoyed by the County of Nevada or, if the County of Nevada is no longer a Party to this Agreement then, the County of Siskiyou, and is authorized to do all acts necessary to fulfill the purposes of this Agreement including, but not limited to, the following:

1. Make and enter into contracts;
2. Incur debts, liabilities and obligations, but no debt, liability or obligation of the Authority is the debt, liability or obligation of any Party except as otherwise provided;
3. Acquire, hold or dispose of real and personal property;
4. Receive contributions and donations of property, funds, services and other forms of assistance from any source;
5. Assess Parties as deemed appropriate by the Board;
6. Sue and be sued in its own name;
7. Acquire, construct, manage and maintain buildings; and
8. Lease real or personal property including property of a Party, and receive, collect, invest and disburse monies.

These powers shall be executed in a manner provided by appropriate law and as set forth in this Agreement.

ARTICLE VII - GOVERNING DOCUMENTS

The Board of Directors shall adopt Bylaws consistent with this Agreement and applicable law to govern the operations of the Authority. The Board of Directors may adopt Coverage Program Documents, consistent with this Agreement and the Bylaws. These Coverage Program Documents define the Coverage Programs, the Members rights and duties, the Authority's rights and duties, and the operations of the programs. The Board may also adopt policies and procedures, consistent with this Agreement, the Bylaws, or Coverage Program Documents, to assist in the governance of the Authority's operations and activities. The Agreement, the Bylaws, Coverage Program Documents and policies and procedures adopted by the Board shall constitute the Governing Documents of the Authority.

Unless otherwise stated, a Governing Document may be amended by a majority of the Board of Directors at a duly noticed regular or special Board meeting.

ARTICLE VIII - RESPONSIBILITIES OF THE PARTIES

The Parties to this Agreement shall have the following responsibilities:

1. To abide by the terms of this Agreement and other Governing Documents;
2. To cooperate fully with the Authority in the settlement of claims;
3. To pay Contributions, assessments, or other charges promptly to the Authority when due; and
4. To appoint a Director and an Alternate to the Board of Directors and to reappoint those positions upon the departure of anyone from those positions.

Attachment B

ARTICLE IX - POWERS RESERVED UNTO THE PARTIES

The Parties reserve unto themselves the following powers:

1. To amend this Agreement;
2. Appoint the Representatives and Alternates to the Board of Directors; and
3. To terminate the Authority in accordance with Article XX.

ARTICLE X - BOARD OF DIRECTORS

There shall be a Board of Directors to govern the affairs of the Authority. The Board of Directors shall have all the powers of the Authority except those specifically reserved to the Parties. The Board of Directors shall have the authority to create committees as deemed necessary for the operations of the Authority. The Board has the power to delegate any and all of its powers, not specifically reserved exclusively to the Board, to a committee or an Officer of the Authority.

The Board of Directors shall consist of one Director and one Alternate from each Party to this Agreement. The Party shall appoint by official action an officer or employee of the Party to be the Director and such appointment shall remain in effect until such time as the Party appoints another to be the Director. The Party shall appoint by official action an officer or employee of the Party to be the Alternate and such appointment shall remain in effect until such time as the Party appoints another to be the Alternate. Each Director shall have one vote, and each Alternate shall have one vote only if the Director for which he/she is an Alternate is absent from the meeting.

ARTICLE XI - DUTIES OF THE BOARD NOT DELEGABLE

The Board may not delegate to any committee, office or person the authority to:

1. Adopt, amend or alter the Bylaws;
2. Adopt the Authority's Annual Budget;
3. Create a Coverage Program;
4. Accept a Party to this Agreement; or
5. Expel a Party to this Agreement.

ARTICLE XII - BOARD MEETINGS AND RECORDS

The Board of Directors shall hold at least one meeting each fiscal year. Regular and special meetings may be called in accordance with the Bylaws of this Authority and applicable laws. All meetings shall be open to the public except as permitted by Government Code Section 54950 et seq. The Secretary shall keep full and complete minutes of all Board meetings.

Attachment B

ARTICLE XIII - OFFICERS OF THE AUTHORITY

The Board shall elect one of its members as Chairperson and one as Vice Chairperson. The Board shall appoint a Secretary. The duties of the Chairperson, Vice Chairperson and Secretary shall be defined in the Bylaws.

In lieu of the designation of a treasurer and auditor as per Government Code Section 6505.6, the Board shall elect a Treasurer, who shall have, among other duties defined in the Bylaws, the duties of the treasurer and auditor as described in Government Code Section 6505.5.

The Board may appoint other officers of the Authority as described in the Bylaws.

ARTICLE XIV - ANNUAL BUDGET

Pursuant to Government Code Section 6508, the Board shall approve a budget for any given fiscal year prior to the inception of that year.

ARTICLE XV - ADMINISTRATION OF FUNDS

The Authority shall be responsible for the strict accountability of all funds and reports of all receipts and disbursements in conformity with Government Code Section 6505. All funds of the Authority may be held in common although there shall be a separate accounting for funds of each Coverage Program.

ARTICLE XVI - NEW PARTIES

Prospective Parties may apply to the Board of Directors at any time. The Board shall have the power to accept a prospective Party, after reviewing their application, with at least two-thirds affirmative vote of the entire Board. The membership shall become effective upon the Board's approval and the signing of this Agreement, participation in all mandatory Coverage Programs, and compliance with any and all other requirements imposed upon membership by the Bylaws or other Governing Documents.

ARTICLE XVII - WITHDRAWAL

A Party to this Agreement may not withdraw as a party to this Agreement prior to being a Party for at least three full fiscal years. A Party, who has been a Party for at least three full fiscal years, may withdraw from this Agreement only on the completion of a fiscal year. The Party must provide the Chairperson written notice of intent to withdraw at least six-months prior to withdrawal. The Party may rescind its notice of intent to withdraw at any time prior to ninety-days prior to the commencement of the next fiscal year. The Board may authorize rescission of the intent to withdraw upon a Party's request pursuant to the Bylaws at any time.

Attachment B

ARTICLE XVIII - EXPULSION

The Authority may expel a Party to this Agreement as a Party by a three-fourth vote of the entire Board. The Party shall be given written notice of such action of the Board at least ninety-days prior to the expulsion.

ARTICLE XIX - EFFECT OF EXPULSION OR WITHDRAWAL

Pursuant to Government Code Section 6512.2, termination of any Party to this Agreement as a Party shall not be construed to be completion of the purpose of the Agreement and shall not require the return of any Contributions, payments or advances made by the Party until the Agreement is rescinded or terminated by all Parties in accordance with Article XX.

Termination of a Party to this Agreement as a Party shall not terminate its continuing responsibilities defined in any Governing Document or Coverage Program Document for the period of time in which the Party participated, including, but not limited to:

1. Cooperate fully with the Authority in the investigation and settlement of a claim;
2. Pay any Contributions, retentions or deductibles, assessments or other charges which are due and payable; and
3. Provide any statistical or loss experience data and other information as may be necessary for the Authority to carry out the purpose of this Agreement.

ARTICLE XX - TERMINATION AND DISTRIBUTION

This Agreement may be terminated at any time with written consent of three-fourths of the Parties; provided, however, that this Agreement and the Authority shall exist for the purpose of disposing of all claims, distribution of assets and any other functions necessary to wind up the affairs of the Authority. The Board shall be vested with all the powers of the Authority for the purposes of winding down and dissolving the business affairs of the Authority, including the power to assess past and present Parties in accordance with Coverage Program Documents.

In accordance with Government Code Section 6512, all assets of the Authority shall be distributed among those who were Parties within ten years of termination, in proportion to the Parties' Contributions. The Board shall determine when claims and liabilities are sufficiently realized as to not jeopardize the payment of any claim or liability that may arise in the future.

ARTICLE XXI - LIABILITY AND INDEMNIFICATION

Pursuant to Government Code Section 6508.1, the debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of any Party, except to the extent and in the proportions, imposed by the Bylaws or other Governing Documents. Each Party is independent of every other Party and of the Authority and not the agent of any Party or of the Authority. In contemplation of the provisions of Section 895.2 of the California Government Code, imposing certain tort liability jointly

Attachment B

upon public entities, solely by reason of a joint powers agreement as defined in Section 895 of that code, each Party, as between each other, pursuant to the authorization contained in Section 895.4 and 895.6 of that code, does hereby assume the full liability imposed upon it, or any of its officers, agents, or employees by law for injury caused by a negligent or wrongful act or omission occurring in the performance of this Agreement, to the same extent that such liability would be imposed in the absence of Section 895.2 of the California Government Code. To achieve the above-stated purpose, each Party shall indemnify and hold harmless each other Party for any loss, costs, or expense that may be imposed upon such other Party solely by virtue of Section 895.2. The provisions of Section 2778 of the California Civil Code are made a part of this Agreement as if set forth fully in this Agreement.

The members of the Board of Directors and the Officers and employees of the Authority shall act in good faith and in the best interests of the Authority in the performance of their duties. The members of the Board of Directors and Officers and employees shall be liable for an act or omission within the scope of their employment with the Authority as a public entity only in the event that they act or fail to act because of actual fraud, corruption, or malice. No member shall be liable for any actions taken or omissions by another member of the Board. Funds of the Authority shall be used to defend and indemnify members of the Board, Officers, and employees for any act or omission pursuant to the provisions of the Government Code Section 910 to 996.6, inclusive. The Authority may purchase insurance covering acts or omissions of the Board of Directors, Officers, and employees.

ARTICLE XXII - NOTICES

Notices to any or all Parties shall be sufficient if mailed to their respective addresses on file with the Authority. Notice to the Authority shall be sufficient if mailed to the official address of the Authority as established by Resolution.

ARTICLE XXIII - PROHIBITION AGAINST ASSIGNMENT

No Party may assign any right, claim, or interest it may have under this Agreement, and no creditor, assignee, or third party beneficiary of the Party shall have any right, claim or title to any part, share, interest, fund, premium, or asset of the Authority.

ARTICLE XXIV - ARBITRATION

Any controversy between the Parties hereto arising out of this Agreement shall be submitted to arbitration, and such arbitration shall comply with and be governed by the provisions of the California Arbitration Act, Sections 1280 through 1294.2 of the California Code of Civil Procedure.

