



Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2002
Santa Clara County, California



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Valley Transportation Authority

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**SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY**

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report

Year Ended June 30, 2002

Prepared by:
Fiscal Resources Division

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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For the Year Ended June 30, 2002

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Clara Valley
Transportation Authority,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy A. Grawe
President

Jeffrey L. Esler
Executive Director

SECTION 1 — INTRODUCTION

LETTER OF TRANSMITTAL

BOARD OF DIRECTORS

ORGANIZATION CHARTS

PRINCIPAL OFFICIALS

SERVICE AREA MAP



September 27, 2002

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

The Santa Clara Valley Transportation Authority (VTA) Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2002 was prepared in accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness, and fairness of the data and the clarity of the presentation, including all disclosures, rests with VTA. To the best of our knowledge, the enclosed data is reported in a manner designed to present fairly, in all material respects, VTA's financial position, changes in financial position, and cash flows in accordance with the requirements of accounting principles generally accepted in the United States of America and promulgated by the Governmental Accounting Standards Board (GASB).

We are again pleased that the FY 2001 CAFR earned the recognition of the GFOA with a Certificate of Achievement for Excellence in Financial Reporting. This award reflects the fact that the VTA CAFR complied with the stringent GFOA standards for professional financial reporting.

This report is organized into three sections:

1. Introduction Section, including a table of contents, this letter of transmittal, a list of principal officials and organization chart.
2. Financial Section, including the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), basic financial statements with accompanying footnotes, and required supplementary information.
3. Statistical Section, including additional data about VTA over the last 10 years.

The independent auditor for fiscal year 2002 was Macias, Gini & Company LLP, which issued an unqualified opinion on the VTA's June 30, 2002 basic financial statements.

It is management's intention to submit this and future CAFRs to the Government Finance Officers Association of the United States and Canada to determine its eligibility for another Certificate of Achievement for Excellence under the Financial Reporting Program. We believe the current comprehensive annual financial report satisfies the new reporting requirements and continues to meet the program requirements.

The CAFR presentation is different from previous years primarily because of the issuance of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. These statements provide for the most significant change in financial reporting in over twenty years. The objective of the GASB was to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. We believe that the change in reporting could result in financial statements that are likely to be misunderstood.

The essential difference in previously issued CAFRs is that the capital contributions (grants) that defray capital acquisition costs and were previously reflected as contributed capital on the balance sheet, are now recognized as revenue on the Statement of Revenues, Expenses and Changes in Fund Net Assets. This change is significant. The corresponding acquisition of capital assets is not recognized on the income statement to match the revenue reported; instead, depreciation expense of those assets is recognized periodically over the life of the asset. The result is a reporting mismatch between the way assets are financed and expensed (one-time recognition of revenue versus the way assets are expensed periodically over time). Further, this represents a significant departure from VTA’s budgeting methodology where the resources or grants are recorded in the year they are received and assets are recorded as expenditures in the year they are acquired.

Management will be assessing whether the Comprehensive Annual Financial Report can fulfill all of our reporting needs, given the impact the new reporting requirements has on the presentation of the financial statements. Further discussion regarding the new financial reporting is contained in the Management’s Discussion and Analysis, beginning on page 2-3.

PROFILE OF VTA

Santa Clara Valley Transportation Authority, also known as “VTA,” is the result of a 1995 merger between two previously separate entities: the Santa Clara County Transit District and the Congestion Management Agency for Santa Clara County. VTA is also the successor organization to the Santa Clara County Traffic Authority, which terminated at the end of March 1997.

VTA is an independent special district responsible for bus and light rail operations, congestion management, specific highway improvement projects, and countywide transportation planning. As such, it is both an accessible transit provider and a multi-modal transportation planning organization involved with transit, highways, roadways, bikeways, and pedestrian facilities.

Bus Transit Service

VTA operates a bus fleet of over 461 diesel-powered coaches, which includes 139 low-floor buses. The average age of these buses is about 5.4 years ranging from new 2002 vehicles to those over 11 years old. The service area of approximately 326 square miles contains 78 bus routes. There are approximately 4,700 bus stops, 700 bus shelters and 15 Park & Ride lots - five owned by VTA and ten provided under a lease, permit, or joint use agreement with other agencies. Buses are operated and maintained from three operating divisions and an Overhaul and Repair (O&R) facility: Cerone Operating Division, Don Pedro Chaboya Operating Division, North Operating Division, and Cerone O&R Division.

Light Rail Transit (LRT) Service

VTA operates a 29.7-mile LRT system connecting the Silicon Valley industrial areas of Mountain View, Sunnyvale, Santa Clara and North San Jose to Milpitas and South San Jose. The LRT system has a total of 50 stations and 14 Park & Ride lots. A fleet of 68 light rail vehicles, including some low-floor vehicles is operated. VTA is purchasing 100 new low-floor vehicles to replace the current fleet and address rail service expansion. As of June 30, 2002, 18 have been delivered and 11 of those were in revenue service. The remainder of the order will arrive over the next two fiscal years. VTA also operates three historic trolleys from the Civic Center Station to the Convention Center Station during the months of April through October. The trolleys are operated on weekends and holidays as weather permits. Construction of the Tasman East and Capitol Lines continues and is scheduled for completion in Spring 2004.

Paratransit Services

The Americans with Disabilities Act (ADA) was signed into law on July 26, 1990. VTA has implemented key ADA requirements and compliance regulations issued by the U.S. Department of Transportation (DOT) and the Architectural and Transportation Barriers Compliance Board. In 1992, VTA established a paratransit system that operates throughout Santa Clara County. VTA contracts with Outreach and Escort, Inc. to provide the service. Eligible riders call Outreach to schedule their trips, which are then assigned based on the most efficient mode of transportation that can meet the riders' needs: taxi, accessible van or transfer to or from fixed-route. Since 1997, VTA is in full compliance with the ADA provisions. This has and will continue to have significant operational and financial impacts on VTA.

Since January 1999, VTA has offered Same-Day paratransit service, which allows qualified individuals to arrange and take trips on the day of the request to provide for their urgent or unplanned transportation needs.

Contracted, Interagency and Other Transit Services

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

Caltrain is the commuter rail service provided by PCJPB, which is governed by representatives from VTA, the City and County of San Francisco, and the San Mateo County Transit District (SamTrans), which also serves as the managing agency of the PCJPB. The service operates between Gilroy and San Francisco and has 33 stations. Seventy-six diesel-powered locomotives, coupled with passenger cars operate between San Jose Diridon Station and San Francisco each weekday. Sixty-five of these trains continue south to the Tamien Station in San Jose where a transfer can be made to the LRT system and eight trains continue on to Gilroy. LRT transfers can also be made at the Mountain View Caltrain Station. The funding share of the operating subsidy is apportioned to each member agency is based upon morning peak period boardings in each county and currently is about 40% for VTA.

Altamont Commuter Express Rail Service

The Altamont Commuter Express service (ACE) provides peak hour, weekday commuter rail service from the Central Valley to Santa Clara County (three morning and three afternoon trains). The corridor serves residents from the counties of San Joaquin, Stanislaus, Contra Costa, Alameda and Santa Clara. The 85-mile rail line includes ten stations located in Stockton, Lathrop, Tracy, Livermore (two), Pleasanton, Fremont, Santa Clara (two), and San Jose. ACE funds and VTA provides free shuttles to transport ACE riders between the Great America and Diridon stations and nearby employment. The funding share of the operating costs apportioned to each participating county is based upon the proportional share of total daily boardings and alightings that occur in each county, currently about 43% for VTA.

Capitol Corridor Intercity Rail

The Capitol Corridor Intercity Rail Service began in December 1991 and is a 170-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. Operating on the Union Pacific railroad tracks, Capital Corridor service consists of four daily round trips from Sacramento to San Jose and five daily round trips from Sacramento to Oakland with connecting bus service to and from San Jose. One round trip per day extends beyond Sacramento to Auburn.

The train service parallels the Interstate 80 corridor between Sacramento and Oakland, and Interstate 880 between Oakland and San Jose. Service includes stops in Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara at Great America, and San Jose Diridon Station. On July 1, 1998, the Capitol Corridor Joint Powers Authority (CCJPA), which is comprised of representatives from the eight counties served by the corridor, assumed responsibility

for the service. VTA has two representatives on the Joint Powers Board and works with partnering groups to discuss needed improvement and services due to anticipated expansion. Under contract with the CCJPA, the Bay Area Rapid Transit District (BART) manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. Funding is provided to Amtrak by the State of California.

Inter-County Bus Service

VTA co-sponsors two inter-county bus services through cooperative arrangements with other transit systems.

The Dumbarton Express is a transbay express bus route between the Union City BART Station and the Stanford Research Park in Palo Alto. It provides the only regularly scheduled public transit service over the Dumbarton Bridge. A consortium comprised of representatives from the Alameda-Contra Costa Transit District (AC Transit), San Francisco Bay Area Rapid Transit District (BART), City of Union City, San Mateo County Transit District (SamTrans), and VTA underwrite the net operating costs of the service. The service is contracted out to a private transit provider. SamTrans and VTA are responsible for 50% of the net operating costs apportioned based upon all day boardings in the Santa Clara and San Mateo Counties, the other East Bay transit operators are responsible for the remaining net cost.

Express Service over Highway 17 between Santa Cruz and downtown San Jose is funded and operated through an agreement between the Santa Cruz Metropolitan Transit District and VTA. Santa Cruz Metro operates the service. The two agencies share the net operating costs equally.

Shuttle Program

Light Rail Shuttle

Under this program, VTA offers financial assistance to employers that wish to operate shuttle bus service between light rail stations and nearby employment centers. The service is operated by private contractors and administered by VTA or the employer. Shuttles, usually vans, operate trips carrying employees from light rail to work and back. Funding to operate this program is provided by the employer (minimum of 25%), VTA (typically 30%), and grants (45%) under the Transportation Fund for Clean Air Act (AB434).

Downtown & HP Pavillion Shuttles

VTA operates a free shuttle (DASH) on weekdays between the downtown San Jose Transit Mall, San Jose State University, and San Jose Diridion Train Station. VTA, the Transportation Fund for Clean Air Act, City of San Jose, and the San Jose Downtown Association provide funding for the service. In addition, VTA operates a free shuttle

service from the downtown San Jose Transit Mall to all public events held in the HP Pavillion (formerly San Jose Arena and Compaq Center). The number of buses operating and service frequency depend upon the event.

San Jose Airport Flyer

VTA, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting the Norman Y. Mineta San Jose International Airport terminals and airport parking lots with VTA's Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. The City of San Jose and VTA equally share the operating costs for this service.

