SANTA BARBARA MTD

FINANCE, HUMAN RESOURCES & RISK COMMITTEE AGENDA

MEETING
of the
FINANCE, HUMAN RESOURCES & RISK COMMITTEE
of the
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A Public Agency
Thursday, October 24, 2019
11:00 AM
MTD Conference Room, Second Floor
550 Olive Street, Santa Barbara, CA 93101

1. CALL TO ORDER

2. ROLL CALL OF THE COMMITTEE MEMBERS
Dave Tabor (Chair), Paula Perotte (Director), Olivia Rodriguez (Director).

3. REPORT REGARDING POSTING OF AGENDA

4. APPROVAL OF PRIOR MINUTES - (ATTACHMENT - ACTION MAY BE TAKEN)
The Committee will be asked to review the approved minutes for the meeting of February 21, 2019, and to approve the draft minutes for the meeting of May 21, 2019.

5. PUBLIC COMMENT
Members of the public may address the Committee on items within the jurisdiction of the Committee that are not scheduled for public hearing. The time allotted per speaker will be at the discretion of the Committee Chair. Please complete and deliver a *Request to Speak* form, including a description of the subject you wish to address, to the MTD Board Clerk before the meeting is convened. These forms are available at the meeting or on our website www.sbmtd.gov .

6. DRAFT SINGLE AUDIT REPORT FOR FISCAL YEAR 2018-19 - (ATTACHMENT - ACTION MAY BE TAKEN)
Staff recommends that the Committee approve bringing the Single Audit Report for the fiscal year ended June 30, 2019, to the full Board at its next scheduled meeting.

7. OTHER BUSINESS AND REPORTS - (ACTION MAY BE TAKEN)
Committee members will report on other related issues.

8. ADJOURNMENT

AMERICANS WITH DISABILITIES ACT: If you need special assistance to participate in this meeting, please contact the MTD Administrative Office at 805.963.3364 at least **48 hours in advance** of the meeting to allow time for MTD to attempt a reasonable accommodation.

SANTA BARBARA MTD

FINANCE, HUMAN RESOURCES & RISK COMMITTEE DRAFT MINUTES

MEETING
of the
FINANCE, HUMAN RESOURCES & RISK COMMITTEE
of the
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A Public Agency
Thursday, February 21, 2019
11:00 AM
John G. Britton Auditorium
550 Olive Street, Santa Barbara, CA 93101

1. CALL TO ORDER
Committee Chair Dave Tabor called the meeting to order at 11:00 AM.

2. ROLL CALL OF THE COMMITTEE MEMBERS
Chair Tabor reported that all members were present.

3. REPORT REGARDING POSTING OF AGENDA
Christina Perry, Administrative Assistant Lead, reported that the agenda was posted on Friday, February 15, 2019, at MTD's Administrative Office, mailed and emailed to those on the distribution list, and posted on MTD's website www.sbmtd.gov.

4. APPROVAL OF PRIOR MINUTES - (ATTACHMENT - ACTION MAY BE TAKEN)
The Committee was asked to waive the reading of and approve the draft minutes for the meeting of October 23, 2018.

Director Olivia Rodriguez moved to approve the prior minutes. Chair Tabor seconded the motion. The motion passed unanimously.

5. PUBLIC COMMENT
No public comments were made.

6. COMMERCIAL AUTO AND GENERAL LIABILITY INSURANCE RENEWAL - (INFORMATIONAL)
Mary Gregg, Manager of Human Resources and Risk, provided the Committee with a progress update on the renewal of the Commercial Auto and General Liability policy effective April 1, 2019.

7. FISCAL YEAR 2019-20 DRAFT BUDGET - (ATTACHMENT - ACTION MAY BE TAKEN)
Brad Davis, Assistant General Manager and Controller, presented the first draft of the Fiscal Year 2019-20 budget to the Finance, Human Resources & Risk Committee, answered the Committee's questions, and requested the draft be forwarded to the full board for review.

Director Rodriguez moved to forward the draft budget to the full Board. Director Dick Weinberg seconded the motion. The motion passed unanimously.

8. OTHER BUSINESS AND REPORTS - (ACTION MAY BE TAKEN)

No other business was discussed.

9. ADJOURNMENT

Director Rodriguez moved to adjourn the meeting. Director Weinberg seconded the motion. The motion passed unanimously and the meeting adjourned at 11:55 AM.

FINANCE, HUMAN RESOURCES & RISK COMMITTEE DRAFT MINUTES

MEETING
of the
FINANCE, HUMAN RESOURCES & RISK COMMITTEE
of the
SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
A Public Agency
Tuesday, May 21, 2019
10:00 AM
John G. Britton Auditorium
550 Olive Street, Santa Barbara, CA 93101

1. CALL TO ORDER
Committee Chair Dave Tabor called the meeting to order at 10:09 AM.

2. ROLL CALL OF THE COMMITTEE MEMBERS
Chair Tabor reported that all members were present with the exception of Director Olivia Rodriguez.

3. REPORT REGARDING POSTING OF AGENDA
Christina Perry, Administrative Assistant Lead, reported that the agenda was posted on Thursday, May 16, 2019, at MTD's Administrative office, mailed and emailed to those on the agenda list, and posted on MTD's website.

4. APPROVAL OF PRIOR MINUTES - (ATTACHMENT - ACTION MAY BE TAKEN)
The Committee was asked to approve the draft minutes for the meeting of February 21, 2019, as amended to reflect the absence of Director Weinberg.

Director Weinberg moved to amend and approve the prior minutes. Committee Chair Tabor seconded the motion. The motion passed unanimously.

5. PUBLIC COMMENT
No public comments were made.

6. DRAFT FISCAL YEAR 2019-20 OPERATING & CAPITAL BUDGET - (ATTACHMENT - INFORMATIONAL)
Assistant General Manager and Controller Davis presented the committee with an updated draft of the Fiscal Year 2019-20 Operating & Capital Budget to the Finance, Human Resources & Risk Committee. The draft budget, including any modifications directed by the Committee, will be brought to the full Board for consideration of adoption at the upcoming June 4 board meeting.

The committee thanked both Assistant General Manager Davis and Assistant Controller Thais Sayat for their efforts.

7. OTHER BUSINESS AND REPORTS - (ACTION MAY BE TAKEN)

No other business was discussed.

8. ADJOURNMENT

Committee Chair Tabor moved to adjourn the meeting at 11:10 AM.

FINANCE, HUMAN RESOURCES & RISK COMMITTEE REPORT

MEETING DATE: OCTOBER 24, 2019 **AGENDA ITEM: #6**

DEPARTMENT: FINANCE

TYPE: ACTION ITEM

PREPARED BY: BRAD DAVIS ______________________

Signature

REVIEWED BY: GENERAL MANAGER ______________________

Signature

SUBJECT: DRAFT SINGLE AUDIT REPORT FOR FISCAL YEAR 2018-19

RECOMMENDATION:

Staff recommends that the Committee approve bringing the Single Audit Report for the fiscal year ended June 30, 2019, to the full Board at its next scheduled meeting.

DISCUSSION:

The draft Single Audit Report for the fiscal year ended June 30, 2019, is attached. It is composed of the financial statements which are substantially completed although some minor changes and reformatting is still required.

ATTACHMENTS:

- Draft Financial Statements & Required Supplementary Information, June 30, 2019 & 2018

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

DRAFT

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Santa Barbara Metropolitan Transit District (District) as of and for the fiscal year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements as of June 30, 2018, were audited by other auditors, whose report dated October 30, 2018, expressed an unmodified opinion on these statements. We have included these balances for comparison purposes only.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

DRAFT

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 12 and Schedule of Changes in the Net Other Postemployment Benefits (OPEB) Liability and Related Ratios on page 40, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _________, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements as of June 30, 2018, were audited by other auditors, whose report dated October 30, 2018, expressed an unmodified opinion on these statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
__________, 2019

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

This Management's Discussion and Analysis for Fiscal Year (FY) 2018-19 provides a narrative and analytical overview of the financial activities of the Santa Barbara Metropolitan Transit District (District). It is an important element of this audit report meant to provide greater understanding and insight into the financial statements. The District's basic financial statements are prepared using proprietary (enterprise) fund accounting. The District operates under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred.

Financial Reports

There are four basic financial statements included in this audit report for the fiscal year ended June 30, 2019. These are followed by notes to the financial statements. A separate document, which is an integral part of this financial audit, provides certain supplementary information required by state and federal laws and regulations, and the Government Accounting Standards Board (GASB). The financial statements include the following:

- The Statement of Net Position presents information on the District's assets, liabilities, and net position. Net position is by definition the difference between assets and liabilities.
- The Statement of Revenues, Expenses, and Changes in Net Position reports the District's operating and capital revenue, less operating expenses to determine the change in net position. It reconciles with the ending net position shown on the Statement of Net Position.
- The Statement of Expenses provides a more detailed breakdown of the operating costs included in the Statement of Revenues, Expenses, and Changes in Net Position.
- The Statement of Cash Flows reports cash and cash equivalent activities resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the start of the year cash balance, agrees with the year-end cash and cash equivalents balance.