ARTICLE XXV - AMENDMENTS

This Agreement may be amended at any time by approval of three-fourths of the Parties.

Attachment B

ARTICLE XXVI - AGREEMENT COMPLETE

The foregoing constitutes the full and complete agreement of the Parties. There are no oral understandings or agreements not set forth in writing herein.

In Witness Whereof, the undersigned Party hereto has executed this Agreement on the date indicated below:

Date: _____

By: _____

Printed Name of Authorized Signor

Signature of Authorized Signor

Title of Authorized Signor

Name of Agency

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012
TO: Board of Directors
FROM: Debbie Kinslow, Assistant Finance Manager
SUBJECT: ACCEPTANCE OF FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS REPORT FOR YEAR ENDING JUNE 30, 2011

I. RECOMMENDED ACTION

That the Board of Directors formally accept the audited financial statements and reports prepared by the firm of Brown Armstrong, Certified Public Accountants, for the year ending June 30, 2011.

II. SUMMARY OF ISSUES

- The **Financial Statements with Independent Auditor's Report** (Attachment A) prepared by the firm Brown Armstrong, Certified Public Accountants present Santa Cruz METRO's financial position as of June 30, 2011, with a comparison to the financial position as of June 30, 2010. The auditors have found that Santa Cruz METRO's financial statements present fairly, in all material respects, the financial position of Santa Cruz METRO at June 30, 2011.
- In the **Independent Auditor's Report on Compliance with the California Transportation Development Act** (page 37-38), the auditors found nothing that came to their attention that indicated Santa Cruz METRO failed to comply with the Statutes, Rules, and Regulations of the California Transportation Development Act, and the allocation instructions and resolutions of the Santa Cruz County Regional Transportation Commission during the course of their audit. Additionally, the auditors have found Santa Cruz METRO to be in compliance with the provisions of the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) program for all items tested.
- In the **Schedule of Findings and Questioned Costs** (pages 39- 40) report, the auditors identified no findings associated with their testing of major federal program expenditures in connection with their audit performed under *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
- The **Required Communication to the Board of Directors in Accordance with Professional Standards** letter provides information related to the auditor's responsibilities under generally accepted auditing standards. (Attachment B)

- The prior year audit condition was cleared in the **Agreed upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting** letter (Attachment C). The current year audit condition and recommendation has been reviewed by management and the letter reflects management's response.

III. DISCUSSION

Attachment A – Financial Statements with Independent Auditors Report

The **Independent Auditor's Report** (page 1) documents that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The auditors have found that Santa Cruz METRO's financial statements present fairly, in all material aspects, the financial position of Santa Cruz METRO as of June 30, 2011.

While the basic financial statements (pages 8-11) describe Santa Cruz METRO's financial position in detail, the **Management's Discussion and Analysis** (pages 3-7) presents narrative highlights of the financial statements, an overview of the agency's financial activities, and information that enhances overall financial disclosure. This report is prepared by Santa Cruz METRO management.

The **Statements of Net Assets** (pages 8-9) provide an overall summary of Santa Cruz METRO's Total Assets, Total Liabilities and Total Net Assets. Total Assets increased by \$2,103,671 or 2% while Total Liabilities decreased by (\$2,118,318) or -9% from the prior year. Total Net Assets are \$87,399,979 at June 30, 2011, an increase of \$4,221,989 or 5% from the prior year. Total Assets increased this year due to capital additions funded by the Federal Transit Administration through grants awarded under ARRA, and by Measure A funds provided by Santa Clara Valley Transportation Authority. Total Liabilities decreased due to reductions in deferred capital grant balances.

The **Statements of Revenues, Expenses and Changes in Fund Net Assets** (page 10) indicates a net loss before capital contributions of (\$6,247,370) and capital contribution revenue of \$10,469,359, resulting in an increase of \$4,221,989 in Net Assets for the year ending June 30, 2011.

The **Statements of Cash Flows** (page 11) demonstrate how changes in balance sheet accounts and income affect cash and cash equivalents. Cash and cash equivalents decreased by (\$2,512,147) or -9% due to spending down PTMISEA grant funds on capital additions during the year, and increases in employee-related costs.

Notes to Basic Financial Statements (pages 12-28) are additional notes and information which are provided to help explain the computation of specific items in the financial statements as well as provide a more comprehensive assessment of Santa Cruz METRO's financial condition.

The Schedule of Funding Progress (page 29) on the net obligation for future post-retirement medical benefits (OPEB) is presented as **Required Supplementary Information** following the notes to the financial statements. It presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Statements of Operating Expenses (page 30) are presented as **Supplementary Information**, showing the total operating costs that were reported in the financials in further detail, broken out by natural expense classification.

Attachment B - Required Communication to the Board of Directors in Accordance with Professional Standards

The **Required Communication to the Board of Directors in Accordance with Professional Standards** is the letter from Brown Armstrong with information related to the conduct of the audit. This letter defines their responsibilities, significant accounting policies, accounting estimates, any significant audit adjustments, disagreements with management, consultations with other independent accountants, issues discussed prior to retention of independent auditors and any difficulties encountered in performing the audit.

Attachment C - Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting

The **Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting** is also known as the **Management Letter**. The purpose of the management letter is to detail the auditor's findings and make recommendations to increase efficiency, internal controls and/or financial reporting. There was one current year finding with accompanying recommendation by the auditor. This issue has since been corrected and new procedures are currently in place and being implemented. The prior year finding has been cleared.

IV. FINANCIAL CONSIDERATIONS

There is no fiscal impact with the Board's acceptance of the financial statements and audit reports. However, in order to continue to receive Transportation Development Act (TDA) payments from the Santa Cruz County Regional Transportation Commission, (SCCRTC) the final audit must be submitted to the SCCRTC. The contract with Brown Armstrong for audit services is \$39,500 and this amount is included in the FY11 & FY12 operating budgets.

V. ATTACHMENTS

- Attachment A:** Financial Statements with Independent Auditor's Report for the years ended June 30, 2011 and 2010
- Attachment B:** Required Communication to the Board of Directors in Accordance with Professional Standards (letter from Brown Armstrong)
- Attachment C:** Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter from Brown Armstrong)

Prepared by: Lorraine N. Bayer

Date Prepared: January 23, 2012

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

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

JUNE 30, 2011 AND 2010

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT JUNE 30, 2011 AND 2010

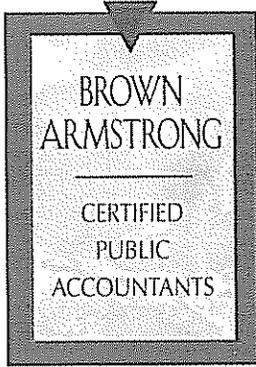
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Attachment A

FINANCIAL SECTION

Attachment A



BROWN ARMSTRONG *Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These basic financial statements are the responsibility of Santa Cruz METRO's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Santa Cruz METRO, as of June 30, 2011 and 2010, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

Attachment A

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of funding progress for Santa Cruz METRO's Other Postemployment Benefit (OPEB) Plan on page 29 in the required supplementary information section 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying statements of operating expenses and schedule of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. The statements of operating expenses and 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 20, 2011

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011 AND 2010

Introduction

This report provides a narrative and analytical overview of the financial activities of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) with selected comparative information for the years ended June 30, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

Santa Cruz METRO is an independent agency formed in 1969 by the legislature of the State of California for the purpose of providing transit service to the general public in Santa Cruz County (County). Santa Cruz METRO is governed by a Board of Directors composed of eleven members, and one ex-officio member 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 method of accounting which records revenue when earned and expenses when incurred.

The Statement of Net Assets presents information on Santa Cruz METRO's assets and liabilities, with the difference between the two reported as net assets.

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

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

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

Financial Highlights

The management of Santa Cruz METRO is pleased to present the following discussion that provides an overview of the financial activities related to operations (operating revenue and expense) and capital funding (contributions) received for facilities improvements and the purchase of capital equipment for the year ended June 30, 2011.

In fiscal year 2011, Santa Cruz METRO received almost \$10.5 million in capital grant contributions, an increase of approximately \$4 million from the prior year. Depreciable capital asset additions for the year totaled approximately \$39 million, net of disposals and retirements. Significant capital asset additions include:

- Purchase and replacement of 113 fixed-route fareboxes, and four Ticket Vending Machines (TVMs) – funded with American Recovery and Reinvestment Act (ARRA) funds – Project completed.
- Purchase of 27 replacement vans for paratransit services - funded with ARRA funds – Project completed.

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2011 AND 2010

- Installation of a new bus dispatching and transit management information technology system (Hastus/Giro) - funded with ARRA funds – Project nearing completion.
- Purchase of the property at 425 Front Street, Santa Cruz, CA – funded with Federal Transit Administration (FTA) funds - Project completed.
- Purchase of five new low floor CNG buses for the Highway 17 Express – funding was provided by Valley Transportation Authority (VTA) from Measure A funds. Project completed.
- MetroBase projects funded and closed out this fiscal year include the Maintenance Facility and Garage and Administration building.
- Video surveillance equipment (closed-circuit-TV) installed at the Watsonville Transit Center – funding provided by California Emergency Management Agency (CalEMA) – formerly Office of Homeland Security - Project completed.
- Purchase of Land Mobile Radio equipment – funding provided by CalEMA – Project in progress.
- Bus stop improvements – funded with State Transportation Improvement Program (STIP) funds – Project in progress.
- Installation and implementation of new information technology software systems, including:
 - Human resources software, Spectrum (Epicor)
 - Fleet and facilities software, Maintstar
 - Purchasing and procurement software, Puridiom
 - Enhancements to Paracruz scheduling system software, Trapeze

Santa Cruz METRO provided 5,871,671 rides on both its fixed-route and paratransit services this year.

As with many public agencies across the region and throughout state, the prior fiscal year was extremely challenging and the agency was faced with significant reductions in **operating** revenues. In response to this dramatic decline in revenues, the transit industry lobbied for temporary changes in legislation that allowed for the re-allocation and use of certain capital revenues from the capital budget to the operating budget. In fiscal year 2011, Santa Cruz METRO re-allocated funds from the capital budget and used \$2.8 million in State Transit Assistance (STA) funding and \$1.2 million in Small Transit Intensive Cities (STIC) funding in the operating budget. These two revenue sources have been historically used in Santa Cruz METRO's capital budget. Santa Cruz METRO plans to continue to allocate STA and STIC funds from the capital budget to the operating budget until such time that: 1) the funds are no longer needed to balance the operating budget, or 2) when the waivers that allow for re-allocation expire and are not re-authorized.