Congestion Management

In January 1995, VTA was designated as the Congestion Management Agency and changed from being exclusively a transit provider to an organization responsible for countywide transportation planning, funding, and congestion management. VTA, as the Congestion Management Agency for Santa Clara County, is responsible for coordinating and prioritizing projects for state and federal transportation funds, administering the Bay Area Air Quality Management Program, and coordinating land use and other transportation planning. Adoption of a Congestion Management Program (CMP) is necessary to qualify for certain transportation funds made available through the state gas tax increase authorized in 1990.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The County's population has increased substantially over the last fifty years. Between 1960 and 1970 alone, the population increased over 66%. In recent years, the percentage rise has been much smaller, but the population continues to increase. As the population grows, so does the need for housing. Although the average home price has dropped in comparison with last year due to changing market conditions, affordable housing remains an issue for Santa Clara County residents and individuals looking to relocate to the area.

Santa Clara County has the largest employment base of any county in Northern California and is the home of many high technology, computer manufacturing, and electronics companies. In comparison with the State's June 2002 preliminary average (6.6 percent), the County has a higher unemployment rate (7.8 percent), during this period of tighter economic conditions.

The County is an important barometer of commercial activity. Taxable sales activity at businesses, personal services outlets, and other non-retail commercial establishments are a significant component of the County's commercial activity.

Sales Tax

Sales tax is the primary source of funds for VTA's operations maintenance, and capital needs. Local sales tax is derived from a one-half cent sales tax restricted for transit purposes, levied within Santa Clara County. VTA also receives State of California Transportation Development Act (TDA) funds, which are derived from a one-quarter cent sales tax levied by the State of California and allocated on a "return to source" basis for transportation use. These two sales taxes account for approximately 65% of the total revenue for the year ended June 30, 2002, as well as 65% of the total revenues anticipated in the FY02/03 Adopted Operating Budget.

Due to the heavy dependence on the high-tech industry, Santa Clara County's economy has been volatile, with sales tax revenue reflecting the same pattern. For over ten years, sales tax revenue has always surpassed prior year figures. FY02 has been the first exception to this trend. Although we anticipated the "burst of the high-tech economic bubble" for the last few years, we were surprised by the suddenness and severity of the resulting economic slowdown. Sales tax revenues typically lag behind changes in the economy, and we are experiencing the full effect of current market conditions. We experienced a negative growth in sales tax revenue during FY02, but the drop of 21.4% compared to FY01 was significantly greater than anticipated. We projected \$152 million in FY02 sales tax receipts, but fell short of the forecast as we realized actual receipts of \$144.2 million. The FY02/03 Adopted Budget anticipated \$155 million. The current estimate for FY02-03 half-cent sales tax revenue is \$147.1 million, which is a 2% increase compared to FY01-02 receipts. Although we have seen some encouraging national economic data lately, the current environment in our County remains very challenging, as Santa Clara County continues to post job losses. This has a direct impact on the consumption of goods and services; therefore, keeping the sales tax base below desired levels. Sales tax projections reflect some economic recovery, but it is expected to be very slow in materializing.

Ridership & Farebox Revenue

VTA directly operated systemwide ridership decreased compared to FY01's figure by 6.7%, as 52.7 million passengers boarded Bus and Light Rail during FY02. Light Rail system ridership was 7.8 million, a decrease of 15.7% compared to the same period last year. Bus ridership for FY02 totaled 44.9 million passengers, a decrease of 4.9% compared to FY01. Contracted and Inter-agency ridership numbers also declined with the exception of Paratransit, which continued to grow. It is up 18.5% over the prior year's figures. There is a clear and direct correlation between ridership and employment; therefore, the drop in ridership can be attributed primarily to the large number of jobs lost over the last year.

VTA operating revenues had a slight drop of 2.3% compared to FY01. Total fares collected for this past fiscal year were \$31 million, down 7.6% compared to the same

period last year. While Eco Pass and shuttle revenue increased slightly, it was a 10.7% decrease in all other passenger fares that attributed to the overall decline in revenue.

In an effort to offset the decline in fare revenue, VTA implemented in July 2002 fare changes in an attempt to increase revenue by 15%. VTA has a policy of implementing a fare review every two years, but had not done one in three years. Although contributing about 10% of VTA's total revenues, fares are the only source of revenue that can be influenced. In times of financial difficulties, VTA cannot ignore the importance of farebox revenue to fund operations. Therefore, VTA believes the fare increase was reasonable and necessary. Nearly all Bay Area transit agencies also increased fares or proposed fare increases in FY02 and FY03.

Federal Section 5307 Urbanized Formula Program

Federal Section 5307 allows eligible recipients (such as VTA) to claim capital grant funds for maintenance costs and other projects such as routine bus replacement. Grant applicants may apply for FTA grants in an amount up to 80 percent of annual vehicle maintenance costs. VTA has incorporated this policy in its grant application strategies. The funds are reflected in the financial statements as Federal Operating Assistance.

VTA's request for the existing Section 5307 grant was approved in September 2002. At that time VTA requested to amend a previously approved grant as part of the Metropolitan Transportation Commission's upcoming 2003 TIP (Transportation Improvement Program) to shift \$9.7 million from replacement buses to preventive maintenance, increasing the Preventative Maintenance line item from \$13.5 million to \$23.2 million. This made \$13.5 million available in September 2002 and will make the additional \$9.7 million available in September 2003 for operations.

1996 Measure B Transportation Improvement Program

In November 1996, voters in Santa Clara County overwhelmingly approved Measure A, an advisory measure listing an ambitious program of transportation improvements for Santa Clara County. Also approved on the same ballot, Measure B authorized the Santa Clara County Board of Supervisors to collect a nine-year half-cent sales tax for general county purposes. Subsequently, the County Board of Supervisors adopted a resolution dedicating the tax for Measure A projects. Collection of the tax began in April 1997; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the implementation of the 1996 Measure A transportation projects to move forward.

In February 2000, the VTA Board of Directors approved a Master Agreement formalizing VTA's partnership with the County of Santa Clara to implement the 1996 Measure B Transportation Improvement Program (MBTIP). With this partnership in place, the County and VTA are in a position to complete a transportation program valued at \$1.9

billion. VTA agreed to secure Federal or State grant funds for certain 1996 MBTIP projects and to release MBTIP funds to fund other local projects. Currently, fund transfers have been performed on the Tasman East, Vasona, and Capitol Light Rail Projects.

The 1996 MBTIP and other sources provide funds to local jurisdictions for street repair and other transportation projects. Administration and distribution of these funds is managed by the 1996 Measure B Ancillary Program. Over the life of the 1996 Measure B sales tax, local jurisdictions will receive a combined total of \$448 million countywide.

After approval of a ten-year expenditure plan by VTA and the County Board of Supervisors, VTA's Board of Directors adopted the 20-year Countywide Bicycle Plan. The 20-year plan includes three prioritized tiers of capital bicycle projects. The ten-year Bicycle Expenditure Program included in the Countywide Bicycle Plan is the funding mechanism for the Tier 1 projects. This program administers and distributes funds to Member Agencies to implement and construct the projects. In 2001, the VTA Board of Directors requested that the VTA Advisory Committee structure be modified to focus more directly on pedestrian issues. In response, staff recommended that the existing Bicycle Advisory Committee be re-established as the Bicycle and Pedestrian Advisory Committee (BPAC), and that its duties be augmented to focus on pedestrian-related issues. The Board also requested that staff develop a VTA Pedestrian Program that delineates the agency's pedestrian-related activities.

VTA is responsible for project management of the following transit and highway projects as well as the administration of the pavement management and bicycle elements of the 1996 MBTIP program under the master agreement with the County of Santa Clara.

The Transit Projects, estimated at a cost of \$979 million, include:

1. Tasman East Light Rail Project - extending the current Light Rail system to Milpitas and Northeast San Jose
2. Vasona Light Rail Extension Project - constructing the Vasona Light Rail line from downtown San Jose to Winchester, utilizing the Union Pacific Vasona rail corridor
3. Capitol Light Rail Extension Project – building the Capitol Light Rail line from northeast San Jose (connecting to the Tasman line) down Capitol Avenue through east San Jose to the Alum Rock area, with eventual service to Eastridge
4. 30 New Light Rail Vehicles
5. Fremont/South Bay Corridor Service – interim improvements service connecting BART in Alameda County with San Jose (bus and possible ACE and Capitol Corridor improvements)

6. Caltrain Service Improvements – improving Caltrain commuter rail service by adding trains and improvements between Gilroy and Palo Alto

The Highway Projects, estimated at a cost of \$472 million include:

1. Interstate 880 widening from four to six lanes from Montague Expressway to U.S. 101, and an auxiliary lane on Southbound I-880 from U.S. 101 to the North First Street exit ramp
2. Routes 85/87 direct connector ramps for the southbound 85 to northbound 87 and southbound 87 to northbound 85, plus addition of a HOV lane in each direction of Route 87
3. U.S. 101 widening from four to six lanes, plus two HOV lanes between Metcalf Road in San Jose and Burnett Road in Morgan Hill
4. Route 85/U.S.101 interchange in Mountain View, including HOV Direct Connector
5. Routes 237/880 HOV direct connector ramps for southbound I-880 to westbound 237 and eastbound 237 to northbound I-880, and a southbound braided exit ramp from I-880 to Tasman Drive interchange
6. Route 87 HOV lane projects between I-280 and Julian Street as well as between Branham lane and I-280
7. Route 17 improvements between Lark Avenue in the Town of Los Gatos and I-280 in San Jose
8. Routes 85/101 interchange in South San Jose – complete the existing interchange by adding two direct connectors, a branch connector, and widening of U.S. 101 to eight lanes between Bernal Road and Metcalf Road
9. Route 152 safety improvements – safety and operation improvements between U.S. 101 and Route 156
10. Route 85 Noise Mitigation between U.S. 101 and Route 87

The 1996 Measure B Ancillary Program, estimated at a cost of \$447.7 million includes:

1. Pavement Management Program – provides \$90 million to local jurisdictions for street maintenance and repairs
2. Bicycle Program – provides \$12 million for the development of a Countywide Bicycle Plan and the implementation of a series of bicycle projects

3. Level of Service Intersection Improvement Program – provides \$11.3 million for the improvement of several critical expressway intersections
4. Expressway Signal Synchronization Program – provides \$24.1 million to improve expressway capacity and operations
5. Fund Swap Projects – provides \$310.3 million; through a series of actions taken by VTA's Board of Directors, federal, state, and local funds were programmed to the Tasman East Light Rail, Vasona Light Rail and Capitol Light Rail Extensions, to release local 1996 Measure B funds to other transportation projects. These projects include the I-680 HOV Lanes, U.S. 101/Bailey Road Interchange, Gateway studies, Montague Expressway Project, U.S. 101/Route-85 HOV Direct Connectors, Local Program Reserve, the purchase of 70 new light rail vehicles, and the Vasona Winchester extension.