Financial Summary

The *Net Position* of the District at June 30, 2019, which measures the amount that the District's assets exceeded its liabilities, increased by 9% to $46.4 million. This change takes into account the results of both operational and capital activities for the year, adjustments to the District's other postemployment benefits (OPEB) liability and expense, and a prior-year restatement to recategorize advance grant funds from Restricted Net Position to *Non-Current Liabilities*.

With revenue dedicated to operations of $26.3 million and total operating expenditures for the provision of public transit of $26.3 million (before depreciation and OPEB expense), there was a $46,000 operating deficit in FY 18-19. Capital activities were comprised of asset acquisitions and disposals as well as the annual depreciation of the assets. The net change in the value of the District's capital assets during the year was a $3.9 million increase due to the acquisition of 10 new buses. This brief overview will be discussed and analyzed in the balance of this audit report.

Statements of Net Position

The District's financial condition as measured by its assets and liabilities improved during the year as assets increased by $3.6 million while liabilities were reduced by more than $700,000. These changes accounted for the 9% growth in total *Net Position*. The table on the following page is a condensed version of the *Statements of Net Position* included on page 14 of this audit report.

Assets – The $55.6 million in total District assets at June 30, 2019, represents 7% growth from the prior year. *Current Assets*, comprised mainly of cash, receivables, and inventory, declined by 2% overall. This was due to smaller accounts receivable and inventory balances. With the retirement of the remaining 1998 Nova fleet and most 22' electric shuttles, bus parts for the fleets were disposed of, decreasing the District's overall materials inventory by 22%.

Statement of Net Position
(thousands of dollars)

	2018-19	2017-18	Change
Assets			
Current Assets	$ 19,136	$ 19,184	100%
Non-Current Assets	1,124	1,421	79%
Capital Assets	35,349	31,414	113%
Deferred Outflows of Resources	-	565	0%
Total Assets and Deferred Outflows of Resources	$ 55,609	$ 52,584	106%
Liabilities			
Current Liabilities	$ 2,517	$ 2,498	101%
Non-Current Liabilities	6,659	7,388	90%
Total Liabilities	9,176	9,886	93%
Net Position			
Invested in Capital Assets	35,349	31,414	113%
Unrestricted	11,084	11,284	98%
Total Net Position	46,433	42,698	109%
Total Liabilities and Net Position	$ 55,609	$ 52,584	106%

Non-Current Assets of $1.1 million are made up of advance grant funds received for operating and capital activities not completed by year-end. Although these are cash items and typically part of current assets, GASB standards require that the unspent funds be segregated. The balance decreased by a small amount in FY 18-19 and included the receipt of state Low Carbon Transit Operations Program (LCTOP) funds for an upcoming "microtransit" pilot project, the annual allocation of UCSB Line 28 revenue to a capital sinking fund, and the expenditure of state Proposition 1B funds for the Transit Center renovation and bus 4G cellular upgrade projects.

The $35.3 million value of the District's Capital Assets (net) grew by $3.9 million from the prior year. This is reflective of newly acquired fixed assets valued at $8.0 million less depreciation expense of $4.0 million, and asset disposals of $100,000. A review of the fixed asset acquisitions is found on page 10 of this audit report.

The Deferred Outflow of Resources line item directly below assets relates to last year's $566,000 prefunding of OPEB. Based upon OPEB reporting requirements, the District delayed reducing the OPEB liability from the prefunding until this fiscal year, which eliminated the deferred outflow balance. This topic is discussed in a separate section on OPEB on page 10 of this audit report.

Liabilities – While liabilities make up a relatively small part of the District's overall financial position, the $9.2 million in *Total Liabilities* at year-end was down 7% from the prior fiscal year. *Current Liabilities*—made up of trade, payroll, fringe benefit payables, including workers' compensation liabilities expected to be due within 12 months—edged up slightly to $2.5 million.

Net Position – The *Net Position* of the District increased by 9% to $46.4 million in FY 18-19. The basis of this change is addressed in the section on the *Statements of Revenues, Expenses, and Changes in Net Position*. The emphasis in this section is on the three categories making up net position: investment in capital assets, restricted net position, and unrestricted net position.

The first category, *Invested in Capital Assets*, represents the funding used for the District's capital assets minus accumulated depreciation expense and matches the $35.3 value of the *Capital Assets* in the assets section. As capital assets are acquired/disposed of, the funding source(s) for the assets (e.g., State Transit Assistance) are similarly adjusted upwards/downwards. The accumulated depreciation expense that reduces the value of fixed assets signifies the diminished worth due to age and use. At June 30, 2019, capital funding of $75 million was offset by $39.7 million in accumulated depreciation expense netting to the $35.3 million in capital asset funding.

In prior years, *Restricted Net Position* had corresponded to the District cash and investments that were received in advance for specific future purposes. As previously discussed, such funds are now accounted for as a liability resulting in the *Restricted Net Position* zero balance.

The District's year-end *Unrestricted Net Position* balance is $11.1 million. This figure is down 1.8% from the prior year as the result of the $46,000 operating deficit in FY 18-19 (i.e., the use of reserves) and the $154,000 OPEB liability adjustment. *Unrestricted Net Position* is representative of the *Current Assets* that are not constrained by a corresponding liability. The Board has previously adopted a Cash Reserves Policy that designates *Unrestricted Net Position* as the source of reserve funds. These funds include a Working Capital reserve for day-to-day cash flow requirements, an Appropriated reserve for unanticipated annual budget needs, an Emergency reserve for extraordinary losses, and a Capital reserve for funding future capital acquisitions.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statements of Revenues, Expenses and Changes in Net Position* differs from the traditional operating results reported to the Board in that it also includes capital revenue, depreciation expense, and OPEB liability adjustments. The emphasis of the statement is to show how all revenues and expenses lead to the change in *Net Position* for the year. For purposes of discussion, on the following page is a modified version of the *Statements of Revenues, Expenses and Changes in Net Position* financial statement that is found on page XX of this audit report.

Revenues – *Fare Revenue* of $7.2 million for FY 18-19 year was 3% more than received in the prior year. While this is the first growth in fares since FY 14-15, it is likely largely reflective of a recovery from the negative impact on ridership in the prior year due to the Thomas Fire and the Montecito Debris Flow. Nonetheless, the numbers do seem to indicate that the significant ridership and fare revenue losses in recent years have bottomed out. Cash and pass fares rose 2.5% from last year[1] as did combined contract fares. Revenue from UCSB and SBCC continued to move in opposite directions with SBCC enrollment down again in the FY 18-19 school year.

[1] Cash fares alone were down from the prior year indicating the continued trend towards prepaid fare media.

While nominal in amount, fares from transferring Amtrak passengers more than doubled to $36,000 with a full year of the retimed commuter train service. Total contract fares made up 45% of the District's fare revenue, which was unchanged from FY 17-18.

Statement of Revenue, Expenses, and Changes in Net Position
(thousands of dollars)

	2018-19	2017-18	Change
Operating and Capital Revenues			
Fare Revenue	$ 7,167	$ 6,991	3%
TDA Sales Tax Revenue	9,274	9,120	2%
Federal Grants	10,547	5,324	98%
Measure A Sales Tax Revenue	3,235	2,946	10%
Miscellaneous Grants	1,838	1,550	19%
Property Tax Revenue	1,296	1,287	1%
Non-Transportation Income	813	853	-5%
Total Operating and Capital Revenues	34,170	28,071	22%
Operating and Capital Expenses			
Route Operations	15,835	16,692	-5%
Vehicle Maintenance	5,938	4,942	20%
Passenge Accomodations	1,487	1,461	2%
General Overhead	3,046	2,978	2%
OPEB Liaibility Adjustment	154	(858)	-118%
Capital Asset Depreciation	3,975	3,665	8%
Total Operating and Capital Expenses	30,435	28,880	5%
Change in Net Position	3,735	(809)	-562%
Beginning of Year Net Position, as restated	42,698	43,507	-2%
End of Year Net Position	$ 46,433	$ 42,698	9%

Transportation Development Act *(TDA) Sales Tax Revenue* totaled $9.3 million for the fiscal year and was made up of SB325 Local Transportation Fund (LTF) to support operations ($7.9 million); and SB620 State Transit Assistance (STA) used to fund capital purchases ($1.4 million). The LTF sales tax funds increased by 3.4% from the prior year, the largest growth since FY 13-14 and well above the 1.4% average during the four interceding years. The STA capital revenue includes $664,000 in the new State of Good Repair (SGR) funds made available under SB1.

Revenue from *Federal Grants* of $10.5 million was split between operating and capital assistance. Section 5307 Formula Assistance of $5.2 million was allocated as operating revenue while the balance of $5.3 million, from several FTA capital grant programs, assisted with bus purchases including ten 40-foot Gillig buses and four 30-foot BYD electric buses. As further discussed in the *Financial Outlook* section, $400,000 in the formula assistance was set aside as capital revenue.

Locally generated *Measure A Sales Tax Revenue* of $3.2 million also included both operating and capital funds. The $2.2 million for operations was up 5% over FY 17-18. The capital portion of $1 million was the full year's allocation of funds and was used as the local share for several projects.

Miscellaneous Grants revenue of $1.8 million was mostly made up of local operating assistance from UCSB for the Line 28 and enhanced express service ($1.2 million) and from SBCAG for the first-last mile service for Amtrak commuter rail service ($175,000). *Miscellaneous Grants* also included nearly the last of the Prop 1B program funds used for the Transit Center Renovation and Bus 4G Modem Upgrade projects ($427,000).

