CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

Financial Statements and Supplementary Information

Fiscal Years Ended June 30, 2018 and 2017

(With Independent Auditors' Reports Thereon)

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
Fiscal Years Ended June 30, 2018 and 2017

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CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Big Blue Bus Fund (the BBB), an enterprise fund of the City of Santa Monica, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the BBB's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Big Blue Bus Fund as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

203 N. Brea Blvd., Suite 203 | Brea, CA 92821 | Phone: 714.672.0022

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements present the financial position of only the BBB and do not present, or purport to present fairly, the financial position of the City as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

We have previously audited the BBB June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BBB's basic financial statements. The 50% Expenditure Limitation Tests schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 50% Expenditure Limitation Tests schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 50% Expenditure Limitation Tests schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the BBB'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 BBB's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea, California
December 12, 2018

CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Assets:		
Current assets:		
Cash and investments (note 2)	$ 18,989,686	19,648,297
Restricted cash and investments (note 2)	9,607,613	10,317,140
Accounts receivable	1,767,229	1,799,377
Due from other governemnts	16,057,838	14,735,665
Interest receivable	119,860	164,361
Inventory	3,098,315	2,639,230
Prepaid expense	14,413	10,169
Total current assets	49,654,954	49,314,239
Capital assets (note 3):		
Land	48,807,900	48,807,900
Construction in progress	421,834	1,784,394
Buildings	129,417,341	129,417,341
Improvements other than buildings	13,967,895	13,967,895
Machinery and equipment	170,352,761	164,254,812
Total capital assets	362,967,731	358,232,342
Less accumulated depreciation	(159,010,106)	(144,892,320)
Net capital assets	203,957,625	213,340,022
Total noncurrent assets	203,957,625	213,340,022
Total assets	253,612,579	262,654,261
Deferred outflows of resources:		
Deferred outflows -pension (note 4)	16,862,992	18,681,786
Deferred outflows -OPEB (note 4)	321,856	-
Total deferred outflows of resources	17,184,848	18,681,786
Liabilities:		
Current liabilities:		
Accounts payable	2,102,708	2,062,107
Accrued liabilities	2,363,026	2,389,286
Compensated absences	1,700,982	1,674,832
Contracts payable (retained percentage)	23,405	86,963
Unearned revenue	1,685,183	1,426,231
Deposits	47,975	74,642
Total current liabilities	7,923,279	7,714,061
Noncurrent liabilities:		
Compensated absences	315,921	229,997
Net OPEB liability (note 4)	2,811,773	-
Net OPEB obligation (note 4)	-	1,248,096
Net pension liability (note 4)	50,422,432	50,307,739
Total noncurrent liabilities	53,550,126	51,785,832
Total liabilities	61,473,405	59,499,893
Deferred Inflows of resources:		
Deferred inflows -pension (note 4)	4,229,019	3,925,658
Deferred inflows -OPEB (note 4)	150,578	-
Total deferred inflows of resources	4,379,597	3,925,658
Net Position:		
Investment in capital assets	203,957,625	213,340,022
Restricted for:		
Rail system development	1,788,915	1,791,019
Proposition 1B projects	11,188,673	7,247,601
Unrestricted	(11,990,788)	(4,468,146)
Total net position	$ 204,944,425	217,910,496

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

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

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Fixed route service:		
Passenger revenue	$ 11,721,083	11,809,016
Advertising	2,002,666	2,573,458
Other	766,777	1,077,197
Total fixed route service revenues	14,490,526	15,459,671
Specialized transit services	489,299	483,317
Total operating revenues	14,979,825	15,942,988
Operating expenses:		
Fixed route and charter service:		
Personnel services	59,524,367	52,410,445
Administrative indirect charges	4,585,713	4,430,641
Contractual services	2,567,772	3,001,758
Repairs and maintenance	7,131,825	7,575,517
Materials and supplies	3,312,466	3,049,857
Utilities	431,537	459,235
Casualty, property and liability costs	3,997,190	2,707,918
Other	293,628	299,136
Total fixed route and charter service expenses	81,844,498	73,934,507
Specialized transit services	489,299	483,317
Total operating expenses before depreciation	82,333,797	74,417,824
Depreciation	17,338,225	16,126,144
Total operating expenses	99,672,022	90,543,968
Operating loss	(84,692,197)	(74,600,980)
Nonoperating revenue (expenses):		
Sales tax proceeds:		
Proposition C funds	2,456,992	2,524,620
Proposition A funds	13,081,215	12,833,053
Transportation Development Act funds	19,160,976	19,267,778
State Transit Assistance Fund sales taxes	722,084	1,546,914
Measure R	8,856,976	12,140,645
Measure M	7,401,889	-
LCTOP funds	433,364	178,703
Investment income	187,350	164,113
Gain on disposal of capital assets	35,219	97,570
Other	2,976,418	3,587,080
Total nonoperating revenue	55,312,483	52,340,476
Loss before capital grants and contributions	(29,379,714)	(22,260,504)
Capital grants and contributions	18,229,046	23,062,625
Changes in fund net position	(11,150,668)	802,121
Net position, beginning (as restated, note 7)	216,095,093	217,108,375
Net position, ending	$ 204,944,425	217,910,496