When the agency was faced with economic uncertainty, a small service reduction of approximately 10% was implemented in September 2010. With the authorization and re-allocation of the two capital funding sources mentioned above, it is expected that service will be fully restored following a complete and comprehensive system analysis that will begin in January 2012.

Future Outlook

The outstanding phases of the Consolidated MetroBase project include the purchase and installation of a liquefied/compressed natural gas (L/CNG) 15,000 gallon storage tank to supplement the existing tank at the Fueling and Service building, and the replacement of the Operations facility located at 1200 River Street. Funding has been secured for the additional tank through a grant with the Monterey Bay Unified Air Pollution Control District (MBUAPCD), supplemented with funds from the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) fiscal year 2010 allocation. The Operations building project will be funded with PTMISEA funds, and will bring operations, maintenance and administration into one cluster of buildings and provide the needed infrastructure to achieve service expansion goals.

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2011 AND 2010

Statement of Net Assets:

	2011	2010	2009	2011 to 2010		2010 to 2009	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Total Assets	\$ 107,633,960	\$ 105,530,289	\$ 112,044,106	\$ 2,103,671	2%	\$ (6,513,817)	-6%
Total Liabilities	\$ 20,233,981	\$ 22,352,299	\$ 25,853,950	\$ (2,118,318)	-9%	\$ (3,501,651)	-14%
Total Net Assets	\$ 87,399,979	\$ 83,177,990	\$ 86,190,156	\$ 4,221,989	5%	\$ (3,012,166)	-3%

Total Assets increased slightly this year due to capital additions funded by American Recovery and Reinvestment Act (ARRA) funds provided by the Federal Transit Administration (FTA), and the purchase of five (5) new Highway 17 New Flyer buses from Measure A funds provided by Valley Transportation Authority (VTA).

Total Liabilities decreased this year over prior year due to reductions in deferred capital grant balances. Funds received in fiscal year 2010 were spent down in fiscal year 2011 for capital additions.

For the fiscal year ended June 30, 2011, Santa Cruz METRO's net assets increased by \$4,221,989.

Statement of Revenues, Expenses, and Changes in Fund Net Assets:

	2011	2010	2009	2011 to 2010		2010 to 2009	
				Increase/(Decrease) Amount	%	Increase/(Decrease) Amount	%
Operating Revenues	\$ 8,616,639	\$ 8,427,944	\$ 8,769,185	\$ 188,695	2%	\$ (341,241)	-4%
Operating Expenses	(44,621,709)	(42,629,146)	(41,975,092)	(1,992,563)	-5%	(654,054)	-2%
Operating Loss	(36,005,070)	(34,201,202)	(33,205,907)	(1,803,868)	-5%	(995,295)	-3%
Non-Operating Revenues	29,757,700	24,327,789	24,877,839	5,429,911	22%	(550,050)	-2%
Capital Grant Contributions	10,469,359	6,861,247	14,242,511	3,608,112	53%	(7,381,264)	-52%
Increase (Decrease) in Net Assets	\$ 4,221,989	\$ (3,012,166)	\$ 5,914,443	\$ 7,234,155	-240%	\$ (8,926,609)	-151%

Operating Revenues (Passenger Fares) increased by 2.24% this year due to CPI-based increases for contracted services that were provided.

Operating Expenses increased by 4.67% overall when compared to last year. Medical insurance rates and workers' compensation costs rose during the year. Depreciation expense increased due to newly capitalized fixed assets and facilities.

Non-Operating Revenues increased by 22.32% primarily due to higher than anticipated sales tax revenue, State Transit Assistance (STA) operating assistance and federal Small Transit Intensive Cities (STIC) operating assistance funds.

Capital Contributions are capital grant funds received for facilities improvements and the purchase of capital equipment including revenue vehicles. Capital contributions increased by 52.59% from the prior year. Grants received under the American Recovery and Reinvestment Act (ARRA) provided funds for Paratransit vans, farebox equipment, and new system software for the agency. The Federal Transit Administration (FTA) granted funds for the acquisition of property adjacent to the Pacific Station (formerly owned by Greyhound). The FTA and the California Department of Transportation (Caltrans) provided additional funds for the purchase of smart card fareboxes.

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2011 AND 2010

Supplemental Revenue, Expenses, and Performance Report: (based on Federal Transit Authority (FTA) account grouping guidelines)

	2011	2010	2009	2011 to 2010 % Change	2010 to 2009 % Change
Revenues					
Passenger Fares	\$ 8,616,639	\$ 8,427,944	\$ 8,769,185	2.2%	-3.9%
Sales and Use Tax ⁽¹⁾	15,209,774	14,320,288	14,923,139	6.2%	-4.0%
Non-Operating Revenues ⁽²⁾	602,537	569,113	731,908	5.9%	-22.2%
TDA	5,001,737	5,001,737	5,696,249	0.0%	-12.2%
Federal Operating Assistance ⁽³⁾	8,943,652	4,436,651	4,146,395	101.6%	7.0%
Total Revenues	\$ 38,374,339	\$ 32,755,733	\$ 34,266,876	17.2%	-4.4%
Expenses					
Route Operation	25,095,284	\$ 25,013,598	\$ 24,086,251	0.3%	3.9%
Vehicle Maintenance	4,939,279	5,084,431	5,324,655	-2.9%	-4.5%
Facilities Maintenance	1,884,113	1,835,936	1,765,271	2.6%	4.0%
General Administration ⁽⁴⁾	6,415,019	5,810,294	6,272,115	10.4%	-7.4%
Total Expenses (excluding depreciation)	\$ 38,333,695	\$ 37,744,259	\$ 37,448,292	1.6%	0.8%
Performance Indicators					
Total Passengers	5,776,444	5,839,990	5,987,518	-1.1%	-2.5%
Revenue Hours	237,242	243,691	243,241	-2.6%	0.2%
Revenue Miles	3,647,904	3,781,170	3,766,435	-3.5%	0.4%
Farebox Recovery Ratio ⁽⁵⁾	22.5%	22.3%	23.4%	0.8%	-4.7%
Cost/Passenger ⁽⁶⁾	\$ 6.64	\$ 6.46	\$ 6.25	2.7%	3.4%
Cost/Hour ⁽⁷⁾	\$ 161.58	\$ 154.89	\$ 153.96	4.3%	0.6%
Cost/Mile ⁽⁸⁾	\$ 10.51	\$ 9.98	\$ 9.94	5.3%	0.4%
Full Time Equivalent Employees ⁽⁹⁾	281	303	314	-7.3%	-3.5%
Active Fleet - Fixed Route	110	112	112	-1.8%	0.0%
Active Fleet - Paratransit ⁽¹⁰⁾	45	37	38	21.6%	-2.6%

⁽¹⁾ Sales and Use Tax Revenues have increased from prior year due to increased consumer spending as a result of increased consumer confidence and an improving economy.

⁽²⁾ Non-Operating Revenues have increased from prior year due to proceeds from the sale of 19 Paratransit vans during the year. This increase in revenue was partially offset by a decrease in interest income as a result from a drop in the interest rate paid on Santa Cruz METRO's deposits in the Santa Cruz County Pooled Investment Fund.

⁽³⁾ Federal Operating Assistance increased in fiscal year 2011 due to a change in allocation of State Transit Assistance (STA) and federal Small Transit Intensive Cities (STIC) funds from the capital budget to the operating budget.

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) JUNE 30, 2011 AND 2010

- (4) General Administration expenses increased due to increased medical costs paid for retirees.
- (5) Farebox Recovery Ratio is a standard transit performance indicator that is calculated by dividing passenger fares by total operating expenses and does not include depreciation.
- (6) Cost/Passenger is calculated by dividing total passengers by total operating expenses.
- (7) Cost/Hour is calculated by dividing total operating expenses by revenue hours.
- (8) Cost/Mile is calculated by dividing total operating expenses by revenue miles. Increase in this ratio from prior year is due to increased medical fringe benefits and workers' compensation insurance costs, coupled with the drop in revenue miles resulting from service modifications implemented in September 2010.
- (9) The level of Full Time Equivalent Employees decreased from prior year due to retirements.
- (10) There was a net increase of 8 vans in the paratransit fleet during fiscal year 2011; the agency purchased 27 new paratransit vans with funds received by the FTA through ARRA, and sold at auction 19 fully depreciated vans in June 2011.

Statement of Cash Flows:

	2011	2010	2009	2011 to 2010 Change	2010 to 2009 Change
Net Cash Used in Operating Activities	\$ (30,548,418)	\$ (30,988,599)	\$ (27,984,781)	\$ 440,181	\$ (3,003,818)
Net Cash Provided by Non-Capital Financing Activities	28,967,316	24,074,761	25,012,481	4,892,555	(937,720)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,191,305)	(637,360)	5,044,102	(553,945)	(5,681,462)
Net Cash Provided by Non-Transportation Activities	260,260	318,624	531,567	(58,364)	(212,943)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,512,147)	(7,232,574)	2,603,369	4,720,427	(9,835,943)
Cash and Cash Equivalents, Beginning of Year	29,201,105	36,433,679	33,830,310	(7,232,574)	2,603,369
Cash and Cash Equivalents, End of Year	<u>\$ 26,688,958</u>	<u>\$ 29,201,105</u>	<u>\$ 36,433,679</u>	<u>\$ (2,512,147)</u>	<u>\$ (7,232,574)</u>

Cash and cash equivalents held by Santa Cruz METRO decreased by \$2,512,147 or 8.6% during the current year.

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 Angela Aitken, Finance Manager and Acting Assistant General Manager, at 110 Vernon Street, Santa Cruz, CA 95060.