Property Tax Revenue of $1.3 million was limited to 1% growth after increasing by double digits in recent years. The decline is considered to be due to a slowdown in real estate sales and appreciation combined with the reduced tax basis associated with last year's natural disasters.

<u>Expenses</u> – Total expenses of $30.4 million include $26.3 million in operating expenditures, $4.0 million for depreciation, and $154,000 in the annual OPEB adjustment. Excluding depreciation and OPEB changes, operating expenses were limited to a 1% increase over the previous year.

Route Operations expenses declined by 5% to $15.8 million in FY 18-19. Such costs include those for bus driving, operations supervision, hiring, training, workers' compensation, and general liability. The non-risk expenditures showed limited growth due to a minor service increase and scheduled wage and benefit increases. As with last year, it was mainly the risk-related areas that drove the change in *Route Operations* costs. Workers' compensation expenses—including estimated reserves for future costs—were 54% lower than in FY 17-18 mostly due to claim settlements at less than the estimated amount. This follows a large increase in such costs last year, when claim estimates jumped because they were being litigated. Public liability expenses—including reserves—continued to come down, decreasing by 18% after a 31% reduction in the prior year. Evidence from the bus video surveillance system continues to be an important factor.

District expenses for *Vehicle Maintenance* increased by 20% to $5.9 million. Such considerable growth resulted from several conditions with the increase in diesel fuel costs leading the way. Midway through the year, the fixed-price per gallon rose from $1.69 to $2.40. The previously mentioned write-off of obsolete bus parts inventory was another key reason. Attaining the budgeted level of mechanics for much of the year was a welcome outcome as was a full complement of staff and supervisory personnel throughout the year. As a result, bus maintenance activities increased in volume and productivity increasing the usage of bus parts and supplies.

Passenger Accommodations includes multiple functions: planning, marketing, customer service, passenger facility maintenance, and fare revenue collection. As a whole, the $1.5 million in expenditures were up 2% from FY 17-18. For the most part, this is due to wage and fringe benefit adjustments. Some notable variances from last year include decreased costs for schedule guides and promotions which are related to the prior year introduction and marketing of the real-time passenger information system. Health benefit costs grew from last year as a result of the change in status of some employees. Also, outlays for Marketing Plan implementation were down this year after the heavy activity in the first two years of the Plan.

Expenditures for *General Overhead* rose 2% to $3.0 million. This was comprised of a number of expense variations. IT and office equipment maintenance costs rose 25% from growing software license fees and greater use of consultants to manage increasingly complex IT systems. The rising cost of service vehicle fuel and buildings and grounds maintenance also experienced above average growth due to with rising gasoline prices and aging facilities, respectively. Tempering these was large drop in miscellaneous expenses as last year included outlays for District support of evacuation and transportation needs associated with the Montecito Debris Flow.

Budget Analysis

Operating results were better than projected in the approved budget. While a $330,000 deficit was estimated, the end result was essentially a balanced budget with a funding shortfall of only $46,000 for a $26 million budget. A discussion of material budget variations follows.

FY 18-19 Operating Budget Variance
(thousands of dollars)

	Acutal	Budget	Change
Revenues			
Fare Revenue	$ 7,167	$ 6,997	2%
LTF Sales Tax Revenue	7,921	7,921	0%
Federal Operating Assistance	5,256	5,221	1%
Measure A Sales Tax Revenue	2,264	2,091	8%
Miscellaneous Grants	1,410	1,388	2%
Property Tax Revenue	1,296	1,303	-1%
Non-Transportation Income	946	1,016	-7%
Total Revenues	26,260	25,937	1%
Expenses			
Route Operations	15,835	15,809	0%
Vehicle Maintenance	5,938	5,846	2%
Passenge Accomodations	1,487	1,569	-5%
General Overhead	3,046	3,043	0%
Total Expenses	26,306	26,267	0%
Operating Deficit	$ (46)	$ (330)	

Operating Revenue Budget – *Fare Revenue* exceeded the budget by 2.4%. As discussed in the comparison to last year, much of the growth was in sales of 30-day and 10-ride passes. The budget variation reflects the use of a conservative growth estimate for the ridership recovery from the impact of the prior year natural disasters. *LTF Sales Tax Revenue* receipts matched the budget, which was based on the TDA claim figures provided by SBCAG. Because LTF sales tax collected for the year actually exceeded the claim amount by $120,000, the FY 19-20 allocation will be increased by the residual. *Federal Operating Assistance* of $5.3 million[2] slightly exceeded projections because an older FTA grant was able to be repurposed to support the UCSB Line 28 summer service. Locally generated *Measure A Sales Tax Revenue* exceeded the budget by nearly 8%. As with fare and LTF revenue, the likely cause is a greater recovery from last year's economic downturn than expected. *Property Tax Revenue* and *Miscellaneous Grants* from UCSB and SBCAG were generally in line with the budget.

Operating Expense Budget – Total operating expenses of $26.3 million were essentially on budget with a variation of less than 0.1%. *Route Operations*, making up 60% of District costs, matched budgeted outlays although there were some offsetting expense line item variances. Some driver fringe benefit payouts (e.g., health insurance and sick pay) were overestimated which helped to make up for increased overtime due to open driver positions. Hiring and training expenditures were also more than anticipated mainly because of unbudgeted BYD bus training.

[2] This does not include the previously discussed $400,000 in formula funds being allocated to capital funding needs.

Vehicle Maintenance costs in the aggregate were slightly over budget although this is skewed by the large write off of obsolete inventory. Excluding the write-off, outlays were 2.2% under budget. This represents a turnaround from years of coming in significantly under budget due to the inability to fill open mechanic positions. Diesel fuel costs were on budget as was included in the budget as the price was locked in through contracts. On the other hand, without fixed prices for motor oil and lubricants, the cost of such jumped by 20%. Worker's Compensation costs were about half of the budget estimated. As with *Route Operations*, a reduction in reserves for projected future claim payouts was the main reason.

Overall *Passenger Accommodations* expenditures in FY 18-19 were under budget 5%. Spending on various marketing and community relations programs were less than projected including the savings from reduced demand for paper schedule guides and unused general marketing allowances such as for promotional giveaways. Budget variances for passenger facilities, transit development, and fare revenue collection were minimal.

Expenditures for *General Overhead* were spot on with the budget. Within the expense category, costs for business equipment maintenance and services, including software licensing fees, were on the rise. Such was the case with buildings and grounds maintenance and repairs due to aging facilities. Administrative staff wages and benefits were less than expected as not all positions were filled. Offsetting this was higher costs for contract employee services.

Capital Assets

Capital asset expenditures for the year totaled just over $8 million. Making up the majority of the acquisitions were 10 new 40-foot Gillig buses—which replaced the balance of the 1998 Nova fleet—and payment for four of the BYD 30-foot electric buses. *Intelligent Transportation Systems* outlays were for upgrading the bus cellular network to 4G, adding Clever Devices ITS systems to the "Samtrans" fleet, and additional Genfare electronic fareboxes for the expanded fleet size. *Land Development* capital costs were in pursuit of the residential development of the District's Calle Real property. Most *Passenger Facilities* asset costs were related to the TC renovation. Network improvements and shop equipment made up *IT & Other Equipment*. *Operating Facilities* improvements included refurbishment of the bus wash and exterior lighting improvements.

Capital Acquisitions
(thousands of dollars)

Asset Category	2018-19	2017-18
Revenue Vehicles	$ 6,740	$ 1,136
Intelligent Transportation Systems	860	641
Land Development	152	92
Passenger Facilities	150	170
IT & Other Equipment	84	293
Operating Facitlities	57	271
Total Capital Acquisitions	$ 8,043	$ 2,603

Other Post-Employment Benefits (OPEB)

Two years ago, the District established an irrevocable trust for the purpose of setting aside funds to cover future retiree health benefit costs. Such OPEB prefunding began with an initial $1 million contribution to the trust followed by an additional $500,000 in FY 17-18. There was no contribution in FY 18-19.[3] To help balance operating budgets, the District began drawing funds from the OPEB trust to cover the cost of retiree health benefit reimbursements. The result was the full offset of the FY 18-19 expense of just over $65,000. This practice will continue in FY 19-20. The District's total OPEB liability at the end of FY 18-19 was $2.7 million. With investment earnings of $106,000 during the year, the year-end OPEB trust balance was $1.6 million. Thus, the District's unfunded OPEB liability was $1.1 million at end of the fiscal and is 59% funded.

Financial Outlook

The FY 18-19 operating budget was essentially balanced with only a minor deficit. The predicted $330,000 deficit was avoided chiefly from workers' compensation reserve reductions. This follows an operating deficit of $592,000 in the prior year, the first deficit since 2004. The budget for FY 19-20 anticipates the use of $500,000 in reserves to cover operating costs. Although these deficits are limited to 2% of the budget, they are indicative of the much discussed trend of steady growth in annual operating costs from wage and price increases while fare revenue declined markedly in recent years.

Growth in revenue from grants and other subsidies has slowed the divergence. Nonetheless, operating deficits are currently projected to increase in future years under the status quo. The predicted stabilization in passenger fares and new funds from SB1 will provide much needed financial relief. However, looming on the horizon is a likely substantial loss in federal support following the 2020 census. These and other matters affecting the District's financial outlook are discussed below.

