SANTA CRUZ METROPOLITAN TRANSIT DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
JUNE 30, 2023

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FINANCIAL SECTION

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Santa Cruz METRO, as of June 30, 2023, and the respective changes in financial position, and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Cruz METRO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 18 to the financial statements, in 2023 Santa Cruz METRO adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz METRO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Cruz METRO's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2023, on our consideration of Santa Cruz METRO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz METRO's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Cruz METRO's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2023

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

Introduction

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Santa Cruz Metropolitan Transit District (Santa Cruz METRO or the District) provides a narrative and analytical overview of the financial activities of Santa Cruz METRO with selected comparative information for the fiscal year ended June 30, 2023. Following the MD&A are the basic financial statements of Santa Cruz METRO together with the notes thereto, which are essential for a full understanding of the data contained in the financial statements.

Activities and Highlights

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

The Financial Statements

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

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

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

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

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

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

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

Financial Highlights

- Liabilities and deferred inflows of resources of Santa Cruz METRO exceeded its assets and deferred outflows of resources at the close of the fiscal year ended June 30, 2023, resulting in a Total Net Position (Deficit) of $(6.2 million), a favorable reduction of $13.9 million from the prior year Net Position (Deficit) of $(20.1 million) at June 30, 2022.

- Of this amount, $91.6 million consisted of Net Investment in Capital Assets, which reflects investment in capital assets used for operational and administrative functions (e.g., facilities, vehicles, and equipment), net of accumulated depreciation, amortization, and related debt. Accordingly, these assets are not available for future spending.

- The remaining balance of Total Net Position (Deficit) represents Unrestricted Net Position (Deficit) of $(97.8 million). The Unrestricted Net Position (Deficit) is the result, in large part, of Santa Cruz METRO's pension obligations (Net Pension Liability) associated with the District's defined benefit pension plan, that reached $21.4 million by June 30, 2023, retiree medical benefits obligations (OPEB) in fiscal year 2023 totaling $94.8 million at year-end, as well as pension obligation bonds debt in fiscal year 2023 of $49.0 million. The Net Pension Liability and Net OPEB Liability are required to be accounted for under Governmental Accounting Standards Board (GASB) Statement No. 68, and GASB Statement No. 75, respectively, and represent future long-term retiree pension and benefits obligations, however they do not significantly affect the District's ability to meet immediate (short-term) operational cash flow needs. Therefore, although the projected long-term pension and OPEB obligation costs have generated a deficit net position balance on the financial statements, Santa Cruz METRO is able to utilize current, available funds to pay for ongoing obligations for pension and retiree medical expenses as they come due.

- Total passenger fares revenue increased by $530 thousand, a 22.1% increase, to $2.9 million and Special Transit fares increased by $265 thousand, a 4.5% increase, to $6.1 million. These operating revenues increased significantly due to increased ridership and steadily increasing demand across all categories as more riders returned to recreational activities, work and school in-person, and reflect a growing recovery of customer trust in public transportation. The ridership increase was largely driven by increased service on University of California Santa Cruz (UCSC) routes as students returned to campus, as well as increases in weekend ridership. METRO was also unable to fully return to pre-pandemic levels of service hours however, due to an ongoing operator shortage, which is affecting most transit agencies across the country.

- Operating expenses of $53.7 million (excluding depreciation and amortization) for the year ended June 30, 2023, reflect an increase of 6.0% over the prior year, compared to a 9.8% decrease for the year ended June 30, 2022, over the previous year. This increase was driven by labor cost increases in the number of funded positions, contractually obligated cost of living adjustments, and annual step increases. Implementation costs for a new ERP system also accounted for a significant portion of this year-over-year increase.

- In fiscal year 2023, Santa Cruz METRO's capital assets (after the application of accumulated depreciation and amortization) of $95.5 million reflects a net increase of $7.8 million over the previous year, attributable primarily to the establishment of a subscription asset on the financial statements as a result of the implementation of GASB Statement No. 96, the purchase of five new zero emission buses, and a new Automatic Vehicle Location (AVL) and Automated Passenger Counter system. See the Financial Activities – Capital section of the Management's Discussion and Analysis for more information about capital projects and Note 4 to the financials for a schedule of changes in capital asset balances. Capital procurements are funded by a combination of federal, state, and local grants, Measure D sales tax proceeds, and Operating and Capital Reserves.

Financial Activities - Operations

The following discussion provides an overview of the financial activities related to operations (operating revenue and expense) for the fiscal year ended June 30, 2023. Financial Activities related to capital (e.g., buses, equipment, and facilities improvements) are discussed later in this report.

Operating Revenue and Expense:

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

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

Santa Cruz METRO receives a ½-cent sales tax levied on all taxable sales in Santa Cruz County, collected and administered by the California Department of Tax and Fee Administration (CDTFA). Additionally, in November 2016, the majority of Santa Cruz County approved Measure D, a ½-cent sales tax measure designed to fund a comprehensive and inclusive package of transportation improvements. Santa Cruz METRO receives 16% of net Measure D sales tax proceeds, in accordance with the set percentages detailed in the Measure D Expenditure Plan for direct allocations. Total sales tax receipts account for approximately 44% of Santa Cruz METRO's operating revenue sources as per the fiscal year 2023 Budget, adopted in June 2022. Actual sales tax revenues significantly exceeded budget projections, which resulted in favorable budget, as well as year-over-year variances, 11% and 1%, respectively.

Two other major sources of funding for public transportation, the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA), provided by the California Transportation Development Act (TDA), also contributed to the favorable budget variance for the year ended June 30, 2023. The combined share of TDA-LTF and TDA-STA Operating Assistance is 29% of Santa Cruz METRO's non-operating revenues and expenses. The funds are allocated to areas of each county based on population, taxable sales, and transit performance and mirrored the increase in taxable sales, fuel prices and consumption in 2022 and 2023. The year-over-year increase in TDA-LTF and TDA-STA were 18% and 43%, respectively.

System performance during the fiscal year was marked by slow and steady ridership and service recovery. Santa Cruz METRO restored service to pre-pandemic levels on most routes and ridership ended the year at 55% of pre-pandemic levels (fiscal year 2019). The increase was largely driven by increased service on UCSC routes as students returned to campus, as well as the full restoration of local service. Passenger and Special Transit Fares reflected the growth in ridership and service hours and increased by 22% and 5% year-over-year, respectively.

Santa Cruz METRO continued charging operating expenses to the supplemental FTA 5307 grants – American Rescue Plan Act (ARPA) - at 100% Federal share, with no local match requirements. FTA funds were used to support eligible operating expenses and maintain transit services during the pandemic. Total FTA operating assistance accounted for approximately 15% of total revenue, or $10 million, largely due to reimbursements of FTA-qualifying operating expenses related to the CRRSAA and ARPA. Furthermore, the supplemental COVID-19 FTA funding would allow Santa Cruz METRO to continue reinvesting other fungible revenues into its operating budgets in years to come in order to sustain services to the greatest extent possible during the economic recovery, or until these funds are exhausted.

Operating expenses increased by 7% year-over-year, with personnel expenses, comprising 69% of total operating expenses, increasing by 4%. The decrease was primarily due to year-end Other Postemployment Benefits adjusting entries for GASB Statements No. 68 and No. 75. As service hours increased and challenges of recruiting and retaining Bus Operators and other essential positions continued, overtime costs continued to increase in FY23, following the trend for the last two years. Paid absences increased less than 1% year-over-year and remained relatively high, compared to pre-pandemic years.

Non-personnel operating expenses, materials and supplies and other expenses, increased by 12% year-over-year, in correlation with service levels. Additionally, high inflation and supply chain issues heavily contributed to the year-over-year increases in the costs of fuels and lubricants, tires, and vehicle parts to name a few.

<u>Ridership:</u>

At the end of fiscal year 2023, Santa Cruz METRO's fixed-route bus system consisted of 23 routes, and provided 3,273,617 rides with a fleet of 96 CNG, diesel, and electric buses. Ridership increased by 498,334 fixed-route rides, which is an 18.0% increase over the previous year.

System performance in fiscal year 2023 was characterized by a slow but steady recovery of ridership. Efforts to return to pre-pandemic levels of service were hindered, however, by an ongoing operator shortage. Due to the difficulty hiring and retaining drivers, Santa Cruz METRO was unable to increase service in fiscal year 2023. The agency operated 85.8% of pre-pandemic vehicle revenue hours in fiscal year 2023 as compared to fiscal year 2019. Santa Cruz METRO is working hard to address the operator shortage to meet the growing demand for service in the upcoming fiscal year.

Fiscal year 2023 ridership increased 18.0% compared to fiscal year 2022 to just over 3.2 million annual boardings. This was largely driven by increased student ridership from UCSC and Cabrillo and the implementation of free fares for K-12 riders, as well as increases in weekend ridership. Cabrillo College ridership increased 95.9% compared to fiscal year 2022 and 53.3% of pre-pandemic levels by June 2023. UCSC ridership increased 63.6% compared to fiscal year 2022 and 66.5% of pre-pandemic activity. Highway 17 commuter ridership increased 16.8% compared to fiscal year 2022 and was 47.2% of pre-pandemic levels by year's end.

Paracruz, Santa Cruz METRO's paratransit service, provided 76,719 paratransit rides to mobility-impaired patrons on 32 specially equipped minibuses and minivans during fiscal year 2023. This represents a 19.17% increase in Paracruz ridership from the prior year (14,713 additional paratransit rides), resulting primarily from the COVID-19 pandemic ending and an increase of ridership in Santa Cruz METRO's paratransit service area.