Financial Status – Enterprise Fund

The Statement of Revenues, Expenses and Changes in Fund Net Assets states that VTA had a net operating loss of over \$304 million. Even with an addition of \$254 million in non-operating funds, there still was a \$50 million dollar operating loss. During FY02, VTA acquired an additional \$345.2 million in capital assets. This was funded by \$226.1 million from capital contributions and \$119.1 million from previously programmed reserves.

VTA started the year with \$331.7 million in budgetary reserves (net working capital) and by the end of FY02, the balance was \$177.6 million. Of the \$154.1 million decrease in budgetary reserves, \$49.7 million was used to fund the operating loss and \$119.1 million (of which \$14.7 million was made available due to cancelled capital projects that were approved as part of the reserves as of June 30, 2001) was used in the acquisition and development of capital assets.

Table 1.1 presents restricted and unrestricted budgetary reserves as of June 30, 2002.

Budgetary Reserves (in millions)	
Restricted	
Operating Reserves	\$ 42.4
Local Share of Approved Capital	134.7
Operating Encumbrance	<u> .5</u>
Total Restricted	177.6
Unrestricted	<u> -</u>
Total Budgetary Reserves	\$177.6

In accordance with the Board policy, 15% of the subsequent year operating budget is restricted to meet emergency needs that cannot be funded from any other source. This is meant to ensure that some funds are available in the event of unanticipated revenue shortfalls or if unavoidable expenditures may be required. Fifteen percent of the FY02/03 operating budget is \$51.3 million which means we will not be able to meet the requirement of setting aside 15% due to VTA's current financial condition.

Local share of approved capital represents the amount of revenue that VTA must provide towards Board approved capital projects.

Operating encumbrances are for one-time non-recurring programs or projects, which are not expended during the fiscal year, and carryover to the successive fiscal years until the programs or projects are completed or terminated. All other operating appropriations lapse at year-end.

Future Long-Term Financial Planning

Upon preparing the preliminary FY 2002-03 operating budget, VTA realized there would be a deficit to the budgetary reserves. Management approached the problem in three phases. First, there was a comprehensive review of capital projects by the Capital Improvement Oversight Committee (CIPOC), resulting in the closure and reduction of 158 projects. This saved a total of \$70.7 million. Secondly, all department managers were requested to reduce their non-salary expenditure in the FY 2002-03 Baseline Budget by 15%. Finally, VTA instituted a 5% service reduction, enacted a hiring freeze, and eliminated over 300 positions. Significant program reductions, modifications, and elimination are being proposed to get through FY 2002-03.

FY2002/2003 Goals

- Complete the VTP 2020 Implementation Plan, laying out the process for delivering projects in the countywide transportation plan over the next ten years.
- Enter into a subleasing transaction involving VTA's original 50 Light Rail vehicles to Utah Transit Authority (Salt Lake City) and Sacramento Regional Transit District.
- Complete construction of projects in the Facilities Improvement Program including, Guadalupe LRV Facility Shop Expansion, Parts Storage Building and Maintenance Of Way (MOW) Building Improvements, the Cerone O&R Division Improvements Project, and the Cerone Zero Emissions Buses (ZEB) Demonstration Project.
- Continue the locally funded expansion of the On Board Closed Circuit Television (CCTV) cameras at selected transit centers and multi-modal transfer centers.
- Accept and put into service 40 articulated low-floor buses from New Flyer, and 56 new low-floor buses from Gillig. The purchase of these vehicles is primarily Federally funded.
- Complete construction projects at the North Division and at the Guadalupe Division main shop, Way Power & Signal locker room, and warehouse. Complete the master plan study and start construction of the Operations, and Training Annex buildings, reconfiguration of the Maintenance Engineering office and the Information System Group Disaster Recovery Center.
- Complete installation of the ZEB hydrogen fueling station at the Cerone Division.
- Develop contract documents for the procurement of a demonstration fleet of Zero Emission Buses and provide engineering support in the development of special fueling systems and other facilities needed to support this fleet. Also develop and implement programs for bus engine overhaul and upgrade to ensure compliance with emission regulations.
- Demonstrate technology that has the potential to reduce NOx (nitrogen oxide) emissions by 70% or more on three ZEB buses operating in revenue service over a three-year period. The technology tested should reduce NOx emissions and demonstrate the durability of emission control systems.

- Achieve the following 1996 MBTIP milestones:
 1. Advertise and award station contracts for the Vasona Light Rail Project.
 2. Complete construction of the San Jose Diridon light rail tunnel for the Vasona Project.
 3. Continue construction of the Vasona Light Rail Project as scheduled and budgeted.
 4. Complete the major Tasman East civil/structural and the civil/trackwork contracts and award the stations/park and ride contract.
 5. Award the Capitol Light Rail Stations contract.
 6. Construction completed on the double track from Tamien Station to Lick Station for the Caltrain Service Improvements Project.
 7. Define the Gilroy south expansion and implement design on the Gilroy station and storage tracks for the Caltrain Service Improvements Project.
 8. Start construction on four of the 1996 MBTIP Caltrain Improvement Program projects to include: Lawrence Bus/Shuttle & Parking Expansion; Palo Alto Transit Center Improvements; San Martin Parking Expansion Phase Two; and Santa Clara Parking and Bus Expansion.
 9. Complete final property acquisitions and settlement of real estate issues pertaining to the Vasona, Capitol and Tasman East light rail projects.
 10. Open U.S. 101 to four lanes in each direction by completion of the U.S. 101 Widening contract and interim milestone of Route 85/101 South Interchange contract.
 11. Complete construction on the following contracts: (a) Route 237/I-880 Interchange Stage C Phase 1; (b) Route 17D and Route 17I; (c) Route 152 Phase A1.
 12. Continued construction on I-880 Widening and Routes 85/U.S.87 Interchange contracts.
 13. Begin Construction on the following contracts: (a) Route 85/101 North Interchange; (b) Route 237/I-880 Interchange Stage C Phase 2; (c) Consolidated Biological Mitigation Site Phase 2.
 14. Continued progress toward environmental approval and design completion for all remaining highway projects in program.

2000 Measure A Transportation Improvement Program and VTP 2020

In August 2000, the VTA Board of Directors approved placing a measure on the November 7, 2000 General Election ballot which would approve a 30 year half-cent sales tax to take effect in the county after the 1996 Measure B Sales Tax expires (March 31, 2006). More than 70% of voters approved the 2000 Measure A. The tax cannot be extended past March 31, 2036 without the vote and approval of the residents of Santa Clara County. It is estimated that over \$6 billion (FY 2000 constant dollars) will be collected. The revenue from this Measure will be collected by the State and sent to VTA. The funds may be used to finance the transit projects and operations specified in 2000 Measure A and listed in VTA's Valley Transportation Plan and Expenditure Program (VTP 2020). The activities specified in 2000 Measure A include:

- Connect BART to Milpitas, San Jose, and Santa Clara;
- Build a rail connection from the Norman Y. Mineta San Jose International Airport to BART, Caltrain, light rail;
- Purchase vehicles for disabled access, senior safety, clean air buses;
- Provide light rail throughout San Jose through the Downtown East Valley Transit Improvement Plan;
- Expand and electrify Caltrain;
- Increase rail and bus services; and
- Provide for related operating expenses.

Staff is currently developing the implementation details of the program for adoption by the VTA Board of Directors.

VTP 2020 provides for a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. It is a twenty-year multi-modal transportation plan that guides overall planning and programming efforts within Santa Clara County. It deals with many transportation issues including decision-making on land use, maintenance and upgrades to the infrastructure, and environmental preservation. VTP 2020 will establish the capital improvement project selection process and establish a ten-year implementation schedule for the first phase of the Capital Improvement Program (CIP). The Best Practices Land Use Program will also be incorporated into the Implementation Program. The Implementation Plan will be updated every other year to reflect the VTP 2020 update.

TransLink Demonstration Project

In 1998, VTA agreed to participate in a demonstration of “TransLink,” an innovative regional fare collection program sponsored by MTC. This demonstration started in February 2002 and participants include BART, Caltrain, AC Transit, San Francisco MUNI, and Golden Gate Transit in addition to VTA. TransLink will utilize “smart cards” for fare collection. The card will allow riders to store value on the card after money was loaded electronically at sales outlets, vending machines, or by other sales channels. Once the card has a balance, the value would be deducted from the card each time it is used for travel. It offers several potential advantages to VTA and customers, including convenience, security, simplified transfers, and reduced handling of coins and bills. A regional clearinghouse was established to track all card loading and fare payment transactions, and to “settle” funds among all the participating transit operators.

The VTA bus routes providing service for the TransLink demonstration are Express Bus Lines 140, 141, 180, and 520. Cards are also being used on the light rail. The demonstration is expected to last six months after which an evaluation will be performed. It is expected that a decision will be made during FY03 as to whether to roll out this system regionwide to all transit operators and services in the Bay Area.

Cash & Investment Management Policies and Practices

VTA’s cash and investments are managed in accordance with California Government Code Section 53601 and other applicable state law. The Restricted and Unrestricted Investment Policy is periodically reviewed and approved by the Board of Directors. The Investment Policy defines permitted investments and prescribes investment strategies. The investment strategies are expressed through asset allocation ranges and targets. Risk tolerance and performance expectations are defined by benchmark indexes.

Restricted investments are for all non-retirement assets. Restricted assets consist of monies and other resources that are either Board designated or legally restricted for the following purposes:

Capital and Operating	General Liability Insurance
Workers’ Compensation	Long-term Accrued Vacation and
Debt Service	Sick Leave Benefits
Retiree Healthcare	

The Restricted/Unrestricted Investment Policy includes two asset allocation and accompanying benchmarks as shown below. In accordance with California Government Code Section 53620 – 53622, the assets of the Retiree Health Care Program funds may be invested in a manner similar to those made by pension funds.

Operating/Non-Retirement: Benchmark Asset Allocation

US Government Intermediate Fixed Income 100%

Retiree Health: Benchmark Target Asset Allocation

Lehman Aggregate (Fixed Income) 50%
S & P 500 Index (Equity) 50%

The ATU/VTA Pension Plan Investment Policy functions like the Restricted/Unrestricted Investment Policy, with the notable exception that Pension Plan Trustees review and approve the policy, (pursuant to California State Proposition 162 enacted in November 1992). The Pension Plan is a defined benefit plan and its financial position and changes in financial position are reported in separately issued stand-alone financial statements.