Attachment A

BASIC FINANCIAL STATEMENTS

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF NET ASSETS JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 22,771,455	\$ 21,335,939
Sales Tax, Grants, and Other Receivables	6,551,495	6,020,712
Inventory	816,327	741,896
Prepays	304,136	474,877
Total Current Assets	30,443,413	28,573,424
RESTRICTED ASSETS		
Cash and Cash Equivalents	3,917,503	7,865,166
CAPITAL ASSETS		
Building and Improvements	48,205,230	12,483,953
Revenue Vehicles	46,512,808	44,599,626
Operations Equipment	3,174,316	1,810,861
Other Equipment	1,500,624	1,500,624
Other Vehicles	1,035,271	1,169,471
Office Equipment	1,886,884	1,453,135
	102,315,133	63,017,670
Less Accumulated Depreciation	(42,972,894)	(39,771,947)
	59,342,239	23,245,723
Construction-in-Progress	4,765,935	36,681,106
Land	9,164,870	9,164,870
Total Capital Assets	73,273,044	69,091,699
TOTAL ASSETS	\$ 107,633,960	\$ 105,530,289

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

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF NET ASSETS (Continued) JUNE 30, 2011 AND 2010

<u>LIABILITIES AND NET ASSETS</u>	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 26,987	\$ 775,270
Accrued Payroll and Employee Benefits	3,985,379	3,896,434
Deferred Rent	2,595	-
Workers' Compensation Liabilities	892,608	888,730
Other Accrued Liabilities	537,118	564,560
Security Deposit	16,134	15,684
Total Current Liabilities	5,460,821	6,140,678
NON-CURRENT LIABILITIES		
Deferred Revenue - Settlement Agreement	1,563,383	1,322,636
Deferred Revenue - STA Grant	1,251,229	4,232,523
Deferred Revenue - PTMISEA Grant	430,416	1,475,663
Deferred Revenue - Proposition 1B OHS CTSGP Grant	905,465	834,344
Deferred Revenue - Other	-	34,034
OTHER LONG-TERM LIABILITIES		
Workers' Compensation Liabilities	3,234,889	3,194,347
Other Postemployment Benefit Liabilities	7,387,778	5,118,074
Total Liabilities	20,233,981	22,352,299
NET ASSETS		
Net Assets Invested in Capital Assets	73,273,044	69,091,699
Unrestricted Net Assets	14,126,935	14,086,291
Total Net Assets	87,399,979	83,177,990
TOTAL LIABILITIES AND NET ASSETS	\$ 107,633,960	\$ 105,530,289

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

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Passenger Fare	\$ 4,809,458	\$ 4,551,560
Special Transit Fare	3,807,181	3,876,384
Total Operating Revenues	8,616,639	8,427,944
OPERATING EXPENSES		
Wages, Salaries, and Employee Benefits	31,309,520	30,315,865
Purchased Transportation Services	203,713	294,183
Material and Supplies	3,108,165	3,069,348
Other Expenses	3,712,297	4,064,863
Depreciation	6,288,014	4,884,887
Total Operating Expenses	44,621,709	42,629,146
Net Operating Loss	(36,005,070)	(34,201,202)
NON-OPERATING REVENUES (EXPENSES)		
Sales and Use Tax	15,209,774	14,320,288
Transportation Development Act Assistance	5,001,737	5,001,737
Section 8/5303 Planning Fund	2,816,187	4,351
Section 9/5307 Operating Assistance	3,696,155	3,645,442
Section 18/5307 Operating Assistance	2,431,310	786,858
Interest Income	133,518	192,546
Rental Income	126,742	126,078
Other Revenue	242,825	250,010
Gain on Sale and Disposal of Property, Equipment, and Inventory	99,452	479
Total Non-Operating Revenues	29,757,700	24,327,789
Net Loss Before Capital Contributions	(6,247,370)	(9,873,413)
CAPITAL CONTRIBUTIONS		
Grants Restricted for Capital Expenditures	10,469,359	6,861,247
NET ASSETS		
Increase (Decrease) in Net Assets	4,221,989	(3,012,166)
Total Net Assets, Beginning of Year	83,177,990	86,190,156
Total Net Assets, End of Year	\$ 87,399,979	\$ 83,177,990

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

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 8,303,435	\$ 8,426,099
Payments to Employees	(31,176,155)	(30,646,898)
Payments to Suppliers	(7,675,698)	(8,767,800)
	(30,548,418)	(30,988,599)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating Grants Received, Including Sales and Use Tax	28,867,864	24,074,761
Other Non-Operating Revenue	99,452	-
	28,967,316	24,074,761
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Sale of Property and Equipment	-	512
Capital Grants Received	9,278,054	6,227,532
Capital Expenditures	(10,469,359)	(6,865,404)
	(1,191,305)	(637,360)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment and Rental Income Received	260,260	318,624
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,512,147)	(7,232,574)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,201,105	36,433,679
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 26,688,958	\$ 29,201,105
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net Operating Loss	\$ (36,005,070)	\$ (34,201,202)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	6,288,014	4,884,887
Changes in Assets and Liabilities:		
(Increase) in Receivables	(313,204)	(1,845)
(Increase) Decrease in Inventory	(74,431)	64,203
Decrease in Prepaid Expenses	170,741	6,670
Decrease in Accounts Payable and Accrued Liabilities	(748,283)	(1,410,279)
(Increase) Decrease in Other Liabilities	133,815	(331,033)
	\$ (30,548,418)	\$ (30,988,599)

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

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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. The transit system serves the general public in the cities of Santa Cruz, Watsonville, Scotts Valley, and Capitola and the unincorporated areas of Santa Cruz County. A Board of eleven directors and one Ex-Officio director representing the University of California, Santa Cruz governs Santa Cruz METRO. At June 30, 2011, the directors were as follows:

Chairperson:	Ellen Pirie		
Vice Chair:	Lynn Robinson		
Members:	Daniel Dodge	Margarita Alejo	Mark Stone
	Hilary Bryant	Donald Hagen	Ron Graves
	John Leopold	Dene Bustichi	Michelle Hinkle
Ex-Officio:	Donna Blitzer		

Santa Cruz METRO also serves the Highway 17 corridor into Santa Clara County to provide commuter express service through a memorandum of understanding with the California Department of Transportation, the Capitol Corridor Joint Powers Authority, and the Santa Clara Valley County Transit District (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 years ending June 30, 2011 and 2010, 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 of Directors appointed the Corporation's Board of Directors.

Attachment A

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

B. Reporting Entity (Continued)

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

C. Basis of Accounting and Presentation

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

Santa Cruz METRO adopted GASB Statement No. 34 as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, as of and for the 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 asset categories; namely, those invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

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 resulting in an increase in net revenue of \$10,469,359 and \$6,861,247 for the fiscal years 2011 and 2010, respectively.

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

Attachment A

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

C. Basis of Accounting and Presentation (Continued)

Proprietary Accounting and Financial Reporting:

As required under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Santa Cruz METRO will continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. Santa Cruz METRO has elected under GASB Statement No. 20 to not apply all FASB Statements and Interpretations issued after November 30, 1989, due to the governmental nature of Santa Cruz METRO's operations.

Net Assets:

Net assets represent the residual interest in Santa Cruz METRO's assets after liabilities are deducted. In accordance with GASB Statement No. 34, the fund equity section on the statements of net assets was combined to report total net assets and present it in three broad components: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets include capital assets net of accumulated depreciation. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net assets are 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 the 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, banker's 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 assets because their use is subject to externally imposed stipulations, either by laws or regulations.

Attachment A

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

F. Restricted Assets (Continued)

The cash resulting from a settlement agreement, as described in Note 9, represents proceeds restricted by the FTA. The State Transit Assistance (STA) Grant, Proposition 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Grant, and the Proposition 1B Office of Homeland Security (OHS) California Transit Security Grant Program (CTSGP) Grant are restricted for capital expenditures. Restricted assets at June 30 are as follows:

	2011	2010
Cash and Cash Equivalents		
Federal Transit Administration Grant	\$ 1,330,393	\$ 1,322,636
Proposition 1B PTMISEA Grant	430,416	1,475,663
Proposition 1B OHS CTSGP Grant	905,465	834,344
State Transit Assistance Grant	1,251,229	4,232,523
 Total Restricted Assets	 \$ 3,917,503	 \$ 7,865,166

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	20-30 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 assets – invested in capital assets, net of related debt 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 Scotts Valley Redevelopment Agency (the Agency), a political subdivision of the State of California, was one of Santa Cruz METRO's funding sources for this project and has retained an interest in the property. The title to the property is retained by both Santa Cruz METRO and the Agency as tenants in common with each party holding an individual interest in proportion to each party's financial participation in the project. The Agency's portion of the property is 13.87%. The Agency's portion is not recorded in Santa Cruz METRO's basic financial statements.

H. Sales and Use Tax

Santa Cruz METRO receives a .5% sales and use tax levied on all taxable sales in Santa Cruz County, which is collected and administered by the California State Board of Equalization. Additionally, Santa Cruz METRO is allocated, through the Santa Cruz County Regional Transportation Commission, a portion of the .25% 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 earned.

Attachment A

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

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 \$20,000,000 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.

K. Employee Benefits

Vacation 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

Pension costs are expensed as incurred. These costs equal the actuarially determined annual contribution amount.

N. 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.

O. Reclassifications

Certain reclassifications have been made to prior periods' amounts to conform to the classifications used in the current period. Such reclassifications had no effect on Santa Cruz METRO's financial positions or results of operations for the periods presented.

P. Future Governmental Accounting Standards Board Statements

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public - private and public - public partnerships. The statement is effective for periods beginning after December 15, 2011. GASB Statement No. 60 will not have an effect on Santa Cruz METRO.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. Santa Cruz METRO has elected to not early implement GASB Statement No. 61 and has not determined its effect on the Santa Cruz METRO financial statements.

Attachment A

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

P. Future Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on Santa Cruz METRO's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Plan Assets with a Statement of Net Plan Position upon implementation for periods beginning after December 15, 2011. GASB Statement No. 63 will not have an effect on Santa Cruz METRO.

GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. Because Santa Cruz METRO does not enter into hedge agreements with swap providers for the purpose of managing risk beyond investment return, GASB Statement No. 64 will not apply.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash on Hand	\$ 46,718	\$ 30,843
Demand Deposits	480,887	330,770
Deposits in Santa Cruz County Pooled Investment Fund	<u>26,161,353</u>	<u>28,839,492</u>
	<u>\$ 26,688,958</u>	<u>\$ 29,201,105</u>

Attachment A

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Cash on Hand and Cash in Banks

Investments Authorized by the California Government Code and Santa Cruz METRO's Investment Policy

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	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
County Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
County Pooled Investment Fund	<u>\$ 26,161,353</u>	<u>\$ 26,161,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Santa Cruz METRO's investments were not considered to be highly sensitive to interest rate fluctuations as of June 30, 2011 or 2010.

Attachment A

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Cash on Hand and Cash in Banks (Continued)

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, Santa Cruz METRO's investment policy, and the actual rating as of year-end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
County Pooled Investment Fund	\$26,161,353	N/A	\$ -	\$ -	\$ -	\$26,161,353

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, 2011 or 2010.

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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

Custodial Credit Risk

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 depository insurance 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 the 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 the Santa Cruz County, which are recorded on an amortized cost basis.

Attachment A

NOTE 3 -- RECEIVABLES

Receivables at June 30 are as follows:

	2011	2010
Federal Grants	\$ 42,610	\$ 18,232
State Grants	3,026,054	3,338,305
Local Grants	176	-
Sales Tax Revenue	2,506,200	2,262,400
Other	976,455	401,775
	\$ 6,551,495	\$ 6,020,712

NOTE 4 -- CHANGES IN CAPITAL ASSETS

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

June 30, 2011

	Balance July 1, 2010	Additions and Transfers	Retirements and Transfers	Balance June 30, 2011
Non-Depreciated Assets				
Land	\$ 9,164,870	\$ -	\$ -	\$ 9,164,870
Construction-in-Progress	36,681,106	3,340,193	(35,255,364)	4,765,935
Total Non-Depreciated Assets	45,845,976	3,340,193	(35,255,364)	13,930,805
Depreciated Assets				
Building and Improvements	12,483,953	35,721,942	(665)	48,205,230
Revenue Vehicles	44,599,626	4,034,227	(2,121,045)	46,512,808
Operations Equipment	1,810,861	2,138,658	(775,203)	3,174,316
Other Equipment	1,500,624	-	-	1,500,624
Other Vehicles	1,169,471	-	(134,200)	1,035,271
Office Equipment	1,453,135	489,703	(55,954)	1,886,884
Total Depreciated Assets	63,017,670	42,384,530	(3,087,067)	102,315,133
Less Accumulated Depreciation	(39,771,947)	(6,288,014)	3,087,067	(42,972,894)
Depreciated Assets Net of Accumulated Depreciation	23,245,723	36,096,516	-	59,342,239
Total Capital Assets	\$ 69,091,699	\$ 39,436,709	\$ (35,255,364)	\$ 73,273,044

Depreciation expense at June 30, 2011, was \$6,288,014.

Attachment A

NOTE 4 – CHANGES IN CAPITAL ASSETS (Continued)

June 30, 2010

	Balance July 1, 2009	Additions and Transfers	Retirements and Transfers	Balance June 30, 2010
Non-Depreciated Assets				
Land	\$ 9,164,870	\$ -	\$ -	\$ 9,164,870
Construction-in-Progress	30,175,183	6,657,767	(151,844)	36,681,106
Total Non-Depreciated Assets	39,340,053	6,657,767	(151,844)	45,845,976
Depreciated Assets				
Building and Improvements	12,427,094	57,524	(665)	12,483,953
Revenue Vehicles	44,656,992	-	(57,366)	44,599,626
Operations Equipment	2,154,389	-	(343,528)	1,810,861
Other Equipment	1,500,624	-	-	1,500,624
Other Vehicles	1,218,674	-	(49,203)	1,169,471
Office Equipment	1,293,076	301,958	(141,899)	1,453,135
Total Depreciated Assets	63,250,849	359,482	(592,661)	63,017,670
Less Accumulated Depreciation	(35,479,687)	(4,884,887)	592,627	(39,771,947)
Depreciated Assets Net of Accumulated Depreciation	27,771,162	(4,525,405)	(34)	23,245,723
Total Capital Assets	\$ 67,111,215	\$ 2,132,362	\$ (151,878)	\$ 69,091,699

Depreciation expense at June 30, 2010, was \$4,884,887.

NOTE 5 – AVAILABLE NET ASSETS

An analysis of Santa Cruz METRO's available (undesignated) net assets at June 30 follows:

	2011	2010
Current Assets	\$ 30,443,413	\$ 28,573,424
Current Liabilities	(5,460,821)	(6,140,678)
Working Capital	24,982,592	22,432,746
Less:		
Inventory	(816,327)	(741,896)
Prepaid Expenses	(304,136)	(474,877)
Total Available Net Assets	23,862,129	21,215,973
Net Assets Designated for the Following:		
Cash Flow	(2,511,102)	(2,511,102)
Workers' Compensation Reserve	(2,091,581)	(2,091,581)
Insurance Reserve	(700,757)	(700,757)
Carryover from Prior Fiscal Years Operating Budget	(4,344,632)	(1,989,862)
Net Assets Required to Offset Projected Operating Budget Shortfall for Future Fiscal Years	-	(4,272,159)
Net Assets Required to Fund Transportation Improvement Programs for the Fiscal Years 2011-2013	(14,025,636)	(14,025,636)
Available Undesignated Net Assets (Deficits)	\$ 188,421	\$ (4,375,124)

Attachment A

NOTE 6 – CAPITAL GRANTS

Santa Cruz METRO receives grants from the Federal Transit Authority (FTA), which provides financing for the acquisition of rolling stock and construction of facilities. Santa Cruz METRO also receives grants under the State Transportation Development Act primarily for the acquisition of rolling stock and support equipment, and purchase of furniture and fixtures.

A summary of federal, state, and local grant activity for the years ended June 30 is as follows:

	2011	2010
Federal Grants	\$ 5,691,481	\$ 6,629,512
State Grants	4,777,878	231,735
Total Capital Grants	\$ 10,469,359	\$ 6,861,247

NOTE 7 – COMMITMENTS

Santa Cruz METRO leases a number of its facilities under operating leases. For the years ended June 30, 2011 and 2010, rental expense relating to the leases was \$284,454 and \$544,474, respectively. Santa Cruz METRO also leases to others retail space in its transit facilities under noncancelable agreements. Minimum lease payments and receipts for existing operating leases are as follows:

Year Ending June 30	Lease Commitments	Rental Income	Net
2012	\$ 213,188	\$ 115,010	\$ 98,178
2013	220,017	90,888	129,129
2014	180,422	89,871	90,552
2015	22,428	88,060	(65,632)
Thereafter	23,101	22,640	460
	\$ 659,156	\$ 406,468	\$ 252,687

NOTE 8 – JOINT VENTURES (JOINT POWERS AUTHORITY WITH CalTIP)

Santa Cruz METRO participates in a joint powers authority (JPA), the California Transit Insurance 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 district pays a premium commensurate with the level of coverage requested and shares in surpluses and deficits proportionate to their participation in CalTIP.

Attachment A

NOTE 8 – 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>2011</u>	<u>2010</u>
Total Assets	\$ 26,331,874	\$ 26,681,312
Total Liabilities	<u>11,049,263</u>	<u>10,133,289</u>
Fund Balance	<u>\$ 15,282,611</u>	<u>\$ 16,548,023</u>
Total Revenues	\$ 5,304,038	\$ 6,386,315
Total Expenditures	<u>6,569,449</u>	<u>5,916,329</u>
Net Increase in Fund Balance	<u>\$ (1,265,411)</u>	<u>\$ 469,986</u>

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

NOTE 9 – WATSONVILLE FLEET MAINTENANCE FACILITY SETTLEMENT RECEIPT

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

In addition, due to design and construction deficiencies by the design and building contractors involved in the original project, Santa Cruz METRO initiated litigation against the contractors and came to a settlement agreement with said contractors on May 30, 1995. In accordance with this agreement, the contractors remitted \$4,776,858 (including \$171,538 in costs) to Santa Cruz METRO during fiscal year 1996, representing damages less attorney fees. FTA Section 3/5309 restricts the use of these proceeds, and the interest earned thereon. Accordingly, the net restricted amount of \$1,330,393 and \$1,322,636 is reflected on the statements of net assets as deferred revenue at June 30, 2011 and 2010, respectively.

NOTE 10 – 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 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 11 – DEFINED BENEFIT 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 the Public Agency portion of the California Public Employees' Retirement System (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 of Directors 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, CA 95814.

Attachment A

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

There are 281 active plan members in the Plan as of June 30, 2011, which are required to contribute a percent of their annual covered salary. In lieu of salary increases and for employees who agreed to salary reductions in certain prior years, Santa Cruz METRO agreed to pay a portion of the employee contribution, based on formulas negotiated in their labor agreements. 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. The required employer contribution rate for the fiscal year ended June 30, 2011, was 13.484%. 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.

Annual Pension Cost

For the fiscal year ended June 30, 2011, Santa Cruz METRO's annual pension cost of \$2,156,777 was equal to Santa Cruz METRO's required and actual contributions. This includes Santa Cruz METRO's contribution to the employee contribution requirement. The required contribution for the fiscal year ended June 30, 2011, was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administration expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis.

Three-Year Trend Information for the Plan

Three-year trend information, with respect to Santa Cruz METRO's participation in CalPERS, is as follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2009	\$ 2,215,058	100%	\$ -
6/30/2010	\$ 2,151,927	100%	\$ -
6/30/2011	\$ 2,156,777	100%	\$ -

Required Supplementary Information

Supplementary information is intended to show the progress made towards funding benefit obligations. Required three-year supplemental information, available to date, for Santa Cruz METRO is as follows:

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/2008	\$ 97,329,553	\$ 85,056,437	\$ 12,273,116	87.4%	\$ 16,065,532	76.4%
6/30/2009	\$ 109,418,745	\$ 89,621,182	\$ 19,797,563	81.9%	\$ 16,397,024	120.7%
6/30/2010	\$ 115,194,294	\$ 93,813,512	\$ 21,380,782	81.4%	\$ 16,109,672	132.7%

Attachment A

NOTE 12 – 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, 2011 and 2010, all amounts held under the Great-West plan and the CalPERS plan are held in trust and are not reflected on the accompanying statement of net assets as required under GASB Statement No. 27, *Accounting Standards for Pensions by State and Local Governmental Employers*.