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Big Blue Bus Fund

(An Enterprise Fund of the City of Santa Monica)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	$ 14,547,962	15,172,504
Cash received from specialized transit services	489,299	485,100
Cash payments for materials and services	(24,487,435)	(20,744,091)
Cash payments to employees for services	(57,269,108)	(59,430,702)
Other nonoperating revenues received	2,976,418	3,587,080
Net cash used in operating activities	(63,742,864)	(60,930,109)
Cash flows from noncapital financing activities:		
State and local operating grants received	52,199,946	45,963,392
Net cash provided by noncapital financing activities	52,199,946	45,963,392
Cash flows from capital and related financing activities:		
Federal capital grants	3,735,668	11,653,324
State and local capital grants	14,516,771	4,195,799
Proceeds from disposition of capital assets	34,026	97,569
Acquisition and construction of capital assets	(7,955,828)	(20,440,849)
Proceeds from condemnation settlement agreement	-	5,573,000
Net cash provided by capital and related financing activities	10,330,637	1,078,843
Cash flows from investing activities:		
Interest received on investments	231,851	121,548
Net decrease in cash and cash equivalents	(980,430)	(13,766,326)
Cash and cash equivalents at beginning of year	29,577,729	43,731,763
Cash and cash equivalents at end of year	$ 28,597,299	29,965,437
Cash and investments	$ 18,989,686	19,648,297
Restricted cash and investments	9,607,613	10,317,140
Total cash and cash equivalents	$ 28,597,299	29,965,437
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (84,692,197)	(74,600,980)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	17,338,225	16,126,144
Other revenue received	2,976,418	3,587,080
Changes in assets and liabilities:		
(Increase) in accounts receivable	(99,962)	(135,165)
(Increase) in due from other governments	(1,056,412)	(152,817)
(Increase) decrease in inventory	(459,085)	832,831
(Increase) in prepaid expense	(4,244)	(10,169)
Increase in accounts payable	40,601	175,771
Increase (decrease) in accrued liabilities	391,833	(742,695)
(Decrease) in contracts payable	(542,414)	(217,352)
Increase (decrease) in deposits	(26,667)	235
Increase (decrease) in compensated absences	112,074	(18,512)
Increase (decrease) in Net OPEB liability and related changes in deferred outflows and inflows of resources	(35,295)	11,641
Increase (decrease) in net pension liability and related changes in deferred outflows and inflows of resources	2,236,848	(5,786,121)
Increase in unearned revenue	77,413	-
Total adjustments	20,949,333	13,670,871
Net cash used in operating activities	$ (63,742,864)	(60,930,109)
Schedule of non-cash capital and related financing activities:		
Gain on disposal of capital assets	35,219	97,570

See accompanying notes to basic financial statements.

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1. Summary of Significant Accounting Policies

The City of Santa Monica, California (City) began operating its own bus line in 1928 calling it the "Santa Monica Municipal Bus Lines." In 1999 the name was changed to "Santa Monica's Big Blue Bus". The Big Blue Bus Fund (BBB) operates a fleet of about 200 buses of various types and provides a variety of transportation services such as:

- Fixed Route Services – Daily bus service with 20 different fixed routes and various timetables.
- Specialized Transportation Services – The MODE Service (Mobility On-Demand Every Day, formerly called Dial-a-Ride Service), which is a low cost, shared ride service offering door-to-door transportation in Santa Monica for disabled and senior passengers.

The accounting policies of the BBB conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied in the preparation of the accompanying financial statements.

Basis of Accounting

The BBB is reported as a major proprietary fund in the City's basic financial statements presented in its Comprehensive Annual Financial Report. The accompanying financial statements present the net position and changes in net position and cash flows of the BBB. These financial statements are not intended to present the financial position and the results of operations of the City, or cash flows of the City's other proprietary funds.

The financial statements of the BBB are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

For the year ended June 30, 2018, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. GASB Statement No. 75 addresses reporting by governments that provide Other Postemployment Benefits (OPEB) to their employees and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Reference Note 4 for information on the BBB's employee benefit programs.

For the year ended June 30, 2017, the BBB implemented the provisions of Governmental Accounting Standards Board (GASB) statement No. 82, *Pensions Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Reference Note 4 for information on the Big Blue Bus's employee benefit plan.

The BBB's principal operating revenues are charges to customers for transportation services. Operating expenses include the cost of providing transportation services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Other non-operating revenue consists primarily of rental income.

Cash and Cash Equivalents

Cash and investments of the BBB are pooled and invested with funds of the City (see note 2). BBB's cash and investments balance represents BBB's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of its equity from the pool by a particular fund, the pool operates like a demand deposit account for each participating fund. The BBB's investments are stated at fair value, and the increase or decrease in the fair value of investments is included as a component of interest income.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on quarter-end balances and is adjusted at year-end.

The City's share of the Local Agency Investment Fund (LAIF) is reported to the City on a quarterly basis. LAIF operates in accordance with laws and regulations of the State of California.

The City's investments are carried at fair value except for LAIF. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from Securities and Exchange Commission (SEC) registered securities exchanges or National Association of Securities Dealers Automated Quotation (NASDAQ) dealers. Changes in fair value are allocated to each pool participant on an annual basis.