The VTA/ATU Pension Plan benchmark and asset allocation range as of June 30, 2002 is shown below:

<u>ATU Pension Plan:</u>	<u>Benchmark</u>	<u>Target Asset Allocation</u>	<u>Target Ranges</u>
	Lehman Brother Aggregate (Fixed Income)	39%	35-45%
	S&P/Barra Value (Large Cap Equity)	20%	15-25%
	Russell 2000 Value (Small Cap Equity)	10%	5-15%
	S&P 500 (Large Cap Equity Index)	15%	10-20%
	MSCI EAFE (International Equity Index)	15%	10-20%
	Cash	1%	0-5%

An addition to the management of this investment fund is the rebalancing of the allocations. The Plan's asset allocation will be reviewed relative to the targets on a monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among categories. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation on the system.

With respect to assets still held by the County, the investment policies of the commingled pool conform to State statutes. In addition, VTA has an adopted policy regarding the types of investments which may be made and the maximum amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments.

VTA portfolios performed well because of several factors. First, as a result of the lower interest rates, fixed income security holdings appreciated in value. Second, equity stocks, particularly those that had been most out of favor during the technology and internet stocks hype, rallied the most, which caused the fair market value of equity securities to appreciate. VTA's investment program is actively managed and all securities are "marked-to-market" at month end.

Investment earnings, recognized on the Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Fund (Business-Type Activity), amounted to approximately \$24.5 million (an 11 percent gain) during FY02. \$2.9 million in net investment earnings is reported on the Statement of Changes in Plan Net Assets – Pension Trust Funds.

Funds invested for restricted assets include workers' compensation, general liability, and retiree medical activities. The expense for these activities is recognized in the Enterprise Fund for contribution payments that is net of expected earnings. The contribution amounts are based on actuarial studies. The increase in investment assets is recognized as an increase in cash and increase in other accrued liabilities. Approximately \$6.8 million in restricted investment earnings are accounted for in this manner.

Table 1.2 summarizes the investment earnings for FY 2002.

Governmental Fund Earnings	\$24.513
Special Revenue Fund Earnings	.030
Pension Trust Fund	<u>2.957</u>
Income Recognized	27.500
Earnings For Discounted Liabilities	<u>6.754</u>
Total Investment Earnings	\$34.254

Risk Management

For the year ended June 30, 2002, VTA self-insures the first \$2 million of all public liability claims and the first \$1 million of all Workers Compensation claims. Based on annual independent actuarial studies, the claims program funds are adjusted annually to maintain a projected financial position at an estimated 75% confidence level. Risk Management Department Claims Staff oversee third party administrators for the adjustment and payment of claims from both self-insurance funds.

The Risk Manager obtains excess casualty and property insurance coverage for operations and also manages the Owner-Controlled Insurance Programs (OCIP) for major transit and highway construction projects. The OCIP is a fully insured program providing General Liability coverage, and statutory Workers Compensation coverage for construction contractors, at a reduced premium cost to VTA.

Internal Controls

To reasonably assure compliance with established policies and procedures, and to protect assets, VTA has established a system of internal controls, including budget guidelines. The Internal Audit Department reviews internal controls, conducts performance audits, and then issues reports on its findings, which include recommendations for improvement. Internal Audit reports to the Chief Financial Officer. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived therefrom, and that the evaluation of those factors requires estimates and judgments made by management. We believe VTA's internal controls adequately safeguard assets against loss from unauthorized use or disposition, and provides reasonable assurance of proper recording of financial transactions in the financial statements.

Major subjects reported on during FY02 by the Internal Audit Department are:

- Operational reviews to improve process effectiveness and efficiency (this included change order process and paratransit review);
- Review of internal controls;
- Compliance audits on contractors/vendors (these include pre-award and incurred cost audits);
- Analyses of contractors' proposed costs; and
- Follow up of recommendations issued by Internal Audit Department and external regulatory agencies.

Pension and Other Post-employment Benefits

There are two specific pension plans offered by the VTA. All ATU employees are covered under the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan. The plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. The second pension plan is the State's Public Employees Retirement System (CalPERS) for non-ATU

employees. Further information on the two plans can be obtained in footnotes 11 and 12 of the Notes to the Basic Financial Statements, starting on pages 2-48 and 2-50 respectively. Additionally, there are Schedules of Funding Progress for the two plans within the Required Supplementary Information on pages 2-57 through 2-58.

There are three health benefits programs for employees who retire directly from VTA. First, for ATU employees, there is an ATU Medical Trust which includes a Medical trust and Retiree Vision and Dental Trust. Secondly, there is the ATU Retiree Health Care Program. Finally, there is the non-ATU Retiree Health Care Program. Additional information can be found in footnotes 13 and 14, pages 2-51 through 2-52.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Santa Clara Valley Transportation Authority (VTA) for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2001. This was the 6th consecutive year that VTA has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this Comprehensive Annual Financial Report required a concerted team effort throughout VTA, including team members from Financial Accounting, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget and Analysis, Investments, Service and Operations Planning, and the Debt Administration/Business Analysis Departments. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, special thanks to Macias, Gini & Company LLP for their contribution, as well as all other VTA staff for responding positively and promptly to the request for information that occurs with each annual audit. The Copy Center and the Marketing and Customer Service Departments also made significant contributions to the form, content, and production of the report.

September 27, 2002



Peter M. Cipolla
General Manager



Scott Buhrer
Chief Financial Officer

**2002 VTA
BOARD OF DIRECTORS**

VTA is an independent special district governed by its own Board of Directors. The Board consists of 12 elected city and county officials, appointed by the jurisdictions they represent. Board membership is based on population as follows:

1. Five city council members from the City of San Jose.
2. Three city council members from among the Cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
3. One city council member from among the Cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.
4. One city council member from among the Cities of Gilroy, Milpitas and Morgan Hill.
5. Two members from the Santa Clara County Board of Supervisors.
6. Ex-Officio, Santa Clara County's two representatives to the Metropolitan Transportation Commission (MTC).

Each of these groupings has one alternate.

The Board of Directors meets at 6 p.m. on the first Thursday of each month.

Ron Gonzales, Chairperson
Jane P. Kennedy, Vice-Chairperson

<p>GROUP 1 City of San Jose Cindy Chavez David Cortese Pat Dando Ron Gonzales Forrest Williams Ken Yeager, Alt.</p>	<p>GROUP 2 City of Los Altos Francis La Poll, Alt. Town of Los Altos Hills City of Mountain View City of Palo Alto Dena Mossar City of Santa Clara Judy Nadler City of Sunnyvale Manuel Valerio</p>
<p>GROUP 3 City of Campbell Jane P. Kennedy City of Cupertino Town of Los Gatos Joe Pirzynski, Alt. City of Monte Sereno City of Saratoga</p>	<p>GROUP 4 City of Gilroy Thomas Springer City of Milpitas Jim Lawson, Alt. City of Morgan Hill</p>
<p>GROUP 5 County of Santa Clara Blanca Alvarado Don Gage Pete McHugh, Alt.</p>	<p>GROUP 6 Ex-Officio Metropolitan Jim Beall, Jr. Transportation John McLemore Commission</p>

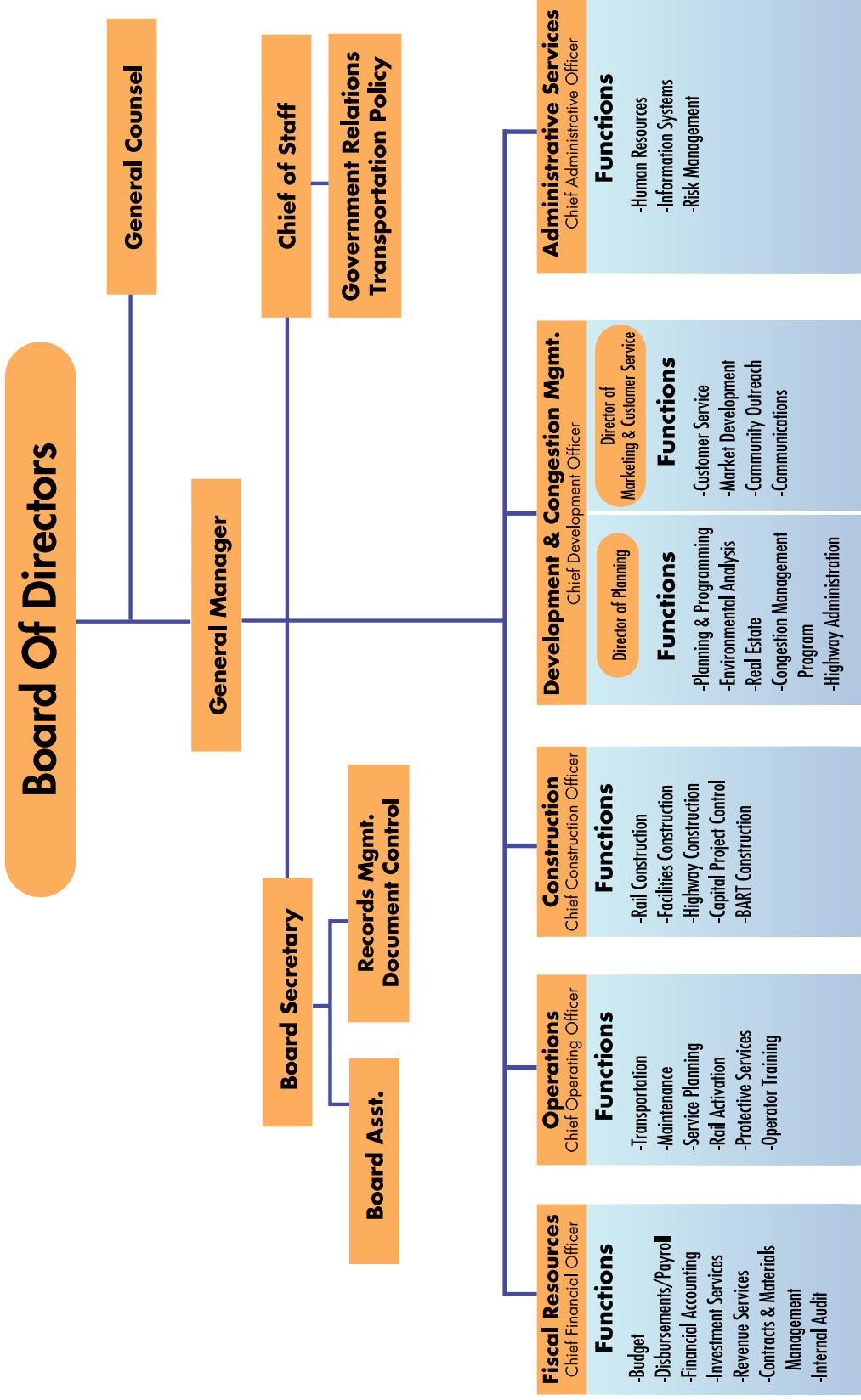
The Board of Directors established three policy committees and six advisory committees. The policy committees advise on policy matters and provide in-depth review of individual issues before the Board of Directors take final action. The committees include:

1. Administrative and Finance Committee (A & F)
2. Congestion Management Program and Planning Committee (CMPP)
3. Transit Planning and Operations Committee (TP & O)

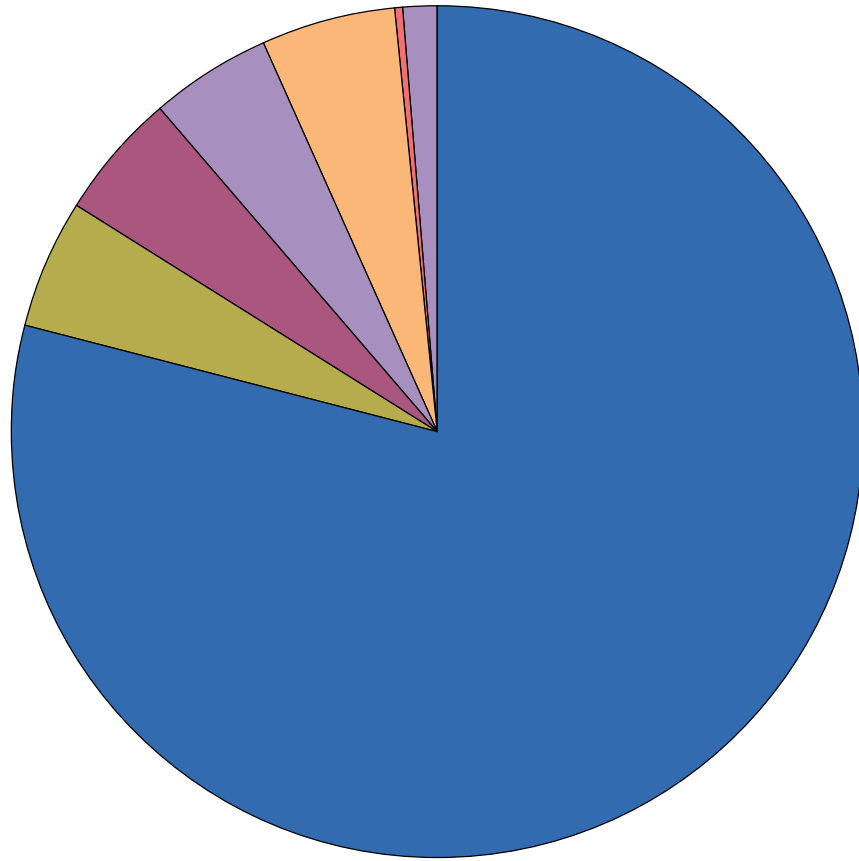
The advisory committees review policies under development to ensure that they meet the needs of constituents, customers, elected officials, the business community and others. The committees include:








1. Committee for Transit Accessibility (CTA)
2. Citizens Advisory Committee (CAC)
3. Bicycle and Pedestrian Advisory Committee (BAC)
4. Technical Advisory Committee (TAC)
5. Policy Advisory Committee (PAC)
6. Transportation Corridor Policy Advisory Boards (PABS)

Santa Clara Valley Transportation Authority



Number of Employee Positions in Organizational Units



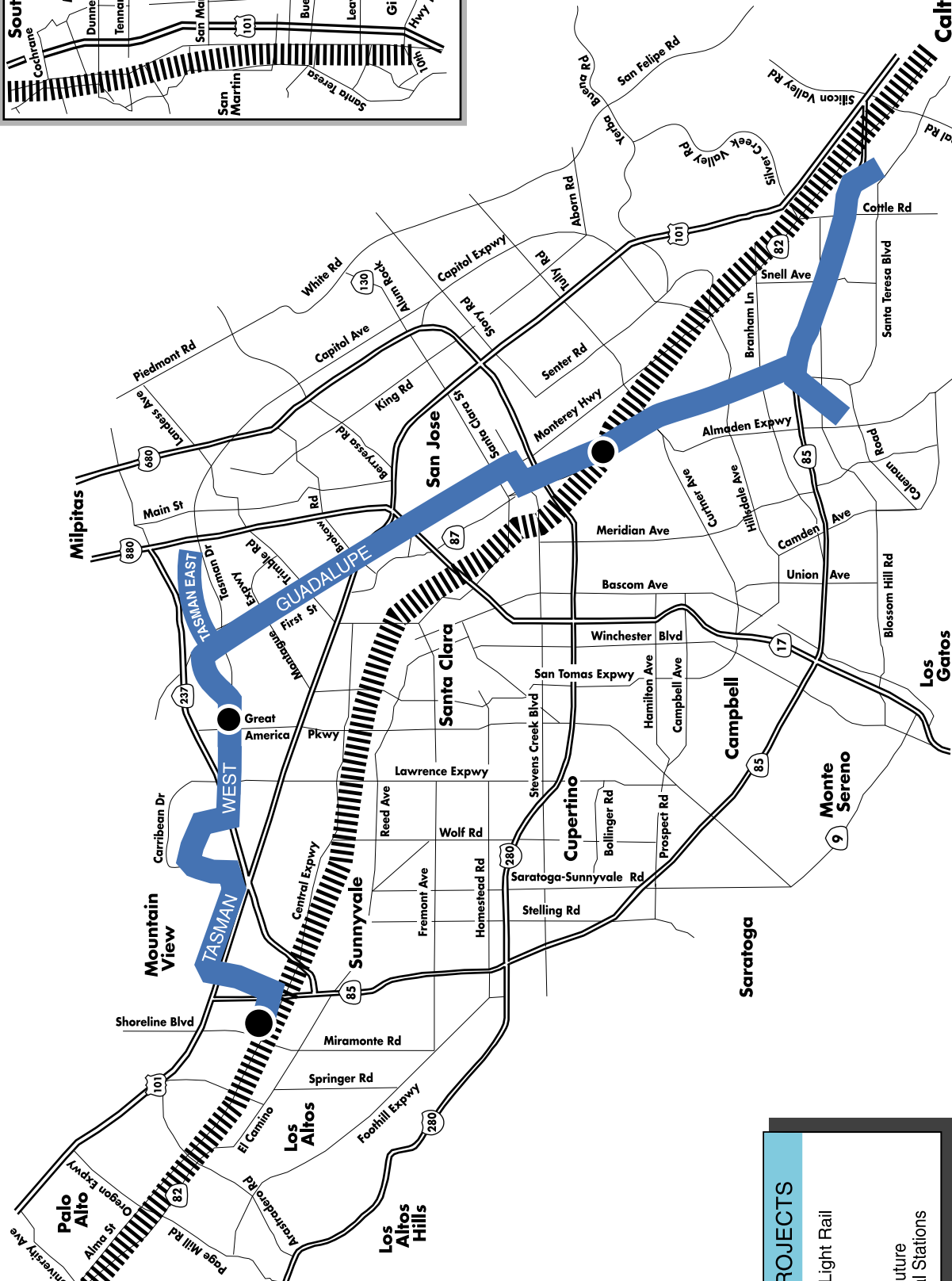
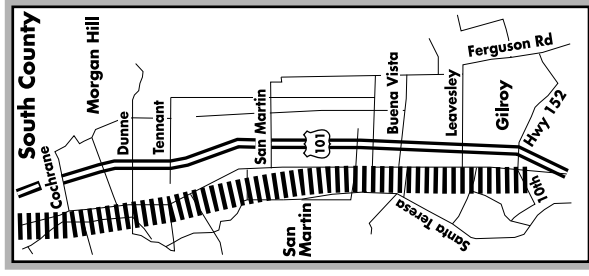
 Operations	2170	79.1%
 Development & Congestion Management	135	4.9%
 Fiscal Resources	132	4.8%
 Construction	125	4.6%
 Administrative Services	139	5.1%
 General Counsel	8	0.3%
 General Manager	36	1.3%
	2745	100%

Principal Officials

General Manager	Peter M. Cipolla
General Counsel	Suzanne Gifford
Board Secretary	Sandra Weymouth
Chief of Staff	Denise Daly
Chief Administrative Officer	Kaye Evleth
Chief Construction Officer	Jack Collins
Chief Development Officer	Michael P. Evanhoe
Chief Financial Officer	Scott Buhrer
Chief Information Officer	Richard Kurk
Chief Operating Officer	Frank T. Martin
Director of Marketing and Customer Service	Anne-Catherine Vinickas
Director of Planning & Development	James Pierson
Controller	Gerald Rosenquist
Deputy Director of Highways	Jeff Funk
Deputy Director of Transportation	Matthew Tucker
Deputy Director of Transp. for Rail Activation & Technical Training	Austin Jenkins
Deputy Director Rail Design Construction	Les Miller
Deputy Director, Congestion Management Program	Carolyn Gonot
Deputy Director, Maintenance	George Barlow
Deputy Director, Program and Highway Administration	John Ristow
Deputy Director, Service & Operations Planning	Mike Aro
Government Affairs Manager	Kurt Evans

Santa Clara County Transit Service Area

Caltrain to San Francisco



RAIL PROJECTS

- Existing Light Rail
- Caltrain
- Existing/Future Intermodal Stations



SECTION 2 — FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis (Required Supplementary Information)

Basic Financial Statements:

Government-wide Financial Statements:

- ◆ Statement of Net Assets
- ◆ Statement of Activities

Fund Financial Statements:

Enterprise Fund:

- ◆ Statement of Fund Net Assets
- ◆ Statement of Revenues, Expenses and Changes in Fund Net Assets
- ◆ Statement of Cash Flows

Governmental Funds:

- ◆ Balance Sheet
- ◆ Statement of Revenues, Expenditures, and Changes in Fund Balances

Fiduciary Funds:

- ◆ Statement of Fiduciary Net Assets
- ◆ Statement of Changes in Plan Net Assets – Pension Trust Funds

Notes to the Basic Financial Statements

Required Supplementary Information (other than MD&A):

- ◆ Schedule of Funding Progress – ATU Pension Plan
- ◆ Schedule of Funding Progress – CalPERS Plan
- ◆ Budgetary Comparison Schedule – Congestion Management Program Special Revenue Fund
- ◆ Note to Required Supplementary Information – Budgetary Basis of Accounting

Supplementary Information – Combining and Individual Fund Statements Schedules:

Enterprise Fund:

- ◆ Comparative Statement of Fund Net Assets
- ◆ Statement of Revenues, Expenditures and Changes in Fund Net Assets
- ◆ Comparative Statement of Cash Flows
- ◆ Budgetary Comparison Schedule
- ◆ Schedule of Restricted Assets and Related Liabilities

Fiduciary Funds:

- ◆ Combining Statement of Plan Net Assets – Pension Trust Funds
- ◆ Combining Statement of Changes in Plan Net Assets – Pension Trust Funds
- ◆ Combining Statement of Fiduciary Assets and Liabilities – Agency Funds
- ◆ Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds



Partners

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Ernest J. Gini
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The Board of Directors
Santa Clara Valley Transportation Authority
San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of the Santa Clara Valley Transportation Authority (VTA), as of and for the year ended June 30, 2002, which collectively comprise VTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VTA's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

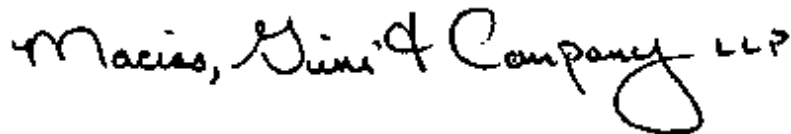
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the governmental activity, each major fund, and the aggregate remaining fund information of VTA, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2(a) to the basic financial statements, VTA adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), schedules of funding progress and the budgetary comparison schedule, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VTA's basic financial statements. The introductory section, combining and individual fund financial statements and schedules section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Macies, Gini & Company LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants

Walnut Creek, California
September 27, 2002

Management's Discussion and Analysis

The purpose of the information presented in the discussion and analysis portion of this report is to provide an overview of the Santa Clara Valley Transit Authority's (VTA) financial condition as of June 30, 2002. This discussion and analysis should be read in conjunction with the transmittal letter starting on page 1-7, and VTA's financial statements, which begin on page 2-15.