Complete financial statements for Great-West can be obtained from Great-West at 8515 E. Orchard Road, Greenwood Village, CO 80111. Complete financial statements for CalPERS can be obtained from CalPERS at Lincoln Plaza North, 400 Q Street, Sacramento, CA 94229.

NOTE 13 – 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 established limited risk management programs for workers' compensation, and general and vehicular liability, as described in Note 1, as well.

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 incurred but not reported (IBNR). The IBNR for workers' compensation was based on an actuarial study dated May 2010. 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>2011</u>	<u>2010</u>
Workers' Compensation Liabilities:		
Unpaid Claims, Beginning of Fiscal Year	\$ 4,083,077	\$ 4,511,218
Incurred Claims (Including IBNRs)	(953,272)	(984,735)
Claim Payments	<u>997,692</u>	<u>556,594</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 4,127,497</u>	<u>\$ 4,083,077</u>

NOTE 14 – TRANSPORTATION DEVELOPMENT ACT/CALIFORNIA ADMINISTRATIVE CODE

Santa Cruz METRO is subject to compliance with the TDA provisions, Sections 6634 and 6637 of the California Administrative Code and Sections 99267, 99268.1, and 99314.6 of the Public Utilities Code.

Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the Local Transportation Fund and the State Transit Assistance Fund in an amount which exceeds the claimant's capital and operating costs, less the required fares, and local support. Santa Cruz METRO did not receive TDA or State Transit Assistance 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.

Attachment A

NOTE 14 – TRANSPORTATION DEVELOPMENT ACT/CALIFORNIA ADMINISTRATIVE CODE (Continued)

Sections 99267, 99268.1, and 99314.6

Pursuant to the TDA, Santa Cruz METRO is defined as an older operator and is not required to meet the fare box ratio requirement of the TDA. Santa Cruz METRO has met the 50% expenditure limitation requirement.

NOTE 15 – 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 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.

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

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

During the fiscal year ended June 30, 2011, Santa Cruz METRO earned interest of \$5,091 from the State's PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2011, qualifying expenditures of \$1,050,338 were incurred and the remaining balance of \$430,416 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 Bond 1B Grants For the Year Ended June 30, 2011

	<u>2011</u>
Balance - beginning of the year	\$ 1,475,663
Receipts:	
Interest accrued 7/1/2010 through 6/30/2011	5,091
Expenses:	
MetroBase Construction	<u>(1,050,338)</u>
Balance - end of year	<u>\$ 430,416</u>

Attachment A

NOTE 15 – PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT, AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA) (Continued)

**Schedule of PTMISEA Bond 1B Grants
For the Year Ended June 30, 2010**

	2010
Balance - beginning of the year	\$ 7,003,247
Receipts:	
Interest accrued 7/1/2009 through 6/30/2010	45,581
Expenses:	
MetroBase Construction	(5,573,165)
Balance - end of year	\$ 1,475,663

NOTE 16 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

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 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. Bus operators who retired and reached the age of 65 prior to June 30, 1994, will continue to receive dental and vision coverage beyond age 65. Life insurance is not provided to management retirees who retired prior to July 1, 2005. The costs of providing these benefits are recognized when paid. Santa Cruz METRO has recognized approximately \$2,023,718 and \$1,597,810 of expense for these benefits for the years ending June 30, 2011 and 2010, respectively.

Annual OPEB Cost and Net OPEB Obligation

Santa Cruz METRO's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2010-11, Santa Cruz METRO's annual OPEB cost was \$2,269,704. Santa Cruz METRO's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, were as follows:

Annual required contribution	\$ 4,264,213
Interest on net OPEB obligation	255,904
Adjustments to annual required contribution	(226,695)
Annual OPEB cost	4,293,422
Contributions made	2,023,718
Change in net OPEB obligation (asset)	2,269,704
Net OPEB obligation (asset) - beginning of year	5,118,074
Net OPEB obligation (asset) - end of year	\$ 7,387,778

Attachment A

NOTE 16 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
2009	\$ 3,980,818	\$ 1,419,564	35.66%	\$ 2,561,254
2010	\$ 4,154,630	\$ 1,597,810	38.46%	\$ 5,118,074
2011	\$ 4,293,422	\$ 2,023,718	47.14%	\$ 7,387,778

Funding Policy, Funded Status, and Funding Progress

Santa Cruz METRO's required contribution is based on pay-as-you-go financing requirements. For fiscal year 2010-11, Santa Cruz METRO contributed \$2,023,718 to the plan.

As of April 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$43,442,791. The remaining unamortized initial unfunded AAL is \$44,461,100. This leaves a residual AAL of negative \$1,018,309.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and probability about the occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the annual required contributions of Santa Cruz METRO are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

The actuarial assumptions used for rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest were based on a standard set of actuarial assumptions modified as appropriate for Santa Cruz METRO. Turnover rates were taken from CalPERS actuarial table for miscellaneous employees, which closely matches Santa Cruz METRO turnover experience. Retirement rates were also based on Santa Cruz METRO experience. Healthcare inflation rates are based on actuarial analysis of recent Santa Cruz METRO experience and actuarial knowledge of the general healthcare environment. The actuarial assumption to determine the cost of covering early retirees (those under the age of 65) was an age-specific claims cost matrix fitted to the average estimated equivalent one-party premium for the current retiree group. Healthcare costs were assumed to increase by 3% per year of age for ages under 65. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over 30 years. The remaining amortization period as of June 30, 2011, was 28 years.

Attachment A

REQUIRED SUPPLEMENTARY INFORMATION

Attachment A

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL.) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
4/1/2010	\$ (1,018,309)	\$ 43,442,791	\$ 44,461,100	-2.34%	\$ 30,646,898	145.08%
4/1/2008	\$ -	\$ 44,208,804	\$ 44,208,804	0.00%	\$ 30,373,279	145.55%

Attachment A

SUPPLEMENTARY INFORMATION

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT STATEMENTS OF OPERATING EXPENSES FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Labor		
Operators' salaries and wages	\$ 7,333,267	\$ 7,411,965
Other salaries and wages	6,299,332	6,260,879
Overtime	1,983,559	2,095,294
	15,616,158	15,768,138
Fringe Benefits		
Absence with pay	3,074,137	3,146,948
Pension plans	2,156,777	2,151,927
Vision, medical, and dental plans	6,575,549	5,963,749
Workers' compensation insurance	1,042,111	128,453
Disability insurance	374,226	408,638
Other fringe benefits	200,858	191,192
Other postemployment benefits	2,269,704	2,556,820
	15,693,362	14,547,727
Services		
Accounting	74,742	88,407
Administrative and banking	224,273	184,567
Professional and technical services	411,457	600,387
Security	370,312	341,990
Outside repairs	951,714	813,428
Other services	136,524	148,140
	2,169,022	2,176,919
Materials and Supplies Consumed		
Fuels and lubricants	2,145,437	2,006,317
Tires and tubes	210,370	201,950
Vehicle parts	525,453	600,455
Other materials and supplies	226,905	260,626
	3,108,165	3,069,348
Utilities	472,499	453,148
Casualty and Liability Costs	572,416	691,738
Taxes and Licenses	45,873	47,576
Purchased Transportation Services		
Paratransit	203,713	294,183
Miscellaneous Expenses	154,670	139,102
Equipment and Facility Lease	297,817	556,380
Depreciation		
Property acquired with operator funds	390,392	393,121
Property acquired by federal, state, or TDA funds	5,897,622	4,491,766
	8,035,002	7,067,014
Total Operating Expenses	\$ 44,621,709	\$ 42,629,146

Attachment A

OTHER SCHEDULES AND REPORTS

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Program Title	Federal CFDA No.	Pass-Through Grantor's Number	Total Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Programs:			
Federal Transit Administration (FTA)			
Cluster Defined by the Department of Transportation			
Section 3/5309 Consolidation			
Earmark - GFI Farebox	20.500*	CA-04-0156	\$ 474,249
Pacific Station - ROW Acquisition	20.500*	CA-03-0730	<u>1,442,267</u>
			<u>1,916,516</u>
Section 9/5307			
Operating Assistance	20.507*	CA-90-Y813	3,696,155
Operating Assistance - STIC	20.507*	CA-90-Y813	1,202,159
ARRA - Operating Assistance	20.507*	CA-96-X030	270,000
ARRA - PC Vans, Fareboxes, IT Equip	20.507*	CA-96-X030	<u>3,719,545</u>
			<u>8,887,859</u>
Section 18/5311-5317			
Smartcard Farebox	20.509*	649951	267,464
Rural Operating Assistance - 5311	20.509*	640167	156,618
AMBAG - Transit Planning - Rotational Intern - 5313 (B)	20.514	WE 670	4,886
New Freedom - Trapeze Pass IVR - 5317	20.515	646719	<u>8,186</u>
			<u>437,154</u>
Section 18/5304			
AMBAG - Watsonville Transit Planning Study	20.515	WE 672	<u>9,751</u>
			<u>9,751</u>
Total Expenditures of Federal Awards			<u><u>\$ 11,251,280</u></u>

* Major federal financial assistance program.

See accompanying notes to schedule of expenditures of federal awards.

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

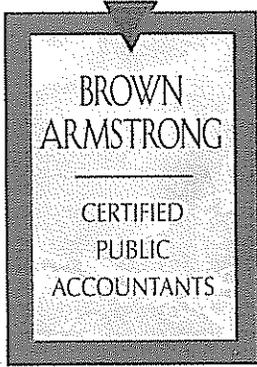
NOTE 1 – GENERAL

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.

Attachment A



BROWN ARMSTRONG

Certified Public Accountants

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

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

We have audited the basic financial statements of the Santa Cruz Metropolitan Transit District, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit 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 rules and regulations of the California Transportation Development Act.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Santa Cruz Metropolitan Transit District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santa Cruz Metropolitan Transit District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santa Cruz Metropolitan Transit District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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Accounting Oversight Board and
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Attachment A

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Santa Cruz Metropolitan Transit District's basic 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 determination of basic financial statement amounts. We also performed tests of its compliance with the rules and regulations of the California Transportation Development Act. 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*.