For purposes of the statement of cash flows, the BBB has defined cash and cash equivalents to be change and petty cash funds and equity in the City's cash and investments.

Accounts Receivable

Accounts receivable represents amounts due to the BBB for services rendered as of year-end, but cash had not been received as of that date. Accounts receivable are reported at their net realizable value.

Due from Other Governments

Due from other governments primarily represents amounts due from the Los Angeles County Metropolitan Transportation Authority related to capital grant reimbursements that have been earned as of year-end but cash had not been received as of that date.

Inventory and Prepaids

Inventory consisting of spare parts, fuel, and similar items are stated at cost on a weighted average basis. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Restricted Assets

Assets that are restricted for specific uses by grant provisions are classified as restricted because their use is limited by grant agreements.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings and machinery and equipment, are defined by the Big Blue Bus as any assets with estimated useful life in excess of one year as the Big Blue Bus follows transit funding guidelines by capitalizing any expense which is funded by capital grant subsidies not related to bus repairs and maintenance. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not increase utility of the assets or materially extend asset lives are expensed when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Big Blue Bus are depreciated using a straight-line method, with a mid-year convention (only half a year's depreciation is recorded in the first and last year of the asset) over the following estimated useful lives:

Assets	Years
Buildings	5 to 50
Improvement other than buildings	5 to 50
Machinery and equipment	2 to 20

Interest on Unused Capital Contributions

Interest earned from unused capital grant proceeds and other restricted assets is allocated to unspent capital contribution amounts, thereby having the effect of increasing the BBB's transportation-related capital contributions.

Accounts Payable and Accrued Liabilities

Accounts payable consists primarily of liabilities for goods or services rendered to the BBB, which have not been paid by year-end. Accrued liabilities consist primarily of personnel services rendered by year-end which have been paid in the following year.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits up to a maximum determined by bargaining unit agreements. Employees are paid 100% of their accumulated vacation when they terminate employment for any reason. All vacation is accrued in the financial statements. Members of The International Association of Sheet Metal, Air, Rail and Transportation Workers – Transportation Division, Local 1785 (SMART TD), upon retirement after 10 or more years of service and having accumulated 50 or more sick days, are entitled to reimbursement for health insurance premiums up to the cumulative dollar equivalent of those sick days.

Unearned Revenue

Unearned revenue includes unexpended capital grants, unexpended developer fees and cash received for future bus advertising campaigns.

Grant Revenues

Grant revenue for both state and federal grants is recognized when all eligibility requirements imposed by the grantor have been met.

Deferred Outflows/Inflows of Resources

Pursuant to GASBs 63, 65, 68 and 75, the BBB recognizes deferred inflows and outflows of resources. A deferred outflow of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. A deferred inflow of resources is a separate financial statement element that represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See note 4 for additional details.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the pension plans fiduciary net position and additions to/deductions from the pension plans fiduciary net positions have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB expense, information about the OPEB plans fiduciary net position and additions to/deductions from the OPEB plan's fiduciary net positions have been determined on the same actuarial methods and assumptions. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

Net Position

Net position is reported in three categories: investment in capital assets, restricted net position and unrestricted net position. Investment in capital assets represents capital assets less accumulated depreciation. Restricted net position represents assets restricted by parties outside of the City (such as creditors, grantors, contributors and laws and regulations of other governments). All other net position is considered unrestricted.

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

Use of Estimates

The preparation of basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

2. Cash and Investments

Cash and Investments in City Investment Pool

The BBB has no separate bank accounts or investments other than investments in the BBB's equity in the cash and investment pool managed by the City of Santa Monica (the Pool). The BBB is a voluntary participant in the Pool. The Pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City pursuant to the California Government Code and the Santa Monica City Charter, Section 711. The BBB has not adopted an investment policy separate from that of the City. The fair value of the BBB's investment in this pool is reported in the accompanying financial statements at amounts based upon the BBB's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. As of June 30, 2018 and 2017, the BBB's portion of the Pool was $28,597,299, and $29,965,437 which represent approximately 3.2% and 3.9% of the Pool respectively. The City will issue a publicly available Comprehensive Annual Financial Report that includes complete disclosures related to the entire cash and investment pool.

3. Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017 is as follows:

	Balance at July 1, 2017	Increases	Decreases	Transfers	Balance at June 30, 2018
Capital assets, not being depreciated:					
Land	$ 48,807,900	-	-	-	48,807,900
Construction in progress	1,784,394	545,913	-	(1,908,473)	421,834
Total capital assets, not being depreciated	50,592,294	545,913	-	(1,908,473)	49,229,734
Capital assets, being depreciated:					
Buildings	129,417,341	-	-	-	129,417,341
Improvements other than buildings	13,967,895	-	-	-	13,967,895
Machinery and equipment	164,254,812	7,409,914	(3,220,438)	1,908,473	170,352,761
Total capital assets, being depreciated	307,640,048	7,409,914	(3,220,438)	1,908,473	313,737,997
Less accumulated depreciation for:					
Buildings	(46,496,331)	(3,599,217)	-	-	(50,095,548)
Improvements other than buildings	(4,774,650)	(826,665)	-	-	(5,601,315)
Machinery and equipment	(93,621,339)	(12,912,342)	3,220,438	-	(103,313,243)
Total accumulated depreciation	(144,892,320)	(17,338,224)	3,220,438	-	(159,010,106)
Total capital assets, being depreciated, net	162,747,728	(9,928,310)	-	1,908,473	154,727,891
Total	$ 213,340,022	(9,382,397)	-	-	203,957,625