Federal Funding – In FY 18-19, the Section 5307 Urbanized Formula Grants program was funded at the full FAST Act[4] appropriations levels. This included a 50% increase to STIC funding,[5] which added approximately $400,000 to the District's allocation. For reasons discussed below, the STIC increase is being allocated towards capital projects rather than as operating assistance. The higher STIC level is also programmed into the Fast ACT in FY 19-20. However, final funding levels are subject to the annual appropriations process and the actual funding may differ. The budget allocation process for federal FY 19-20 is currently underway in Congress.

The upcoming decennial census is expected to show a South Coast population that exceeds 200,000. If so, the District would no longer be categorized as a "small urbanized area." Projections at this time indicate that the District could lose up to $1.9 million if it is redefined as a large urbanized area. To begin preparing for the potential revenue loss, the FY 19-20 budget includes shifting $1 million in FTA 5307 formula funds from the operating budget to the capital budget. Because the $1 million includes $400,000 in increased STIC, the net effect on the operating budget will be a $600,000 revenue reduction. The loss will be made up with new SB1 funds, which are discussed below.

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[3] Under current policy, additional OPEB prefunding is considered following each biennial actuarial valuation.

[4] The Fixing America's Surface Transportation Act (FAST Act) is the five-year transportation funding bill that covers FY 15-16 through FY 19-20. A replacement transportation funding bill has not been adopted at this time

[5] Under the Small Transit-Intensive Cities (STIC) program, a portion of 5307 funds are distributed to transit agencies meeting specific criteria measuring efficiency and density of service. MTD has qualified for the maximum STIC allocation since program inception.

Calle Real Development – Progress continued on the potential development of the District's 19 acres of real property north of Calle Real and east of Turnpike Road between the cities of Goleta and Santa Barbara. During FY 18-19, a request for qualifications and proposals for selecting a team for the residential development of the property was completed. The District is currently engaged in exclusive negotiations with the highest ranked developer. The goal of the project is to provide a long term income stream to supplement District operating revenue.

SB1 Funding – Senate Bill 1 (SB1), the Road Repair and Accountability Act of 2017, increased state fuel taxes and vehicle fees to be used in part to improve public transit and transportation facilities. A referendum to repeal SB1 was defeated in November, 2018, securing the new source of revenue for now. Under SB1, the District receives new subsidies through California's State Transit Assistance (STA) fund. Revenue stemming from increased diesel fuel taxes is mixed with the STA account whereas new funding from vehicle license fees are allocated through the new State of Good Repair (SGR) program.

The (non-SGR) SB1 funds collected during FY 17-18 and made available to recipients in FY 18-19 generated an additional $728,000 for the District, increasing the annual STA allocation by 58%. As the allocation represented only the partial year that SB1 was in effect, future annual receipt are anticipated to raise funding by $1.2 million assuming the revenue is allocated base on the historical methodology. While serving as one of the District's key capital funding sources, STA is eligible to be used for operating purposes.

The District will also receive approximately $1 million in SGR funds over the next three years to assist with bus replacements. The funding was allocated through a competitive process carried out by SBCAG to allocate funds estimated to be available in the County over a four-year period.

As discussed under Federal Funding above, to backfill the FTA operating revenue shifted to capital projects, the FY 19-20 budget includes the use of $600,000 in State Transit Assistance (STA) funds for operating purposes. STA has traditionally served as the District's main capital funding source, however, with the additional STA revenue generated from SB1, the pre-SB1 STA available for capital projects will not be reduced. By allocating these funds as described, the District redirects more than half of the projected $1.9 million loss in federal funds from the operating budget to the capital budget.

Fare Revenue – Several years of diminishing fare revenue related to falling ridership has slowed considerably and appears to be at an end. Comparing the FY 18-19 results to FY 16-17, the year prior to the Thomas Fire and Montecito Debris Flow, passengers paying by cash or prepaid MTD passes did increase slightly, which would seem to corroborate a reversal in the trend. FY 19-20 revenue and ridership results will provide a more valid comparison because the effects of the natural disasters will no longer skew ridership numbers. The five-year forecast assumes 1.5% to 2.0% growth in overall fare revenue. This is predicated on the District's continuing efforts to attract new and former passengers through service improvements, the addition of mobile fare payment options, easily accessible trip planning and bus arrival information, vehicle replacements and refurbishing, and promotional and marketing activities.

STA Funding Balance – STA funds allocated by the State to the District each year are held by the Santa Barbara County Auditor-Controller until needed for the project or activity using the funds. Because the funds have not yet been "earned," the unspent balance is not included in the District's financial statements. As of June 30, 2019, STA funds held by the County totaled $10.2 million. The District's near-term capital project budget includes the full use of this balance.[6]

Collective Bargaining Agreement – District drivers, driver supervisors, mechanics, and service workers are represented by the International Brotherhood of Teamsters Local 186. New collective bargaining agreements were recently entered into covering the three-year period from July, 2019, to June, 2022 (fiscal years 2019-20 through 2021-22). The agreements include annual wage increases ranging between 2.3% and 2.5% and health benefit growth of 3% to 5%.

CARB ICT & MTD Goal – In late 2018, the California Air Resources Board (CARB) adopted the Innovative Clean Transit (ICT) regulation requiring complete transition to a zero emission bus (ZEB) fleet by 2040. Under the regulation, starting in 2023, 25% of annual bus purchases must include ZEBs. This increases to 50% in 2026, and 100% in 2029. The ICT requires preparation of a ZEB Rollout Plan by 2020 that demonstrates how the transition will be accomplished.

In 2019, the Board adopted a goal to attain a carbon-free fleet by 2030. The acceleration of the transition is to expedite the elimination of District greenhouse gas emissions to help combat global warming. The District worked collaboratively with the local Community Environmental Council and the Sierra Club in establishing the goal.

Meeting the goal will be challenging without additional technological and manufacturing improvements, and financial support. Full-sized heavy duty electric buses do not currently have the range and reliability of diesel buses. The price of ZEBs are still well above that of diesel buses and manufacturing capacity is limited. Nonetheless, the ICT and other state incentives to reduce the use of carbon fuels are expected to continue spurring innovation and increasing production capacity thus further reducing barriers to meet emission-free goals and mandates.

Facilities Master Plan – The District has engaged a consultant to prepare a Facilities Master Plan to help guide future decision making on transit facility needs. The District's operations, maintenance, and administrative facility in Santa Barbara is at capacity and expansion options are limited due to the relatively small footprint of the property. Modifications can be undertaken to increase capacity, but are unlikely to fully satisfy current and future space needs. The Plan will include different options for remodeling of existing facilities and the development of satellite facilities taking into account the needed infrastructure for ZEBs. Also provided in the Plan will be timelines, cost estimates, and a cost/benefit analysis for capital-intensive project. Preparation of the Plan is underway and is expected to be brought to the Board in the first half of FY 19-20.

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[6] Measure A capital funds are handled in a similar fashion, although they are typically expended in the year of allocation with no balance held by the County. Such was the case at the end of FY 18-19.

BYD EV Acquisition – The District has received all 14 thirty-foot BYD electric buses with all but one in revenue service. Final acceptance has been delayed pending rectification of vehicle defects and receipt of outstanding deliverables. To date, payment has been made for four of the zero emission buses. The acquisition includes the outright purchase of eight of the buses and the lease of the remaining six. It is a 12 year capital lease with an option to buy after two years. The annual lease payments total $368,000 and will be capitalized and not affect operating costs.

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FINANCIAL STATEMENTS

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and investments	$ 10,301,383	$ 10,593,085
Grants receivable	7,264,042	6,783,224
Other receivable	219,240	414,369
Materials and supplies inventories	867,288	1,085,763
Other current assets	219,772	307,364
Total Current Assets	18,871,725	19,183,805
NONCURRENT ASSETS:		
Cash restricted for capital support	1,387,888	1,419,918
Capital assets:		
Tangible transit operating property	75,048,188	73,906,721
Less: Accumulated depreciation	(39,699,485)	(42,492,600)
Capital Assets, net	35,348,703	31,414,121
Total Non-Current Assets	36,736,591	32,834,039
Total Assets	55,608,316	52,017,844
DEFERRED OUTFLOWS OF RESOURCES:		
Related to other post-employment benefits (OPEB)	-	565,645
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 55,608,316	$ 52,583,489
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	512,191	420,595
Accrued payroll including compensated absences	1,050,114	982,669
Accrued expenses	954,607	1,094,306
Total Current Liabilities	2,516,912	2,497,570
NON-CURRENT LIABILITIES		
Compensated absences payable	761,234	760,404
Advances on grants	1,387,888	1,419,918
Accrued damage, injury, and employee claims	3,388,885	3,675,465
Accrued OPEB obligation	1,120,672	1,532,148
Total Non-Current Liabilities	6,658,679	7,387,935
Total Liabilities	9,175,591	9,885,505
NET POSITION		
Net investment in capital assets	35,348,703	31,414,121
Unrestricted	11,084,022	11,283,863
TOTAL NET POSITION	46,432,725	42,697,984