Financial Analysis

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

Statements of Net Position:

Condensed Statements of Net Position

	2023	2022	2023 to 2022 Increase/(Decrease) Amount	%
Assets				
Current Assets	$ 91,176,922	$ 81,120,074	$ 10,056,848	12.4%
Restricted Assets	19,030,989	15,732,891	3,298,098	21.0%
Non-current Assets	174,585	-	174,585	100.0%
Capital Assets - Net	95,480,837	87,719,045	7,761,792	8.8%
Total Assets	$ 205,863,333	$ 184,572,010	$ 21,291,323	11.5%
Deferred Outflows of Resources				
Pension and OPEB Contributions	$ 27,104,274	$ 69,495,555	$ (42,391,281)	-61.0%
Total Deferred Outflows of Resources	$ 27,104,274	$ 69,495,555	$ (42,391,281)	-61.0%
Liabilities				
Current Liabilities	$ 16,840,106	$ 13,973,036	$ 2,867,070	20.5%
Non-Current Liabilities	16,332,110	13,469,489	2,862,621	21.3%
Other Long-Term Liabilities	167,865,912	217,080,225	(49,214,313)	-22.7%
Total Liabilities	$ 201,038,128	$ 244,522,750	$ (43,484,622)	-17.8%
Deferred Inflows of Resources				
Leases	$ 217,221	$ 431,003	$ (213,782)	-49.6%
Pension and OPEB Deferrals	37,921,879	29,213,327	8,708,552	29.8%
Total Deferred Inflows of Resources	$ 38,139,100	$ 29,644,330	$ 8,494,770	28.7%
Net Position				
Net Investment in Capital Assets	$ 91,554,055	$ 87,122,102	$ 4,431,953	5.1%
Unrestricted Net Position (Deficit)	(97,763,676)	(107,221,617)	9,457,941	8.8%
Total Net Position (Deficit)	$ (6,209,621)	$ (20,099,515)	$ 13,889,894	69.1%

<u>2023 vs 2022 Analysis</u>

Key changes include:

- *Current assets* increased by $10.1 million, or 12.4%, to $91.2 million. Change was driven by the increase in grants receivable and operating cash on hand by fiscal year 2023 year-end, a result of Coronavirus relief grants, as well as increases in interest revenue, TDA-LTF and TDA-STA revenues.

- *Non-Current assets* consists of the long-term portion of lease receivables associated with tenants' lease agreements for retail space at Metro bus stations in Watsonville and Scotts Valley.

- *Capital assets – net* increased by $7.8 million, or 8.8%, to $95.5 million, primarily due to the purchase of five zero-emission buses, EV chargers and bus wraps for $5.7 million, as well as the current year implementation of GASB Statement No. 96, which established a $3.6 million net subscription asset on the Statement of Net Position.

- *Restricted assets* consists of restricted cash held in segregated accounts in the Santa Cruz County Pooled Investment Fund. Total balances increased from last year by $3.3 million, or 21.0%, resulting in a $19.0 million balance by year end, due to the accumulation of restricted unspent Measure D sales tax allocations and LCTOP grant funds during the year. Unspent restricted funds are currently committed as cost-sharing on awarded capital grants.

- *Deferred outflows of resources* totaling $27.1 million include $9.6 million in OPEB retiree medical, dental and vision insurance premium payments and $17.5 million in pension contributions and actuarial adjustments that were recorded in the current fiscal year, as required by GASB Statements No. 75 and No. 68, respectively.

- *Current liabilities* increased by $2.9 million, or 20.5%, to $16.8 million in total, mainly due to the year-end accrual of five zero-emission buses and chargers.

- *Non-current liabilities* increased by $2.9 million, or 21.3%, to $16.3 million: Capital grant funds and subsidies received are restricted and reported as liabilities (unearned revenue); Revenue recognition is deferred until grant funds are spent on the specific project or purpose for which they were awarded. Measure D sales tax allocations and LCTOP grant funds received during the current year (unspent and restricted for capital costs) increased unearned revenue balances at year-end.

- *Other long-term liabilities* decreased by $49.2 million, or 22.7%, to $167.9 million; A change in the discount rate used to account for OPEB liabilities resulted in a $27.1 million decrease in other long-term liabilities. The net pension liability associated with Metro's defined benefit plan decreased $22.7 million as a result of the obligation pay-down made with the proceeds from the issuance of pension obligation bonds in fiscal year 2022.

- *Deferred inflows of resources* that netted to $38.1 million in pension investment earnings, OPEB deferrals and leases were recognized in the current year through the application of GASB Statements No. 68, No. 75 and No. 87 respectively.

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

			2023 to 2022 Increase/(Decrease)	
	2023	2022	Amount	%
Operating Revenues	$ 9,042,854	$ 8,247,748	$ 795,106	9.6%
Operating Expenses	59,715,912	56,067,764	3,648,148	6.5%
Net Operating Loss	(50,673,058)	(47,820,016)	(2,853,042)	6.0%
Non-Operating Revenues	56,946,499	63,785,154	(6,838,655)	-10.7%
Capital Grant Contributions	7,616,453	7,329,243	287,210	3.9%
Increase (Decrease) in Net Position	$ 13,889,894	$ 23,294,381	$ (9,404,487)	-40.4%

2023 vs 2022 Analysis

Operating Revenues (Passenger Fares) of $9 million reflects an increase variance of $795 thousand, or 9.6% increase, over prior year revenues, primarily due to the steady ridership and system recovery as the pandemic slowly receded.

Operating Expenses of $59.7 million reflects a year-over-year increase of $3.6 million, or 6.5%, due to several factors: Other Postemployment Benefits adjusting entries for GASB Statements No. 68 and No. 75, increase in the number of funded positions, and increases in overtime, offset by savings in retirement costs.

Non-Operating Revenues decreased overall by $6.8 million, or 10.7%, over last year revenues primarily due to year-over-year decrease in the supplemental FTA 5307 Operating Assistance Grants (ARPA), offset by increases in Passenger Fares and Transportation Development Act – Local and State Transit Assistance Funding.

Capital Grant Contributions represents the total amount of capital grant and Measure D sales tax funds that were used to subsidize the purchase of facilities improvements and capital equipment, including revenue vehicles, during fiscal year 2023. The receipt and application of capital funds can fluctuate year over year based on a variety of factors including project eligibility conditions, formula-based funding criteria, government procurement processes, the economy, etc. Capital grant contributions increased by $287 thousand, or 3.9%, from last year.

Budgetary Highlights

The annual Operating and Capital budgets are used as management tools to monitor Revenues and Expenses, evaluate operating performance, and track the progress of Capital projects at any given time period. The District's Board approves these items prior to implementation. The fiscal year 2023 budget total of $156,843,796 included $69,813,238 for Revenue and Expenses and $87,030,558 for Capital Projects (Capital Portfolio). The District finished fiscal year 2023 with operating expenses of $53,771,904, net of depreciation, workers' compensation IBNR, and retirement-related actuarial adjustments; Capital expenses of $10,022,918 included $2,406,465 Capital Reserve spending and $7,616,453 of pass-through grant.

Financial Activities - Capital

Capital Program:

In fiscal year 2023, Santa Cruz METRO spent $10.0 million on the purchase of capital assets and on new and ongoing capital projects. A total of $7.6 million of these capital additions were paid for with capital contributions funded by a variety of sources, including the FTA, PTMISEA, STA, STA - State of Good Repair (STA-SGR), LCTOP, STIP, and Measure D local sales tax allocations. A total of $2.4 million of these capital purchases were made using Capital Reserve Funds.

Noteworthy capital project activity in fiscal year 2023 includes:

- Purchase and Delivery of Five (5) Battery Electric Buses – Santa Cruz METRO continues to replace aging vehicles on its fixed route and Highway 17 Express routes. The purchase of the battery electric buses from Gillig was funded with grants from FTA 5339(c) LoNo program, Measure D, LCTOP, and Capital Reserves, and is in alliance with California's goal of Zero Emission Vehicles by 2040.

- Purchase and Installation of a Security Camera System at Scotts Valley Transit Center – Santa Cruz METRO installed a new cloud-based security camera system to deter crime and provide the riding public, vendors and employees a safe environment. The security camera system provides Santa Cruz METRO with full aerial view coverage of the transit center, including the large parking lot and Cruise Café, a popular coffee shop in the Center.

- Santa Cruz METRO also installed a new Security Camera System at the Watsonville Transit Center (WTC) – Improved security measures were required at WTC to ensure public safety for employees and riders. This new security camera system is compatible with the security software Santa Cruz METRO has at other locations and was purchased using a Cooperative Purchase Agreement.

- Acquisition of Two (2) Roadside Assistance Service Trucks – Santa Cruz METRO also has the need to replace aging vehicles in its non-revenue fleet. These Service Trucks will increase Santa Cruz METRO's ability to provide roadside assistance to buses and other vehicles suffering breakdowns while on their route. These vehicles allow Santa Cruz METRO to move these buses to safe locations when they fail in hazardous areas, avoiding unnecessary and expensive towing.

- New Automated Passenger Counter (APC) System for Santa Cruz METRO buses – Santa Cruz METRO required an APC system to track ridership. The new system consists of electronic sensors installed above all bus doorways that feed passenger boarding and alighting data back to a central system for real time passenger load information and analytics for planning. Clever Devices was selected after a competition as the most qualified supplier with costs that are fair and reasonable. The new APC system is compatible with Santa Cruz METRO's Intelligent Transportation Technology (ITS) Solution.

- Fluid Management System – Santa Cruz METRO needed a more accurate and reliable fuel management system for their fleet and successfully implemented a new System from S&A, also known as Fleetwatch. The Fleetwatch system automatically detects vehicle ID and mileage and allows for accurate dispensing of appropriate fluids as required. This system removes human error and allows for more accurate record keeping.

