

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**

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

**JUNE 30, 2025**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
JUNE 30, 2025**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the 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, 2025, 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, 2025, 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.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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, Schedule of Contributions – Pension, 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 15, 2025, 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 15, 2025

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2025**

**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, 2025. 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**

- Assets and deferred outflows of resources of Santa Cruz METRO exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2025, resulting in a Total Net Position of \$27.7 million, an increase of \$27.5 million from the prior year Net Position of \$169.6 thousand at June 30, 2024.
- Of this amount, \$118.5 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 is an Unrestricted Net Position Deficit of \$90.8 million, primarily resulting from Santa Cruz METRO's pension obligations of \$21.3 million, Other Postemployment Benefits (OPEB) such as retiree medical benefit obligations of \$118.4 million, and pension obligation bond debt of \$43.5 million as of June 30, 2025. 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 increased by \$75 thousand, a 2.8% increase, to \$2.8 million, and Special Transit fares increased by \$94 thousand, a 1.5% increase, to \$6.5 million. Santa Cruz METRO introduced several fare-free initiatives, such as the Youth Cruz Free program for K-12 students, California Clean Air Day, and Earth Day, as well as events like Big Basin's Art in the Park and the Pacific Station redevelopment transition. These initiatives aim to boost ridership, promote sustainability, and enhance service awareness. Santa Cruz METRO saw an increase in Special Transit fares, primarily due to expanded partnerships with local public agencies, including the City and County, which support community transportation needs.
- Operating expenses of \$72.1 million (excluding depreciation and amortization) for the year ending June 30, 2025, reflect an increase of 13.3% over the prior year, compared to an 18.2% increase for the year ended June 30, 2024, over the previous year. This significant growth is driven by Santa Cruz METRO's ongoing Reimagine METRO initiative, which aims to enhance service reliability, increase frequency on key routes, and expand transit access across the region. A major factor contributing to the expense increase is higher labor costs, as Santa Cruz METRO hired additional bus operators and staff to meet the demands of the expanded services. These investments reflect Santa Cruz METRO's focus on improving service quality.

- In fiscal year 2025, Santa Cruz METRO's capital assets (after the application of accumulated depreciation and amortization) of \$121.6 million reflect a net increase of \$24.5 million over the previous year. Santa Cruz METRO's investment in capital assets continues to grow as we prioritize sustainable and efficient transit solutions. This year, the increase is primarily attributed to the acquisition of twenty 40' Hydrogen Fuel Cell Buses from New Flyer, which support our ongoing efforts to modernize and expand our fleet. Additionally, progress has been made on the Pacific Station Redevelopment project in collaboration with the City of Santa Cruz, the development of the permanent hydrogen fueling station and the completion of the temporary hydrogen fueling station. See the Financial Activities – Capital section of the MD&A 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; Operating and Capital Reserves; and significant support from the State Transit Assistance – State of Good Repair (STA-SGR) program, which continues to play a critical role in helping Santa Cruz METRO maintain and improve its transit infrastructure.

### **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, 2025. 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 six primary sources of revenue to operate its public transit services: passenger fares, sales and use taxes, local transportation funds such as the Transportation Development Act (TDA) and State Transit Assistance Fund (STA), federal funds, state 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. Faced with rising costs, Santa Cruz METRO is continually analyzing the economic and political landscape and redesigning its operations to align expenses with available revenue streams for the current and future fiscal years. Additionally, Santa Cruz METRO is not only responding to financial challenges but also actively seeking federal, state, and local support to deliver world-class public transit services to Santa Cruz County. To showcase this envisioned future Santa Cruz METRO introduced major bus service charges by implementing the Youth Fare Free program throughout the system as part of the Reimagine METRO initiative, launched in 2024 and fully implemented in 2025.

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 38% of Santa Cruz METRO's operating revenue sources as per the fiscal year 2025 Budget, adopted in June 2024. Actual sales tax revenues slightly exceeded budget projections, which resulted in favorable budget variance of less than 1% and a minimal unfavorable year-over-year variance of 0.04%.

Two other major sources of funding for public transportation, the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STA), provided by the TDA, account for approximately 20% of Santa Cruz METRO's operating revenue sources as per the fiscal year 2025 Budget, adopted in June 2024. The funds are allocated to areas of each county based on population, taxable sales, and transit performance and mirrored the trends in taxable sales, fuel prices, and consumption in 2025 and 2024. The year-over-year decrease in TDA-LTF and TDA-STA was 2.4%, and 12.3%, respectively. Fluctuations in 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.

System performance during the fiscal year was marked by ridership and service recovery. In 2022, Santa Cruz METRO set a goal of doubling ridership in five years, to seven million passenger trips by fiscal year 2027, a level last achieved in the early 2000s. To achieve this goal, ridership would need to increase 15% per year on average. The goal was exceeded in the last two fiscal years as reflected in the Ridership section below. The increase was largely driven by expanded service at the University of California, Santa Cruz (UCSC) routes, as well as the full restoration and enhancements of local service. Special Transit Fares reflected the growth in ridership and service hours and increased by 1.5% year-over-year.

Santa Cruz METRO continued charging eligible operating expenses to the traditional Federal Transit Administration (FTA) 5307 grants – the Urbanized Area Formula Funding Program (49. U.S.C. 5307). Funding is apportioned based on legislative formulas. For urbanized areas of 50,000 to 199,999 in population, the formula is based on population, low-income population, and population density. These urbanized areas are also eligible to receive Small Transit Intensive Cities (STIC) funds if transit service provided in the urbanized area meets or exceeds the STIC performance criteria. FTA funds were used to support eligible operating expenses and maintain transit services during the fiscal year. Total FTA operating assistance accounted for approximately 15% of total revenue, or \$11.9 million.

Operating expenses increased by 33% year-over-year, with personnel expenses, comprising 62% of total operating expenses, increasing by 17% as a direct result of the significant increase in Bus Operators in the second half of fiscal year. As service hours increased, overtime costs continued to increase in fiscal year 2025, following the trend for the last two years. Paid absences increased 10% year-over-year and remained relatively high, due to fiscal year-end contractual payouts and the increased headcount.

Non-personnel operating expenses, materials and supplies and other expenses, excluding Settlement Costs, increased by 23% 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.

#### Ridership:

At the end of fiscal year 2025, Santa Cruz METRO's fixed-route bus system consisted of 22 Local routes and 1 Commuter route over Highway 17. The number of rides provided was approximately 4,680,000. Ridership increased again by 840,000 rides, which is a 22% increase over the previous year.

System performance in fiscal year 2025 was characterized by steady recovery of ridership and the full implementation of Phase 2 of the Reimagine METRO initiative, which involved a 40% increase in service and four high frequency routes operating every 20 minutes or better between Watsonville, Santa Cruz, and UCSC.

Fiscal year 2025 ridership increased by 22% compared to fiscal year 2024, reaching just over 4.6 million annual boardings. This growth was largely driven by an increase in service on Santa Cruz METRO's most productive routes, as well as continued growth in student ridership from UCSC, Cabrillo College, and K-12 riders, which increased 22%, 46%, and 41%, respectively, compared to fiscal year 2024. Highway 17 commuter express ridership increased 28% in fiscal year 2025.

Paracruz, Santa Cruz METRO's paratransit service, provided 66,498 paratransit rides to mobility-impaired patrons on 32 specially equipped minibuses and minivans during fiscal year 2025. This represents an 8.75% decrease in ParaCruz ridership from the prior year, due to the third party certification eligibility process.

## 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:

	2025	2024	2025 to 2024	
			Increase/(Decrease) Amount	%
<b>Assets</b>				
Current Assets	\$ 96,945,637	\$ 92,454,662	\$ 4,490,975	4.9%
Restricted Assets	20,340,716	20,954,099	(613,383)	-2.9%
Non-Current Assets	119,846	164,439	(44,593)	-27.1%
Capital Assets - Net	121,618,953	97,168,197	24,450,756	25.2%
<b>Total Assets</b>	<b>\$ 239,025,152</b>	<b>\$ 210,741,397</b>	<b>\$ 28,283,755</b>	<b>13.4%</b>
<b>Deferred Outflows of Resources</b>				
Pension and OPEB Contributions	\$ 29,702,966	\$ 26,516,420	\$ 3,186,546	12.0%
<b>Total Deferred Outflows of Resources</b>	<b>\$ 29,702,966</b>	<b>\$ 26,516,420</b>	<b>\$ 3,186,546</b>	<b>12.0%</b>
<b>Liabilities</b>				
Current Liabilities	\$ 20,625,437	\$ 14,108,610	\$ 6,516,827	46.2%
Non-Current Liabilities	12,891,655	17,993,602	(5,101,947)	-28.4%
Other Long-Term Liabilities	185,701,155	174,416,376	11,284,779	6.5%
<b>Total Liabilities</b>	<b>\$ 219,218,247</b>	<b>\$ 206,518,588</b>	<b>\$ 12,699,659</b>	<b>6.1%</b>
<b>Deferred Inflows of Resources</b>				
Leases	\$ 155,616	\$ 214,045	\$ (58,429)	-27.3%
Pension and OPEB Deferrals	21,689,067	30,355,598	(8,666,531)	-28.6%
<b>Total Deferred Inflows of Resources</b>	<b>\$ 21,844,683</b>	<b>\$ 30,569,643</b>	<b>\$ (8,724,960)</b>	<b>-28.5%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 118,510,054	\$ 93,474,650	\$ 25,035,404	26.8%
Unrestricted Net Position (Deficit)	(90,844,866)	(93,305,064)	2,460,198	2.6%
<b>Total Net Position (Deficit)</b>	<b>\$ 27,665,188</b>	<b>\$ 169,586</b>	<b>\$ 27,495,602</b>	<b>16213.4%</b>

### 2025 vs 2024 Analysis

Key changes include:

- *Current assets* was primarily driven by a \$18.26 million increase in grants receivable, reflecting higher reimbursable expenditures on capital and operating grants. The increase was partially offset by a \$14.38 million decrease in cash and cash equivalents, as Santa Cruz METRO used accumulated cash to fund capital projects and operational needs during the year. Sales taxes and other receivables increased slightly by \$0.17 million due to timing of receipts, while inventory and prepaid expenses increased by \$0.14 million and \$0.31 million, respectively. These changes resulted in the overall growth in Current Assets for the fiscal year.