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
OPERATING REVENUES		
Passenger fares	$ 7,167,098	$ 6,990,786
OPERATING EXPENSES		
Route operations	15,835,457	16,692,160
Vehicle maintenance	5,937,146	4,941,543
Passenge accomodations	1,487,301	1,460,877
General overhead	3,045,579	2,977,516
Postemployment health care benefits	154,169	(856,778)
Total before Depreciation	26,459,652	25,215,318
Depreciation	3,975,403	3,664,721
Total Expenses	30,435,055	28,880,039
OPERATING LOSS	(23,267,957)	(21,889,253)
NONOPERATING REVENUES		
Non-transportation revenue, including interest, advertising, rent and miscellaneous	891,145	930,639
Taxes levied by Santa Barbara County for Transit District	1,295,656	1,287,046
Transportation Development Act funding and allocations	9,273,746	9,120,243
Federal grants	10,546,704	5,324,242
Proposition 1B (Prop 1B) grants	427,265	113,232
Measure A grants	3,234,925	2,946,416
Miscellaneous grants	1,410,486	1,436,319
Loss of disposal of assets	(77,229)	(78,053)
Total Nonoperating Revenues	27,002,698	21,080,084
CHANGE IN NET POSITION	3,734,741	(809,169)
Beginning of year, as previously stated	42,697,984	44,682,588
Prior period adjustment - Note 14	-	(1,175,435)
Beginning of year, as restated	42,697,984	43,507,153
END OF YEAR NET POSITION	$ 46,432,725	$ 42,697,984

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
STATEMENT OF EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
LABOR		
Operators' wages	$ 7,756,622	$ 7,511,466
Other salaries and wages	4,490,538	4,308,873
Total Labor	12,247,160	11,820,339
FRINGE BENEFITS		
Payroll taxes	1,072,029	1,061,144
Retirement plans	1,399,057	1,390,693
Health and welfare	3,098,937	2,019,713
Workers compensation	849,213	1,698,059
Sick pay	207,705	198,735
Holiday pay	404,346	402,032
Vacation pay	791,151	786,522
Other paid absences	94,538	199,206
Uniform and tool allowances	57,218	105,133
Total Fringe Benefits	7,974,194	7,861,237
SERVICES		
Professional and technical including directors' fees	423,858	423,242
Outside services	178,412	137,513
Contract maintenance services	449,975	400,220
Promotion and printing	182,481	218,745
Total Services	1,234,726	1,179,720
MATERIALS AND SUPPLIES		
Fuels and lubricants	1,813,046	1,522,639
Tires and tubes	167,105	165,888
Bus parts	630,333	565,771
Other materials and supplies	493,064	247,113
Electric bus power	114,797	91,983
Total Material and Supplies	3,218,345	2,593,394
UTILITIES AND TELEPHONE	246,199	244,051
CASUALTY AND LIABILITY COSTS	263,113	347,591
PURCHASED TRANSPORTATION	991,962	869,058
MISCELLANEOUS EXPENSES		
Dues and subscriptions	50,335	52,785
Travel, meetings, and training	30,545	14,634
Purchased media	12,648	11,504
Other miscellaneous expenses	190,425	221,005
Total Miscellaneous Expenses	283,953	299,928
Total Expenses before Depreciation	26,459,652	25,215,318
DEPRECIATION	3,975,403	3,664,721
TOTAL EXPENSES	$ 30,435,055	$ 28,880,039

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
CASH FLOWS FROM OPERATIONS		
Receipts from transit customers	$ 7,362,227	$ 6,961,455
Payments to suppliers and vendors	(5,912,889)	(4,918,808)
Payments to employees/benefits	(20,352,935)	(21,121,424)
NET CASH USED BY OPERATING ACTIVITIES	(18,903,597)	(19,078,777)
CASH FLOWS FROM NONCAPITAL FINANCING ACTITIVIES		
Operating grants received	21,496,389	13,299,549
Non-transportation revenue, including advertising, rental and miscellaneous	658,673	921,001
Taxes levied by Santa Barbara County	1,295,656	1,287,046
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	23,450,718	15,507,596
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(8,032,367)	(2,603,444)
Proceeds from sale of assets	179,139	78,053
State of California Prop 1B grant advance	427,265	233,321
State of California LCTOP grant advance	-	154,541
USCB grant advance	-	106,481
Federal, state, and local capital grants received	3,926,543	2,947,968
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,499,420)	916,920
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	232,472	88,474
NET CASH PROVIDED BY INVESTING ACTIVITIES	232,472	88,474
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,280,173	(2,565,787)
CASH AND EQUIVALENTS		
BEGINNING OF YEAR	12,013,003	14,578,790
END OF YEAR	$ 13,293,176	$ 12,013,003
Cash and equivalents	$ 10,565,425	$ 10,593,085
Cash restricted for capital support	1,123,846	1,419,918
TOTAL CASH AND EQUIVALENTS	$ 11,689,271	$ 12,013,003

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

	2019	2018
Reconciliation of operating loss or net cash used by operating activities		
Operating loss	$ (23,267,957)	$ (21,889,253)
Charges to cost of service not requiring current expenditure of cash:		
Depreciation	3,975,403	3,664,721
Changes in:		
Other receivable - excluding grants	195,129	(231,436)
Materials and supplies inventories	218,475	99,254
Other current assets	87,592	(92,658)
Accounts payable and accrued expenses net of capital acquisitions	19,342	65,794
Compensated absences payable	830	(24,092)
Accrued damage, injury, and employee claims	(286,580)	751,316
Other post-retirement benefit liabilities and related deferrals	154,169	(1,422,423)
NET CASH USED BY OPERATING ACTIVITIES	$ (18,903,597)	$ (19,078,777)

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

NOTE 1 – REPORTING ENTITY

The Santa Barbara Metropolitan Transit District (the District), a government entity, was formed under the terms of the Santa Barbara Metropolitan Transit District Act for 1965, Part 9, of the California Public Utilities Code amended in 1967. The District provides local public transportation services to the metropolitan Santa Barbara area which encompasses the outlying communities of Goleta, Montecito, and Carpinteria.

The District is a special purpose governmental unit with no component units.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District are in conformity with accounting principles generally accepted in the United States of America applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the significant accounting policies:

Basic Financial Statements

The basic financial statements (i.e., the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Expenses; and the Statement of Cash Flows) report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments,* and related standards; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus 2017*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The standards provide for significant changes in terminology; recognition of contributions in the Statements of Activities and Changes in Net Position; inclusion of a Management's Discussion and Analysis as supplementary information; and other changes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The District distinguishes operating revenues and expenses result from nonoperating items. Operating revenues and expenses generally result from providing transportation services. The principal operating revenues of the District are charges to passengers for transportation services (passenger fares). Operating expenses include the cost of providing service, including general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

The accounting records of the District are subject to the uniform accounting system for transit districts as set forth by the Federal Transit Administration (FTA) and the California State Controller's Office.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Taxes

Taxes, including homeowners' property tax relief, are remitted from the County Tax Collector. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1 to June 30	
Due Date	November 1	(1st installment)
	February 1	(2nd installment)
Delinquent Date	December 10	(1st installment)
	April 10	(2nd installment)

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool and are then allocated to the District based on complex formulas prescribed by state statutes.

Cash in Investments

For purposes of the Statement of Cash Flows, the District considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

All investments are stated at fair value, except for certain designated money market investments that have a remaining maturity of less than one year when purchased which are stated at amortized cost. Money market investments are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and Agency obligations. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in fair value, is included in nonoperating revenues.

Restricted Uses of Cash

As of June 30, 2019, the District had $779,578 of Proposition 1B (Prop 1B) PTMISEA cash restricted for use in Transit Center projects. Low Carbon Transit Operations Program (LCTOP) cash restricted for marketing expenses was $344,268.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Uses of Cash (Continued)

As of June 30, 2018, the District had $946,336 of Prop 1B-PTMISEA cash restricted for use in Transit Center projects and $233,325 of Prop1B-TSC cash restricted for use in its projects. LCTOP cash restricted for marketing expenses was $127,155.

Inventories

The inventories are composed of bus parts, fuels and lubricants and are valued at cost on a weighted-average basis.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation computed on the straight-line method over the following lives:

Buildings	20 to 40 years
Buses and equipment	3 to 12 years
Office and shop equipment	5 to 10 years
Automotive equipment	3 to 5 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

The District's policy is to capitalize all property and equipment with a cost greater than $500 and a useful life of more than one year.

Compensated Absences

The District accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2019 and 2018, was $881,120 and $846,938, respectively.

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 the District's 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

In the Statement of Net Position, net position is classified in the following categories:

> Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation/amortization and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
>
> Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
>
> Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Grants

The District receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. The amounts recorded as capital grant revenue and advances in fiscal years 2019 and 2018 were $5,340,464 and $2,603,444, respectively.

New Accounting Pronouncements

During fiscal year ended June 30, 2019, the District implemented the following new GASB Pronouncements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations.* The requirements of this statement are effective for periods beginning after June 15, 2018. There was no effect on the District's accounting and financial reporting as a result of implementing this standard.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The requirements of this statement are effective for periods beginning after June 15, 2018. There was no effect on the District's accounting and financial reporting as a result of implementing this standard.

Future Accounting Pronouncements

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for periods beginning after December 15, 2018. The District will implement GASB Statement No. 84 if and where applicable.

GASB Statement No. 87 – *Leases.* The requirements of this statement are effective for periods beginning after December 15, 2019. The District will implement GASB Statement No. 87 if and where applicable.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The requirements of this statement are effective for periods beginning after December 15, 2019. The District will implement GASB Statement No. 89 if and where applicable.

GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61.* The requirements of this statement are effective for periods beginning after December 15, 2018. The District will implement GASB Statement No. 90 if and where applicable.

GASB Statement No. 91 – *Conduit Debt Obligations.* The requirements of this statement are effective for periods beginning after December 15, 2020. The District will implement GASB Statement No. 91 if and where applicable.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

	2019	2018
Statement of Net Position:		
Cash and cash equivalents	$ 10,565,425	$ 10,593,085
Cash and cash equivalents restricted for capital support	1,123,846	1,419,918
Total cash and investments	$ 11,689,271	$ 12,013,003

Cash and investments as of June 30, 2019 and 2018, consist of the following:

	2019	2018
Cash on hand	$ 39,865	$ 39,865
Deposits with financial institutions	1,123,846	1,419,918
Investments	10,525,560	10,553,220
Total cash and investments	$ 11,689,271	$ 12,013,003

The District does not have a formal investment policy that limits its ability to invest its funds.

Demand Deposits

As of June 30, 2019 and 2018, the carrying amounts of the demand deposits were $3,026,230 and $5,545,867, respectively, and the bank balance was $3,288,336 and $11,973,138, respectively, of which the total amount was collateralized or insurance with securities held by the pledging financial institutions in the District's name as discussed under Custodial Credit Risk. Certain cash accounts are pooled and swept nightly to a concentration account.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Demand Deposits (Continued)

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Collateral is held by the pledging financial institution's trust department and is considered held in the District's name. The District may waive collateral requirements for deposits that are fully insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). The District has $250,000 that is covered by the FDIC as of June 30, 2019, and $250,000 as of June 30, 2018. The remaining balance at June 30, 2019 and 2018, of $3,038,337 and $______, respectively, is collateralized as described above.

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, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	Measurement Input	Fair Value 2019	Fair Value 2018
Cash and investments			
Demand deposits	N/A	$ 3,026,230	$ 5,545,867
Local Agency Investment Fund (LAIF)	N/A	8,663,041	6,647,136
Total cash and investments		$ 11,689,271	$ 12,193,003

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 does not contain legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law.

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All of the District's funds are held in two financial institutions, Union Bank (Bank) and the State of California's Local Agency Investment Fund (LAIF). All of these funds are insured or collateralized. The Bank funds are collateralized by the Bank's trust department but not in the District's name.

NOTE 3 – CASH AND INVESTMENTS (Continued)

Local Agency Investment Funds

The District is a voluntary participant in the California State Treasurer's LAIF. LAIF has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

The investments include the following:

- Structured Notes – debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises.

- Asset-Backed Securities – entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute.

The District had $8,663,041 and $6,467,136 invested in LAIF, at June 30, 2019 and 2018, respectively. They were invested in the pooled investment funds in structured notes and asset-backed securities at ___% and 2.67% at June 30, 2019 and 2018, respectively. The LAIF fair value factor of ____________ and .998126869 at June 30, 2019 and 2018, was used to calculate the fair value of the investments in LAIF. The financial statements for LAIF are available at http://www.treasurer.ca.gov/pmia-laif/laif.asp.

Fair Value Measurements

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, are recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1: Investments reflect prices quoted in active markets;

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

- Level 3: Investments reflect prices based upon unobservable sources.

NOTE 4 – RECEIVABLES

Grants receivable at June 30, 2019 and 2018, are summarized as follows:

	2019	2018
Federal Transit Administration	$ 5,256,241	$ 5,215,206
State Transit Assistance	1,352,488	1,455,881
Other grants	655,313	112,137
	$ 7,264,042	$ 6,783,224
Other receivables are as follows:		
Trade receivables	$ 219,240	$ 414,369

NOTE 5 – CAPITAL ASSETS

Changes in transit operating property during the fiscal years ended June 30, 2019 and 2018, are as follows:

June 30, 2019	Beginning of Year	Additions	Reclassification	Disposals	End of Year
Capital assets not depreciated					
Land	$ 5,596,296	$ -	$ -	$ -	$ 5,596,296
Work in progress	1,315,808	1,555,347	(163,658)	-	2,707,497
Total Capital Assets, Not Being Depreciated	6,912,104	1,555,347	(163,658)	-	8,303,793
Buildings	14,511,789	57,366	750	(12,822)	14,557,083
Buses	46,911,549	6,325,407	142,922	(6,826,978)	46,552,900
Other equipment	5,571,279	94,247	19,986	(51,100)	5,634,412
Total Capital Assets, Being Depreciated	66,994,617	6,477,020	163,658	(6,890,900)	66,744,395
Less Accumulated Depreciation	(42,492,600)	(3,975,403)	-	6,768,518	(39,699,485)
Total Capital Assets, Being Depreciated, Net	24,502,017	2,501,617	163,658	(122,382)	27,044,910
Total Capital Assets, Net	$ 31,414,121	$ 4,056,964	$ -	$ (122,382)	$ 35,348,703

NOTE 5 – CAPITAL ASSETS (Continued)

June 30, 2018	Beginning of Year	Additions	Reclassification	Disposals	End of Year
Capital assets not depreciated					
Land	$ 5,596,296	$ -	$ -	$ -	$ 5,596,296
Work in progress	5,362,858	784,066	(4,828,204)	(2,912)	1,315,808
Total Capital Assets, Not Being Depreciated	10,959,154	784,066	(4,828,204)	(2,912)	6,912,104
Capital assets depreciated					
Buildings	13,119,407	203,990	1,190,276	(1,884)	14,511,789
Buses	42,804,254	1,166,645	3,593,610	(652,960)	46,911,549
Other equipment	5,120,462	451,454	44,318	(44,955)	5,571,279
Total Capital Assets, Being Depreciated	61,044,123	1,822,089	4,828,204	(699,799)	66,994,617
Less Accumulated Depreciation	(39,449,828)	(3,664,721)	-	621,949	(42,492,600)
Total Capital Assets, Being Depreciated, Net	21,594,295	(1,842,632)	4,828,204	(77,850)	24,502,017
Total Capital Assets, Net	$ 32,553,449	$ (1,058,566)	$ -	$ (80,762)	$ 31,414,121

Depreciation expense for the fiscal years ended June 30, 2019 and 2018, was $3,975,403 and $3,664,721, respectively.

NOTE 6 – NET POSITION

The majority of unrestricted net position represents excess Transportation Development Act (TDA) revenue received. Pursuant to Section 6634 of the California Administrative Code - TDA, a transit claimant is precluded from receiving monies from the Local Transportation Fund and State Transit Assistance Fund in an amount which exceed that claimant's capital and operating costs, less the required fares, local support, and the amount received during the year from a city or county to which the operator provides service beyond its boundaries. The District receives notification of its TDA allocation for the next fiscal year in February of the preceding year. The District's fiscal year extends from July to June. The District is required to submit its claim for the subsequent year by April 1st. As such, the claim is based on the District's draft budget for the coming year. As a result, actual operating expenditures and capital acquisitions tend to vary resulting in the aforementioned unrestricted net position. The funds provide working capital (cash flow) to the District throughout the year and act as a reserve for any unexpected events.

Restricted net position represents the advancement of grant funding for capital and operating use. Grant sources are State of California, Prop 1B, LCTOP, and UCSB (see Note 2).

NOTE 6 – NET POSITION (Continued)

Capital Contributions

The District receives grants from the FTA, State, and local transportation funds for the acquisition of buses and other equipment and improvements. Capital contributions are recorded as revenues and the cost of the related assets are included in property and equipment. Depreciation on assets acquired with capital grant funds is included in the Statement of Revenues, Expenses, and Changes in Net Position.

Capital contributions for the fiscal years ended June 30 were as follows:

	2019	2018
Federal grants	$ 5,290,463	$ 31,413
State grants (Prop 1B)	427,265	113,232
Local assistance - sales tax	1,352,488	2,389,711
Miscellaneous grants	41,076	69,088
Net grants received	$ 7,111,292	$ 2,603,444

NOTE 7 – TDA FUNDING AND ALLOCATIONS

TDA funding and allocations for the fiscal years ended June 30:

	2019	2018
Funding		
Local Transportation Fund (SB 325)	$ 7,921,258	$ 7,664,362
State Transit Assistance Fund (SB 620)	1,352,488	1,455,881
	$ 9,273,746	$ 9,120,243
Usage		
Operations	$ 7,921,258	$ 7,664,362
Capital projects	1,352,488	1,455,881
	$ 9,273,746	$ 9,120,243

NOTE 8 – FEDERAL GRANTS AND REIMBURSEMENTS

Federal grants and reimbursements for the year ended June 30:

	2019	2018
FTA		
Operating grants	$ 5,256,241	$ 5,292,829
Capital grants	5,290,463	31,413
Total	$ 10,546,704	$ 5,324,242

NOTE 9 – CHANGE IN COMPENSATED ABSENCES

Employees annually accrue compensated absence time, consisting of vacation and sick time dependent on job classification and tenure ranging from 80 hours to 320 hours per year. Accrued compensated absences for vacation in fiscal years ending June 30, 2019 and 2018, were $881,120 and $846,938, respectively. The current portion is expected to be used within one year. Accrued sick pay vested in fiscal years ending June 30, 2019 and 2018, were $415,797 and $422,815, respectively.