- Three (3) new 2022 Chevy Bolts – These new electric cars were purchased to replace aging vehicles in Santa Cruz METRO's non-revenue fleet. These vehicles are ideal for Santa Cruz METRO staff with cost savings due to being electric and offer extra headspace and leg room which can also be used for transporting parts and small packages.

- Santa Cruz METRO began wrapping a select number of buses using local wildlife photos by world-renowned photographer Frans Lanting. These newly wrapped buses were unveiled in January 2023 and promote Santa Cruz METRO's vision to increase ridership and reduce greenhouse gas emissions and protect the Monterey Bay through the One Ride at a Time campaign.

- New Centralized Enterprise Resource Planning (ERP) System – Santa Cruz METRO began the necessary processes to update their resource planning systems to enable a viable system which will be integrated across all business environments (human resources, accounting, payroll, procurement, etc.). Santa Cruz METRO partnered with Avaap, a software integration company, to implement the Workday Enterprise Resource Planning System. Workday is in the process of replacing most of Santa Cruz METRO's financial and human capital management systems including Puridiom, ABS, HRIS, Epicor, Qquest, Sage and Paytime. Workday will also integrate with Santa Cruz METRO's current software including Active Directory, Bonfire, Hastus and Maintstar. This is a long-term process with many phases, paid for with Capital Reserves.

Future Outlook

In July 2023, Santa Cruz METRO started the new fiscal year with a balanced budget and a sustainable five-year projection of revenues and expenses, providing a clear road map for the delivery of service and planned capital improvements. Years of fiscally responsible decisions, enhanced focus on service productivity and sustainability coupled with a favorable economic environment all contributed to Santa Cruz METRO's improved financial position. The renewed focus on prudent financial planning by shoring up Operating and Capital reserve levels allows Santa Cruz METRO the ability to navigate difficult times, respond to short-term crisis and funding disruptions, and deliver on the agency's goals established by the Board of Directors in October 2022 to: 1) double ridership in five years, 2) procure only zero-emission buses going forward, and 3) develop 125+ units of affordable housing on Santa Cruz METRO owned property by the end of the decade. In the past 12 months, Santa Cruz METRO has received an extraordinary $148 million in competitive and discretionary federal, state, and regional grants to support the agency's transition to zero-emission technology and increase service to respond to customer needs and attract new ridership. In fiscal year 2024 and beyond, Santa Cruz METRO's focus will be on implementing the plans and projects supported by this infusion of funding.

Doubling Ridership in Five Years

Reimagine METRO

Decades of service cuts have left Santa Cruz METRO operating 30% less service than it did 20 years ago, with annual ridership following a similar trend over the intervening decades. At the beginning of the COVID-19 pandemic, ridership briefly declined 90% and gradually increased to 70% of pre-pandemic levels in fiscal year 2023. Changing commute patterns, driven in large part by the increased prevalence of remote work, have reduced ridership during peak demand periods while midday ridership is steadily increasing. Meanwhile, increased traffic congestion, a lingering vestige of the pandemic when greater shares of commuters took to their cars, has forced Santa Cruz METRO to continually make schedule adjustments. Slower speeds make transit service more costly to operate and less attractive to customers. This trend will continue to negatively impact transit operations unless Santa Cruz METRO can work with the cities and counties in which it operates to create dedicated roadway space for Santa Cruz METRO buses.

In October 2022, the Santa Cruz METRO Board of Directors set an agency goal to double ridership within five years to levels last seen in the mid-2000s. To aid in this effort, Santa Cruz METRO hired world-renowned transit planning consultants Jarrett Walker and Associates in December 2022 to develop a plan to “reimagine” Santa Cruz METRO. In 2023, the Reimagine Santa Cruz METRO plan completed 1) an evaluation of Santa Cruz METRO’s current fixed route system; 2) designed two alternative scenarios illustrating different policy directions that the Santa Cruz METRO bus network might take, focusing on the tradeoffs between ridership and coverage goals; 3) developed final network scenarios matching three financial projections, one with current resources and two with additional financial resources; and 4) conducted a process of interaction with stakeholders, city councils, the Santa Cruz METRO Board, and the public that provided opportunities to provide substantive and impactful input to the plan.

In fiscal year 2024, Santa Cruz METRO is focused on the implementation of the Reimagine Santa Cruz METRO plan. The first phase of Reimagine Santa Cruz METRO is being implemented in December 2023 and includes:

- More service (a 10% increase over today and 25% more than spring 2023)
- Higher frequency service in areas with high transit demand
- Simpler, more direct routes, especially in Watsonville
- Better transfers with shorter wait times and no additional fare
- Some changes to route numbers and names
- Some changes to bus stop locations and which streets have bus service

In March 2024, the Santa Cruz METRO Board of Directors will review a second phase of bus service changes that will go into effect in June and September 2024. These changes include:

- Increased, 15-minute frequency on three cross-county corridors serving Watsonville and Mid-County
- New routes and service to the University of California Santa Cruz (UCSC) and Cabrillo College campuses, Santa Cruz METRO’s highest and second highest ridership generators
- A new, frequent route connecting Watsonville to Cabrillo College via Freedom Blvd. and Airport Rd.
- All-day service on a Watsonville to Santa Cruz express route

The Phase 2 service improvements are expected to catalyze a 35% increase in ridership, or 1.75 million new boardings per year. This equates to a vehicle miles traveled (VMT) reduction of 9.8 million miles per year and a CO_2 emission reduction of 40,068 metric tons per year, meaning less congestion and emissions in Santa Cruz County. In addition, the improvements will bring high-quality service with frequencies of 15-minutes or better to within a half a mile of 100,000 residents within Santa Cruz County, providing livable transportation alternatives to residents countywide—no matter what age, income or race.

Funding for these service improvements is being provided by a $32 million formula grant from the State of California Transit and Intercity Rail Capital Program (TIRCP), which Santa Cruz METRO will begin receiving in 2024 and which will fund the program through an initial pilot period of three years. With enhanced service in place, and ridership on the rise, Santa Cruz METRO plans to pursue a ballot measure for a ¼- or ½-cent sales tax in 2026 or 2028, which will be Santa Cruz METRO's first dedicated sales tax since 1978, to fund the improved service in perpetuity.

Speed and Reliability Improvements

While Reimagine Santa Cruz METRO is focused on where buses go and how often they should go there, a complementary planning study – the Rapid Corridors study – is focused on improving the speed, reliability and accessibility of Santa Cruz METRO's core intercity routes. Throughout Santa Cruz County, METRO buses travel along congested streets and corridors without the benefit of transit supportive elements such as bus only lanes, traffic queue jumps, or bus boarding islands. This means travel by bus takes significantly longer and is less reliable than private automobile. In fiscal year 2021, Caltrans awarded Santa Cruz METRO a Caltrans Sustainable Transportation Planning Grant (STPG) to fund the Watsonville - Santa Cruz Intercity Transit Speed and Reliability Study. In fiscal year 2022, staff awarded a consultant contract to Kimley-Horn to assist in evaluating traffic and travel conditions along the primary transit corridors connecting Watsonville and Santa Cruz. A final report will be released in December 2023 identifying $24.1 million worth of improvements aligned to the following strategies: bus bulbs and transit islands, enhanced bus stop amenities, bus stop consolidation and relocation, transit signal priority, improved pedestrian crossings, queue jumps, transit only lanes, and intersection improvements. Together, these improvements will result in a 15% increase in the number of people with a ¼ mile of a high-quality bus stop and up to 40% faster travel time between Santa Cruz and Watsonville.

Santa Cruz METRO was awarded $7.5 million towards the construction of these improvements in 2023 and in fiscal year 2024 staff will continue to seek funding to implement the rest of the project in phases. Not only will the project support ridership growth and equity – 50% of survey respondents indicated they would ride Santa Cruz METRO more if service was faster and more reliable – but the time savings achieved on the corridor will translate directly to financial savings for Santa Cruz METRO in terms of saved operator wages, fuel and the need for additional vehicles to operate the same amount of service.

In addition, staff continues to coordinate with the Santa Cruz County Regional Transportation Commission (RTC), Caltrans and Santa Cruz County on the Watsonville – Santa Cruz Multimodal Corridor Program (WSC-MCP), including the Highway 1 Auxiliary Lanes/Bus On Shoulder component and Soquel Avenue/Drive to Freedom Boulevard bicycle/pedestrian improvements. In fiscal year 2021, the California Transportation Commission approved over $100 million in funding for the WSC-MCP Cycle 2 Project, which began broke ground in 2023 and will construct auxiliary lanes on Highway 1 between Soquel Ave and State Park Drive and add buffered/protected bike lanes and transit signal priority (TSP) on Soquel Drive along the same segment. Staff is currently coordinating with the regional partners on additional funding to complete the bus on shoulder segments and the rapid corridor components identified above.

Marketing Initiatives

In November 2022, Santa Cruz METRO hired an external marketing firm, Celtis Ventures Inc., to assist the agency in promotions; included in the contract is the design and implementation of a new website, development of a customer loyalty program, update to Santa Cruz METRO's existing brand standards, creation of a video/photo library, marketing materials, social media support, and community engagement. Santa Cruz METRO's marketing will be targeted at increasing environmental awareness in the community and the emissions savings that occurs from riding public transit over personal vehicle use. Campaigns will also tie into Santa Cruz METRO's zero-emission transition plan.

In late fiscal year 2023, Santa Cruz METRO launched One Ride at a Time, a customer loyalty program that tracks riders trips with a point system; the accumulated points can then be used to donate to the Monterey Bay National Marine Sanctuary Foundation and the Bay of Life Fund. Emissions savings from riding public transit will also be tracked. In addition, the loyalty program is being promoted through bus wraps encouraging riders to join the program. Santa Cruz METRO is gradually releasing pairs of buses wrapped with iconic photos of the Monterey Bay taken by renowned photographers like Frans Lanting and Jodi Frediani to great fanfare. By the end of 2024, about 30 wrapped buses will be traveling throughout Santa Cruz County and featuring inspiring images of whales, sea otters, mountain lions, redwoods and more.