- *Restricted assets* decreased by \$0.61 million, or 2.9%, to \$20.34 million. Restricted assets consist of cash held with fiscal agents and trustee accounts for debt service, capital projects, and other legally restricted purposes. The slight decrease reflects the use of restricted cash for capital project spending, especially projects funded by Measure D, STA-SGR, and Transit and Intercity Rail Capital Program (TIRCP) grants.
- *Non-current assets* (long-term lease receivables) decreased by \$0.04 million, or 27.1%, to \$119,846. The decrease corresponds to the scheduled amortization and collection of long-term lease receivables related to retail tenant leases at Santa Cruz METRO's Watsonville and Scotts Valley transit centers.
- *Capital assets*, net increased by \$24.5 million, or 25.2%, to \$121.6 million. This significant increase is the result of \$35.07 million in Construction-in-Progress (CIP) for major capital projects, including fleet procurements and facility improvements. In addition, new capitalized additions were recorded for revenue vehicles and operational equipment in support of Santa Cruz METRO's fleet replacement initiatives. These increases were partially offset by annual depreciation and amortization expense of \$7.1 million and by normal amortization of right-to-use and subscription assets. Overall, the increase reflects Santa Cruz METRO's continued investment in long-term infrastructure and clean-energy fleet modernization.
- *Deferred outflows of resources* increased by \$3.19 million, or 12.0%, to \$29.70 million. This was driven by higher OPEB contributions recognized under GASB Statement No. 75; updated pension contributions under GASB Statement No. 68; and actuarial assumption changes, including discount rates, expected earnings, and demographic updates. The increase represents changes in actuarial reporting and funding levels for Santa Cruz METRO's pension and OPEB plans.
- *Current liabilities* increased by \$6.5 million, or 46.2%, to \$20.6 million. The increase is primarily attributable to accounts payable and accrued liabilities increasing by \$6.7 million, reflecting timing of vendor payments and year-end accruals on major capital projects; the current portion of pension obligation bonds of \$2.81 million, now due within one year; higher current lease and subscription liabilities (GASB Statement No. 87/96) totaling \$0.56 million; and increases in payroll-related liabilities associated with wage and benefit growth. This increase is consistent with the scale of capital activity and operating expenditures in FY25.
- *Non-current liabilities* decreased by \$5.10 million, or 28.4%, to \$12.89 million. This decrease is primarily due to reductions in long-term unearned revenue as grant-funded capital expenditures were incurred and recognized as revenue under eligibility guidelines. Significant decreases occurred in Measure D, STA-SGR, and Low Carbon Transit Operations Program (LCTOP) balances, reflecting the spending down of previously deferred grant funds. Unearned revenue for FTA remained unchanged, while STA increased slightly due to timing of grant allocations.
- *Other long-term liabilities* increased by \$11.28 million, or 6.5%, to \$185.70 million. Key drivers include net pension liability decreased by \$3.3 million, driven by actuarial updates and investment performance; workers' compensation liability increased by \$0.52 million based on updated actuarial loss estimates; subscription liability decreased by \$0.36 million, tied to Software-as-a-Service (SaaS) contract obligations under GASB Statement No. 96; lease liability decreased by \$0.16 million, reflecting payments for right-to-use assets under GASB Statement No. 87; pension obligation bonds amortized normally, reducing the non-current portion; and net OPEB liability increased by \$17.3 million, driven by actuarial updates and investment performance.
- *Deferred inflows of resources* Deferred inflows decreased by \$8.72 million, or 28.5%, to \$21.84 million. This decrease was driven by significant reductions in deferred pension and OPEB actuarial inflows, \$8.67 million total, due to amortization of prior-year differences and updated actuarial valuations, and a \$.058 million decrease in deferred inflows from leases under GASB Statement No. 87, based on Santa Cruz METRO's tenant lease agreements

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

	2025	2024	2025 to 2024	
			Increase/(Decrease) Amount	%
Operating Revenues	\$ 9,340,773	\$ 9,172,032	\$ 168,741	1.8%
Operating Expenses	79,213,363	69,939,687	9,273,676	13.3%
Net Operating Loss	(69,872,590)	(60,767,655)	(9,104,935)	-15.0%
Non-Operating Revenues	67,162,503	61,357,732	5,804,771	9.5%
Capital Contributions	30,205,689	5,789,130	24,416,559	421.8%
Change in Net Position	<u>\$ 27,495,602</u>	<u>\$ 6,379,207</u>	<u>\$ 21,116,395</u>	<u>331.0%</u>

**2025 vs 2024 Analysis**

*Operating Revenues* (Passenger and Special Transit Fares) of \$9.3 million reflect an increase of \$169 thousand, or 1.8% increase, over prior year revenues, primarily due to the steady ridership and implemented service enhancements (Phases 1 and 2 of the Reimagine METRO initiative).

*Operating Expenses* of \$79.2 million reflect a year-over-year increase of \$9.3 million, or 13.3%, due to several factors: OPEB adjusting entries for GASB Statements No. 68 and No. 75, GASB Statement No. 10 that requires Santa Cruz METRO to accrue a liability on its financial statements for the ultimate cost of claims and expenses associated with all reported and unreported liability and physical damage claims, and the increase in the number of funded positions.

*Non-Operating Revenues* increased overall by \$5.8 million, or 9.5%, over last year revenues primarily due to increased funding from the State of California through the Senate Bill (SB) 125/Transit and Intercity Rail Capital Program (TIRCP) which funds Phases 1 and 2 of the Reimagine METRO initiative.

*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 2025. 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 \$24.4 million, or 422%, 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. The District's Board approves these items prior to implementation. The fiscal year 2025 Board-adopted budget totaled \$134.2 million, consisting of \$72.5 million for Operating Revenue and Expenses and \$61.7 million for Capital Projects. The District finished fiscal year 2025 with operating expenses of \$93.34 million, net of depreciation, workers' compensation claims incurred but not reported (IBNR), and pension and OPEB actuarial adjustments. Capital expenses for fiscal year 2025 totaled \$31.53 million, which included spending on major fleet procurements, facility improvements, and multiyear capital projects funded through federal, state, and local grants.

## Financial Activities – Capital

### Capital Program:

In fiscal year 2025, Santa Cruz METRO spent \$31.5 million on the purchase of capital assets and on new and ongoing capital projects. A total of \$30.2 million of these capital additions were paid for with capital contributions funded by a variety of sources, including the FTA, STA, STA-SGR, LCTOP, STIP, and Measure D local sales tax allocations. A total of \$1.3 million of these capital purchases were made using Capital Reserve Funds.

Noteworthy capital project activity in fiscal year 2025 includes:

- Pacific Station Redevelopment with City of Santa Cruz – The ongoing construction of the new location of the Pacific Station in downtown Santa Cruz will bring over 120 units of deeply affordable housing to the City of Santa Cruz. The old Pacific Station building was closed in February 2024 and subsequently demolished to make way for the construction of a mixed-use facility, a Bike Hub, and an improved transit center with real-time passenger information (RTPI) signage and other multimodal improvements. This project will include affordable housing, retail spaces, and a state-of-the-art transit hub. As a key part of Santa Cruz METRO's vision for improved transit access and community integration, this redevelopment highlights our commitment to modernizing infrastructure and supporting sustainable urban development. Transit operations were temporarily relocated to ensure service continuity during the construction phase.
- Hydrogen Fuel Cell Zero-Emission Buses (HFCZEBs) – Santa Cruz METRO accepted the majority of the forty-four (44) new 40' New Flyer HFCEBs, which will replace older diesel and Compressed Natural Gas buses that have reached the end of their useful life. Santa Cruz METRO placed an order for fifty-three (53) HFCZEBs in December 2023 and anticipates receiving all of the 40' and the additional nine (9) 60' HFCZEBs in FY26. When these buses are in operation, Santa Cruz METRO will reduce energy consumption and harmful emissions, while increasing the efficiency and reliability of Santa Cruz METRO's fleet.
- New Portable Hydrogen Refueling Trailer – The Hydrogen Fuel Cell Zero-Emission Buses (HFCZEBs) will be placed into service before the Santa Cruz METRO can complete the permanent hydrogen fueling station. To meet the agency's immediate need for interim hydrogen fueling infrastructure and fueling services, Santa Cruz METRO employed Plug Power to construct a portable fueler.
- New Hydrogen Fueling Station and Maintenance Facility Upgrades – To support the new Hydrogen Fuel Cell Zero-Emission Buses (HFCZEBs), Santa Cruz METRO will build a permanent hydrogen fuel station to be constructed at the Judy K. Souza Operations Facility and will include both HFCEB fueling and over the fence retail fueling accessible to the public. The maintenance facility will be used to serve and operate the new HFCEBs. The maintenance bays will be retrofitted from Compressed Natural Gas to Hydrogen and will comply with the national Fire Protection Association safety and compliance standards.
- Rapid Bus Enhancements – Soquel Drive and Main Street Corridor – Santa Cruz METRO will implement Rapid Corridors improvement designed to speed up bus service in the corridor that connects Santa Cruz to Watsonville, where Route 1 and Route 2 operate. This project that will introduce enhanced passenger amenities (e.g., real-time signage, improved shelter and seating) at over 80 bus stops, transit signal priority (TSP) at 60 intersections, queue jumps at seven locations, improved pedestrian access to rapid stops, through six new crosswalks and high visibility improvements at 2 intersections, and reconfigured bus access including bidirectional bus only lane and intersection changes at the Santa Cruz Pacific Station Transit Center.