Financial Highlights

- As of June 30, 2002, VTA's assets exceeded liabilities by \$1.61 billion. Business-type activity (Transit Operations) and Governmental activity (Congestion Management) net assets were \$1.6 billion and \$1.6 million respectively. Of the \$1.6 billion in net assets, approximately \$1.4 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- At the end of FY02, VTA had bonded debt outstanding of \$343.3 million compared to \$351 million the previous fiscal year.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets states that VTA had a net operating loss of over \$304 million. Even with an addition of \$254 million in non-operating funds, there still was a \$50 million dollar operating loss. This can be seen on the Statement of Revenues, Expenses and Changes in Fund Net Assets, page 2-19.
- Sales tax revenue decreased substantially during the year due to a decline in taxable sales within the County (primarily business-to-business transactions), causing a drop of 21.4% compared to last year.
- Transit Operations expenses increased overall by 23.7% compared to FY01. This is attributable to several factors. One significant component is the increase in salaries and wages associated with staffing increases early in the year to address continued service expansion. In addition, VTA aligned pay rates to more closely resemble the market rates in order to retain and attract experienced workers. Other factors that contributed to the increase in expenses included rising paratransit service costs as the demand continues to increase. In addition, there were increased energy costs in light rail traction power.
- There was approximately a \$1.4 million increase in net assets for Congestion Management due in part to an increase in operating grants.

Overview Of The Financial Statements

VTA's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report also contains required and other supplementary information.

Government-wide financial statements. The *government-wide financial statements* provide a top-level view of VTA's financial picture in a format resembling that of a private-sector company.

The statement of net assets presents information on all of VTA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of VTA is improving or deteriorating.

The statement of activities presents information showing how VTA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both activities of the government-wide statements distinguish functions of VTA that are principally supported by sales tax and intergovernmental revenues. Although the primary function is intended to recover its costs through charges for services (business-type activities), the recovery is not significant. The governmental activities of VTA include the congestion management and highways activity. The business-type activities of VTA include transit bus and light rail operations and capital project activity.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. VTA, like local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e. the enterprise fund), and fiduciary funds. The fund financial statements can be found on pages 2-15 to 2-25 of this report.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

VTA maintains four individual governmental funds and uses the governmental funds to account for the Congestion Management Program, Traffic Authority and for the Congestion Management Highway and 1996 Measure B Highway Capital project programs. Information, on miscellaneous funds, is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Proprietary (Enterprise) Funds. VTA maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as “business-type activity” in the government-wide financial statements. VTA uses enterprise funds to account for its transit operation and capital activities, 1996 Measure B Transit projects and 2000 Measure A transit and operating activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside VTA. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support VTA’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The activities of the Amalgamated Transit Union (ATU) Pension Plan, the ATU Spousal Medical Trust, and the Retiree Vision and Dental Trust are accounted for in trust funds. Trust funds are used to account for assets held by VTA as a trustee for individuals and other organizations such as ATU and local governments.

The Bay Area Air Quality Management District (BAAQMD) program and the 1996 Measure B Ancillary Programs, which includes the Pavement Management and Bicycle Programs, are accounted for in an agency fund. Agency funds are used to account for assets held solely in a custodial capacity.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 2-26 to 2-56 of this report.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is also being presented. The required supplementary information shows VTA’s progress in funding its obligation to provide employees with pension benefits and it also shows the Congestion Management Program Budgetary Schedule. These schedules can be found on pages 2-57 to 2-60.

There is also a section including *other supplementary information* such as combining statements and other individual schedules found immediately following the required supplementary information on pensions. The supplementary data presents individual fund statements and schedules for the Enterprise and Fiduciary Funds.

Government-wide Financial Analysis

Although the Condensed Statement of Net Assets and the Statement of Activity state that VTA had an increase in net assets of almost \$178 million, there was a \$50 million operating loss that does not appear in these statements. The inclusion of \$226.1 million in capital contributions (revenue) has no corresponding expenses associated with it within the statements which is likely to be misconstrued. During FY02, VTA acquired approximately \$312 million in capital assets which was funded by the capital contributions as well as existing budgetary reserves. The operating loss was covered by budgetary reserves as well.

Santa Clara Valley Transportation Authority's Condensed Statement of Net Assets (\$000's)

	Business-type activity		Governmental activity		Total	
	2002	2001	2002	2001	2002	2001
Current and other assets	\$ 424,209	\$ 558,248	\$ 40,082	\$ 14,884	\$ 464,291	\$ 573,132
Capital assets	<u>1,740,912</u>	<u>1,429,064</u>	<u>-</u>	<u>-</u>	<u>1,740,912</u>	<u>1,429,064</u>
Total assets	<u>2,165,121</u>	<u>1,987,312</u>	<u>40,082</u>	<u>14,884</u>	<u>2,205,203</u>	<u>2,002,196</u>
Current liabilities	105,776	202,613	38,251	14,620	144,027	217,233
Long-term liabilities outstanding	<u>449,245</u>	<u>351,014</u>	<u>207</u>	<u>-</u>	<u>449,452</u>	<u>351,014</u>
Total liabilities	<u>555,021</u>	<u>553,627</u>	<u>38,458</u>	<u>14,620</u>	<u>593,479</u>	<u>568,247</u>
Net assets:						
Investment in capital assets, net of related debt	1,367,401	1,020,443	-	-	1,367,401	1,020,443
Unrestricted	<u>242,699</u>	<u>413,242</u>	<u>1,624</u>	<u>264</u>	<u>244,323</u>	<u>413,506</u>
Total net assets	<u>\$ 1,610,100</u>	<u>\$ 1,433,685</u>	<u>\$ 1,624</u>	<u>\$ 264</u>	<u>\$ 1,611,724</u>	<u>\$ 1,433,949</u>

By far the largest portion of the VTA's net assets (approximately 85%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. VTA uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although VTA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot reasonably be used to liquidate these liabilities.

The reduction in unrestricted net assets relates primarily to the decline in sales tax, which contributed to the reduced funds available for operating and capital needs during the year. As a result, it was necessary for VTA to utilize other unrestricted sources of funds to meet its obligations.

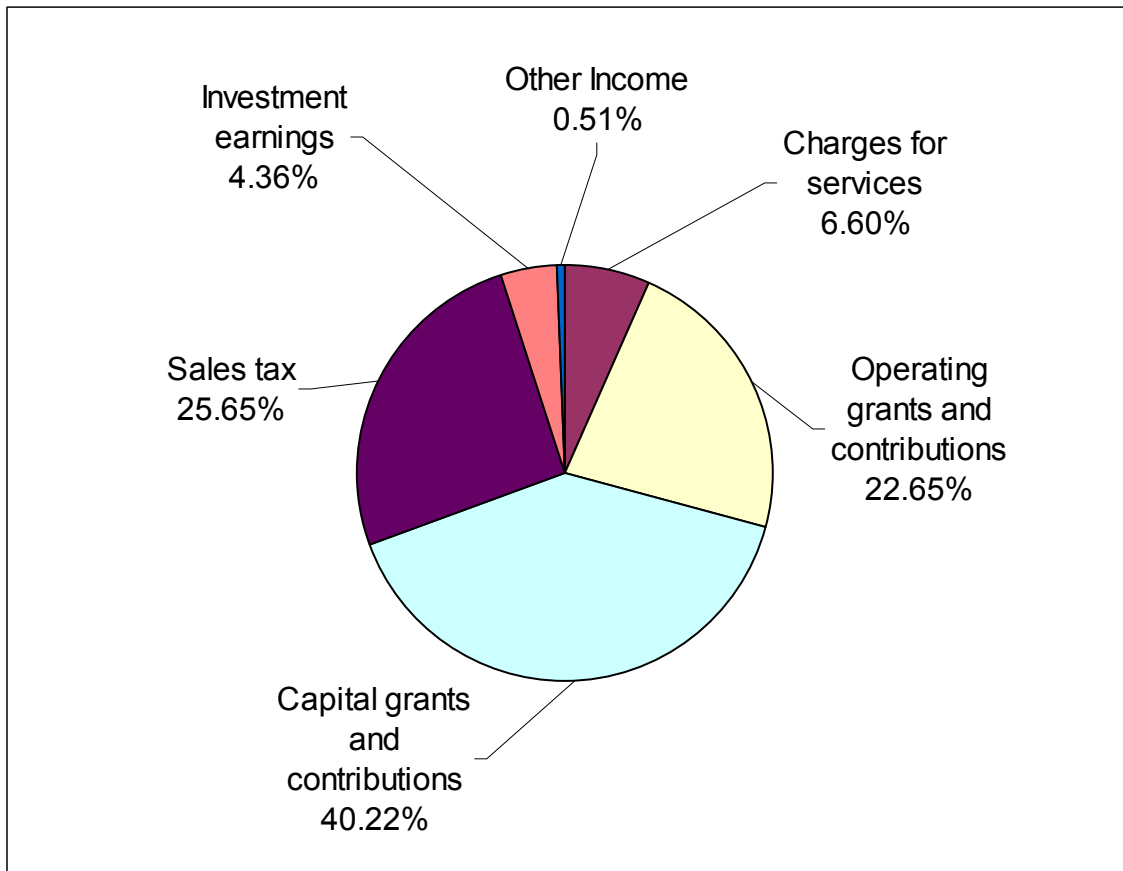
**Santa Clara Valley Transportation Authority's
Statement of Activity
(\$000's)**