	Balance at July 1, 2016	Increases	Decreases	Transfers	Balance at June 30, 2017
Capital assets, not being depreciated:					
Land	$ 48,807,900	-	-	-	48,807,900
Construction in progress	3,088,006	2,299,201	-	(3,602,813)	1,784,394
Total capital assets, not being depreciated	51,895,906	2,299,201	-	(3,602,813)	50,592,294
Capital assets, being depreciated:					
Buildings	129,417,341	-	-	-	129,417,341
Improvements other than buildings	13,967,895	-	-	-	13,967,895
Machinery and equipment	151,504,644	18,141,648	(8,994,293)	3,602,813	164,254,812
Total capital assets, being depreciated	294,889,880	18,141,648	(8,994,293)	3,602,813	307,640,048
Less accumulated depreciation for:					
Buildings	(42,979,709)	(3,516,622)	-	-	(46,496,331)
Improvements other than buildings	(3,960,153)	(814,497)	-	-	(4,774,650)
Machinery and equipment	(90,820,608)	(11,795,024)	8,994,293	-	(93,621,339)
Total accumulated depreciation	(137,760,470)	(16,126,143)	8,994,293	-	(144,892,320)
Total capital assets, being depreciated, net	157,129,410	2,015,505	-	3,602,813	162,747,728
Total	$ 209,025,316	4,314,706	-	-	213,340,022

4. Employee Benefit Programs

Santa Monica Public Employees' Retirement Plan

General Information about the Pension Plan

The BBB's employees participate in the Santa Monica Public Employees' Retirement Plan (Plan), the City's defined benefit pension plan, which provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan where CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. CalPERS issues a separate comprehensive annual financial report available from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Plan Description

All full-time employees of the City and part-time employees who have worked over 1,000 hours during a fiscal year are eligible to participate in the Miscellaneous Plan. The City is authorized by statute to establish and amend all plan provisions. Related benefits vest after five years of service. Upon five years of service, employees who retire are entitled to receive an annual retirement benefit according to the following Plan provision chart:

	Miscellaneous		
Hire Date	Prior to July 1, 2012	Between July 1, 2012 and December 31, 2012	After December 31, 2012
Benefit formula	2.70% @ 55	2.00% @ 55	2.00% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-62	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.43% to 2.42%	1.00% to 2.50%
Cost of living adjustment	2.00%	2.00%	2.00%
Required employee contribution rate	8.00%	7.00%	6.25%
Required employer contribution rate	21.37%	21.37%	21.37%

The required employer contribution rate for FY2016-17 was 20.73%.

Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

Active full-time members in the Plan are required to contribute 6.25% to 8.00% of their annual covered salary. The City makes such employee contributions on behalf and for employees hired before July 1, 2012. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members earned during the year with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Members, for whom the City pays for their employee contribution, reimburse the City for the cost of an enhanced benefit at a rate of 6.70%.

Net Pension Liability

The City's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the BBB's allocation of the City's net pension liability is shown below.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined using the actuarial methods and assumptions in the following table:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Projected salary increase	Varies by entry age and service
Investment rate of return [1]	7.15%
Mortality [2]	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protections Allowance Floor on Purchasing Power applies, 2.75% thereafter

[1] *Net of pension plan investment expenses, including inflation.7% after 0.15% administrative costs.*

[2] *The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report.*

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.Calpers.ca.gov under "Forms and Publications."

Change in assumption

In 2017, the accounting discount rate was reduced from 7.65% to 7.15% or 7.5% to 7.0% after 0.15% administrative costs.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate, and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, both short- and long-term market return expectations were considered by CalPERS as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	Current Target Allocation %	Real Return % Years 1 - 10 [1]	Real Return % Years 11+ [2]
Global Equity	47.00	4.90	5.38
Global Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	100.00		

[1] *An expected inflation of 2.50% used for this period*
[2] *An expected inflation of 3.00% used for this period*

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings on investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected remaining service lives of all member that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on members' probability of decrementing due to an event other than receiving a cash refund.

Changes in Net Pension Liability

As of June 30, 2018, the BBB's allocation of the net pension liability is $50,422,432.