- Bus Stop Facilities Upgrades and Improvements – Santa Cruz METRO installed 23-bus shelters, 23 benches, and 18 trashcans at various bus stops in its service area. The project allowed Santa Cruz METRO to address challenges related to waste management and aesthetic appeal at the agency’s bus stops. Improving amenities at bus stops encourage more people to use public transit, as more passengers are willing to wait for buses when they have protection from the elements and the facilities are clean.
- Watsonville Station Redevelopment – In collaboration with Mid Pen, Santa Cruz METRO will construct 65 deed restricted affordable units in a 100% affordable development above the Watsonville transit center in downtown Watsonville. The project will also fund station retrofitting costs to improve transit connections to Santa Cruz, including accommodating new zero-emission buses. Mid Pen worked to complete the designs for the station, which will offer mixed-use retail/commercial space, a Bike Hub, and an improved transit center with real-time passenger information (RTPI) signage and other multimodal improvements.

## **Future Outlook**

In July 2025, Santa Cruz METRO started the new fiscal year with a balanced budget and an updated multi-year financial plan that identifies a structural operating gap beginning in the next decade without new, ongoing revenues. This plan still provides a clear road map for the delivery of service and planned capital improvements, while highlighting the need for a durable local funding source.

Years of fiscally responsible decisions, enhanced focus on service productivity and sustainability coupled with a favorable economic environment have strengthened Santa Cruz METRO’s financial position, but cost escalation and the sunset of temporary funding streams now require a shift from short-term stability to long-term sustainability. 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 24 months, Santa Cruz METRO has initiated an array of transformative operating and capital projects valued more than \$250 million in projects funded through an array of 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 2026 and beyond, Santa Cruz METRO’s focus will be on completing the implementation of the various plans and projects supported by this infusion of funding while simultaneously securing long-term local revenue to preserve and grow the service and capital program beyond the current 15-year fiscal horizon.

### Doubling Ridership in Five Years

#### Reimagine METRO

Decades of service reductions 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%. 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 effect of the pandemic when more 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 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 began implementation of the Reimagine Santa Cruz METRO plan. The first phase of Reimagine Santa Cruz METRO, implemented in December 2023, included:

- 10% increase in service compared to current levels, and 25% more than in spring 2023
- Higher-frequency service in high transit demand areas
- Simpler, more direct routes, especially in Watsonville
- Improved transfers with shorter wait times and no additional fare
- Changes to route numbers and names

Updates to some bus stop locations, as well as revised street coverage. In fiscal year 2025, the Santa Cruz METRO Board adopted a second phase of bus service changes that were implemented between July 2024 and September 2025. These changes included:

- Increased, 20-minute frequency on two cross-county corridors serving Watsonville and Mid-County
- New routes and service to the UCSC and Cabrillo College campuses, Santa Cruz METRO’s highest and second highest ridership generators
- Increased service on the Highway 17 commuter express route to San Jose

The Phase 2 service improvements resulted in a service increase of 40% compared to FY24 and 33% over pre-COVID conditions and brought frequent service, with buses scheduled every 20 minutes or better, to within a 1/2-mile of 100,000 Santa Cruz County residents.

Fiscal year 2025 ridership increased by 22% compared to fiscal year 2024, reaching just over 4.6 million annual boardings. This growth was largely driven by an increase in service on Santa Cruz METRO’s most productive routes, as well as continued growth in student ridership from UCSC, Cabrillo College, and K-12 riders, which increased 22%, 46%, and 41%, respectively. Highway 17 commuter express ridership increased 28% in fiscal year 2025. In a survey of riders completed in FY25, 86% of riders supported the service changes and 43% of respondents reported that they now ride Santa Cruz METRO more often as a result.

Funding for these service improvements is being provided by a \$32 million formula grant from the State of California TIRCP, which Santa Cruz METRO began 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 is preparing a 0.5 percent countywide sales tax measure targeted for the November 2026 ballot, which will be Santa Cruz METRO’s first dedicated sales tax since 1978, to fund the improved service in perpetuity. This measure is now the central strategy for extending the life of the Reimagine METRO service plan beyond the current 15-year fiscal window.

## Speed and Reliability Improvements

While Reimagine METRO is focused on where buses go and how often they run, a complementary planning effort – the Rapid Corridors Project – is focused on improving the speed, reliability and accessibility of Santa Cruz METRO's core intercity routes. Throughout Santa Cruz County, Santa Cruz METRO buses travel along congested streets and corridors without the benefit of transit supportive elements such as bus only lanes, 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. In fiscal year 2023, Santa Cruz METRO released a final report 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 are anticipated to result in a 15% increase in the number of people within 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 worked with regional partners to identify additional funding. In fiscal year 2025, Santa Cruz METRO was awarded \$14 million in state funding which, combined with other sources, is expected to fully fund the Rapid Corridors program. Project design is anticipated to kick off in February 2026 with construction to start in 2027.

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. As congestion intensifies, these speed and reliability investments are now essential to protecting the productivity and affordability of the Reimagine METRO network.

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 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. This was followed by an additional award in FY25 that fully funds the Bus On Shoulder program.

Santa Cruz METRO's priority is to secure true, reliable bus-on-shoulder operations that deliver meaningful travel-time savings, rather than diluted alternatives that fail to meet rider needs.

## Marketing Initiatives

In 2025, Santa Cruz METRO participated in more than 100 outreach events across Santa Cruz County, including Earth Day, California Clean Air Day, and the Santa Cruz County Fair. Together with county partners, Santa Cruz METRO also launched the inaugural Week Without Driving initiative to highlight the daily realities faced by the nearly 30% of Americans who do not drive due to age, ability, income, or preference. With growing congestion, limited rural mobility options, and the need to elevate transportation equity, Santa Cruz METRO and the County recognized an opportunity to lead a countywide educational campaign. The initiative raised awareness of mobility gaps, encouraged multimodal travel, and sparked meaningful dialogue about long-term transportation investment. It generated significant engagement and visibility, earning proclamations from the State of California, the County Board of Supervisors, the RTC, and all local cities, while also receiving strong media coverage through live radio interviews and multiple news stories. Santa Cruz METRO hosted ridealongs with local officials to provide firsthand insight into the challenges faced by non-drivers, and a free-fare day on October 1 boosted participation and encouraged residents to try transit. Social media content from Santa Cruz METRO and partner agencies further expanded campaign reach and online engagement.

Santa Cruz METRO also continued to promote the Reimagine METRO service changes through a countywide campaign that emphasized the benefits of the new system and highlighted the rider support received to date. Additional marketing efforts focused on raising environmental awareness and showcasing the emissions savings achieved by choosing public transit over personal vehicles. These initiatives supported Santa Cruz METRO's Zero-Emission Transition Plan, reinforced the One Ride at a Time campaign, and promoted the Youth Cruz Free Program to increase youth ridership.

In 2025, Santa Cruz METRO's Marketing Department received several prestigious awards recognizing the impact of these efforts, including:

- American Public Transportation Association (APTA) AdWheel Grand Award for Best Comprehensive Campaign for Santa Cruz METRO's One Ride at a Time Program
- California Association of Public Information Officials (CAPIO) STAR Award for Best Promotion of a Public Agency for Santa Cruz METRO's One Ride at a Time Program
- APTA AdWheel Award for Best Educational Initiative in Print Media and Overall Comprehensive Campaign for Santa Cruz METRO's One Ride at a Time Program
- 1 Platinum Hermes Creative Award for Best Digital Marketing Campaign for Youth Cruz Free and 2 Honorable Mentions Hermes Creative Awards for Santa Cruz METRO's How to Ride Video and Next Stop social media video series.

Beyond recognition, Santa Cruz METRO strengthened rider experience in 2025 by conducting its first onboard survey since COVID, gathering valuable feedback to guide service improvements. The agency also launched Transit App Royale countywide, providing riders with enhanced access to real-time schedules, route information, and service alerts.