	Business-type activity		Governmental activity		Total	
	2002	2001	2002	2001	2002	2001
Expenses:						
Operations and operating projects	\$ 341,210	289,123	\$ 2,740	\$ 3,020	\$ 343,950	\$ 292,144
Caltrain subsidy & capital contribution	25,315	14,821	-	-	25,315	14,821
Altamont commuter express subsidy	1,740	657	-	-	1,740	657
Other expenses	17,555	7,241	-	40,963	17,555	48,204
Capital projects for the benefit of other agencies	-	-	112,697	-	112,697	-
Total expenses	<u>385,820</u>	<u>311,842</u>	<u>115,437</u>	<u>43,984</u>	<u>501,257</u>	<u>355,826</u>
Program revenues:						
Charges for services	37,122	37,982	1,686	1,293	38,809	39,275
Operating grants and contributions	127,373	104,255	2,405	715	129,778	104,969
Capital grants and contributions	226,125	154,648	112,668	40,963	338,793	195,611
Total program revenues	<u>390,620</u>	<u>296,884</u>	<u>116,759</u>	<u>42,971</u>	<u>507,380</u>	<u>339,855</u>
Net program revenue (expense)	<u>4,801</u>	<u>(14,958)</u>	<u>1,322</u>	<u>(1,013)</u>	<u>6,123</u>	<u>(15,971)</u>
General revenues:						
Sales tax revenue	144,218	183,540	-	71	144,218	183,611
Investment income	24,512	22,078	30	37	24,542	22,115
Other income	2,883	1,371	8	35	2,891	1,406
Total general revenues	<u>171,613</u>	<u>206,989</u>	<u>38</u>	<u>143</u>	<u>171,650</u>	<u>207,132</u>
Change in net assets	176,415	192,031	1,360	(869)	177,774	191,162
Net assets, beginning of year	<u>1,433,685</u>	<u>1,241,654</u>	<u>264</u>	<u>1,133</u>	<u>1,433,949</u>	<u>1,242,787</u>
Net assets, end of year	<u>\$ 1,610,100</u>	<u>\$ 1,433,685</u>	<u>\$ 1,624</u>	<u>\$ 264</u>	<u>\$ 1,611,724</u>	<u>\$ 1,433,949</u>

Business-type activity. In FY02, operating and non-operating expenses were up almost 24% compared to FY01. Although the Statement of Activity reports VTA's Business-type activity having increased by \$176.4 million, VTA had a \$50 million dollar operating loss.

- Sales tax revenue decreased by over \$39 million or (21.4 %) in FY02. The economic downshift experienced by the rest of the country over the last few years finally arrived in Silicon Valley. Santa Clara County lagged behind the nation in experiencing the full impacts for some time, but this past year VTA felt the severity of the financial impact. It has caused VTA to reevaluate operations with increased scrutiny.
- Capital grants and contributions increased by \$71.5 million (46.2%) compared to FY01. Federal grant project revenue was \$76.3 million, State capital grants were \$11.0 million, 1996 Measure B funding consisted of \$117.3 million in revenue, and Local contributions totaled \$21.5 million.
- Investment income rose by \$2.4 million, or (11%), due in part to an actively managed investment program that worked complimentary with current market conditions.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Revenue for Fiscal Years 2001 and 2002

(Dollars in \$000's)	2002	2001	Change	
			Amount	Percent
Charges For Other Services	\$ 37,122	\$ 37,982	\$ (860)	-2.3%
Operating Grants	127,373	104,255	23,118	22.2%
Capital Grants	226,125	154,648	71,477	46.2%
Sales Tax Revenue	144,218	183,540	(39,322)	-21.4%
Investment Income	24,512	22,078	2,434	11.0%
Other Income	2,883	1,371	1,512	110.3%
TOTAL	\$562,233	\$503,874	\$58,359	11.6%

Charges for other services are derived from the sale of monthly passes (including Eco Pass), tokens, bus fare box receipts, light rail ticket vending machine receipts and the sale of advertising space. Operating grants include the one-quarter of one percent California Transportation Development Act (TDA), State Transit Assistance (STA) funding, Federal grants converted to operating assistance under the Federal Transit Administration Preventative Maintenance Program, State license fees (AB434), investment and interest, and federal planning grants. Sales tax revenue is the one-half of one percent local sales tax.

There was a total increase in revenues of 11.6% over FY01. There was a significant drop in sales tax receipts during FY02 and revenue projections for FY03 are even more conservative. Due to the decline in taxable sales (primarily business-to-business transactions), there was a negative growth in sales tax revenue. Allocation of TDA funding is expected to follow suit, as it is derived from the same tax base. TDA funds did not decline this year due to the fact that the amount included under allocation from previous years. In addition, STA funds increased by over 64%. This is partially due to the fact that STA funds are derived from a portion of gasoline sales tax revenues appropriated by the State Legislature to the State Transportation Planning and Development Account for certain transit and energy-related purposes, (i.e. farebox revenue declined). In the past year the amount of tax that the state can collect per gallon was increased. A decrease in ridership contributed to the drop in service revenue.

Other income increased substantially (over 110%), due primarily to a one-time payment from PG&E for an easement, or right-of-way privilege on one of VTA's properties.

Comparison of Business-Type Activity Expenses for Fiscal Years 2001 and 2002

(Dollars in \$000's)			Change	
	2002	2001	Amount	Percent
Operations and Operating Projects	\$ 341,210	\$ 289,123	\$ 52,087	18.0%
Caltrain Subsidy	25,315	14,821	10,494	70.8%
Altamont Commuter Express Subsidy	1,740	657	1,083	164.8%
Other Non-Operating Expenses	17,555	7,241	10,314	142.4%
TOTALS	\$ 385,820	\$ 311,842	\$ 73,978	23.7%

Operations and operating project expenses are incurred for personnel, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. The implementation of the goals of VTA's Strategic Plan is set forth in the Short-Range Transit Plan (SRTP). The SRTP adopted by VTA outlined a number of transit service reliability and headway improvements, network expansion, and the expansion of the light rail system. The resulting expenses for the year are representative of the implementation efforts throughout the organization.

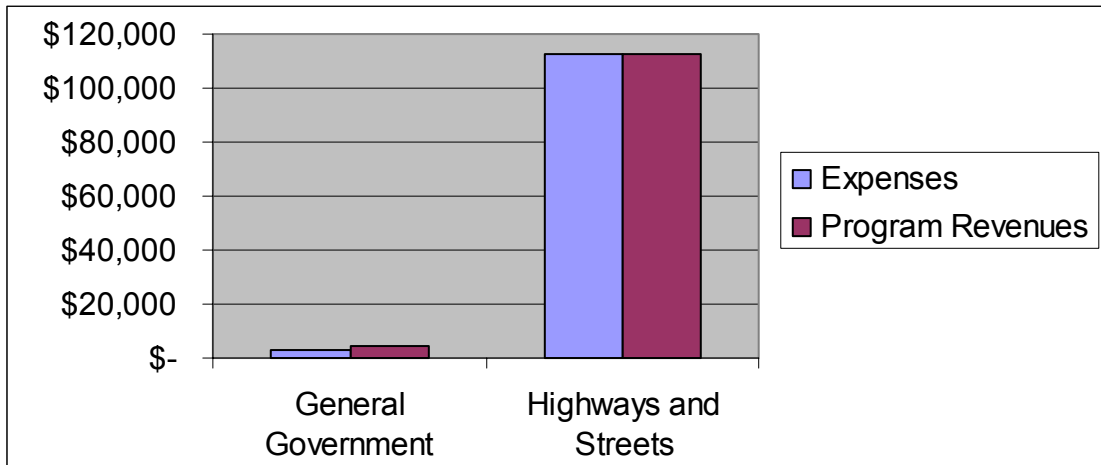
Total expenses increased overall by 23.7% over FY02. The increase was due to many factors. Purchased Transportation costs surpassed last year's figures by over 52% due to the continual increase in paratransit services. The increase in casualty and liability costs is attributed to an adjustment made to increase our self-insured liability fund in order to bring it in line with the estimated cost of claims. In addition, there was an implementation of renegotiated labor contracts during the year and increases in staffing were made to address labor shortages previously experienced by VTA. The increase in staffing resulted in increased wages and a major portion of the corresponding increase in fringe benefits. The other portion of the increase in fringe benefits resulted from the rising cost of employee health care premiums.

The first year of operating the I-880 Milpitas segment of the Tasman East project contributed to the increase in light rail expenses such as traction and power.

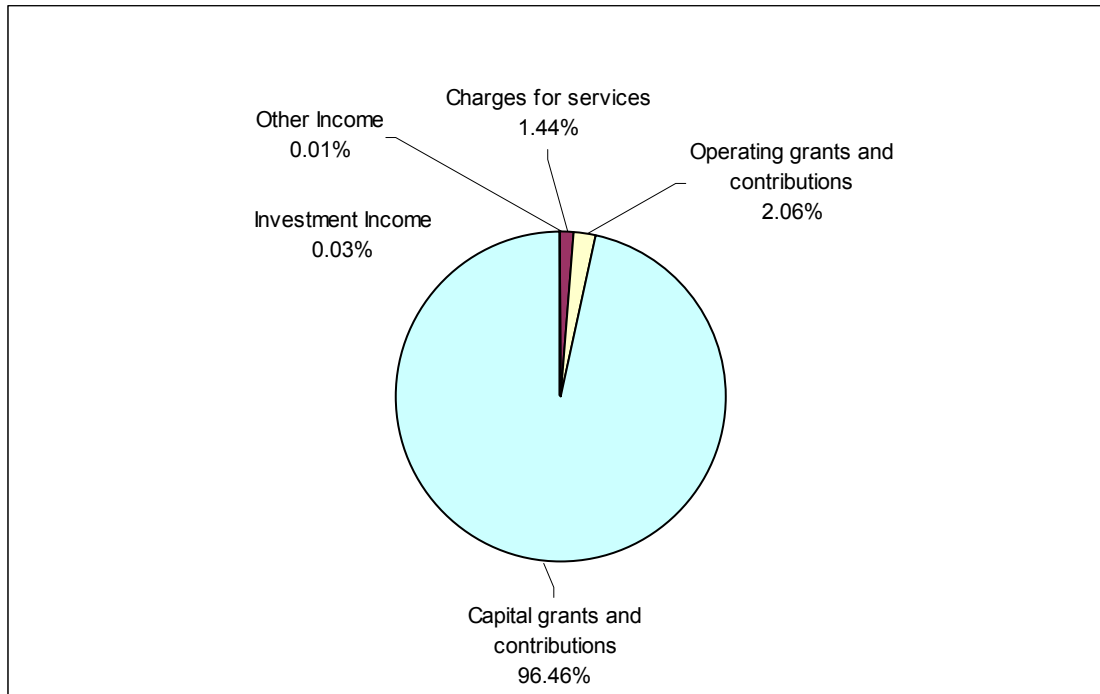
Governmental activity. The governmental activity increased VTA's net assets by \$1.4 million, thereby accounting for a moderate impact to the total growth in the net assets of VTA. Elements of this increase are as follows:

- Operating grants increased by \$1.7 million (236.4%) during the year due to the one-time contribution of the 1996 Measure B Ancillary Program.
- Although the total grants received increased by 176.1% compared to FY01, the largest increase was in capital grants and served to cover the corresponding amount in capital projects for the benefit of other agencies.