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

Zero-Emission Vehicle Transition

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

In fiscal year 2023, Santa Cruz METRO was awarded nearly $90 million in federal and state grants, including nearly $40 million in highly competitive state TIRCP funds and $20 million in Federal Transit Administration (FTA) Bus and Bus Facilities funds to procure up to 57 FCEBs (the largest purchase in North America), construct a hydrogen fueling facility, complete necessary maintenance facility upgrades, and provide workforce training in FCEB technology. In addition, Santa Cruz METRO supported a joint application by ARCHES, a public-private partnership to create a sustainable statewide clean hydrogen (H2) hub in California and beyond, which was awarded $1.2 billion in October 2023 by the Department of Energy. In fiscal years 2024-2027, staff will be working to deliver the transition to hydrogen fuel while seeking additional funds to convert the entire Santa Cruz METRO fleet to zero-emission technology.

Supporting Affordable Housing Development in Santa Cruz County

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

In the next decade, Santa Cruz METRO plans to develop 175 affordable housing units at Santa Cruz METRO transit centers and facilities, including Pacific Station, the Watsonville Transit Center, and the Soquel Park and Ride. In fiscal year 2022, Santa Cruz METRO and the City of Santa Cruz were awarded $30 million from the state's Affordable Housing and Sustainable Communities (AHSC) grant to redevelop the current Pacific Station site and adjacent City owned properties into 120 affordable housing units and a new bus station and tarmac. In fiscal year 2023, Santa Cruz METRO received additional funds for the project as part of its TIRCP award. The project will break ground in February 2024, with construction expected to be complete in 2026. Santa Cruz METRO's 2023 TIRCP award also included $8 million in funding to redevelop the Watsonville Transit Center into a mixed-use, affordable housing development with a new transit center. Santa Cruz METRO received a $2 million regional REAP 2.0 grant from AMBAG in December 2023. In fiscal year 2024, staff will continue to seek additional funding to complete the project by fiscal year 2026.

Economic Factors and Next Year's Budget

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

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

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

The Board adopted the fiscal year 2024 Operating budget on June 23, 2023, totaling Revenue of $72,597,335; Operating Expenses of $65,083,522, and Transfers of $7,513,813.

Total Operating Revenues are expected to increase 4% compared to the fiscal year 2023 budget primarily due to the anticipated increase in TDA–STA and Sales Tax (including Measure D) revenues. Additionally Passenger Fares (Fixed Route, Paratransit, and Highway 17 Fares) are projected to increase as recovery from the pandemic continues and riders return. Modest increases are anticipated in Special Transit Fares (contracts with UCSC, Cabrillo College, and Highway 17 Partners – Amtrak and VTA).

Total Operating Expenses are projected to increase 6.8% compared to the fiscal year 2023 budget, driven by Labor and Fringe benefits increases such as cost of living adjustments, annual step increases, as well as anticipated higher medical costs. Non-personnel expenses are increasing as general inflationary adjustments are applied across all categories.

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

The Capital Budget Portfolio, adopted by the Board in June 2023 is $83,081,176, approximately 26% of which (or $21,359,186) is anticipated to be spent by the end of fiscal year 2024. Over 90% of the fiscal year 2024 Capital Budget Portfolio is allocated to bus and paratransit vehicle replacement projects and related infrastructure.

Contacting Santa Cruz METRO's Financial Management

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

BASIC FINANCIAL STATEMENTS

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 68,722,082
Sales Taxes and Other Receivables	7,126,622
Grants Receivables	13,409,520
Lease Receivable - Short Term	54,519
Inventory	1,038,476
Prepaid Expenses	825,703
Total Current Assets	91,176,922
RESTRICTED ASSETS	
Cash and Cash Equivalents	19,030,989
NON-CURRENT ASSETS	
Lease Receivable - Long Term	174,585
CAPITAL ASSETS	
Building and Improvements	79,534,240
Revenue Vehicles	49,441,907
Operations Equipment	7,881,550
Other Equipment	2,347,783
Other Vehicles	1,151,850
Office Equipment	2,960,956
Total Depreciated Capital Assets	143,318,286
Less Accumulated Depreciation and Amortization	(74,748,286)
Total Depreciated Capital Assets Net of Accumulated Depreciation and Amortization	68,570,000
Construction-in-Progress	11,435,917
Land	11,596,311
Right-to-Use Lease Asset, Net	305,446
Subscription Assets, Net	3,573,163
Total Capital Assets, Net of Accumulated Depreciation and Amortization	95,480,837
Total Assets	205,863,333

DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts from Other Postemployment Benefits (OPEB)	9,622,235
Deferred Amounts from Pension Activities	17,482,039
Total Deferred Outflows of Resources	27,104,274

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

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF NET POSITION (Continued)
JUNE 30, 2023

LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable and Accrued Liabilities	7,699,527
Accrued Payroll and Employee Benefits	4,061,166
Interest Payable	714,206
Deferred Rent	3,667
Workers' Compensation Liabilities, Current	494,613
Other Accrued Liabilities	608,171
Security Deposit	11,437
Financed Purchase, Current	117,245
Lease Liability, Current	93,343
Subscription Liability, Current	336,731
Pension Obligation Bonds, Current	2,700,000
Total Current Liabilities	16,840,106
NON-CURRENT LIABILITIES	
Unearned Revenue - State Transit Assistance (STA)	219,474
Unearned Revenue - State of Good Repair (SGR)	3,025,101
Unearned Revenue - Measure D	9,656,682
Unearned Revenue - LCTOP	3,430,853
Total Non-Current Liabilities	16,332,110
OTHER LONG-TERM LIABILITIES	
Workers' Compensation Liabilities, Net of Current	1,985,333
Financed Purchase, Net of Current	-
Lease Liability, Net of Current	216,413
Subscription Liability, Net of Current	3,163,050
Pension Obligation Bonds, Net of Current	46,265,000
Net OPEB Liability	94,838,607
Net Pension Liability	21,397,509
Total Other Long-Term Liabilities	167,865,912
Total Liabilities	201,038,128
DEFERRED INFLOWS OF RESOURCES	
Deferred Amounts from Leases	217,221
Deferred Amounts from OPEB	37,660,770
Deferred Amounts from Pension Activities	261,109
Total Deferred Inflows of Resources	38,139,100
NET POSITION (DEFICIT)	
Net Investment in Capital Assets	91,554,055
Unrestricted Net Position (Deficit)	(97,763,676)
Total Net Position (Deficit)	$ (6,209,621)

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

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

OPERATING REVENUES	
Passenger Fares	$ 2,930,582
Special Transit Fares	6,112,272
Total Operating Revenues	9,042,854
OPERATING EXPENSES	
Wages, Salaries, and Employee Benefits	40,955,867
Materials and Supplies	4,474,598
Other Expenses	8,222,536
Depreciation and Amortization	6,062,911
Total Operating Expenses	59,715,912
Net Operating Loss	(50,673,058)
NON-OPERATING REVENUES (EXPENSES)	
Sales and Use Taxes	29,480,732
Transportation Development Act (TDA) Assistance	10,166,800
State Transit Assistance (STA)	6,362,055
Federal Transit Administration (FTA) Section 5307 Operating Assistance	9,696,604
FTA Section 5311 Rural Operating Assistance	258,123
Low Carbon Transit Operations Program and Other State Assistance	466,069
Alternative Fuel Credit	380,632
Interest Income	1,230,432
Interest Expense	(1,587,145)
Rental Income	58,349
Other Revenue	350,333
Lease Revenue	53,407
Gain on Sale and Disposal of Property, Equipment, and Inventory	30,108
Total Non-Operating Revenues (Expenses)	56,946,499
Net Income Before Capital Contributions	6,273,441
CAPITAL CONTRIBUTIONS	
Grants Restricted for Capital Expenditures	7,616,453
NET POSITION	
Change in Net Position	13,889,894
Net Position (Deficit), Beginning of Year	(20,099,515)
Total Net Position (Deficit), End of Year	$ (6,209,621)

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

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	$ 8,419,350
Payments to Employees	(3,461,222)
Payments to Suppliers	(9,150,789)
Payments from Other	(36,918,423)
Net Cash Used in Operating Activities	(41,111,084)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating Grants Received, Including Sales and Use Taxes	55,586,381
Net Cash Provided by Non-Capital Financing Activities	55,586,381
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Sale of Property and Equipment	30,108
Capital Grants Received/(Used)	7,411,656
Capital Expenditures	(10,084,370)
Gain on Sale of Assets	-
Payments Made on Financed Purchase	(410,494)
Proceeds from Pension Obligation Bonds	(2,785,000)
Net Cash Used in Capital and Related Financing Activities	(5,838,100)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment and Rental Income Received	1,288,781
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,925,978
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	77,827,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 87,753,071
FINANCIAL STATEMENT PRESENTATION:	
Cash and Cash Equivalents	$ 68,722,082
Cash and Cash Equivalents - Restricted	19,030,989
Total Cash and Cash Equivalents	$ 87,753,071

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

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Net Operating Loss	$ (50,673,058)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:	
Depreciation and Amortization	6,062,911
Changes in Assets and Liabilities:	
Increase in Receivables	(618,826)
Increase in Lease Receivables	(4,678)
Decrease in Inventory	(148,715)
Increase in Prepaid Expenses	63,531
Increase in Accounts Payable and Accrued Liabilities	3,353,982
Decrease in Interest Payable	210,786
Decrease in Net Pension Liability	4,434,024
Decrease in Net OPEB Liability	(3,138,396)
Decrease in Other Liabilities	(652,645)
Net Cash Used in Operating Activities	$ (41,111,084)