The changes in accrued vacation pay were as follows:

	2019	2018
Beginning balance	$ 846,938	$ 874,313
Additions	705,610	687,981
Payments	(671,428)	(715,356)
Ending balance	881,120	846,938
Less: current portion	454,627	429,906
Noncurrent portion	$ 426,493	$ 417,032

Accrued sick pay is summarized as follows:

	2019	2018
Total accrued sick pay	$ 1,521,415	$ 1,458,166
Amount of sick pay not vested, in accordance with the union agreement and District policy	(1,105,618)	(1,035,351)
Total accrued sick pay vested and included in accrued payroll	$ 415,797	$ 422,815

NOTE 10 – RETIREMENT PLANS

Two employee groups are covered, with expenses as follows:

Employee Group	Plan Names	2019	2018
Union	Teamsters Union	$ 1,146,193	$ 1,150,642
Non-Union Deferral Plan	Profit-Sharing and Salary	252,864	240,051
Total		$ 1,399,057	$ 1,390,693

TEAMSTERS PENSION PLAN

This plan covers union employees and is a "cost sharing" defined benefit plan. The District had the following statistics:

	2019	2018
Required work hour contribution (up to 173.33 hours per month)	$ 3	$ 3.38
Total pension hours	334,885	343,093
Accrued pension	$ 96,486	$ 92,200

Western Conference of Teamsters Pension Trust (the Plan) administers the cost-sharing pension plan for those District employees covered by the collective bargaining agreement. As noted above, this is a defined benefit pension plan in which pension benefits are based on a set formula so that an employee's future benefit can be determined by the formula. Pension benefits in general are paid as monthly benefits over a participant's lifetime. The Plan has the authority to establish and/or amend the plan and its benefits. Based on the most recent actuarial certification the Plan is in the "green zone" for 2018, meaning the Plan is in good financial position. Additional information such as the Plan's financial reports can be found at www.wctpension.org/site-index. In the event an employer withdraws from the Plan, the employer's withdrawal liability is based on the employer's share of the unfunded vested benefits of the multiemployer Plan.

The period of coverage for the existing collective bargaining agreement between the District and Teamsters Union-Local 186 is July 1, 2018, through June 30, 2019. In 2018 there were 169 employees covered under the Plan. The collective bargaining agreement is the basis for determining the District's employer's required contribution as well as any changes/amendments. In 2019 and 2018, the employer's required contribution were approximately $____ million and $1.2 million, respectively. Based on the agreement, there are no minimum contributions required for future periods. For fiscal years 2018 and 2019 the pension payables were $_______ and $92,200, respectively, since the payments for June 2019 and 2018 occurred after the fiscal year end.

Effective July 1, 1985, the District established the above-named retirement plans for employees not covered by the union plan. The plans are administered by the District, which contracts the administration to NFP Retirement.

The District contributes to the Profit-Sharing and Salary Deferral Plan an amount equal to ___% and 3%, respectively, of the compensation for all eligible participants. Contributions by the District to the Salary Deferral Plan are fully vested at the time of contribution. Contributions by the District to the Profit-Sharing Plan are vested ratably over a four-year period. The District is not obligated to make contributions to the Profit-Sharing Plan however its contributions must be regular and continuing in order for the Plan to receive favorable tax treatment under Internal Revenue Code Section 401(k).

NOTE 10 – RETIREMENT PLANS (Continued)

The District's contributions for fiscal year 2019 were based upon a payroll of $_______ for non-union employees. The District contributed $_______ (10% of covered payroll) and covered employees contributed $_______.

The District's contributions for fiscal year 2018 were based upon a payroll of $2,400,513 for non-union employees. The District contributed $240,051 (10% of covered payroll) and covered employees contributed $251,455.

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of losses related to injuries to employees and the public, damage to and destruction of assets, and errors and omissions.

The District has Self-Insured Retention policies with general liability coverage of $10 million on any one claim, including self-insured amounts per claim as follows:

April 1, 2002 to March 31, 2019	$250,000
April 1, 2001 to March 31, 2002	$100,000
April 1, 1995 to March 31, 2001	$250, 000

The District has elected to self-insure its obligations for workers' compensation claims. On January 1, 2005, the District joined CSAC Excess Insurance Authority with a self-insurance retention of $500,000 and a limit of $5 million on any one claim. Claim amounts exceeding $5 million are covered statutorily by the state of California. For calendar year 2004, the District was self-insured to $1.5 million with a $10 million limit on any one claim. In 2003, the District carried workers' compensation insurance in excess of $500,000 with a $5 million limit on any one claim.

There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the four years prior.

Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District's insurance adjusters and attorneys help to determine the amount of actual or potential claims against the District. An analysis of claims activities for general liability and workers' compensation liability is presented below:

	2019	2018
Claims liability - beginning of year	$ 4,588,249	$ 3,730,298
Claims and changes in estimates	284,367	1,278,410
Actual claim payments	(644,034)	(420,459)
Claims liability - end of year	$ 4,228,582	$ 4,588,249

NOTE 12 – COMMITMENTS

Paratransit Service – Easy Lift

For fiscal year 2019, the District has agreed to provide Easy Lift a subsidy of $_______ for the paratransit services. The amount can be adjusted by mutual consent if the District requests an adjustment in the amount of paratransit service to be provided. If for any reason, Easy Lift failed to provide the required ADA paratransit service, the District would continue to be responsible for the service under Federal law. The District would be required to implement a replacement service on very short notice, at a cost that would likely exceed the current subsidy.

The District is required under Federal law, the Americans with Disabilities Act of 1990 (ADA), to ensure that complementary paratransit service is available wherever and whenever the District provides fixed-route bus service. The District complies with this requirement by partially subsidizing the paratransit service provided by Easy Lift Transportation. The District signed a contract with Easy Lift in April 2016, which was amended in June 2018, for these services. The District, by written notice may terminate this contract, in whole or in part, when it is in its best interest.

Bus Tire Lease

The District has a contract with the Goodyear Tire & Rubber Company (Goodyear) to furnish the District with a sufficient quantity of tires to keep all vehicles fully equipped and to provide a reserve supply, at a maximum level determined by Goodyear, as spare stock inventory to be mounted on rims and kept in the District's garage for use in case of emergency. The District provides Goodyear with mileage for each vehicle in its fleet on a monthly basis and is billed in accordance with its agreement. Both parties have the option to terminate this agreement with 30-days' notice. The rates per tire increase by an agreed-upon percentage annually.

For fiscal year end June 30, 2019, the rates paid by the District for contractual amounts are as follows:

Gilligs	$ 0.049440
BYD	$ 0.064488
Gilligs	$ 0.064488
Novas	$ 0.067713
Novas - Articulated	$ 0.090285

NOTE 13 – CONTINGENCIES

Federal Grant Contracts

The terms of the federal grant contracts require the District to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Transportation Equity Act for the 21st Century. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

The District adjusted its beginning net position as of July 1, 2017.

Net positions at July 1, 2018, as previously stated	$ 44,682,588
Correct Advances on Grants due to incorrectly recording as revenue	(1,072,509)
Implementation of GASB Statement No. 75	(102,926)
Net Position Beginning of Year, as Restated	$ 43,507,153

NOTE 15 – OPEB

Plan Description

The District provides OPEB in the form of monthly reimbursement towards the retiree's health plan premium for eligible union retirees, and eligible staff retirees and their spouses of amounts not to exceed $285 per month. The authorities under which benefit provisions are established or may be amended are the collective bargaining agreement for union employees and the District Board of Directors for non-union employees. Employees hired under the CBA after March 1, 2014 are excluded from the plan. A policy change will go into effect in fiscal year 2019 resulting in the establishment of a sunset date for OPEB benefits for non-union employees. All non-union employees hired on or after July 1, 2018, will be excluded from the OPEB Plan.

Employees Covered

As of the June 30, 2018 and 2017 valuations, the following current and former employees were covered by the benefit terms for the OPEB Plan:

	2019	2018
Active employees	159	173
Inactive employees of beneficiaries currently receiving benefits	24	26
Inactive employees entitled to, but not yet receiving benefits	-	-
Total	183	199

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District Board. These contributions are neither mandated nor guaranteed. The District has retained the right to unilaterally modify its payment for retiree health care benefits. Refer to the table above for the contribution requirements. For the fiscal years ended June 30, 2019 and 2018, the District contributed $0 and $565,645, respectively. Employees are not required to contribute to the OPEB Plan.

NOTE 15 – OPEB (Continued)

Funding Policy and Annual OPEB Cost

The Plan has been funded on a pay-as-you-go basis since inception. During fiscal year 2017, the District joined the California Employers Retirement Benefit Trust (CERBT) to begin prefunding its OPEB obligation. CERBT is an irrevocable Section 115 trust fund dedicated to prefunding OPEB for all eligible California public agencies and is managed by CalPERS. At the time of inception, the District elected to establish the trust with a $1,000,000 contribution. In fiscal year 2018, an additional $500,000 contribution to the trust was made. Funding is not based on actuarially determined contributions and contributions are neither statutory nor contractually established. Current policy does not obligate the District to further fund its OPEB obligation. Beginning in fiscal year 2019, the District will begin drawing funds from the OPEB trust to cover the cost of current year retiree health benefit payouts.