The BBB's net pension liability is measured as the allocation of the net pension liability based on its share of contributions to the pension plan. The BBB's allocation of the net pension liability as of the measurement date June 30, 2017 and 2016 is as follows:

BBB's Allocation of Net Pension Liability

Proportion June 30, 2017	19.0%
Proportion June 30, 2016	18.9%
Change in proportion	0.1%

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

The next page presents the BBB's allocation of the net pension liability of the City's Miscellaneous Plan as of the Measurement Date, calculated using the discount rate of 7.15% (7.0% after 0.15% administrative costs), in FY 2017-18 and 7.65% in FY2016-17 (7.5% after 0.15% administrative costs), as well as the net pension liability if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15%) than the current rate (all rates are gross of 0.15% administrative costs):

Net Pension Liability

	2018	
1% Decrease (6.15%)	Current Rate (7.15%)	1% Increase (8.15%)
$ 79,374,201	50,422,432	26,527,599

	2017	
1% Decrease (6.65%)	Current Rate (7.65%)	1% Increase (8.65%)
$ 75,658,851	50,307,739	29,316,040

Pension Plan Fiduciary Net Position

Detailed information about the City's pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

The BBB recognized $7,847,663 and $5,031,277 as the allocation of pension expense for the years ended June 30, 2018 and 2017, respectively.

The BBB's allocation of deferred outflows and deferred inflows of resources related to pensions as of June 30 are as follows:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 9,124,157	(753,668)	—	(1,591,075)
Difference between expected and actual experience	—	(3,475,351)	—	(2,334,583)
Net difference between projected and actual earnings on pension plan investments	1,926,708	—	7,849,511	—
Employer contributions subsequent to the measurement date	5,812,127	—	10,832,275	—
Total	$ 16,862,992	(4,229,019)	18,681,786	(3,925,658)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2018 and 2017, respectively.

Contributions of $5,812,127 and $10,832,275 for the years ended June 30, 2018 and 2017, respectively, that were made by BBB subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows and inflows of resources will be recognized in future pension expense as follows:

Measurement periods ended June 30	Deferred Inflows/outflows of Resources 2018
2018	$ 691,802
2019	4,327,429
2020	3,223,623
2021	(1,421,007)

Measurement periods ended June 30	Deferred Inflows/outflows of Resources 2017
2017	$ (671,883)
2018	(525,919)
2019	3,112,149
2020	2,009,506

Deferred Compensation Plans

The City offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The City offers an employer discretionary, defined contribution plan established and governed under Internal Revenue Code Section 401(a) to members of the Management Team Associates (MTA) bargaining unit. Employee only contributions are calculated based upon a percentage of employee compensation under agreements with the MTA. Beginning July 1, 2018, the City established a 401(a) plan for Administrative Team Associates.

The City offers to its as-needed employees a separate Section 457 deferred compensation plan under the Omnibus Budget Reconciliation Act (OBRA). This plan is available to all as-needed employees who are not eligible to participate in CalPERS. This plan requires equal employer and employee contributions based on a percentage of earnings.

These plans are administered through third-party administrators. The City does not perform the investing function and has no fiduciary accountability for the plans. Thus, plan assets and any related liabilities to plan participants have been excluded from the City's basic financial statements.

Other Postemployment Benefits

In addition to providing pension benefits through CalPERS, the BBB in accordance with agreements with various bargaining units and groups provides postemployment medical coverage for certain retired employees under a single employer benefit plan. BBB employees of the Executive Pay Plan group are eligible for a City paid medical insurance benefit if their combined retirement age and years of City service equals or exceeds 70. Under the terms of a MOU between the City and a coalition of the various non-sworn bargaining units, all non-sworn permanent retirees can opt to stay in the City's health insurance plans at the active employees' rate, thereby creating an implicit rate subsidy for retirees. The actuarial valuation for the actuarially determined contribution is not significant for contribution disclosure and does not include separate reporting on the funded status for the BBB.

The City allocated a portion of its net OPEB obligation to BBB based upon BBB's actuarially determined proportionate share of the net OPEB obligation. In FY 2016-17 the City reported OPEB activity under GASB 45 which requires the reporting of the unpaid portion of actuarily required contributions (ARC) as a net OPEB obligation. As of June 30, 2017, the allocated BBB OPEB obligation was $2,962,828.

During FY 2017-18, the BBB implemented GASB 75 which changed reporting of OPEB from the unpaid ARC to an actuarially calculated OPEB liability less the plan fiduciary net position. The allocated net OPEB liability as of June 30, 2018 was $2,811,773.

Net OPEB Liability

The BBB's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuation also dated June 30, 2017 based on the following actuarial assumptions:

Discount rate	6.73%
Inflation	2.75%
Salary increases	3.25% per year , used only to allocate the costs between service years.
Investment rate of return	6.73%
Mortality rate	Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB central year 2008, then projected on a generational basis using the MacLeod Watts Scale 2017.
Pre-retirement Turnover	Assumed rates of termination vary based on the current age, service and employee type (fire, police or miscellaneous) as developed by CalPERS and published in their January 2014 Experience Study Report.
Healthcare Trend Rate	7.50% decreasing to 5.00%

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which 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 weighing 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 for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return (1)
Public Equity	40%	5.71%
Fixed Income	39%	2.40%
Treasury Inflation Protected Securities	10%	2.25%
Real Estate Investment Trusts	8%	7.88%
Commodities	3%	4.95%

(1) Geometric representation

Inflation 3.0%

Discount Rate

The discount rate used to measure the OPEB liability was 6.73%. The projection of cash flows used to determine the discount rate that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in OPEB Liability

As of June 30, 2018, the BBB's allocation of the OPEB liability is $2,811,773. The BBB's net OPEB liability is measured as the allocation of the OPEB liability based on its share of contributions to the OPEB plan. The BBB's allocation of the OPEB liability as of the measurement date June 30, 2017 is 9.25% of the total City OPEB liability.