Looking ahead, Santa Cruz METRO will launch a new mobile-responsive website in early 2026, designed to provide easy access to service maps, real-time data, and schedules, while also highlighting marketing and planning initiatives. Customer outreach will be expanded through targeted emails, social media, and community engagement, supported by refreshed collateral promoting One Ride at a Time and Youth Cruz Free.

Going forward, Santa Cruz METRO's marketing and communications strategy will be explicitly aligned with building public understanding and support for the 2026 sales tax measure and advancing Santa Cruz METRO's long-term vision for equitable, sustainable, and community-driven transit.

## Zero-Emission Vehicle Transition

Santa Cruz METRO has set an ambitious goal of purchasing only zero emission buses (ZEB) moving forward, converting the entire bus fleet 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 focuses on converting 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 BEBs. This will 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 FTA Bus and Bus Facilities funds to procure up to 53 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 fiscal year 2024, Santa Cruz METRO signed a bus purchase agreement to procure the 53 FCEBs and awarded contracts to construct both mobile and permanent hydrogen fueling facilities. In fiscal year 2025, Santa Cruz METRO took delivery of most of the fleet order and the mobile fueler, completed the maintenance facility upgrades, began workforce training and entered the design phase of the permanent hydrogen fueling facility, which will break ground in December 2025 and is expected to be operational by the end of FY26.

In fiscal years 2026-2027, 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. Successful execution of this transition requires not only capital funding, but also long-term operating support, facility readiness, and sustained workforce development.

## 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 (2025), over half of respondents reported household incomes below \$50,000, with 62% 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 three years, Santa Cruz METRO is planning and advancing 200+ 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 2024, Santa Cruz METRO and the City of Santa Cruz broke ground on a project to redevelop Santa Cruz METRO's downtown transit hub, Pacific Station, and adjacent City owned properties into 126 affordable housing units and a new bus station and tarmac. 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. In fiscal year 2024, Santa Cruz METRO received a \$2 million regional Rural Energy for America Program (REAP) 2.0 grant from AMBAG and began preconstruction activities. In fiscal year 2025, staff began the design and entitlement process, with the project expected to break ground in early 2027.

Together, these investments link affordable housing directly to high-frequency transit, supporting the Board's ridership, equity, and climate objectives while helping address one of the most constrained housing markets in the nation.

## **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 at a consolidated 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. 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 budget variances.

The Board adopted the fiscal year 2026 Operating budget on June 27, 2025, totaling Revenue of \$78,904,683, Operating Expenses of \$82,918,533, and Transfers of \$3,973,850.

Total Operating Revenues are expected to decrease 3.6% compared to the fiscal year 2025 budget primarily due to the anticipated decreases in Sales Tax and TDA – STA. Modest increases are anticipated in Passenger and Special Transit Fares.

Total Operating Expenses are projected to increase 5 % compared to the fiscal year 2025 budget, driven by Labor and Fringe and Fringe benefits increases such as cost-of-living adjustments, anticipated higher medical costs, as well as a significant increase in FTEs (primarily Bus Operators). Non-personnel expenses are projected to increase by 16.4% in relation to increased service levels.

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 2025, is \$84,246,785, approximately 80% of which (or \$67,859,185) is anticipated to be spent by the end of fiscal year 2026. Over 70% of the fiscal year 2026 Capital Budget Portfolio is allocated to bus 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, 2025**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 54,254,340
Sales Taxes and Other Receivables	6,911,018
Grants Receivables	33,282,686
Lease Receivable - Short Term	44,593
Inventory	1,314,479
Prepaid Expenses	1,138,521

**Total Current Assets** 96,945,637

**RESTRICTED ASSETS**

Cash and Cash Equivalents	<u>20,340,716</u>
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**NON-CURRENT ASSETS**

Lease Receivable - Long Term	<u>119,846</u>
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**CAPITAL ASSETS**

Building and Improvements	77,355,426
Revenue Vehicles	59,237,200
Operations Equipment	8,086,089
Other Equipment	2,809,177
Other Vehicles	1,261,120
Office Equipment	<u>5,092,140</u>

Total Depreciated Capital Assets	153,841,152
Less Accumulated Depreciation and Amortization	<u>(81,791,832)</u>

Total Depreciated Capital Assets Net of Accumulated Depreciation and Amortization	72,049,320
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Construction-in-Progress	35,066,607
Land	11,596,311
Right-to-Use Lease Asset, Net	223,652
Subscription Assets, Net	<u>2,683,063</u>

**Total Capital Assets, Net of Accumulated  
Depreciation and Amortization** 121,618,953

**Total Assets** 239,025,152

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Amounts from Other Postemployment Benefits (OPEB)	20,947,611
Deferred Amounts from Pension Activities	<u>8,755,355</u>

**Total Deferred Outflows of Resources** 29,702,966

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT**  
**STATEMENT OF NET POSITION (Continued)**  
**JUNE 30, 2025**

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Liabilities	8,987,207
Accrued Payroll and Employee Benefits	5,844,465
Interest Payable	665,350
Workers' Compensation Liabilities, Current	676,049
Other Accrued Liabilities	74,225
Security Deposit	5,760
Reserve for Damage Claims	1,011,611
Lease Liability, Current	162,701
Subscription Liability, Current	393,069
Pension Obligation Bonds, Current	2,805,000

**Total Current Liabilities** 20,625,437

**NON-CURRENT LIABILITIES**

Unearned Revenue - FTA	72,482
Unearned Revenue - State Transit Assistance (STA)	230,521
Unearned Revenue - State of Good Repair (SGR)	1,893,057
Unearned Revenue - Measure D	7,438,086
Unearned Revenue - LCTOP	3,257,509

**Total Non-Current Liabilities** 12,891,655

**OTHER LONG-TERM LIABILITIES**

Workers' Compensation Liabilities, Net of Current	2,631,976
Lease Liability, Net of Current	69,924
Liability - LOC	77,500
Subscription Liability, Net of Current	2,483,205
Pension Obligation Bonds, Net of Current	40,710,000
Net OPEB Liability	118,411,704
Net Pension Liability	21,316,846

**Total Other Long-Term Liabilities** 185,701,155

**Total Liabilities** 219,218,247

**DEFERRED INFLOWS OF RESOURCES**

Deferred Amounts from Leases	155,616
Deferred Amounts from OPEB Activities	21,621,372
Deferred Amounts from Pension Activities	67,695

**Total Deferred Inflows of Resources** 21,844,683

**NET POSITION (DEFICIT)**

Net Investment in Capital Assets	118,510,054
Unrestricted Net Position (Deficit)	<u>(90,844,866)</u>
<b>Total Net Position (Deficit)</b>	<u><u>\$ 27,665,188</u></u>

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, 2025**

<b>OPERATING REVENUES</b>	
Passenger Fares	\$ 2,797,424
Special Transit Fares	6,543,349
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<b>Total Operating Revenues</b>	<b>9,340,773</b>
	<hr/>
<b>OPERATING EXPENSES</b>	
Wages, Salaries, and Employee Benefits	57,559,860
Materials and Supplies	5,604,269
Other Expenses	8,919,961
Depreciation and Amortization	7,129,273
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<b>Total Operating Expenses</b>	<b>79,213,363</b>
	<hr/>
<b>Net Operating Loss</b>	<b>(69,872,590)</b>
	<hr/>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Sales and Use Taxes	29,684,863
Transportation Development Act (TDA) Assistance	8,701,057
State Transit Assistance (STA)	4,899,046
Federal Transit Administration (FTA) Section 5307 Operating Assistance	11,855,189
Transit and Intercity Rail Capital Program Operating Assistance	9,134,462
FTA Section 5311 Rural Operating Assistance	-
Low Carbon Transit Operations Program and Other Operating Assistance	828,531
Alternative Fuel Credit	304,584
Interest Income	2,749,182
Interest Expense	(1,502,968)
Rental Income	7,336
Other Revenue	433,444
Lease Revenue	58,429
Gain on Sale and Disposal of Property, Equipment, and Inventory	9,348
	<hr/>
<b>Total Non-Operating Revenues (Expenses)</b>	<b>67,162,503</b>
	<hr/>
<b>Net Loss Before Capital Contributions</b>	<b>(2,710,087)</b>
	<hr/>
<b>CAPITAL CONTRIBUTIONS</b>	
Grants Restricted for Capital Expenditures	30,205,689
	<hr/>
<b>NET POSITION</b>	
Change in Net Position	27,495,602
Net Position, Beginning of Year	169,586
	<hr/>
Net Position, End of Year	<b>\$ 27,665,188</b>
	<hr/>

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, 2025**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 9,870,334
Payments to Employees	(51,691,188)
Payments to Suppliers	(8,215,617)
Payments from Other	<u>(3,424,926)</u>
Net Cash Used in Operating Activities	<u>(53,461,397)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Operating Grants Received, Including Sales and Use Taxes	<u>63,693,522</u>
Net Cash Provided by Non-Capital Financing Activities	<u>63,693,522</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Sale of Property and Equipment	9,348
Capital Grants Received	6,846,198
Capital Expenditures	(31,876,595)
Payments Made on Financed Purchase	(288,082)
Payments on Pension Obligation Bonds	(2,750,000)
Proceeds from Line of Credit	<u>77,500</u>
Net Cash Used in Capital and Related Financing Activities	<u>(27,981,631)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment and Rental Income Received	<u>2,756,518</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,992,988)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>89,588,044</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 74,595,056</u>
FINANCIAL STATEMENT PRESENTATION:	
Cash and Cash Equivalents	\$ 54,254,340
Cash and Cash Equivalents - Restricted	<u>20,340,716</u>
Total Cash and Cash Equivalents	<u>\$ 74,595,056</u>