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

NOTE 1 – OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Santa Cruz Metropolitan Transit District (Santa Cruz METRO or the District) was formed February 9, 1969, following a favorable election in conformity with Section 9800 et. seq. of the Public Utilities Code (PUC). The transit system serves the general public in the cities of Santa Cruz, Watsonville, Scotts Valley, Capitola, and the unincorporated areas of Santa Cruz County. The Board of Directors (Board) consisting of eleven directors and two ex-officio directors representing the University of California, Santa Cruz and Cabrillo College govern Santa Cruz METRO. At June 30, 2023, the Board was as follows:

Chairperson:	Shebreh Kalantari-Johnson	
Vice Chair:	Kristen Brown	
Members:	Rebecca Downing	Jimmy Dutra
	Manu Koenig	Donna Lind
	Bruce McPherson	Scott Newsome
	Larry Pageler	Vanessa Quiroz-Carter
	Mike Rotkin	
Ex-Officios:	Dan Henderson	Alta Northcutt

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

B. Reporting Entity

Santa Cruz METRO and the Santa Cruz Civic Improvement Corporation (the Corporation) have a financial and operational relationship, which meets the reporting entity definition criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, for inclusion of the Corporation as a blended component unit of Santa Cruz METRO. Accordingly, the financial activities of the Corporation have been included in the basic financial statements of Santa Cruz METRO. For the fiscal year ended June 30, 2023, these activities were minimal.

Scope of Public Service:

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

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

Accountability:

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

NOTE 1 – <u>OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

B. <u>Reporting Entity</u> (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. <u>Basis of Accounting and Presentation</u>

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

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

Contributed Capital/Reserved Retained Earnings:

Santa Cruz METRO receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant had been incurred. Capital grant funds earned, less amortization, equal to accumulated depreciation of the related assets, were included in contributed capital. As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Santa Cruz METRO changed its method of accounting for capital grants from capital contributions to reserved non-operating revenues. In accordance with GASB Statement No. 33, capital grants are required to be included in the determination of net income (loss) resulting in an increase in net revenue of $7,616,453 for the fiscal year ended June 30, 2023.

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

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

C. Basis of Accounting and Presentation (Continued)

Proprietary Accounting and Financial Reporting:

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

Net Position:

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

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

D. Cash and Cash Equivalents

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

E. Inventory

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

F. Restricted Assets

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

Unspent grant funds from the State Transit Assistance (STA) and State Transit Assistance - State of Good Repair (STA-SGR) programs; the Low Carbon Transit Operations Program (LCTOP); and a portion of Measure D sales tax allocations are restricted for capital expenditures. Additionally, the District has $4,837,655 of restricted cash deposited with a fiscal agent to meet pension obligation bonds debt reserve fund requirements.

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

F. Restricted Assets (Continued)

Restricted assets at June 30 are as follows:

Cash and Cash Equivalents	
STA Grant	$ 219,474
STA - State of Good Repair (SGR) Grant	2,891,529
Measure D	8,894,841
LCTOP Grant	2,187,490
Pension Obligation Bonds	4,837,655
Total Restricted Assets	$ 19,030,989

G. Property and Equipment

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

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

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

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

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

H. Sales and Use Taxes Receipts

1979 Gross Sales Tax (1/2-cent): In June 1978, voters in Santa Cruz County approved Measure G which changed the basis of transit support for Santa Cruz METRO from property tax to a ½-cent sales and use tax effective January 1979. This ½-cent sales and use tax levied on all taxable sales in Santa Cruz County is collected and administered by the California State Board of Equalization. Actual receipts of Measure G sales and use tax for the fiscal year ended June 30, 2023, was $27,672,778.

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

H. Sales and Use Taxes Receipts (Continued)

2017 Net Sales Tax (Measure D): This local ordinance to fund a comprehensive package of county-wide transportation improvements passed in November 2016 by over 2/3 of Santa Cruz County voters. The transportation tax measure levies a 0.5% sales and use tax on retail sales within Santa Cruz County for a thirty-year period, effective April 1, 2017. Measure D sales and use tax receipts are administered by the Santa Cruz County Regional Transportation Commission according to the Expenditure Plan identified in the ordinance. Santa Cruz METRO is allocated 16% of Measure D local sales and use tax receipts collected, net of administrative costs, to provide transit and paratransit service for seniors and people with disabilities. Measure D sales and use tax receipts were $4,327,486 for the fiscal year ended June 30, 2023. During fiscal year 2023, $1,807,954 of Measure D funds were earned and spent on operating expenses, and $1,714,880 of Measure D funds were earned and spent on capital projects. At June 30, 2023, $9,656,682 of Measure D funds were unspent and recorded as unearned (deferred) revenue.

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

I. Operating Assistance Grants

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

J. Self-Insurance

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

K. Employee Benefits

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

L. Payroll

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

M. Pension Costs

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

N. Other Postemployment Benefits (OPEB)

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

O. Use of Estimates

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

P. Implementation of GASB Statements

GASB Statement No. 91 – *Conduit Debt Obligations.* The requirements of this statement are effective for fiscal years beginning after December 15, 2021, and all fiscal years thereafter. This statement did not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022. This statement did not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all fiscal years thereafter. The District has implemented this statement and the provisions are contained within the financial statements.

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

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

This statement does not impact the financial statements or disclosures of the District as the District does not have these types of transactions.

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

Q. Future GASB Statements

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS

Total cash and cash equivalents (restricted and unrestricted) consist of the following at June 30, 2023:

Cash on Hand	$ 13,930
Demand Deposits	1,298,186
Certificates of Deposit (CD)	111,750
Deposits with Trustee	4,837,655
Deposits in Santa Cruz County Pooled Investment Fund	81,491,550
	$ 87,753,071

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**.

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

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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:

		Remaining Maturity (in Months)			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Santa Cruz County Pooled Investment Fund	$ 81,491,550	$ 81,491,550	$ -	$ -	$ -

Disclosures Relating to Credit Risk

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

				Rating as of Year-End		
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	$ 81,491,550	N/A	$ -	$ -	$ -	$ 81,491,550

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, 2023.

Custodial Credit Risk

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

NOTE 2 – <u>CASH AND CASH EQUIVALENTS</u> (Continued)

<u>Cash on Hand and Cash in Banks</u> (Continued)

Custodial Credit Risk (Continued)

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

Investment in Santa Cruz County Pooled Investment Fund

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

Fair Value Measurements

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

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

Santa Cruz METRO has the following recurring fair value measurements as of June 30, 2023:

		Fair Value Measurement Using		
Investments by fair value level		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit (CD)	$ 111,750	$ 111,750	$ -	$ -
Total investments measured at fair value	111,750	$ 111,750	$ -	$ -
Investments measured at amortized cost:				
Santa Cruz County Pooled Investment Fund	81,491,550			
Total pooled and directed investments	$ 81,603,300			

Investments in the Santa Cruz County Pooled Investment Fund totaling $81,491,550 as of June 30, 2023, are measured at amortized cost, which approximates fair value.

NOTE 3 – RECEIVABLES

Sales taxes and other receivables at June 30, 2023 are as follows:

Sales and Use Tax Revenue	$ 5,765,943
Other	1,360,679
	$ 7,126,622

Grant receivables at June 30, 2023 are as follows:

Federal Grants	$ 8,348,880
State Grants	3,127,010
Local Grants	1,933,630
	$ 13,409,520

NOTE 4 – CHANGES IN CAPITAL ASSETS

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

	Balance July 1, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Non-Depreciated Assets					
Land	$ 11,596,311	$ -	$ -	$ -	$ 11,596,311
Construction-in-Progress	4,622,870	9,747,510	(16,262)	(2,918,201)	11,435,917
Total Non-Depreciated Assets	16,219,181	9,747,510	(16,262)	(2,918,201)	23,032,228
Depreciated Assets					
Building and Improvements	80,124,319	-	(605,038)	14,959	79,534,240
Revenue Vehicles	48,809,131	-	(2,011,663)	2,644,439	49,441,907
Operations Equipment	7,852,739	-	(70,083)	98,894	7,881,550
Other Equipment	2,355,853	-	(8,070)	-	2,347,783
Other Vehicles	1,242,443	-	(153,577)	62,984	1,151,850
Office Equipment	3,950,861	-	(1,086,830)	96,925	2,960,956
Right-to-Use Lease Asset	305,187	193,173	-	-	498,360
Total Depreciated Assets	144,640,533	193,173	(3,935,261)	2,918,201	143,816,646
Less Accumulated Depreciation and Amortization	(73,140,669)	(5,735,792)	3,935,261	-	(74,941,200)
Depreciated Assets Net of Accumulated Depreciation	71,499,864	(5,542,619)	-	2,918,201	68,875,446
SBITA					
Software	-	3,933,506	-	-	3,933,506
Accumulated Amortization	-	(360,343)	-	-	(360,343)
Total SBITA, Net	-	3,573,163	-	-	3,573,163
Total Capital Assets, Net	$ 87,719,045	$ 7,778,054	$ (16,262)	$ -	$ 95,480,837

Depreciation and amortization expense for the fiscal year ended June 30, 2023, was $6,062,911.