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

The following presents the BBB's net OPEB liability of the BBB if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	1% Decrease (5.73%)	Current Discount Rate (6.73%)	1% increase (7.73%)
Net OPEB Liability	$ 3,172,759	2,811,773	2,506,878

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

The following presents the BBB's net OPEB liability of the BBB if it were calculated using health care cost trends that are one percentage point lower or one percentage point higher than the current rate for measurement period ended June 30, 2017:

	1% Decrease (6.5% decrease to 4.0%)	Current Rate (7.5% decrease to 5.0%)	1% increase (8.5% decrease to 6.0%)
Net OPEB Liability	$ 2,408,629	2,811,773	3,372,936

OPEB Plan Fiduciary Net Position

CalPERS issues publicly available financial statement for the California Employers' Retiree Benefit Trust that may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811 or at www.calpers.ca.gov.

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 recognized in future OPEB expense.

The recognition period differs depending on the source of gain or loss:

Difference between projected and actual earnings on investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period (9.0 years for June 30, 2017)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018 the BBB recognized OPEB expense of $248,052. As of fiscal year ended June 30, 2018, the BBB reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumption	$ -	30,515
Differences between expected and actual experience	-	110,636
Net difference between projected and acutal earnings on investments	-	9,427
OPEB contributions subsequent to measurement date	321,856	-
	$ 321,856	150,578

The $321,856 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Measurement periods ended June 30	Recognized Deferred Outflows(Inflows) of Resources
2018	$ (17,569)
2019	(17,569)
2020	(17,569)
2021	(17,569)
2022	(15,684)
Thereafter	(64,618)

Medical Trust

The BBB also contributes monies to a medical trust that provide other post-retirement medical benefits to members. During the years ended June 30, 2018 and 2017 the BBB contributed $941,748 and $891,830 respectively towards the retiree medical trust. These are administered through third-party administrators and the BBB does not perform the investing function or have any fiduciary accountability for the plans. Thus, plan assets and any related liabilities have been excluded from the BBB's basic financial statements.

5. Risk Management Program

The BBB is covered by the City's self-insurance program for workers' compensation and certain other claims such as general liability and property damage. Self-insurance coverage is provided through internal service funds maintained by the City. The BBB is charged a premium for such coverage which is adjusted periodically based on actual claim experience, the total cost to administer the self-insurance program, and other factors. Additional information on the City's self-insurance program is addressed in the City's Comprehensive Annual Financial Report for the years ended June 30, 2018 and 2017.

6. Federal, State and Local Assistance

The BBB receives funds from several sources to meet its operating, maintenance and capital requirements. The receipt of such revenues is controlled by Federal, State and Local laws, the provisions of various grant contracts and regulatory approvals and, in some instances, is dependent on the availability of grant funds and the availability of local matching funds.

These include:

State Transit Assistance (STA) – State Transit Assistance funds are derived from the Public Transportation Account and are allocated by the State Controller. Transit recipients who are eligible for Transportation Development Act (TDA) Article 4 funds are also eligible for STA funds. STA funds must be allocated for capital costs unless the operator can pass the STA efficiency test. The STA efficiency test examines total operating cost versus the change in the Consumer Price Index (CPI).

STA funds lapse within 3 years from the date of allocation.

TDA Article 4 – The Transportation Development Act dedicates ¼ percent of the state sales tax for transportation. TDA Article 4 funds are made available based on the Los Angeles County Metropolitan Transportation Authority (LACMTA)'s Formula Allocation Procedure (FAP), which is calculated from service miles and farebox revenue. Unused TDA funds lapse 3 years from the date of allocation. However, BBB has a general capital reserve agreement with the LACMTA so that programmed funds do not expire regardless of the year in which funding is drawn down.

Proposition (Prop) A 40% Discretionary – This revenue is generated from a ½ percent sales tax in Los Angeles County. The LACMTA sets aside 40% of these funds for operators based on Prop A 40% Discretionary Guidelines. 20% of the Discretionary Grant Program is considered "fare subsidy dollars". This amount is credited in calculating farebox recovery ratio. Additional Prop A funds used for operations is not included in calculating farebox return ratio. Only carryover funds from previous years can be programmed for capital expenses. Prop A funds lapse within 3 years from the year of allocation. Any unused carryover funds are transferred to the Proposition C 40% Fund after 2 years.

Proposition A Local Return – This revenue is generated from the same ½ percent sales tax in Los Angeles County as the Prop A 40% Discretionary Program mentioned above. Here, 25% of the Prop A Local Return revenue is distributed directly to Los Angeles County and municipalities on a per capita basis. These funds can only be used for public transit purposes.

Operators have 4 years, which is the year of allocation plus 3 years, to spend the funds allocated through this program.

Proposition A Interest Allocation – Distribution of Proposition A interest by the LACMTA as a supplemental funding source.

Proposition C Bus System Improvement Program (BSIP) – In 1997, the LACMTA Board approved the use of Proposition C Discretionary funds to help with overcrowding relief for the transit dependent. Operators may not carryover any unused funds to a subsequent year.