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, 2025**

RECONCILIATION OF NET OPERATING LOSS TO NET CASH	
USED IN OPERATING ACTIVITIES	
Net Operating Loss	\$ (69,872,590)
Adjustments to Reconcile Net Operating Loss to Net Cash	
Used in Operating Activities:	
Depreciation and Amortization	7,129,273
Loss on Sale of Assets	-
Changes in Assets and Liabilities:	
Decrease in Receivables	530,424
(Increase) in Lease Receivables	(863)
(Increase) in Inventory	(144,675)
(Increase) in Prepaid Expenses	(308,643)
Increase in Accounts Payable and Accrued Liabilities	6,687,706
(Decrease) in Interest Payable	(31,585)
Increase in Net Pension Liability	3,007,585
(Decrease) in Net OPEB Liability	(850,167)
Increase in Other Liabilities	963,338
Increase in Reserve for Damage Claims	<u>(571,200)</u>
Net Cash Used in Operating Activities	<u><u>\$ (53,461,397)</u></u>

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2025**

**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, 2025, the Board was as follows:

Chairperson:	Rebecca Downing	
Vice Chair:	Manu Koenig	
Members:	Jimmy Dutra	Scott Newsome
	Shebreh Kalantari-Johnson	Fabian Leonor
	Melinda Orbach	Vanessa Quiroz-Carter
	Donna Lind	Monica Martinez
	Elizabeth Madrigal	
Ex-Officios:	Edward Reiskin	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, 2025, these activities were minimal.

**Scope of Public Service:**

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

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

Accountability:

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

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

B. Reporting Entity (Continued)

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

C. Basis of Accounting and Presentation

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

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

**Contributed Capital/Reserved Retained Earnings:**

Santa Cruz METRO receives grants from the Federal Transit Administration (FTA) and other agencies of the U.S. Department of Transportation, state, and local transportation funds for the acquisition of transit-related equipment and improvements. Prior to July 1, 2001, capital grants were recognized as donated capital to the extent that project costs under the grant had been incurred. Capital grant funds earned, less amortization, equal to accumulated depreciation of the related assets, were included in contributed capital. As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Santa Cruz METRO changed its method of accounting for capital grants from capital contributions to reserved non-operating revenues. In accordance with GASB Statement No. 33, capital grants are required to be included in the determination of net income resulting in an increase in net revenue of \$30,205,689 for the fiscal year ended June 30, 2025.

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, salaries, employee benefits, professional services, materials and supplies, depreciation/amortization on capital assets, and other expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Net Position:**

Net position represents the residual interest in Santa Cruz METRO's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. In accordance with GASB Statement No. 34, the net position 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/amortization. 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 Statement 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 Statement 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 \$5,044,743 of restricted cash deposited with a trustee 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, 2025, are as follows:

Cash and Cash Equivalents	
STA Grant	\$ 219,474
STA - State of Good Repair (SGR) Grant	4,522,986
Measure D	7,475,174
LCTOP Grant	2,812,047
Certificates of Deposit (CD)	116,310
Restricted Cash - FTA	72,482
Restricted Cash - Line of Credit (LOC)	77,500
Pension Obligation Bonds	5,044,743
	<hr/>
Total Restricted Assets	\$ 20,340,716
	<hr/>

G. Property and Equipment

Property and equipment are recorded at cost. Depreciation/amortization 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/amortization 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/amortization 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, 2025, were \$27,722,915.

## **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 \$1,961,948 for the fiscal year ended June 30, 2025. During fiscal year ended June 30, 2025, \$1,961,948 of Measure D funds were earned and spent on operating expenses, and \$799,162 of Measure D funds were earned and spent on capital projects. At June 30, 2025, \$7,438,086 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 (IBNR) claims.

### 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 contracted with the Santa Cruz County Auditor-Controller to provide payroll processing services through March 2024. Effective April 2024, payroll processing was brought in-house as part of the District's implementation of a new fully integrated cross-functional enterprise resource planning (ERP) system.

### M. Pension Costs

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

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

### **N. Other Postemployment Benefits (OPEB)**

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

### **O. Use of Estimates**

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

### **P. Leases and Subscription-Based Information Technology Arrangements**

Leases are defined as contracts that convey control of the right-to-use another entity's underlying asset. As lessee, the District recognizes a lease liability and an intangible lease asset at the beginning of a lease, unless the lease is considered a short-term lease or transfers ownership of the underlying asset. The lease liability is the net present value of the future lease payments expected to be made over the course of the lease, using the District's incremental borrowing rate. The right-to-use asset is measured as the initial amount of the lease liability plus any initial direct costs and is amortized on a straight-line basis over its useful life. Re-measurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability. The District calculates the amortization of the discount on the lease liability and reports that amount as interest expense. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations but are recognized as expenses in the period the usage incurred.

As lessor, the District recognizes a lease receivable and deferred inflow of resources at the beginning of the lease term. The lease receivable is measured using the net present value of future lease payments to be received for the lease term. Periodic amortization of the discount on the receivable is reported as interest revenue for that period. Deferred inflows of resources are recognized as lease revenue on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases or contracts that transfer ownership.

Subscription-Based Information Technology Arrangements (SBITAs) are contracts that convey control of the right-to-use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. To determine whether a contract conveys control of the right-to-use the underlying IT assets, the District assesses both the right to obtain the present service capacity from use of the underlying IT assets and the right to determine the nature and manner of use of the underlying IT assets as specified in the contract. Contracts that solely provide IT support services are excluded from the definition of a SBITA. The subscription term is the period during which the District has a noncancellable right-to-use the underlying IT assets, plus the periods covered by the District's contract option to extend the SBITA if it is reasonably certain, based on all relevant factors, that it will exercise that option.

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

Q. Implementation of GASB Statements

**GASB Statement No. 101** – *Compensated Absences*. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. There was no effect on the District’s accounting and financial reporting.

**GASB Statement No. 102** – *Certain Risk Disclosures*. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management evaluated the District’s funding sources, banking relationships, major counterparties, and legal/contractual restrictions and concluded no concentrations met the statement’s disclosure threshold as of June 30, 2025.

R. Future GASB Statements

**GASB Statement No. 103** – *Financial Reporting Model Improvements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all fiscal years thereafter. The District will implement GASB Statement No. 103 when and where applicable.

**GASB Statement No. 104** – *Disclosure of Certain Capital Assets*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all fiscal years thereafter. The District will implement GASB Statement No. 104 when and where applicable.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Total cash and cash equivalents (restricted and unrestricted) consist of the following at June 30, 2025:

Cash on Hand	\$ 5,199
Demand Deposits	2,795,586
Certificates of Deposit (CD)	116,310
Deposits with Trustee	5,044,743
Deposits in Santa Cruz County Pooled Investment Fund	<u>66,633,218</u>
	<u>\$ 74,595,056</u>

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

Cash on Hand and Cash in Banks

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

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

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

**Disclosures Relating to Interest Rate Risk**

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Santa Cruz County Pooled Investment Fund	<u>\$ 66,633,218</u>	<u>\$ 66,633,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Cash on Hand and Cash in Banks (Continued)

**Disclosures Relating to Credit Risk**

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
				AAA	Aa	Not Rated
Santa Cruz County Pooled Investment Fund	\$ 66,633,218	N/A	\$ -	\$ -	\$ -	\$ 66,633,218

**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, 2025.

**Custodial Credit Risk**

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

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

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

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

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

Cash on Hand and Cash in Banks (Continued)

**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, 2025:

<u>Investments by Fair Value Level</u>	<u>Fair Value Measurement Using</u>		
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates of Deposit (CD)	\$ 116,310	\$ 116,310	\$ -
Total Investments Measured at Fair Value	116,310	<u>\$ 116,310</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:			
Santa Cruz County Pooled Investment Fund	<u>66,633,218</u>		
Total Pooled and Directed Investments	<u>\$ 66,749,528</u>		

Investments in the Santa Cruz County Pooled Investment Fund totaling \$66,633,218 as of June 30, 2025, are measured at amortized cost, which approximates fair value.