We noted certain matters that we reported to management of the Santa Cruz Metropolitan Transit District in a separate letter dated December 20, 2011.

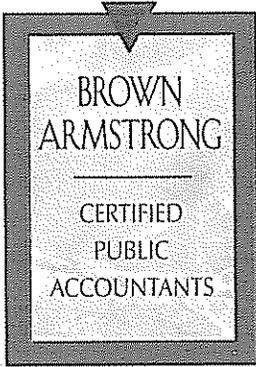
This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 20, 2011

Attachment A



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

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Compliance

We have audited the Santa Cruz Metropolitan Transit District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Santa Cruz Metropolitan Transit District's major federal programs for the year ended June 30, 2011. The Santa Cruz Metropolitan Transit District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Santa Cruz Metropolitan Transit District's management. Our responsibility is to express an opinion on the Santa Cruz Metropolitan Transit District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Santa Cruz Metropolitan Transit District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Santa Cruz Metropolitan Transit District's compliance with those requirements.

In our opinion, the Santa Cruz Metropolitan Transit District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Santa Cruz Metropolitan Transit District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Santa Cruz Metropolitan Transit District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Attachment A

compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz Metropolitan Transit District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Santa Cruz Metropolitan Transit District'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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

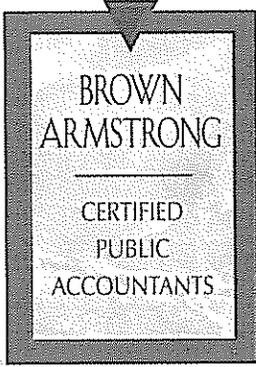
This report is intended for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 20, 2011

Attachment A



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT

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

We have audited the basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011.

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

Compliance with laws, regulations, contracts, and grants applicable to Santa Cruz METRO is the responsibility of the management of Santa Cruz METRO. As part of obtaining reasonable assurance about whether Santa Cruz METRO's basic 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 basic 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 Santa Cruz County Regional Transportation Commission and in conformance with the California Transportation Development Act. 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 California Transportation Development Act and the allocation instructions and resolutions of the Santa Cruz County Regional 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.

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. 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 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.

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Attachment A

During the fiscal year ended June 30, 2011, Santa Cruz METRO applied for and received \$0 from the State's PTMISEA funds for the purpose of construction of the Consolidated MetroBase Project. As of June 30, 2011, PTMISEA interest received and funds expended were verified in the course of our audit as follows:

Schedule of PTMISEA Bond 1B Funds For the Year Ended June 30, 2011	
Description	Amount
Balance – beginning of the year	\$ 1,475,663
Proceeds received:	
Interest earned	5,091
Expenses incurred:	
MetroBase Construction	(1,050,338)
Balance – end of year	<u>\$ 430,416</u>

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

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 20, 2011

Attachment A

FINDINGS AND QUESTIONED COSTS SECTION

Attachment A

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2011

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified?	Yes	<input checked="" type="checkbox"/>	No
Significant deficiencies identified?	Yes	<input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	<input checked="" type="checkbox"/>	No

Federal Awards

Internal control over major federal programs:

Material weakness identified?	Yes	<input checked="" type="checkbox"/>	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes	<input checked="" type="checkbox"/>	None reported

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

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes	<input checked="" type="checkbox"/>	No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Clusters</u>
20.500	Federal Transit Capital Investment Grants – Section 3
20.507	Federal Transit Formula Grants – Section 9
20.509	Formula Grants for Other Than Urbanized Areas – Section 18

Dollar threshold used to distinguish Type A and B programs: \$300,000

Auditee qualified as low risk auditee?	<input checked="" type="checkbox"/>	Yes	No
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Attachment A

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

None.

III. Federal Award Findings and Questioned Costs

None.

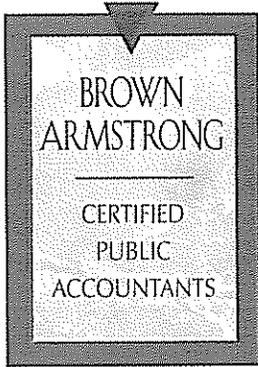
IV. State Award Findings and Questioned Costs

None.

V. A Summary of Prior Audit (all June 30, 2010) Findings and Current Year Status Follows

None.

Attachment B



BROWN ARMSTRONG

Certified Public Accountants

To the Santa Cruz Metropolitan Transit District
Santa Cruz, California

We have audited the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 16, 2011. Professional standards also require that we communicate to you the following information related to our audit.

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Santa Cruz METRO are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Santa Cruz METRO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the accrued claims is based on management's past experience and expected useful life. We evaluated the key factors and assumptions used to develop the accrued claims in determining that it is reasonable in relation to the financial statements taken as a whole.

Actuarial Assumption and Methods Underlying Other Postemployment Benefits (OPEB) Liability. Management's acceptance of various actuarial assumptions and methods underlying the calculation of Santa Cruz METRO's OPEB liability is based on the actuarial valuation prepared by Total Compensation Systems, Inc.

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

The disclosure of the Annual OPEB Cost and Net OPEB Obligation in Note 16 and Unpaid Claims in Note 13 to the financial statements is based on actuarial assumptions adopted by management.



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6.b1

Attachment B

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

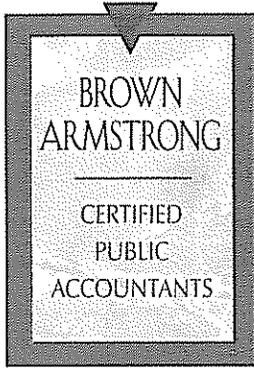
BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
December 20, 2011

6.b2

Attachment C



BROWN ARMSTRONG

Certified Public Accountants

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

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

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We have audited the basic financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. In planning and performing our audit of the basic financial statements of Santa Cruz METRO, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As a result of our audit, we noted one agreed upon condition. This condition and recommendation, which has been discussed with the appropriate members of management, is intended to improve the internal control structure or result in other efficiencies and is summarized as follows:

Current Year Condition and Recommendation

Condition 1

During our testing of Santa Cruz METRO's journal entries, we were unable to determine if the journal entries were being properly reviewed and approved by the appropriate person of authority.

Santa Cruz METRO reviews the financial statements before they are presented to the Board of Directors, which is a culmination of the journal entries made, but does not indicate whether the individual entries have been reviewed or approved.

Recommendation

We recommend that the appropriate person of authority indicate that they have reviewed and approved the journal entries made by staff on the supporting documentation we receive as part of journal entry testing.

Management Response

Management agrees with the recommendation and from the date of recommendation, has begun initialing the journal entries made on the appropriate journal entry support to indicate that they have been reviewed.



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Attachment C

Current Year Disposition of Prior Year Condition and Recommendation

Condition 1

Santa Cruz METRO does not perform a ticket reconciliation semi-annually that provides assurance that tickets are properly safeguarded and sales are accurately reported.

Recommendation

Santa Cruz METRO should perform ticket-related procedures that determine whether ticket sales are accurately reported and that tickets in inventory are safeguarded. The reconciliation should be performed at least semi-annually until the process results in a tolerable variance level.

Management Response

Management agrees with the recommendation. In December 2010, Santa Cruz METRO installed new GFI Genfare Odyssey Validating Fareboxes on the fixed route bus fleet. This new farebox technology eliminates the requirement of a pre-printed ticket inventory. All tickets are now issued on demand from a farebox, a Printer Encoder Machine (PEM) or from a Ticket Vending Machine (TVM). The tickets are printed on paper that is not negotiable until it is validated by a farebox, PEM or TVM. Finance staff will work with Operations Management and the staff at Metro Center to draft new ticket-related procedures to reconcile all ticket sales to revenue collected, and assure that ticket sales are accurately reported. The reconciliation process will be performed at least semi-annually and monitored until it is determined that the process results in a tolerable variance level. We anticipate the new ticket reconciliation process to be in place by Spring 2011.

Current Year Status

Implemented.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



By: Steven R. Starbuck

Bakersfield, California
December 20, 2011

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

DATE: February 10, 2012
TO: Board of Directors
FROM: Ciro Aguirre, Manager of Operations
SUBJECT: CONSIDERATION OF PROPOSED SMART CARD PROGRAM

I. RECOMMENDED ACTION

That the Board of Directors consider a presentation on the functionality and design of the proposed Smart Card program.

II. SUMMARY OF ISSUES

- With the procurement of GFI Odyssey Fareboxes through federal appropriations and stimulus funds, Santa Cruz METRO had the opportunity to expand its fare collection media to include Smart Card technology.
- Smart Cards are pocket sized, hard plastic cards with an embedded microchip that can be encoded with transit fares and passes which can then be used as a form of payment when boarding a fixed route bus.
- Santa Cruz METRO staff proposes that Santa Cruz METRO offer two distinct categories of Smart Cards named “Cruz Pass” and “Cruz Cash.”
- Santa Cruz METRO staff will give a presentation on the functionality and design of the proposed Smart Cards.
- Santa Cruz METRO staff is recommending that the Board of Directors consider the functionality and design of the Smart Card program.

III. DISCUSSION

As background, the recent availability of federal appropriations and stimulus funds allowed Santa Cruz METRO to procure new GFI Odyssey Fareboxes. This new revenue collection equipment was ordered with built in SMART Card technology which can allow Santa Cruz METRO to expand its fare media options that are available to the public. The new GFI Odyssey Fareboxes were installed and began operation on December 6th, 2010. On August 26th 2011, the Board of Directors adopted a revamped fare structure which allowed Santa Cruz METRO staff to begin designing a Smart Card fare media system.

Smart Cards are a reusable plastic card approximately the same size and shape as a credit card with an embedded microchip that holds memory. For transit purposes, Smart Cards hold either:

- Monetary value (Stored Value) for paying fares;
- Validated Period Passes (i.e. Day Pass, 5 Day Pass, 31 Day Pass);
- Ride Passes (i.e. 15 Ride Pass).

Smart Cards allow passengers to board without the need for cash or a valid paper pass. They can be reloaded with different fare types and are very durable so they will not be easily damaged. Santa Cruz METRO staff proposes that Santa Cruz METRO offer two distinct categories of Smart Cards named “Cruz Pass” and “Cruz Cash.”