NOTE 5 – CAPITAL CONTRIBUTIONS

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

NOTE 5 – CAPITAL CONTRIBUTIONS (Continued)

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

Federal Grants	$ 4,234,640
State Grants	1,666,933
Measure D Local Sales Tax Allocations	1,714,880
Total Capital Contributions	$ 7,616,453

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

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

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

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

Total Assets	$ 45,725,105
Total Liabilities	18,975,774
Fund Balance	$ 26,749,331
Total Revenues	$ 16,835,487
Total Expenditures	16,201,284
Net Increase in Fund Balance	$ 634,203

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

NOTE 7 – CONTINGENCIES

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLAN

A. General Information About the Pension Plan

Plan Description

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

Funding Policy

There were 275 active members in the Plan as of June 30, 2023, who were required to contribute a percentage of their annual covered salary. Santa Cruz METRO is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Beginning in fiscal year 2018, CalPERS changed how it bills/collects employer contributions. The total minimum required employer contribution is now the sum of the Plan's Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars). The required employer contribution for fiscal year 2023 was 9.71% of covered payroll plus twelve (12) monthly payments of $427,165. The contribution requirements of the Plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit Formula	2.5%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50	52
Monthly Benefits, as a Percentage of Eligible Compensation	2.000% - 2.500%	1.000%-2.500%
Required Employee Contribution Rates	8.000%	7.000%
Required Employer Normal Cost Contribution Rates	9.710%	9.710%
Required Monthly Employer Dollar UAL Payment	$468,980/month	$468,980/month

Employees Covered – At June 30, 2023, the following employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	418
Inactive Employees Entitled to but not yet Receiving Benefits	205
Active Employees	275
Total	898

NOTE 8 – <u>DEFINED BENEFIT PENSION PLAN</u> (Continued)

B. <u>Net Pension Liability</u>

Santa Cruz METRO's net pension liability for the Plan is measured as the total pension liability, less the Plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age and Service (1)
Investment Rate of Return	7.000% (2)
Mortality	Derived using (3) CalPERS' Membership Data for all Funds

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment and administrative expenses, including inflation.

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

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

Discount Rate – The discount rate used to measure the total pension liability for June 30, 2023, was 6.90%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.90% discount rate for 2023 is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.90% for 2023 will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the reporting period ended June 30, 2023, the 7.15% discount rate was not reduced for administrative expenses.

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

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

B. Net Pension Liability (Continued)

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return [1, 2]
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100.0%	

(1) An expected inflation of 2.00% used for this period.

(2) An expected inflation of 2.92% used for this period.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

C. Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2021 [1]	$ 201,127,118	$ 156,992,840	$ 44,134,278
Changes in the year:			
Service Cost	3,606,454	-	3,606,454
Interest on the Total Pension Liability	14,018,196	-	14,018,196
Differences between Actual and Expected Experience	(357,816)	-	(357,816)
Changes in Assumptions	6,547,600		6,547,600
Contribution - Employer	-	58,209,105	(58,209,105)
Contribution - Employee	-	1,468,844	(1,468,844)
Net Investment Income [2]	-	(13,028,949)	13,028,949
Administrative Expenses	-	(97,797)	97,797
Benefit Payments, Including Refunds of Employee Contributions	(11,915,732)	(11,915,732)	-
Net Changes	11,898,702	34,635,471	(22,736,769)
Balance at June 30, 2022 [1]	$ 213,025,820	$ 191,628,311	$ 21,397,509

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

[2] Net of administrative expenses.

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

1% Decrease	5.90%
Net Pension Liability	$ 47,885,117
Current Discount Rate	6.90%
Net Pension Liability	$ 21,397,509
1% Increase	7.90%
Net Pension Liability	$ (632,632)

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

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

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

For the fiscal year ended June 30, 2023, Santa Cruz METRO recognized a pension expense of $7,445,205. At June 30, 2023, Santa Cruz METRO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 3,011,181	$ -
Differences between Actual and Expected Experience	268,025	(261,109)
Changes in Assumptions	4,777,978	-
Net Differences Between Projected and Actual Earnings on Plan Investments	9,424,855	-
Total	$ 17,482,039	$ (261,109)

The $3,011,181 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability, as determined by CalPERS, in the measurement periods ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2023	$ 3,597,107
2024	3,303,266
2025	2,213,299
2026	5,096,077
2027	-
Thereafter	-
Total	$ 14,209,749

E. Payable to the Pension Plan

At June 30, 2023, Santa Cruz METRO reported a payable of $0 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2023.

NOTE 9 – DEFERRED COMPENSATION PLAN

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

At June 30, 2023 and 2022, all amounts held under the Great-West plan and the CalPERS plan are held in trust and are not reflected on the accompanying statements of net position as required under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

NOTE 9 – DEFERRED COMPENSATION PLAN (Continued)

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

NOTE 10 – RISK MANAGEMENT

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

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

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

Workers' Compensation Liabilities:	
Unpaid Claims, Beginning of Fiscal Year	$ 2,307,335
Claim Payments	(765,714)
Other Adjustments (Including IBNRs)	938,325
Unpaid Claims Liability, End of Fiscal Year	$ 2,479,946

NOTE 11 – TRANSPORTATION DEVELOPMENT ACT/CALIFORNIA CODE OF REGULATIONS

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

Section 6634

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

Section 6637

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

Sections 99267, 99268.1, and 99314.6

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

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

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

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

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

During the fiscal year ended June 30, 2023, Santa Cruz METRO earned interest of $261 from the State's PTMISEA account for construction funding for the Consolidated MetroBase Project. During the fiscal year ended June 30, 2023, qualifying expenditures of $585,125 were incurred and the remaining balance of $0, including accrued interest, was deferred. Qualifying expenditures must be encumbered within three years from the date of the allocation and expended within three years from the date of encumbrance.

Schedule of PTMISEA Proposition 1B Grants
For the Year Ended June 30, 2023

Balance - beginning of the year	$	584,864
Receipts:		
Interest accrued 7/1/2022 through 6/30/2023		261
Expenses:		
Transit bus		(585,125)
Balance - end of year	$	-

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

Employees Covered – As of the June 30, 2022 valuation, the following current and former employees were covered by the benefit terms for the OPEB Plan:

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

Contributions – The contribution requirements of OPEB Plan members and Santa Cruz METRO are established and may be amended by Santa Cruz METRO's Board. These contributions are neither mandated nor guaranteed. Santa Cruz METRO has retained the right to unilaterally modify its payment for retiree health care benefits. For the fiscal year ended June 30, 2023, Santa Cruz METRO contributed $4,247,349. Employees are not required to contribute to the OPEB Plan.

Net OPEB Liability – Santa Cruz METRO's net OPEB liability was measured as of June 30, 2022 and 2021, and the total OPEB liability used to calculate the net OPEB liability was the OPEB Plan Fiduciary Net Position of the OPEB trust held with CalPERS as of those dates. The following actuarial methods and assumptions were used:

Reporting Date	June 30, 2023
Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	4.09%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	5.8% in 2023, fluctuating down to 3.9% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2022

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

Net OPEB Liability (Continued)

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

Asset Class	New Strategic Allocation	Real Return[1,2]
Global Equity - Cap-Weighted	30.00%	4.54%
Global Equity - Non-Cap-Weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-Backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study

Discount Rate – The discount rate used to measure the total OPEB liability was 4.09% June 30, 2023. The projection of cash flows used to determine the discount rate assumed that Santa Cruz METRO contributions will be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 30-year real rates of return for each asset class along with the assumed long-term inflation assumption were used to set the discount rate. The expected investment return was offset by the investment expenses of 15 basis points. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive members and beneficiaries. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 13 – <u>OTHER POSTEMPLOYMENT BENEFITS (OPEB)</u> (Continued)

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

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2021	$ 121,906,043	$ -	$ 121,906,043
Changes in the Year:			
Service Cost	5,453,027	-	5,453,027
Interest	2,729,994	-	2,729,994
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions	(30,990,621)	-	(30,990,621)
Contribution - Employer	-	4,259,836	(4,259,836)
Benefit Payments	(4,259,836)	(4,259,836)	-
Net Changes	(27,067,436)	-	(27,067,436)
Balance at June 30, 2022	$ 94,838,607	$ -	$ 94,838,607

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of Santa Cruz METRO if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2022:

1% Decrease	3.09%
Net OPEB Liability	$ 109,378,987
Current Discount Rate	4.09%
Net OPEB Liability	$ 94,838,607
1% Increase	5.09%
Net OPEB Liability	$ 83,203,732

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

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

NOTE 13 – <u>OTHER POSTEMPLOYMENT BENEFITS (OPEB)</u> (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the fiscal year ended June 30, 2023, Santa Cruz METRO recognized OPEB expense of $1,108,953. As of fiscal year ended June 30, 2023, Santa Cruz METRO reported deferred outflows of resources related to OPEB from the following sources:

2023	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 4,247,349	$ -
Differences between Actual and Expected Experience	533,271	(11,963,393)
Changes in Assumptions	4,841,615	(25,697,377)
Total	$ 9,622,235	$ (37,660,770)

The $4,247,349 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2022 measurement dates will be recognized as a reduction in the net OPEB liability in the measurement periods ended June 30, 2023. In addition, future recognition of the deferred inflows of resources is shown below.

Measurement Period Ended June 30,	
2024	$ (6,038,098)
2025	(6,620,828)
2026	(7,382,858)
2027	(6,507,412)
2028	(3,718,000)
Thereafter	(2,018,688)
Total	$ (32,285,884)

NOTE 14 – <u>LONG-TERM DEBT</u>

The following is a summary of Santa Cruz METRO's long-term debt activity for the fiscal year ended June 30, 2023:

	Balance June 30, 2022	Additions	Payments	Balance June 30, 2023	Due Within One Year
Financed Purchase	$ 392,653	$ -	$ (275,408)	$ 117,245	$ 117,245
Lease Liability	204,290	195,139	(89,673)	309,756	93,343
Subscription Liabilities	-	3,933,506	(433,725)	3,499,781	336,731
Pension Obligation Bonds	51,750,000	-	(2,785,000)	48,965,000	2,700,000
Total Long-Term Debt	$ 52,346,943	$ 4,128,645	$ (3,583,806)	$ 52,891,782	$ 3,247,319

Financed Purchase:

Santa Cruz METRO has acquired three CNG buses under a financed purchase agreement for a total purchase price of $1,553,250 (principal amount). The terms of the contract call for monthly payments of $23,627 over a 72-month period beginning in December 2017, and include a 3.04% effective interest rate. At June 30, 2023, the outstanding balance was $117,245.