**NOTE 3 – RECEIVABLES**

Sales taxes and other receivables at June 30, 2025 are as follows:

Sales and Use Tax Revenue	\$ 6,329,219
Other	<u>581,799</u>
	<u>\$ 6,911,018</u>

Grant receivables at June 30, 2025 are as follows:

Federal Grants	\$ 6,654,288
State Grants	<u>26,628,398</u>
	<u>\$ 33,282,686</u>

#### **NOTE 4 – CHANGES IN CAPITAL ASSETS**

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

	Balance July 1, 2024	Additions	Retirements	Transfers	Balance June 30, 2025
<b>Non-Depreciated Assets</b>					
Land	\$ 11,596,311	\$ -	\$ -	\$ -	\$ 11,596,311
Construction-in-Progress	8,514,938	31,528,750	-	(4,977,081)	35,066,607
<b>Total Non-Depreciated Assets</b>	<b>20,111,249</b>	<b>31,528,750</b>	<b>-</b>	<b>(4,977,081)</b>	<b>46,662,918</b>
<b>Depreciated and Amortized Assets</b>					
Building and Improvements	77,382,081	-	(26,655)	-	77,355,426
Revenue Vehicles	58,384,444	-	(428,576)	1,281,332	59,237,200
Operations Equipment	8,045,448	-	(329,190)	369,831	8,086,089
Other Equipment	2,334,544	-	-	474,633	2,809,177
Other Vehicles	1,310,305	-	(49,185)	-	1,261,120
Office Equipment	2,288,516	-	(47,661)	2,851,285	5,092,140
Right-to-Use Lease Asset	933,237	-	-	-	933,237
<b>Total Depreciated/Amortized Assets</b>	<b>150,678,575</b>	<b>-</b>	<b>(881,267)</b>	<b>4,977,081</b>	<b>154,774,389</b>
Less Accumulated Depreciation and Amortization	(76,732,573)	(6,650,111)	881,267	-	(82,501,417)
<b>Depreciated/Amortized Assets Net of Accumulated Depreciation/Amortization</b>	<b>73,946,002</b>	<b>(6,650,111)</b>	<b>-</b>	<b>4,977,081</b>	<b>72,272,972</b>
<b>SBITA</b>					
Software	3,945,423	51,279	-	-	3,996,702
Accumulated Amortization	(834,477)	(479,162)	-	-	(1,313,639)
<b>Total SBITA, Net</b>	<b>3,110,946</b>	<b>(427,883)</b>	<b>-</b>	<b>-</b>	<b>2,683,063</b>
<b>Total Capital Assets, Net of Depreciation and Amortization</b>	<b>\$ 97,168,197</b>	<b>\$ 24,450,756</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 121,618,953</b>

Depreciation and amortization expense for the fiscal year ended June 30, 2025, was \$7,129,273.

#### **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.

A summary of federal, state, and local capital grants and sales tax allocations for the fiscal year ended June 30, 2025, is as follows:

Federal Grants	\$ 5,337,209
Federal Tax Rebate	800,000
State Grants	23,269,318
Measure D Local Sales Tax Allocations	799,162
<b>Total Capital Contributions</b>	<b>\$ 30,205,689</b>

**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, 2025, (most recent information available) is as follows:

Total Assets	\$ 51,361,489
Total Liabilities	<u>20,347,608</u>
Fund Balance	<u>\$ 31,013,881</u>
Total Revenues	\$ 22,323,326
Total Expenditures	<u>18,534,540</u>
Net Increase in Fund Balance	<u>\$ 3,788,786</u>

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

**NOTE 7 – CONTINGENCIES**

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

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

**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.

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

A. General Information About the Pension Plan (Continued)

Funding Policy

There were 391 active members in the Plan as of June 30, 2025, 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. The total minimum required employer contribution is 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 annually). The required employer contribution for fiscal year 2025 was 11.00% and 10.83% of covered payroll. 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, 2025, are summarized as follows:

Hire Date	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit Formula	2.5%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50	52
Monthly Benefits, as a Percentage of Eligible Compensation	2.000% - 2.500%	1.000%-2.500%
Required Employee Contribution Rates	8.000%	8.000%
Required Employer Normal Cost Contribution Rates	11.000%	10.830%
Required Annual Employer UAL Payment	\$55,486/month	\$55,486/month

***Employees Covered*** – At June 30, 2025, the following employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	436
Inactive Employees Entitled to but not yet Receiving Benefits	267
Active Employees	<u>391</u>
Total	<u><u>1,094</u></u>

B. Net Pension Liability

Santa Cruz METRO's net pension liability for the Plan is measured as the total pension liability, less the Plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

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

B. Net Pension Liability (Continued)

**Actuarial Assumptions** – The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	Varies by Entry Age and Service <sup>(1)</sup>
Investment Rate of Return	6.80% <sup>(2)</sup>
Mortality	Derived using <sup>(3)</sup> CalPERS' Membership Data for all Funds

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

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

<sup>(3)</sup> The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the 2021 experience study report from November 2021 that can be found on the CalPERS website.

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, 2025, 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 2025 is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.90% for 2025 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, 2025, the 6.90% 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 <sup>(1, 2)</sup>
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%	

<sup>(1)</sup> An expected inflation of 2.3% used for this period.

<sup>(2)</sup> Figures are based on the 2021 Asset Liability Management study.

**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, 2023 <sup>(1)</sup>	\$ 219,555,755	\$ 194,942,275	\$ 24,613,480
Changes in the year:			
Service Cost	3,863,735	-	3,863,735
Interest on the Total Pension Liability	14,869,369	-	14,869,369
Differences between Expected and Actual Experience	552,773	-	552,773
Changes in Benefit Terms	-	-	-
Changes in Assumptions	-	-	-
Contribution - Employer	-	2,617,084	(2,617,084)
Contribution - Employee	-	1,950,017	(1,950,017)
Net Investment Income <sup>(2)</sup>	-	18,174,035	(18,174,035)
Administrative Expense	-	(158,625)	158,625
Benefit Payments, Including Refunds of Employee Contributions	(13,084,580)	(13,084,580)	-
Net Changes	6,201,297	9,497,931	(3,296,634)
Balance at June 30, 2024 <sup>(1)</sup>	\$ 225,757,052	\$ 204,440,206	\$ 21,316,846

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

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

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

1% Decrease	5.90%
Net Pension Liability	\$ 48,998,495
Current Discount Rate	6.90%
Net Pension Liability	\$ 21,316,846
1% Increase	7.90%
Net Pension Liability (Asset)	\$ (1,729,002)

**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, 2025, Santa Cruz METRO recognized a pension expense of \$6,784,455. At June 30, 2025, Santa Cruz METRO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 3,783,230	\$ -
Differences between Actual and Expected Experience	689,967	(67,695)
Changes in Assumptions	1,238,734	-
Net Differences Between Projected and Actual Earnings on Plan Investments	<u>3,043,424</u>	<u>-</u>
Total	<u>\$ 8,755,355</u>	<u>\$ (67,695)</u>

The \$3,783,230 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 period ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period Ended June 30</u>	
2025	\$ 1,886,428
2026	4,642,721
2027	(616,644)
2028	(1,008,075)
2029	-
Thereafter	<u>-</u>
Total	<u>\$ 4,904,430</u>

E. Payable to the Pension Plan

At June 30, 2025, 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, 2025.

**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, 2025, 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	\$ 2,634,307
Claim Payments	(920,632)
Other Adjustments (Including IBNRs)	<u>1,594,350</u>
Unpaid Claims Liability, End of Fiscal Year	<u>\$ 3,308,025</u>

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

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

Section 6634

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

Section 6637

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

Sections 99267, 99268.1, and 99314.6

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

## **NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

**Employees Covered** – As of the June 30, 2023 valuation, the following current and former employees were covered by the benefit terms for the OPEB Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	324
Inactive Employees Entitled to but not yet Receiving Benefits	26
Active Employees	<u>310</u>
Total	<u><u>660</u></u>

**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, 2025, Santa Cruz METRO contributed \$5,382,611. 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, 2024, 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, 2025
Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	3.93%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	6.0% in 2025, fluctuating down to 4.8% by 2075
Mortality Rate	CalPERS 2021 Experience Study; Projected with MW Scale 2022

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (Continued)

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

Asset Class	New Strategic Allocation	Real Return <sup>(1,2)</sup>
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	<u>100.00%</u>	

(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 3.93% at June 30, 2025. 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 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (Continued)

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

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Balance at June 30, 2024	\$ 101,104,575	\$ -	\$ 101,104,575
Changes in the Year:			
Service Cost	4,199,792	-	4,199,792
Interest	4,248,687	-	4,248,687
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	10,592,057	-	10,592,057
Changes in Assumptions	3,127,731	-	3,127,731
Contribution - Employer	-	4,861,138	(4,861,138)
Benefit Payments	(4,861,138)	(4,861,138)	-
Net Changes	17,307,129	-	17,307,129
Balance at June 30, 2025	\$ 118,411,704	\$ -	\$ 118,411,704

**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, 2024:

1% Decrease	2.93%
Net OPEB Liability	\$ 136,168,655
Current Discount Rate	3.93%
Net OPEB Liability	\$ 118,411,704
1% Increase	4.93%
Net OPEB Liability	\$ 103,981,356

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend** – The following presents the net OPEB liability of Santa Cruz METRO, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage lower or one percentage point higher than the current healthcare cost trend rates for the measurement period ended June 30, 2024:

1% Decrease	2.93%
Net OPEB Liability	\$ 102,581,018
Current Discount Rate	3.93%
Net OPEB Liability	\$ 118,411,704
1% Increase	4.93%
Net OPEB Liability	\$ 138,374,285

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

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (Continued)

**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.

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB** – For the fiscal year ended June 30, 2025, Santa Cruz METRO recognized OPEB expense of \$4,531,979. As of fiscal year ended June 30, 2025, Santa Cruz METRO reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB Contributions Subsequent to Measurement Date	\$ 5,382,146	\$ -
Differences between Actual and Expected Experience	11,914,687	(5,592,068)
Changes in Assumptions	<u>3,650,778</u>	<u>(16,029,304)</u>
Total	<u>\$ 20,947,611</u>	<u>\$ (21,621,372)</u>

The \$5,382,146 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2024 measurement dates will be recognized as a reduction in the net OPEB liability in the measurement period ended June 30, 2025. In addition, future recognition of the deferred inflows of resources is shown below.