Proposition C Interest Allocation – Distribution of Proposition C interest by the LACMTA as a supplemental funding source.

Proposition C Transit Security – Proposition C funds for projects to improve transit security.

Proposition C Foothill Mitigation – In 1997, the LACMTA Board approved the use of Proposition C Discretionary funds to mitigate the impact of the addition of Foothill Transit as an Included Operator and maintain that mitigation annually. Operators may not carryover any unused funds to a subsequent year.

Proposition C Municipal Operators Service Improvement Program (MOSIP) – MOSIP is an ongoing funding source that is given at the discretion of the LACMTA Board of Directors. BBB's existing agreement with the LACMTA expires on June 30, 2018. In August 2018, the LACMTA extended the agreement to June 30, 2028.

Proposition 1B – The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Fund is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of $19.9 billion was deposited into the PTMISEA fund, $3.6 billion of which was made available to fund grants to project sponsors in California for approved eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement.

It is the BBB's practice to record as a restriction of net position any allocated or billed funds not yet received or unspent funds received prior to the incurrence of eligible expenses. Proposition 1B activity during the fiscal years ended June 30, 2018 and 2017 was as follows:

	2018	**2017**
Restricted Net Position, beginning	$ 7,247,601	11,024,106
Revenue	5,069,501	480,764
Interest	103,639	114,578
Expenses	(1,232,068)	(4,371,847)
Restricted Net Position, ending	$ 11,188,673	7,247,601

The above balance is composed of Safety and Security Project: $2.9 million in fiscal year 2018 and $1.9 million in fiscal year 2017 and Bus Replacement Project: $8.3 million in fiscal year 2018 and $5.3 million in fiscal year 2017.

Measure R – Measure R was authorized with the passage of Ordinance 08-01, Traffic Relief and Rail Expansion Ordinance, on November 4, 2008. It is funded by 1/2 percent sales tax imposed on the incorporated and unincorporated territory of Los Angeles County for a period of thirty (30) years. An estimated $40 billion will be raised over the 30 year period. Collections started in July 2009. Measure R provides funding for the following:

1. Transit Capital (40%) - New Rail and/or Bus Rapid Transit Capital Projects, Metrolink Capital Improvement Projects, within Los Angeles County, Metro Rail Capital-System Improvements, Rail Yards, and Rail Cars.

2. Highway Capital (20%) - Carpool Lanes, Highways, Goods Movement, Grade Separations and Sound Walls.
3. Operations (5%) - Rail Operations (New Transit Project Operations and Maintenance) and (20%) Bus Operations (Countywide Bus service Operations, maintenance and expansion).
4. Local Return (15%) - major street resurfacing, rehabilitation and reconstruction; pothole repairs; left turn signals; bikeways; pedestrian improvements; streetscapes; signal synchronization; and transit. Local return funds are allocated on a per-capita basis. Local return funds have to be spent 5 years from allocation.

Measure R transactions for the fiscal year are as follows:

	2018	2017
Unspent Measure R funds, beginning	$ -	3,590,449
Operating funds received	7,771,814	7,841,012
Local Return funds received	1,085,162	709,184
Total Measure R funds available	8,856,976	12,140,645
Expenses	(8,856,976)	(12,140,645)
Unspent Measure R funds, ending	$ -	-

Measure M – Measure M was authorized with the passage of Ordinance 16-01, Los Angeles County Traffic Improvement Plan, on November 9, 2017. It is funded by 1/2 percent sales tax imposed on the incorporated and unincorporated territory of Los Angeles County for a period of forty (40) years. An estimated $61.5 billion will be raised over the 40 year period. Collections started in July 2017. Measure M provides funding for the following:

1. Transit Capital (37%) – Transit Construction (includes System Connectivity Projects – Airports, Union Station and Countywide BRT (35%), Metro State of Good Repair (2%).
2. Highway Capital (19%) – Highway Construction (includes System Connectivity Projects - Ports, Highway Congestion Programs, Goods Movement) (17%), Metro Active Transportation Program (Bicycle, Pedestrian, Complete Streets) (2%).
3. Transit Operations (27%) – Transit Operations (Metro & Municipal Providers) (20%), Metro Rail Operations (5%), ADA Paratransit for the Disabled; Metro Discounts for Seniors and Students (2%).
4. Local Return/Regional Rail (17%) – Local Return- Base (local projects and Transit Services) (16%), Regional Rail (1%).

Low Carbon Transit Operations Program (LCTOP) – LCTOP is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by California Legislature in 2014 by Senate Bill 862. It was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility with a priority on serving disadvantaged communities. Senate Bill 862 appropriates five percent of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP, beginning in fiscal year 2015-16.

LCTOP transactions for the fiscal year are as follows:

	2018	2017
LCTOP funds received	$ 433,364	178,703
Expenses	(433,364)	(178,703)
Ending balance	$ -	-

South Coast Air Quality Management District (SCAQMD) Near-zero Natural Gas Engine Incentives Program (AB 2766) – The SCAQMD is the local agency with primary responsibility for regulating stationary source air pollution within the geographical boundaries of the South Coast Air Quality Management District in the State of California. SCAQMD is authorized under State Health & Safety Code Section 44225 (AB 2766) to levy a fee on motor vehicles for the purpose of reducing air pollution from such vehicles and to implement the California Clean Air Act. Under AB 2766, SCAQMD's Governing Board has authorized the imposition of the statutorily set motor vehicle fee. AB 2766 further mandates that thirty percent of such vehicle registration fees be placed by SCAQMD into a separate account for the sole purpose of implementing and monitoring programs to reduce air pollution from motor vehicles.