NOTE 14 – <u>LONG-TERM DEBT</u> (Continued)

The following schedule details debt service requirements to maturity for the District's financed purchase at June 30, 2023:

Fiscal Year	Principal	Interest	Total
2024	$ 117,245	$ 893	$ 118,138
Total	$ 117,245	$ 893	$ 118,138

Lease Liability:

On July 1, 2021, the District entered into a 38-month lease as lessee for Paracruz facilities for the use of approximately 9,318 rentable square feet of floor space. As of June 30, 2023, the value of the lease liability is $309,756. The District is required to make monthly fixed payments of $7,650. Effective September 1, 2022 and 2023, the fixed payments increase to $7,900 and $8,100, respectively. The lease has an interest rate of 1.29%. The right-to-use lease asset useful life was 38 months as of the contract commencement. The value of the right-to-use lease asset as of June 30, 2023, was $498,360, and accumulated amortization was $192,914. Refer to Note 4 of the financial statements.

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

Fiscal Year	Principal	Interest	Total
2024	$ 93,343	$ 3,362	$ 96,705
2025	97,479	2,121	99,600
2026	101,762	833	102,595
2027	17,172	10	17,182
Total	$ 309,756	$ 6,326	$ 316,082

Pension Obligation Bonds (POBs):

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

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

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

NOTE 14 – LONG-TERM DEBT (Continued)

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

Fiscal Year	Principal	Interest	Total
2024	$ 2,700,000	$ 1,445,271	$ 4,145,271
2025	2,750,000	1,397,858	4,147,858
2026	2,805,000	1,342,107	4,147,107
2027	2,870,000	1,277,638	4,147,638
2028	2,940,000	1,207,319	4,147,319
2029-2033	15,995,000	4,737,049	20,732,049
2034-2038	18,905,000	1,822,078	20,727,078
2039-2042	-	-	-
Total	$ 48,965,000	$ 13,229,320	$ 62,194,320

NOTE 15 – LESSOR TRANSACTIONS

Retail spaces at Pacific Station, Watsonville Transit Center and Scotts Valley Transit Center are leased to commercial organizations and small businesses under financing lease agreements with terms ranging from 2 to 10 years, with fixed 3% - 3.5% annual lease escalations and options to extend the leases for a period ranging from 1 to 5 additional years. Santa Cruz METRO had six financing leases subject to GASB Statement No. 87 (GASB 87) accounting treatment in this first year of implementation. Under GASB 87, leases receivable totaled $229 thousand, lease revenue totaled $53 thousand, and deferred inflows of resources from leases totaled $217 thousand for the year ended June 30, 2023.

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

Santa Cruz METRO was allocated $781,037 of State Transit Assistance - State of Good Repair (STA-SGR) program funds for fiscal year 2023. Interest earned on STA-SGR funds held in the Santa Cruz County Pooled Investment Fund during fiscal year 2023 was $45,404. The unspent (unearned) balance of STA-SGR funds was $3,025,101 at June 30, 2023.

NOTE 17 – DEFICIT NET POSITION

As of June 30, 2023, Santa Cruz METRO had a deficit net position of $6,209,621. The deficit was primarily due to the reporting of the net pension liability and the net liability for OPEB, pursuant to the implementation of GASB Statement No. 68 and GASB Statement No. 75. Santa Cruz METRO is committed to fully funding the actuarially determined contributions annually.

NOTE 18 – LONG-TERM OBLIGATIONS

Subscription Based Information Technology Arrangements (SBITA) Liability:

For the year ended June 30, 2023, the District recognized intangible right-to-use software arrangements of $3,933,506. Accumulated amortization for the year ended June 30, 2023, was $360,343. Due to the implementation of GASB Statement No. 96, these arrangements for an enterprise resource planning system (ERP), automatic passenger counting software, a transit scheduling software subscription, and a security software subscription all met the criteria of an SBITA, thus requiring these to be recorded by the District as intangible assets with a corresponding SBITA liability. These assets will be amortized over the various lease terms, as the lease terms correspond with the District's ability to access any software or equipment related to the SBITAs. There are no residual value guarantees in the arrangement provisions. The ERP arrangement will end in September 29, 2032, the automatic passenger counter subscription will end in June 2028, the transit scheduling software subscription will end in September, 2024, and the security software subscription will end in July 2024.

A summary of the combined remaining principal and interest amounts by fiscal year for the subscriptions above are shown below.

Fiscal Year	Principal	Interest	Total
2024	$ 336,731	$ 133,797	$ 470,528
2025	331,723	119,638	451,361
2026	354,159	105,473	459,632
2027	377,333	90,376	467,709
2028	369,339	74,547	443,886
2029-2032	1,730,496	129,211	1,859,706
Total	$ 3,499,781	$ 653,042	$ 4,152,822

NOTE 19 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management through December 27, 2023, which is the date of issuance.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
LAST 10 YEARS*

	Measurement Period 2021/22	Measurement Period 2020/21	Measurement Period 2019/20	Measurement Period 2018/19
Total Pension Liability				
Service Cost	$ 3,606,454	$ 3,290,053	$ 3,235,943	$ 3,267,506
Interest on Total Pension Liability	14,018,196	13,685,292	13,261,238	12,800,717
Differences between Expected and Actual Experience	(357,816)	276,385	651,255	1,427,437
Changes in Assumptions	6,547,600	-	-	-
Changes in Benefits	-	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(11,915,732)	(11,211,777)	(10,527,796)	(9,997,925)
Net Change in Total Pension Liability	11,898,702	6,039,953	6,620,640	7,497,735
Total Pension Liability - Beginning	201,127,118	195,087,165	188,466,525	180,968,790
Total Pension Liability - Ending (a)	$ 213,025,820	$ 201,127,118	$ 195,087,165	$ 188,466,525
Plan Fiduciary Net Position				
Net Plan to Plan Resource Movement	$ -	$ -	$ -	$ -
Contributions - Employer	58,209,105	6,469,902	5,889,484	5,300,243
Contributions - Employee	1,468,844	1,514,329	1,552,782	1,560,484
Net Investment Income	(13,028,949)	29,474,109	6,333,686	7,933,310
Administrative Expense	(97,797)	(130,738)	(180,179)	(87,847)
Benefit Payments	(11,915,732)	(11,211,777)	(10,527,796)	(9,997,925)
Other Miscellaneous Income/(Expense)	-	-	-	285
Net Change in Plan Fiduciary Net Position	34,635,471	26,115,825	3,067,977	4,708,550
Plan Fiduciary Net Position - Beginning	156,992,840	130,877,015	127,809,038	123,100,488
Plan Fiduciary Net Position - Ending (b)	$ 191,628,311	$ 156,992,840	$ 130,877,015	$ 127,809,038
Net Pension Liability [(a) - (b)]	$ 21,397,509	$ 44,134,278	$ 64,210,150	$ 60,657,487
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.96%	78.06%	67.09%	67.82%
Covered Payroll	$ 19,399,968	$ 19,677,351	$ 18,956,899	$ 18,780,928
Net Pension Liability as a Percentage of Covered Payroll	110.30%	224.29%	338.72%	322.97%

*Fiscal year 2015 was the 1st year of implementation; therefore, only nine years are shown.

Notes to Schedule:

Benefit changes. In 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

Changes in assumptions. In 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
LAST 10 YEARS*

	Measurement Period 2017/18	Measurement Period 2016/17	Measurement Period 2015/16	Measurement Period 2014/15	Measurement Period 2013/14
Total Pension Liability					
Service Cost	$ 3,267,575	$ 3,422,455	$ 3,160,455	$ 3,294,147	$ 3,200,114
Interest on Total Pension Liability	12,278,470	12,002,686	11,775,833	11,234,261	10,709,850
Differences between Expected and Actual Experience	(1,025,273)	(1,952,270)	162,174	(414,257)	-
Changes in Assumptions	(1,231,759)	9,337,059	-	(2,564,554)	-
Changes in Benefits	-	-	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(9,340,636)	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Net Change in Total Pension Liability	3,948,377	13,683,476	7,195,283	4,364,041	7,249,370
Total Pension Liability - Beginning	156,141,654	163,336,937	156,141,654	151,777,613	144,528,243
Total Pension Liability - Ending (a)	$ 160,090,031	$ 177,020,413	$ 163,336,937	$ 156,141,654	$ 151,777,613
Plan Fiduciary Net Position					
Net Plan to Plan Resource Movement	$ (285)	$ 107	$ -	$ -	$ -
Contributions - Employer	4,686,264	4,047,221	3,991,447	4,086,806	3,668,004
Contributions - Employee	1,592,606	1,556,993	1,603,071	1,645,356	1,573,391
Net Investment Income	9,742,558	12,015,977	608,702	2,493,939	16,262,179
Administrative Expense	(182,238)	(160,362)	(67,272)	(124,362)	-
Benefit Payments	(9,340,636)	(9,126,454)	(7,903,179)	(7,185,556)	(6,660,594)
Other Miscellaneous Income/(Expense)	(346,072)	-	-	-	-
Net Change in Plan Fiduciary Net Position	6,152,197	8,333,482	(1,767,231)	916,183	14,842,980
Plan Fiduciary Net Position - Beginning	110,382,040	108,614,809	110,382,040	109,465,857	94,622,877
Plan Fiduciary Net Position - Ending (b)	$ 116,534,237	$ 116,948,291	$ 108,614,809	$ 110,382,040	$ 109,465,857
Net Pension Liability [(a) - (b)]	$ 43,555,794	$ 60,072,122	$ 54,722,128	$ 45,759,614	$ 42,311,756
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.79%	66.06%	66.50%	70.69%	72.12%
Covered Payroll	$ 19,075,163	$ 19,343,552	$ 19,550,012	$ 19,490,839	$ 18,385,116
Net Pension Liability as a Percentage of Covered Payroll	228.34%	310.55%	279.91%	234.77%	230.14%

*Fiscal year 2015 was the 1st year of implementation; therefore, only nine years are shown.