The purpose of this report is to provide a detailed presentation to introduce Santa Cruz METRO’s Smart Card program. Attachment A is a print out of this presentation that details the functionality and design of the proposed Smart Cards. Santa Cruz METRO staff is recommending that the Board of Directors consider the presentation on the proposed Smart Card program.

.IV. FINANCIAL CONSIDERATIONS

None.

V. ATTACHMENTS

Attachment A: Introduction of Santa Cruz METRO Smart Cards

Prepared By: Erich R. Friedrich, Transportation Planner
Date Prepared: January 31, 2012

Introduction of Santa Cruz METRO Smart Cards



Board of Directors Meeting
February 10, 2012

7.a1

Background

- Santa Cruz METRO upgraded the fare collection system using American Recovery and Reinvestment Act funds.
- New Fareboxes were installed and began operation December 6th 2010.
- On August 26th 2011, The Board of Directors adopted a revamped fare structure which allowed Santa Cruz METRO staff to pursue development of a Smart Card fare media system.

7.a2

What are Smart Cards?

- Reusable plastic cards approximately the same size and shape as a credit card with an embedded microchip that holds memory.
- For transit purposes, Smart Cards hold either monetary value (Stored Value) for paying fares, hold validated Period Passes (i.e. Day Pass, 5 Day Pass, 31 Day Pass), or hold Ride Passes (i.e. 15 Ride Pass).
- Smart Cards allow passengers to board without the need for cash or a valid paper pass.

7.a3

Examples of Smart Cards

Seattle



Boston



San Francisco Bay Area



San Diego



Miami-Dade



7.a4

What do these cards have in common?

- **Branded**
- **Multifunctional; can hold Stored Value or Period Passes**
- **Durable hard plastic card**
- **Cards are inter-regional**

Introducing Smart Cards

Cruz Cash



Cruz Pass



7.a6

Cruz Cash



- Holds monetary value
- Deducts fare automatically when boarding.
- Reloadable at any Santa Cruz METRO Ticket Vending Machine or at Customer Service.

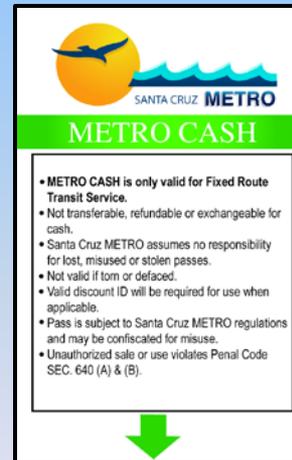
\$10



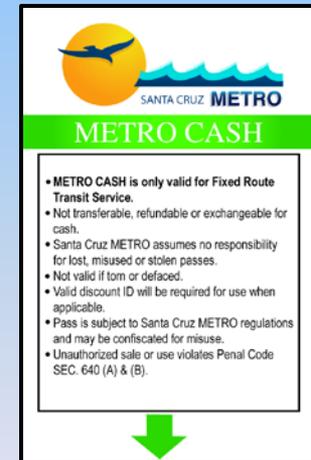
\$20



\$30



\$50



7.a7

How does a **Cruz Cash** card work?

1. The Customer loads the desired increments of cash value onto a **Cruz Cash** card.
2. The Customer taps their **Cruz Cash** card over the card reader on the farebox.
3. The proper fare is deducted electronically by the farebox.



7.a8

Cruz Pass

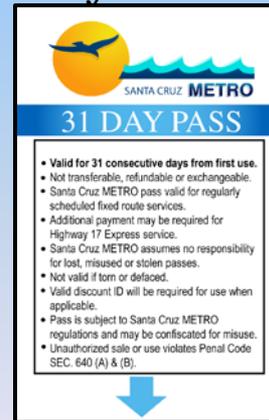


- Holds various Period Passes and Ride Passes.
- Pass validates automatically when boarding
- Reloadable at any Santa Cruz METRO Ticket Vending Machine or at Customer Service

Local 1, 3, & 7 Day Passes



Local 31 Day Passes



Highway 17 1 & 5 Day Passes



Local 15 Ride Passes



Highway 17 31 Day Passes



7.a9

How does a **Cruz Pass** card work?

1. The Customer loads their desired period pass or ride pass onto a **Cruz Pass** card.
2. The Customer taps their **Cruz Pass** card over the card reader on the farebox.
3. The **Cruz Pass** card is validated electronically by the farebox.



7.a10

Advantages to Smart Cards

- Faster boarding times
- Rider convenience
- Extremely durable long lasting fare media
- Higher revenue recovery
- Future Inter-agency connectivity

FAQ

- Where can riders get a Smart Card?
 - Riders can purchase their Smart Card at Santa Cruz METRO Customer Service Center.
- How much does a Smart Card cost?
 - For the first 60 days after the roll out, the Smart Card is free. After this introductory period, the cost is \$5.00 per card.
- Can a Smart Card be reloaded?
 - Yes. Smart Cards can be reloaded at any Ticket Vending Machine or at the Santa Cruz METRO Customer Service Center.
- How can a rider determine how much value/rides they have left on their Smart Card?
 - Riders can check the status on their Smart Card at customer service, by using a Ticket Vending Machine or by using the “read-only” feature on the farebox with assistance from a bus operator.
- Are Cruz Passes and Cruz Cash Cards interchangeable?
 - No. It is not possible to load period passes onto a Cruz Cash card or load monetary value onto a Cruz Pass card.

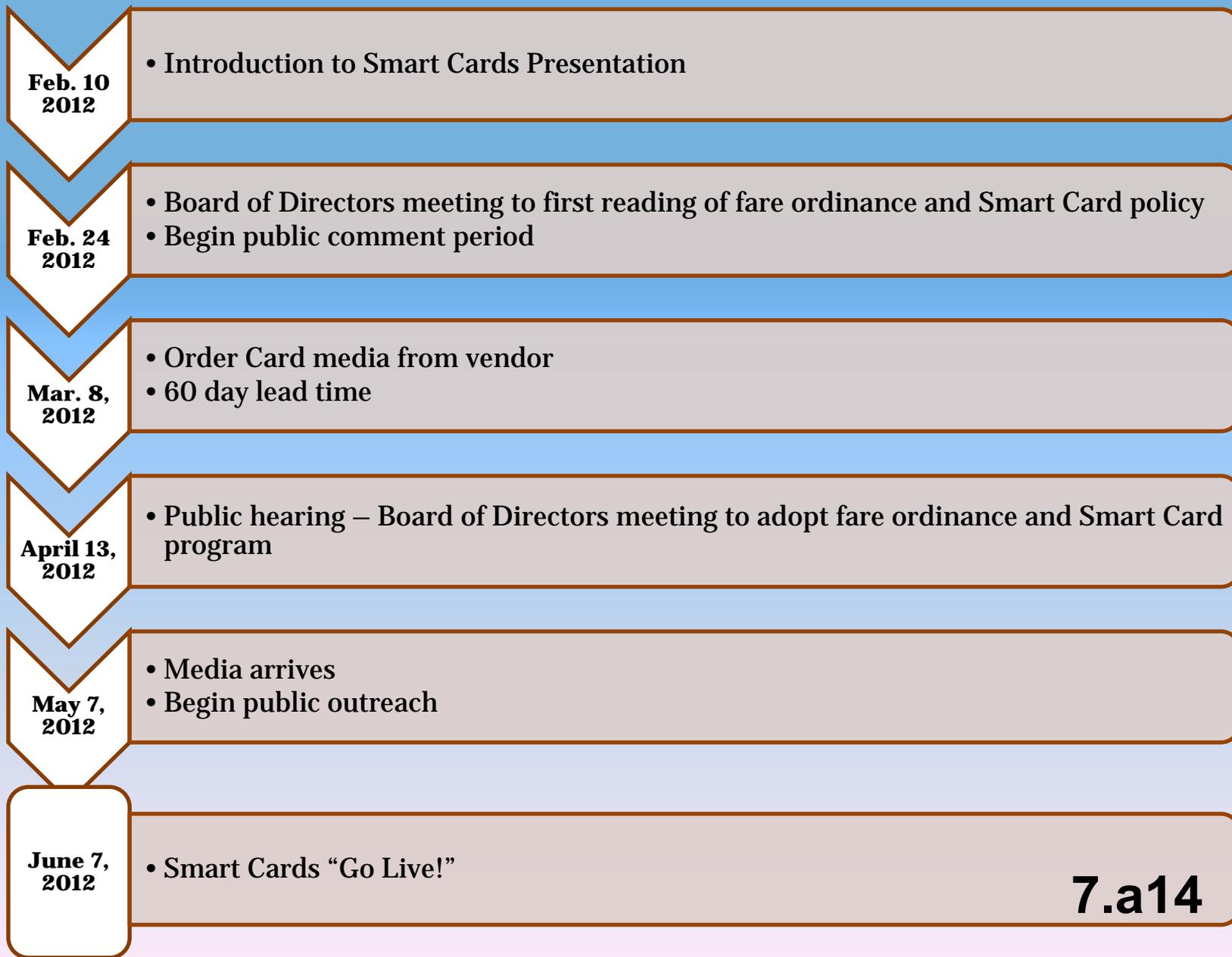
7.a12

FAQ

- What is the maximum that a Cruz Pass card or Cruz Cash card holds?
 - Cruz Pass cards can hold up to 62 consecutive days. The Cruz Cash card can hold up to \$50 of monetary value.
- Do riders register their Smart Cards?
 - No. The system will not hold personal information.
- Can more than one rider use a single Cruz Pass card or Cruz Cash card?
 - Each rider is encouraged to have his/her own Cruz Pass card or Cruz Cash card to use the fixed route system.
 - It is possible to "pass back" a Cruz Pass card loaded with a 15 Ride Pass or any Cruz Cash card may deduct additional ride for accompanying riders on the same Cruz Pass card or Cruz Cash card.
 - Cruz Passes loaded with any period pass are not permitted to be "passed back."
- What if a rider loses his/her Cruz Pass card or Cruz Cash card?
 - Santa Cruz METRO is not responsible for lost, stolen, or damaged cards.

7.a13

Timeline for Implementation of Smart Cards



7.a14

Santa Cruz METRO

Smart Cards



Board of Directors Meeting
February 10, 2012

7.a15