FTA Urbanized Area Formula Program (Section 5307) – Congress allocates Section 5307 to Metropolitan Planning Areas using population-based formulas. Metro redistributes these funds to regional transit operators based on a capital allocation procedure. These funds can be used for preventive maintenance and capital expenses. Section 5307 funded projects must be included in the Federal Transportation Improvement Program (FTIP).

The time limit to obligate funds is 4 years, including the year of allocation. The time limit to spend and drawdown funds is indefinite.

FTA Transit Capital Investment Program (Section 5309) – The transit capital investment program provides capital assistance for three primary areas; (1) buses and related facilities; (2) new fixed guide way systems; and (3) modernizing rail. Although the rail funds are distributed based on formula shares, the bus and fixed guide way funds are allocated to public agencies as Congressional earmarks in the annual DOT Appropriations Act. Section 5309 funded projects must be included in the FTIP.

The time limit to obligate funds is 3 years, including the year of allocation. The time limit to spend and drawdown funds is indefinite.

A summary of the various governmental funding sources are as follows:

Federal grants	**2018**	**2017**
Capital grants:		
Federal transit formula and capital investment grants	$ 3,735,668	11,653,324
Total federal grants	3,735,668	11,653,324
State and local grants and assistance		
Operating assistance grants:		
STA Sales tax	722,084	1,546,914
TDA Sales tax	19,160,976	19,267,778
Prop A Local return	436,673	425,542
Prop A Sales tax	12,644,542	12,407,511
BSIP	797,207	783,496
Prop C Transit Security	1,099,488	1,179,188
Prop C Foothill mitigation	560,297	561,936
Measure M - Bus Operations	7,401,889	-
Measure R - Bus Operations	7,771,814	11,431,461
Measure R - Local return	1,085,162	709,184
Cap and Trade - LCTOP	433,364	178,703
Total operating assistance grants	52,113,496	48,491,713
Capital contributions:		
TDA	7,603,585	8,216,683
MOSIP	1,095,285	2,711,643
Proposition C	154	211
Proposition 1B	5,069,501	480,764
Measure R	454,854	-
MSRC - AQMD	270,000	-
Total capital contributions	14,493,379	11,409,301
Total operating assistance and capital grants	$ 70,342,543	71,554,338

7. Prior Period Adjustments

The accompanying financial statements reflect adjustments resulting from a restatement of net position as of June 30, 2017 as follows:

Beginning net position, as previously reported	$	217,910,496
Restatements:		
Implementation of GASB 75		(1,427,694)
Correction of interest allocation		(387,709)
Beginning net position, as restated	$	216,095,093

CITY OF SANTA MONICA, CALIFORNIA
Big Blue Bus Fund
(An Enterprise Fund of the City of Santa Monica)
50% Expenditure Limitation Tests
For the fiscal years ended June 30, 2018 and 2017

		2018	2017
1.	Total Operating expenses-fixed route and charter services	$ 81,844,498	75,362,202
2.	Total depreciation-fixed route and charter services	17,338,225	16,126,144
3.	Total capital outlay, net of related debt	7,955,828	20,440,850
4.	Total (lines 1, 2 and 3)	119,623,573	111,929,196
5.	Less Federal grants recognized	3,735,668	11,653,324
6.	Less Local Transit funds (LTF) capital intensive	14,493,379	11,409,301
7.	Less State Transit Assistance funds (STAF) recognized	722,084	1,546,914
8.	Total (lines 5, 6 and 7)	18,951,131	24,609,539
9.	Total (line 4 less line 8)	$ 100,672,442	87,319,657
10.	50% of line 9	50,336,221	43,659,829
11.	Add amount of LTF claimed in excess of line 9 for match to Federal operating grant	-	-
12.	Add LTF capital intensive	14,493,379	11,409,301
13.	Total permissible LTF expenditures (sum of lines 10, 11 and 12)	$ 64,829,600	55,069,130
14	Actual Sales Tax Revenue - TDA funds	$ 26,764,561	27,484,461

As line 14 is less than line 13, the Big Blue Bus Fund meets the 50% expenditure limitation test.

LSL
CPAs AND ADVISORS

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

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Big Blue Bus Fund (the BBB), an enterprise fund of the City of Santa Monica, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the BBB's basic financial statements, and have issued our report thereon dated December 12, 2018. Our report contained an emphasis of matters paragraph indicating that the financial statements present only the BBB's financial statements.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BBB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and applicable provisions of the Transportation Development Act, including Public Utility Code 99245, as enacted and amended by state statute, and as required by Section 6667 of the California Government Code, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and Members of the City Council
City of Santa Monica California

Purpose of this Report

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

Lance, Soll & Lunghard, LLP

Brea, California
December 12, 2018