<u>For the Fiscal Years Ended June 30,</u>	
2026	\$ (4,678,530)
2027	(3,803,084)
2028	(1,013,672)
2029	1,833,185
2030	1,819,572
Thereafter	<u>(213,378)</u>
Total	<u>\$ (6,055,907)</u>

**NOTE 13 – LONG-TERM DEBT**

The following is a summary of Santa Cruz METRO's long-term debt activity for the fiscal year ended June 30, 2025:

	<u>Balance June 30, 2024</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2025</u>	<u>Due Within One Year</u>
Lease Liability (Note 14)	\$ 520,707	\$ -	\$ (288,082)	\$ 232,625	\$ 162,701
Subscription Liabilities (Note 14)	3,172,840	-	(296,566)	2,876,274	393,069
Pension Obligation Bonds	<u>46,265,000</u>	<u>-</u>	<u>(2,750,000)</u>	<u>43,515,000</u>	<u>2,805,000</u>
Total Long-Term Debt	<u>\$ 49,958,547</u>	<u>\$ -</u>	<u>\$ (3,334,648)</u>	<u>\$ 46,623,899</u>	<u>\$ 3,360,770</u>

**NOTE 13 – LONG-TERM DEBT** (Continued)

**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 POBs 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, 2038.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,015,000	1,130,745	4,145,745
2030	3,100,000	1,047,064	4,147,064
2031-2035	17,035,000	3,699,770	20,734,770
2036-2039	<u>11,750,000</u>	<u>681,548</u>	<u>12,431,548</u>
Total	<u>\$ 43,515,000</u>	<u>\$ 10,386,191</u>	<u>\$ 53,901,191</u>

**NOTE14 – LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

**Lessor Activities**

Leases are the financings of the right-to-use an underlying asset; a lessor is required to recognize a lease receivable and a deferred inflow of resources for leases under GASB Statement No. 87, *Leases* (GASB 87).

Santa Cruz METRO had three leases as a Lessor for the use of building space at Watsonville Transit Center and Scotts Valley Transit Center that met the criteria for recognition as a lease receivable under GASB 87 as of the fiscal year ended June 30, 2025. Lease terms range from 3 to 10 years beginning on the contract commencement date, with fixed 3% – 3.5% annual lease escalations and options to extend the leases for a period ranging from 2 to 5 additional years. As of June 30, 2025, the value of the leases receivable was \$164,439, and the value of the deferred inflows of resources was \$155,616. The District recognized lease revenue of \$58,429 and interest revenue of \$5,267 associated with these leases during the fiscal year.

**NOTE14 – LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

(Continued)

**Lessee Activities**

Leases are financings of the right-to-use an underlying asset; a lessee is required to recognize a lease liability and an intangible (right-to-use) lease asset for leases under GASB 87.

Santa Cruz METRO had three leases as a Lessee that provided the right-to-use office facilities, printer/copiers and a parking lot that met the criteria for recognition as a lease liability under GASB 87 during the fiscal year ended June 30, 2025. The District is required to make principal and interest payments through fiscal year 2030. The leases have interest rates ranging from 1.29% to 3.71%. At June 30, 2025, the value of the lease liability was \$232,625. During the fiscal year ended June 30, 2025, the District recorded \$286,846 in amortization expense and \$8,793 in interest expense for the right-to-use these assets. The value of the right-to-use lease assets as of June 30, 2025, of \$933,237, with accumulated amortization of \$709,585, is classified as land, buildings, and office equipment in the table below:

## Lease Asset Amount by Major Class of Underlying Asset:

<u>Asset Class</u>	<u>Lease Asset Value</u>	<u>Accumulated Amortization</u>	<u>Lease Asset Net</u>
Land	\$ 347,517	\$ (226,776)	\$ 120,741
Buildings	498,361	(463,130)	35,231
Office Equipment	87,359	(19,679)	67,680
Total	<u>\$ 933,237</u>	<u>\$ (709,585)</u>	<u>\$ 223,652</u>

Remaining payment obligations associated with the lease liability are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 162,701	\$ 2,826	\$ 165,527
2027	33,817	1,209	35,026
2028	17,086	741	17,827
2029	17,539	288	17,827
2030	1,482	3	1,485
Total	<u>\$ 232,625</u>	<u>\$ 5,067</u>	<u>\$ 237,692</u>

**Subscription Based Information Technology Arrangements (SBITA) Liability:**

Santa Cruz METRO has four subscription-based information technology arrangements (SBITAs) for the use of various software applications that meet the criteria of an SBITA per GASB Statement No. 96 (GASB 96), thus requiring these to be recorded by the District as intangible subscription assets with a corresponding subscription liability at June 30, 2025. The subscription assets will be amortized over the various lease terms, as the lease terms correspond with the District's ability to access the software under the subscription agreements. The District is required to make principal and interest payments through fiscal year 2032. As of June 30, 2025, the value of the subscription liability was \$2,876,274. The subscriptions have interest rates ranging from 0.13% to 4.0%. The value of the subscription assets as of June 30, 2025, was \$3,996,702 with accumulated amortization of \$1,313,639. The District recognized amortization expense of \$479,162 and interest expense of \$93,150 associated with these subscription agreements during the fiscal year. There are also no residual value guarantees in the agreement provisions.

**NOTE 14 – LEASES AND SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**  
(Continued)

Future payment obligations associated with the subscription liability are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 393,069	\$ 114,323	\$ 507,392
2027	378,929	99,328	478,257
2028	370,718	84,171	454,889
2029	394,454	69,532	463,986
2030	419,704	53,564	473,268
2031-2032	<u>919,400</u>	<u>36,776</u>	<u>956,176</u>
Total	<u>\$ 2,876,274</u>	<u>\$ 457,694</u>	<u>\$ 3,333,968</u>

**NOTE 15 – STATE TRANSIT ASSISTANCE – STATE OF GOOD REPAIR (STA-SGR)**

Santa Cruz METRO was allocated \$759,759 of State Transit Assistance – State of Good Repair (STA-SGR) program funds for fiscal year 2025. Interest earned on STA-SGR funds held in the Santa Cruz County Pooled Investment Fund during fiscal year 2025 was \$170,677. The unspent (unearned) balance of STA-SGR funds was \$1,893,057 at June 30, 2025.

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through December 15, 2025, 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, 2025**  
**LAST 10 YEARS**

	Measurement Period 2023/24	Measurement Period 2022/23	Measurement Period 2021/22	Measurement Period 2020/21	Measurement Period 2019/20
<b>Total Pension Liability</b>					
Service Cost	\$ 3,863,735	\$ 3,544,420	\$ 3,606,454	\$ 3,290,053	\$ 3,235,943
Interest on Total Pension Liability	14,869,369	14,458,569	14,018,196	13,685,292	13,261,238
Differences between Expected and Actual Experience	552,773	716,743	(357,816)	276,385	651,255
Changes in Assumptions	-	-	6,547,600	-	-
Changes in Benefit Terms	-	249,237	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(13,084,580)</u>	<u>(12,439,034)</u>	<u>(11,915,732)</u>	<u>(11,211,777)</u>	<u>(10,527,796)</u>
Net Change in Total Pension Liability	6,201,297	6,529,935	11,898,702	6,039,953	6,620,640
Total Pension Liability - Beginning	<u>219,555,755</u>	<u>213,025,820</u>	<u>201,127,118</u>	<u>195,087,165</u>	<u>188,466,525</u>
Total Pension Liability - Ending (a)	<u>\$ 225,757,052</u>	<u>\$ 219,555,755</u>	<u>\$ 213,025,820</u>	<u>\$ 201,127,118</u>	<u>\$ 195,087,165</u>
<b>Plan Fiduciary Net Position</b>					
Net Plan to Plan Resource Movement	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Employer	2,617,084	3,048,673	58,209,105	6,469,902	5,889,484
Contributions - Employee	1,950,017	1,484,514	1,468,844	1,514,329	1,552,782
Net Investment Income (Loss)	18,174,035	11,360,725	(13,028,949)	29,474,109	6,333,686
Administrative Expense	(158,625)	(140,914)	(97,797)	(130,738)	(180,179)
Benefit Payments	(13,084,580)	(12,439,034)	(11,915,732)	(11,211,777)	(10,527,796)
Other Miscellaneous Income/(Expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	9,497,931	3,313,964	34,635,471	26,115,825	3,067,977
Plan Fiduciary Net Position - Beginning	<u>194,942,275</u>	<u>191,628,311</u>	<u>156,992,840</u>	<u>130,877,015</u>	<u>127,809,038</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 204,440,206</u>	<u>\$ 194,942,275</u>	<u>\$ 191,628,311</u>	<u>\$ 156,992,840</u>	<u>\$ 130,877,015</u>
Net Pension Liability [(a) - (b)]	<u>\$ 21,316,846</u>	<u>\$ 24,613,480</u>	<u>\$ 21,397,509</u>	<u>\$ 44,134,278</u>	<u>\$ 64,210,150</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.56%	88.79%	89.96%	78.06%	67.09%
Covered Payroll	\$ 21,171,152	\$ 19,231,794	\$ 19,399,968	\$ 19,677,351	\$ 18,956,899
Net Pension Liability as a Percentage of Covered Payroll	100.69%	127.98%	110.30%	224.29%	338.72%

**Notes to Schedule:**

**Benefit changes.** In 2024, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

**Changes in assumptions.** In 2024, 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, 2025**  
**LAST 10 YEARS**

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

**Notes to Schedule:**

**Benefit changes.** In 2024, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, and 2015, there were no benefit changes.