The District's annual OPEB cost (expense) for the OPEB Plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 75 beginning in fiscal year 2018. The ARC represents the normal cost and amortization of unfunded actuarial liabilities over 30 years.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was the Plan Fiduciary Net Position of the OPEB trust held with CalPERS. The following actuarial methods and assumptions were used:

Valuation Date	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2018	June 30, 2017
Actuarial Assumptions:		
Inflation	3.00%	3.00%
Salary increase	3.00%	3.00%
Investment rate of return	6.70%	6.70%
Healthcare cost trend rates		
Medicare Advantage	16% for 2018, 6.5% for 2018 and decreasing ratably to 4.5% for 2026 and later years	16% for 2017, 6.5% for 2018 and decreasing ratably to 4.5% for 2026 and later years
Medicare Supplement	5.7% for 2018, decreasing ratably to 4.5% for 2026 and later years	5.7% for 2017, decreasing ratably to 4.5% for 2026 and later years
Dental	4.5% for 2018, static through 2026 and later years	4.5% for 2017, static through 2026 and later years

Mortality rates were based on the 1997-2011 CalPERS Experience Study for Miscellaneous Employees, with adjustments for generational mortality projections using scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period of July 1, 2017 – June 30, 2018.

NOTE 15 – OPEB (Continued)

The long-term expected rate of return on OPEB 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 OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

2019

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	Unavailable
Fixed Income	43%	Unavailable
Treasury Inflation-Protected Securities	8%	Unavailable
Real Estate Investment Trusts	5%	Unavailable
Commodities	4%	Unavailable
Total	100%	

2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	Unavailable
Fixed Income	39%	Unavailable
Treasury Inflation-Protected Securities	10%	Unavailable
Real Estate Investment Trusts	8%	Unavailable
Commodities	3%	Unavailable
Total	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.70%. The rate was based on long-term expected rate of return for CERBT Strategy 2 determined by CalPERS. Prior to the most recent measurement date and establishment of the OPEB trust, the discount rate was 5.00%.

NOTE 15 – OPEB (Continued)

Changes in the Net OPEB Liability

The changes in the net OPEB liability for the are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2018	$ 2,526,892	$ 994,744	$ 1,532,148
			-
Changes Recognized for the Fiscal Year:			-
Service Cost	45,248	-	45,248
Interest on the Total OPEB Liability	170,170	-	170,170
Change of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Change of Assumptions	-	-	-
Benefit Payments	(65,645)	(65,645)	-
Contributions from the Employer	-	565,645	(565,645)
Contributions from the Employee	-		-
Net Investment Income	-	61,784	(61,784)
Administrative Expense	-	(535)	535
Net Changes	149,773	561,249	(411,476)
Balance at June 30, 2019 (Based on June 30, 2018 Measurement Date)	$ 2,676,665	$ 1,555,993	$ 1,120,672

NOTE 15 – OPEB (Continued)

Changes in the Net OPEB Liability (Continued)

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017	$ 2,388,926	$ -	$ 2,388,926
			-
Changes Recognized for the Fiscal Year:			-
Service Cost	43,930	-	43,930
Interest on the Total OPEB Liability	161,053	-	161,053
Change of Benefit Terms	-	-	-
Actual Experience	(7,884)	-	(7,884)
Differences Between Expected and Actual Experience	-	-	-
Change of Assumptions	-	-	-
Benefit Payments	(59,133)	(59,133)	-
Contributions from the Employer	-	1,059,133	(1,059,133)
Contributions from the Employee	-	-	-
Net Investment Income	-	(5,256)	5,256
Administrative Expense	-	-	-
Net Changes	137,966	994,744	(856,778)
Balance at June 30, 2018 (Based on June 30, 2017 Measurement Date)	$ 2,526,892	$ 994,744	$ 1,532,148

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District 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 fiscal year ending June 30, 2019.

2019	1% Decrease (5.70%)	Current Rate (6.70%)	1% Increase (7.70%)
Total OPEB Liability	$ 3,041,979	$ 2,676,665	$ 2,373,846
Plan Fiduciary Net Position	1,555,993	1,555,993	1,555,993
Net OPEB Liability	$ 1,485,986	$ 1,120,672	$ 817,853

2018	1% Decrease (5.70%)	Current Rate (6.70%)	1% Increase (7.70%)
Total OPEB Liability	$ 2,881,619	$ 2,526,892	$ 2,233,151
Plan Fiduciary Net Position	994,744	994,744	994,744
Net OPEB Liability	$ 1,886,875	$ 1,532,148	$ 1,238,407

NOTE 15 – OPEB (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using a health care cost trends that are on percentage point lower or one percentage point higher than the trend rate, for the measurement period ended June 30, 2019.

2019	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$ 2,314,458	$ 2,676,665	$ 3,125,039
Plan Fiduciary Net Position	1,555,993	1,555,993	1,555,993
Net OPEB Liability	$ 758,465	$ 1,120,672	$ 1,569,046

2018	1% Decrease	Trend Rate	1% Increase
Total OPEB Liability	$ 2,196,589	$ 2,526,892	$ 2,934,843
Plan Fiduciary Net Position	994,744	994,744	994,744
Net OPEB Liability	$ 1,201,845	$ 1,532,148	$ 1,940,099

OPEB Plan Fiduciary Net Position

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

Recognition of Deferred Outflows and Deferred Inflows of Resources

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

NOTE 15 – OPEB (Continued)

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the fiscal years ended June 30, 2019 and 2018, the District recognized OPEB expense of $147,579 and $205,158, respectively. For the fiscal years ended June 30, 2019 and 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

2019	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ -	$ -
Differences between Actual and Expected Experience	-	(6,132)
Changes in Assumptions	-	-
Net Differences between Projected and Actual Earnings on Plan Investments	9,919	-
Total	$ 9,919	$ (6,132)

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 565,645	$ -
Differences between Actual and Expected Experience	-	-
Changes in Assumptions	-	-
Net Differences between Projected and Actual Earnings on Plan Investments	-	-
Total	$ 565,645	$ -

Deferred outflows for resources related to OPEB will be recognized as expense as follows:

Year End June 30	
2020	$ 1,866
2021	1,866
2022	1,867
2023	816
2024	(2,628)
Total Thereafter	$ 3,787

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018

NOTE 16 – ADVANCES ON GRANTS

	Prop1B OHS Capital	Prop 1B PTMISEA Capital	UCSB Capital	LCTOP Capital	Total Capital	LCTOP Operating	Total Operating	Total Operating & Capital
Assistance:								
Excess Operating Funds at June 30, 2017	$ 14,432	$ 956,742	$ 101,334	$ -	$ 1,072,508	$ -	$ -	$ 1,072,508
FY18 Allocation received	233,321	-	106,481	-	339,802	154,541	154,541	494,343
FY18 Interest earned	6	97	-	-	103	14	14	117
Funds available	247,759	956,839	207,815	-	1,412,413	154,555	154,555	1,566,968
Less: FY18 Eligible costs	(14,435)	(98,797)	-	-	(113,232)	(33,820)	(33,820)	(147,052)
Excess Operating Funds at June 30, 2018	233,324	858,042	207,815	-	1,299,181	120,735	120,735	1,419,916
FY19 Allocations received	-	80,090	103,485	252,590	436,165	-	-	436,165
FY19 Interest earned	21	92	-	25	137	11	11	148
Funds available	233,345	938,224	311,300	252,615	1,735,483	120,746	120,746	1,856,229
Less: FY19 Eligible costs	(233,345)	(193,920)	-	-	(427,265)	(41,076)	(41,076)	(468,341)
Excess Operating Funds at June 30, 2019	$ -	$ 744,304	$ 311,300	$ 252,615	$ 1,308,218	$ 79,670	$ 79,670	$ 1,387,888

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through __________, 2019, the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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SANTA BARBARA METROPOLITAN TRANSIT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS

	2019	2018
Total OPEB Liability		
Service Cost	$ 45,248	$ 43,930
Interest Cost	170,170	161,053
Differences Between Expected and Actual Experiences	-	(7,884)
Benefit Payments	(65,645)	(59,133)
Net Change in Total OPEB Liability	149,773	137,966
Total OPEB Liability - Beginning	2,526,892	2,388,926
Total OPEB Liability - Ending	$ 2,676,665	$ 2,526,892
Plan Fiduciary Net Position		
Contributions - Employer	$ 565,645	$ 1,059,133
Net Investment Income	61,784	(5,256)
Benefit Payments	(65,645)	(59,133)
Administrative Expenses	(535)	-
Net Change in Plan Fiduciary Net Position	561,249	994,744
Plan Fiduciary Net Position - Beginning	994,744	-
Plan Fiduciary Net Position - Ending	$ 1,555,993	$ 994,744
Net OPEB Liaibilty - Ending	$ 1,120,672	$ 1,532,148
Net Position as a Percentage of OPEB Liability	58.13%	39.37%
Covered-Employee Payroll	10,346,378	13,100,000
Net OPEB Liability as a Percentage of Payroll	10.83%	11.70%

Notes to Schedule:

Changes in assumptions - The discount rate was changed from 5.00% to 6.70% for the measurement period ended June 30, 2018.

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

A Schedule of Contributions is not required because funding is not based on actuarially determined contributions and contributions are neither statutory nor contractually established.