Notes to Schedule:

Benefit changes. In 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

Changes in assumptions. In 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF CONTRIBUTIONS – PENSION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
LAST 10 YEARS*

	Fiscal Year 2022-23	Fiscal Year 2021-22	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19
Actuarially Determined Contributions	$ 58,209,105	$ 6,469,902	$ 5,889,484	$ 5,300,243	$ 4,686,264
Contributions in Relation to the Actuarially Determined Contributions	(58,209,105)	(6,469,902)	(5,889,484)	(5,300,243)	(4,686,264)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 19,399,968	$ 19,677,351	$ 16,874,245	$ 18,956,899	$ 18,780,928
Contributions as a Percentage of Covered Payroll	300.05%	32.88%	34.90%	27.96%	24.95%

	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contributions	$ 4,047,221	$ 3,991,447	$ 4,086,806	$ 3,668,004
Contributions in Relation to the Actuarially Determined Contributions	(4,047,221)	(3,991,447)	(4,086,806)	(3,668,004)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 19,075,163	$ 19,343,552	$ 19,550,012	$ 19,490,839
Contributions as a Percentage of Covered Payroll	21.22%	20.63%	20.90%	18.82%

*Fiscal year 2015 was the 1st year of implementation; therefore, only nine years are shown.

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
LAST 10 YEARS*

Measurement Period Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB Liability						
Service Cost	$ 5,453,027	$ 6,234,396	$ 5,853,462	$ 5,638,591	$ 5,259,186	$ 5,708,352
Interest	2,729,994	3,632,144	3,574,866	3,522,407	3,452,776	3,047,381
Actual and Expected Experience Difference	-	(14,678,446)	-	(4,602,485)	-	-
Changes in Assumptions	(30,990,621)	347,863	2,720,145	9,172,330	2,643,408	(7,860,824)
Changes in Benefits Terms	-	(1,866,384)	-	-	-	-
Benefit Payments	(4,259,836)	(4,127,225)	(4,125,446)	(3,906,373)	(3,784,611)	(3,898,705)
Net Change in Total OPEB Liability	(27,067,436)	(10,457,652)	8,023,027	9,824,470	7,570,759	(3,003,796)
Total OPEB Liability - Beginning	121,906,043	132,363,695	124,340,668	114,516,198	106,945,439	109,949,235
Total OPEB Liability - Ending (a)	$ 94,838,607	$ 121,906,043	$ 132,363,695	$ 124,340,668	$ 114,516,198	$ 106,945,439
Plan Fiduciary Net Position						
Contributions - Employer	$ 4,259,836	$ 4,127,225	$ 4,125,446	$ 3,906,373	$ 3,784,611	$ 3,898,705
Benefit Payments	(4,259,836)	(4,127,225)	(4,125,446)	(3,906,373)	(3,784,611)	(3,898,705)
Net Change in Plan Fiduciary Net Position	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning	-	-	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	$ -	$ -	$ -	$ -	$ -	$ -
Net OPEB Liability [(a) - (b)]	$ 94,838,607	$ 121,906,043	$ 132,363,695	$ 124,340,668	$ 114,516,198	$ 106,945,439
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Payroll	$ 23,292,187	$ 21,475,538	$ 23,485,892	$ 22,768,353	$ 22,116,603	$ 22,483,538
Net OPEB Liability as a Percentage of Covered Payroll	407.17%	567.65%	563.59%	546.11%	517.78%	475.66%

* Fiscal year 2018 was the 1st year of implementation; therefore, only six years are shown.

Notes to the Schedule:

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

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF CONTRIBUTIONS – OPEB
FOR THE FISCAL YEAR ENDED JUNE 30, 2023
LAST 10 YEARS*

	Fiscal Year 2023	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Actuarially Determined Contributions	$ 4,259,836	$ 4,127,225	$ 4,125,446	$ 3,906,373	$ 3,784,611	$ 3,898,705
Contributions in Relation to the Actuarially Determined Contributions	(4,259,836)	(4,127,225)	(4,125,446)	(3,906,373)	(3,784,611)	(3,898,705)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 23,292,187	$ 21,336,510	$ 21,475,538	$ 23,485,892	$ 22,768,353	$ 22,116,603
Contributions as a Percentage of Covered Payroll	18.29%	19.34%	19.21%	16.63%	16.62%	17.63%

Notes to the Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2022, were from the June 30, 2021 actuarial valuation.

Methods and Assumptions Used to Determine Contributions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	4.09%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	5.8% in 2023, fluctuating down to 3.9% by 2076
Mortality Rate	CalPERS 2017 Experience Study; Projected with MW Scale 2022

* Fiscal year 2018 was the 1st year of implementation; therefore, only six years are shown.

SUPPLEMENTARY INFORMATION

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
STATEMENT OF OPERATING EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Labor	
Operators' salaries and wages	$ 8,269,380
Other salaries and wages	8,578,105
Overtime	3,298,703
	20,146,188
Fringe Benefits	
Absence with pay	4,066,233
Pension plans	3,036,439
Vision, medical, and dental plans	6,373,704
Workers' compensation insurance	1,110,936
Disability insurance	365,362
Other fringe benefits	314,028
Other postemployment benefits	5,542,977
	20,809,679
Services	
Accounting	103,996
Administrative and banking	458,233
Professional and technical services	3,033,935
Security	629,669
Outside repairs	1,313,661
Other services	210,519
	5,750,013
Materials and Supplies Consumed	
Fuels and lubricants	2,504,371
Tires and tubes	204,566
Vehicle parts	1,167,462
Other materials and supplies	598,199
	4,474,598
Utilities	680,114
Casualty and Liability Costs	1,292,526
Taxes and Licenses	49,784
Miscellaneous Expenses	386,803
Equipment and Facility Lease	63,296
Debt Issuance Cost	-
Depreciation and Amortization	6,062,911
Total Operating Expenses	$ 59,715,912

OTHER SCHEDULES AND REPORTS

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
Federal Transit Administration (FTA)				
Cluster Defined by the Department of Transportation				
Section 9/5307				
Operating Assistance - ARPA	20.507	CA-2022-044-01	$ -	$ 6,981,555
Operating Assistance - ARPA	20.507	CA-2022-044-02	-	2,715,049
			-	9,696,604
Section 5339				
FY16 5339 (c) LoNo Discretionary	20.526	CA-2017-071-00	-	3,507,967
FY20 5339(a) Bus & Bus Facilities	20.526	CA-2021-029-00	-	202,318
FY21 5339(a) Bus & Bus Facilities	20.526	CA-2023-023-00	-	524,355
			-	4,234,640
Total Federal Transit Cluster			-	13,931,244
Total Federal Transit Administration			-	13,931,244
Section 18/5311-5317				
Rural Operating Assistance - 5311	20.509	CA-2023-038	-	258,123
			-	258,123
Total Expenditures of Federal Awards			$ -	$ 14,189,367

See accompanying notes to schedule of expenditures of federal awards.

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 1 – GENERAL

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

NOTE 2 – BASIS OF ACCOUNTING

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

NOTE 3 – INDIRECT COST RATE

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Santa Cruz METRO's basic financial statements, and have issued our report thereon dated December 27, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Cruz METRO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Santa Cruz METRO's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Santa Cruz METRO's major federal programs for the fiscal year ended June 30, 2023. Santa Cruz METRO's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Santa Cruz METRO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

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Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the financial statements of Santa Cruz METRO as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Santa Cruz METROs basic financial statements. We issued our report thereon dated December 27, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2023

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the U.S. Office of Management and Budget (OMB) *Compliance Supplement;* and the statutes, rules, and regulations of the California Transportation Development Act (TDA), the financial statements of the Santa Cruz Metropolitan Transit District (Santa Cruz METRO) as of and for the fiscal year ended June 30, 2023, and have issued our report thereon dated December 27, 2023.

Report on Compliance

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

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

Other Matters

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

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As of June 30, 2023, PTMISEA interest received and funds expended were verified in the course of our audit as follows:

Schedule of PTMISEA Proposition 1B Grants
For the Year Ended June 30, 2023

Balance - beginning of the year	$	584,864
Receipts:		
Interest accrued 7/1/2022 through 6/30/2023		261
Expenses:		
Transit bus		(585,125)
Balance - end of year	$	-

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

Purpose of this Report

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

Restriction on Use

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2023

FINDINGS AND QUESTIONED COSTS SECTION

SANTA CRUZ METROPOLITAN TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness identified?	__	Yes	X	No
Reportable conditions identified that are not considered to be material weaknesses?	__	Yes	X	None reported
Noncompliance material to financial statements noted?	__	Yes	X	No

Federal Awards

Internal control over major federal programs:				
Material weakness identified?	__	Yes	X	No
Reportable conditions identified that are not considered to be material weaknesses?	__	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	__	Yes	X	No

Identification of major programs:

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

Dollar threshold used to distinguish type A and B programs:	$750,000			
Auditee qualified as low risk auditee?	X	Yes	__	No

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

None.

III. Federal Award Findings and Questioned Costs

None.

IV. State Award Findings and Questioned Costs

None.

V. A Summary of Prior Audit (all June 30, 2022) Findings and Current Year Status Follows

None.