**Changes in assumptions.** In 2024, 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, 2025  
LAST 10 YEARS**

	<u>Fiscal Year 2024-25</u>	<u>Fiscal Year 2023-24</u>	<u>Fiscal Year 2022-23</u>	<u>Fiscal Year 2021-22</u>	<u>Fiscal Year 2020-21</u>
Actuarially Determined Contributions	\$ 2,617,084	\$ 3,048,673	\$ 58,209,105	\$ 6,469,902	\$ 5,889,484
Contributions in Relation to the Actuarially Determined Contributions	<u>(2,617,084)</u>	<u>(3,048,673)</u>	<u>(58,209,105)</u>	<u>(6,469,902)</u>	<u>(5,889,484)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 21,171,152	\$ 19,231,794	\$ 19,399,968	\$ 19,677,351	\$ 18,956,899
Contributions as a Percentage of Covered Payroll	12.36%	15.85%	300.05%	32.88%	31.07%
	<u>Fiscal Year 2019-20</u>	<u>Fiscal Year 2018-19</u>	<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2015-16</u>
Actuarially Determined Contributions	\$ 5,300,243	\$ 4,686,264	\$ 4,047,221	\$ 3,991,447	\$ 4,086,806
Contributions in Relation to the Actuarially Determined Contributions	<u>(5,300,243)</u>	<u>(4,686,264)</u>	<u>(4,047,221)</u>	<u>(3,991,447)</u>	<u>(4,086,806)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 18,780,928	\$ 19,075,163	\$ 19,343,552	\$ 19,550,012	\$ 19,490,839
Contributions as a Percentage of Covered Payroll	28.22%	24.57%	20.92%	20.42%	20.97%

**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, 2025  
LAST 10 YEARS\***

<i>Measurement Period Date</i>	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
<b>Total OPEB Liability</b>				
Service Cost	\$ 4,199,792	\$ 3,529,856	\$ 5,453,027	\$ 6,234,396
Interest	4,248,687	3,936,412	2,729,994	3,632,144
Actual and Expected Experience Difference	10,592,057	4,402,808	-	(14,678,446)
Changes in Assumptions	3,127,731	(1,355,759)	(30,990,621)	347,863
Changes in Benefits Terms	-	-	-	(1,866,384)
Benefit Payments	<u>(4,861,138)</u>	<u>(4,247,349)</u>	<u>(4,259,836)</u>	<u>(4,127,225)</u>
Net Change in Total OPEB Liability	17,307,129	6,265,968	(27,067,436)	(10,457,652)
Total OPEB Liability - Beginning	<u>101,104,575</u>	<u>94,838,607</u>	<u>121,906,043</u>	<u>132,363,695</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 118,411,704</u></u>	<u><u>\$ 101,104,575</u></u>	<u><u>\$ 94,838,607</u></u>	<u><u>\$ 121,906,043</u></u>
 <b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 4,861,138	\$ 4,247,349	\$ 4,259,836	\$ 4,127,225
Benefit Payments	<u>(4,861,138)</u>	<u>(4,247,349)</u>	<u>(4,259,836)</u>	<u>(4,127,225)</u>
Net Change in Plan Fiduciary Net Position	-	-	-	-
Plan Fiduciary Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 Net OPEB Liability [(a) - (b)]	<u><u>\$ 118,411,704</u></u>	<u><u>\$ 101,104,575</u></u>	<u><u>\$ 94,838,607</u></u>	<u><u>\$ 121,906,043</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%	0.00%
Covered Payroll	\$ 28,341,997	\$ 24,367,129	\$ 23,292,187	\$ 21,475,538
Net OPEB Liability as a Percentage of Covered Payroll	417.80%	414.92%	407.17%	567.65%

\* Fiscal year 2018 was the 1<sup>st</sup> year of implementation; therefore, only eight 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 CHANGES IN THE NET OTHER POSTEMPLOYMENT  
BENEFITS (OPEB) LIABILITY AND RELATED RATIOS (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2025  
LAST 10 YEARS\***

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

\* Fiscal year 2018 was the 1<sup>st</sup> year of implementation; therefore, only eight 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, 2025  
LAST 10 YEARS\***

	Fiscal Year 2025	Fiscal Year 2024	Fiscal Year 2023	Fiscal Year 2022
Actuarially Determined Contributions	\$ 4,861,138	\$ 4,247,349	\$ 4,259,836	\$ 4,127,225
Contributions in Relation to the Actuarially Determined Contributions	<u>(4,861,138)</u>	<u>(4,247,349)</u>	<u>(4,259,836)</u>	<u>(4,127,225)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 28,341,997	\$ 24,367,129	\$ 23,292,187	\$ 21,336,510
Contributions as a Percentage of Covered Payroll	17.15%	17.43%	18.29%	19.34%

**Notes to the Schedule:**

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2025, were from the June 30, 2023 actuarial valuation.

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

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	3.93%
Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	6.5% in 2025, fluctuating down to 3.9% by 2075
Mortality Rate	CalPERS 2021 Experience Study; Projected with MW Scale 2022

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

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF CONTRIBUTIONS – OPEB (Continued)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2025  
LAST 10 YEARS\***

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

## **SUPPLEMENTARY INFORMATION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
STATEMENT OF OPERATING EXPENSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Labor	
Operators' salaries and wages	\$ 14,525,001
Other salaries and wages	10,798,188
Overtime	3,018,808
	<u>28,341,997</u>
Fringe Benefits	
Absence with pay	5,227,357
Pension plans	3,827,444
Vision, medical, and dental plans	9,140,744
Workers' compensation insurance	2,268,068
Disability insurance	560,198
Other fringe benefits	654,487
Other postemployment benefits	7,539,565
	<u>29,217,863</u>
Services	
Accounting	39,694
Administrative and banking	574,375
Professional and technical services	2,695,495
Security	1,056,869
Outside repairs	2,094,359
Other services	337,202
	<u>6,797,994</u>
Materials and Supplies Consumed	
Fuels and lubricants	2,457,849
Tires and tubes	467,931
Vehicle parts	1,947,947
Other materials and supplies	730,542
	<u>5,604,269</u>
Utilities	792,388
Casualty and Liability Costs	602,713
Taxes and Licenses	76,136
Miscellaneous Expenses	482,045
Equipment and Facility Lease	168,685
Depreciation and Amortization	<u>7,129,273</u>
Total Operating Expenses	<u><u>\$ 79,213,363</u></u>

**OTHER SCHEDULES AND REPORTS**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
Federal Transit Administration (FTA)				
Cluster Defined by the Department of Transportation				
<b>Section 3/5309 Consolidation</b>				
Pacific Station Expansion FY2006 (Design/Engineering)	20.500	CA-04-0021	\$ -	\$ 3,746
			-	3,746
<b>Section 9/5307</b>				
Operating Assistance - FY 22 & 23 5307	20.507	CA-2024-121-01	-	11,855,189
			-	11,855,189
<b>Section 5339</b>				
FY19 5339 (b) Discretionary CA-2021-125-00	20.526	CA-2021-125-00	-	246,993
FY22 5339 (b) Discretionary CA-2022-231-00	20.526	CA-2022-231-00	-	1,680,000
FY23 5339 (b) Bus & Bus Facilities CA-2024-232-00	20.526	CA-2024-232-00	-	3,363,959
FY20 5339(a) Bus & Bus Facilities	20.526	CA-2021-029-00	-	72,511
			-	5,363,463
Total Federal Transit Cluster			-	17,222,398
Total Federal Transit Administration			-	17,222,398
Total Expenditures of Federal Awards			\$ -	\$ 17,222,398

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, 2025**

**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, 2025, 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 15, 2025.

**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.

## 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

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

Bakersfield, California  
December 15, 2025

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL 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, 2025. 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, 2025.

***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.

## ***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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
December 15, 2025

**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, 2025, and have issued our report thereon dated December 15, 2025.

### **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.

### **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 15, 2025

**FINDINGS AND QUESTIONED COSTS SECTION**

**SANTA CRUZ METROPOLITAN TRANSIT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2025**

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?  Yes  No

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

Material weakness identified?  Yes  No

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

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, under 2 CFR § 200.516?  Yes  No

Identification of major programs:

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

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

Auditee qualified as low risk auditee?  Yes  No

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

None.

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

None.

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

None.

**V. A Summary of Prior Audit (all June 30, 2024) Findings and Current Year Status**

None.