**Expenses and Program Revenues – Governmental Activity
(\$000's)**



Revenues By Source – Governmental Activity



Financial Analysis of VTA's Funds

VTA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Fund. VTA's Proprietary Fund (Enterprise Fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

At the end of the current fiscal year, VTA's proprietary fund reported an increase of \$176.4 million.

Governmental funds. The focus of VTA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the VTA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of VTA's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, VTA's governmental funds reported an increase of \$1.4 million. A large portion was due to VTA recognizing one-time contributions from the Measure B Ancillary Program.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2002, amounts to \$1.7 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, and Other Operating Equipment. The total increase in VTA's investment in capital assets for the current fiscal year was 21.6 %.

Some of the significant changes in the capital assets during FY02 are as follows:

- Receipt of 18 light rail vehicles (11 of which are in revenue service)
- Acquisition of 136 new buses
- Increases in Construction In Progress for the Tasman East, Capitol, and Vasona light rail extensions

The remainder of the changes in capital assets can be attributed to capital improvements and construction projects.

Capital Assets
(net of depreciation)
(000's)

	Business-type activity	
	2002	2001
Land	\$ 572,665	\$ 571,682
Construction in Progress	608,403	332,370
Buildings & Improvements		
Equipment & Furniture	133,282	140,428
Vehicles	137,211	85,822
Caltrain-Gilroy Extension	43,806	44,347
Light Rail Tracks/Electrification	226,142	233,524
Other Operating Equipment	19,403	20,892
Total	\$ 1,740,912	\$ 1,429,065

Additional information on VTA's capital assets can be found in Note 6 on page 2-38 of this report.

Long-term debt. At the end of the current fiscal year, VTA had total bonded debt outstanding of \$343,300,504. Of this amount, \$343,229,613 represents bonds secured solely by sales tax revenues and \$70,891 are special assessment bonds relating to Improvement District 78-153SJ River Oaks Bond Series 22R and Maintenance District 6 River Oaks Landscape Maintenance.

Outstanding Debt
(000's)

	Business-type activity	
	2002	2001
Jr. Lien Sales Tax Revenue Bonds	\$ 86,795	\$ 88,890
Sr. Lien Sales Tax Revenue Bonds	226,775	232,361
Equipment Trust Certificates	29,660	29,660
Special Assessment with Governmental Commitment	71	103
Total	\$ 343,301	\$ 351,014

The Santa Clara Valley Transportation Authority maintains an “AA” rating from Standard & Poor’s and Fitch and an “Aa3” rating from Moody’s for its Sr. Lien Sales Revenue Bonds. The Equipment Trust Certificates have a rating of Aaa/VMIG-1 from Moody’s and AAA from Standard & Poor’s.

Additional information on the VTA’s long-term debt can be found in note 7 on page 2-40 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following factors were considered in preparing VTA’s budget for the 2003 fiscal year.

- A 5% service reduction plan
- A 15% budget reduction plan, including position eliminations
- Increased costs for salary realignments
- An increasing unemployment rate
- A 4% inflation rate
- Continuing sales tax volatility
- Fare changes designed to increase farebox revenue by 15%

A high level of scrutiny was paid to requests for new projects and augmentations to existing projects in FY 2002-03. As a result, the budget proposes the smallest locally funded VTA Capital Program in seven years. The budget also initiates twelve new projects and augmented two previously approved projects, for an additional new commitment of \$7,517,000, \$2,741,000, will be reimbursed from outside sources. There

are 90 active projects, excluding the Measure B Program, being carried forward from prior capital budgets.

Major capital program highlights:

- Non-Revenue Vehicle procurement
- River Oaks HVAC Scheduled Unit Replacement
- Light Rail T-Signal Retrofit
- Pavement Management Program
- Maintenance Equipment Replacement Program
- Facilities and Equipment Emergency Repair Allowance
- Chaboya Operating facility modification and rehabilitation projects
- Rail Maintenance Engineering Office & ISG Disaster Recovery Room
- Roofing and Painting Management Programs
- Downtown/East Valley Conceptual Design Rail Facility Expansion
- Palo Alto Depot Station Renovation

Requests for Information

Please address all questions or requests for additional information to Financial Accounting Department, Office of the Fiscal Resources Manager, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1906.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Net Assets

June 30, 2002

	Business-type Activity	Governmental Activity	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 5,084,871	\$ 282,721	\$ 5,367,592
Receivables, net	4,125,506	4,600	4,130,106
Due from fiduciary funds	-	1,400,000	1,400,000
Inventories	20,238,940	-	20,238,940
Other current assets	10,603,942	-	10,603,942
Due from other governmental agencies	54,480,206	329,235	54,809,441
Restricted assets:			
Cash and investments	318,808,231	6,704,926	325,513,157
Receivables, net	1,162,665	-	1,162,665
Internal balances	(20,670,849)	20,670,849	-
Due from fiduciary funds	10,042,123	-	10,042,123
Due from other governmental agencies	18,487,543	10,689,464	29,177,007
Deferred bond issuance costs	1,845,911	-	1,845,911
Capital assets:			
Nondepreciable	1,181,067,747	-	1,181,067,747
Depreciable, net of accumulated depreciation	559,844,061	-	559,844,061
Total assets	<u>2,165,120,897</u>	<u>40,081,795</u>	<u>2,205,202,692</u>
LIABILITIES			
Accounts payable	20,512,900	137,794	20,650,694
Other accrued liabilities	8,951,478	48,148	8,999,626
Due to other governmental agencies	4,290,886	-	4,290,886
Liabilities payable from restricted assets:			
Accounts payable	72,020,831	38,065,239	110,086,070
Due to other governmental agencies	83	-	83
Long-term liabilities:			
Due within one year	15,990,889	2,267	15,993,156
Due in more than one year	433,253,830	204,490	433,458,320
Total liabilities	<u>555,020,897</u>	<u>38,457,938</u>	<u>593,478,835</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,367,401,141	-	1,367,401,141
Unrestricted	242,698,859	1,623,857	244,322,716
Total net assets	<u>\$ 1,610,100,000</u>	<u>\$ 1,623,857</u>	<u>\$ 1,611,723,857</u>

See accompanying notes to basic financial statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2002

	Business-type Activity	Governmental Activity	
	Transit	Congestion Management	Total
EXPENSES			
Operations and operating projects	\$ 341,209,587	\$ 2,740,016	\$ 343,949,603
CalTrain subsidy	25,314,993	-	25,314,993
Altamont Commuter Express subsidy	1,739,723	-	1,739,723
Interest expense	14,716,798	-	14,716,798
Other expenses	2,838,180	-	2,838,180
Capital projects for the benefit of other agencies	-	112,697,321	112,697,321
Total expenses	<u>385,819,281</u>	<u>115,437,337</u>	<u>501,256,618</u>
PROGRAM REVENUES			
Charges for services	37,122,197	1,686,484	38,808,681
Operating grants and contributions	127,372,976	2,405,451	129,778,427
Capital grants and contributions	226,125,304	112,667,544	338,792,848
Total program revenues	<u>390,620,477</u>	<u>116,759,479</u>	<u>507,379,956</u>
Net program revenues (expenses)	<u>4,801,196</u>	<u>1,322,142</u>	<u>6,123,338</u>
GENERAL REVENUES			
Sales tax revenue	144,217,679	-	144,217,679
Investment income	24,512,650	29,714	24,542,364
Other income	2,883,008	8,000	2,891,008
Total general revenues	<u>171,613,337</u>	<u>37,714</u>	<u>171,651,051</u>
Change in net assets	176,414,533	1,359,856	177,774,389
Net assets, beginning of year	<u>1,433,685,467</u>	<u>264,001</u>	<u>1,433,949,468</u>
Net assets, end of year	<u>\$ 1,610,100,000</u>	<u>\$ 1,623,857</u>	<u>\$ 1,611,723,857</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Assets
Enterprise Fund (Business-type Activity)
June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,168,684
Investments	3,916,187
Receivables	4,125,506
Due from other governmental agencies	44,740,260
Inventories	20,238,940
Other current assets	<u>10,603,942</u>
Total current assets	<u>84,793,519</u>

Restricted assets:

Cash and cash equivalents	54,290,997
Cash and investments with fiscal agents	32,864,470
Investments	231,652,764
Receivables, net	1,162,665
Due from other funds	10,042,123
Due from other governmental agencies	<u>18,487,543</u>
Total restricted assets	<u>348,500,562</u>

Noncurrent assets:

Deferred bond issuance costs	1,845,911
Due from other governmental agencies	9,739,946

Capital assets:

Nondepreciable:

Land and right of way	572,664,544
Construction in progress	608,403,203

Depreciable:

Buildings, improvements, furniture and fixtures	227,826,416
Vehicles	220,504,063
Light-rail tracks and electrification	276,398,247
CalTrain - Gilroy extension	48,774,692
Other operating equipment	28,366,298
Less: accumulated depreciation	<u>(242,025,655)</u>

Net capital assets	<u>1,740,911,808</u>
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Total assets	<u>2,185,791,746</u>
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(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Fund Net Assets (Continued)

Enterprise Fund (Business-type Activity)

June 30, 2002

LIABILITIES

Current liabilities:

Current portion of long-term debt	\$ 8,159,007
Accounts payable	20,512,900
Other accrued liabilities	8,913,513
Due to other governmental agencies	4,290,886
Total current liabilities	<u>41,876,306</u>

Liabilities payable from restricted assets:

Accounts payable	72,020,831
Other accrued liabilities - current	8,070,000
Due to other funds	20,670,849
Due to other governmental agencies	83
Restricted portion of long-term debt	15,206,433
Other accrued liabilities - noncurrent	97,874,215
Total liabilities payable from restricted assets	<u>213,842,411</u>

Noncurrent liabilities:

Long-term debt, excluding current portion	319,935,064
Other accrued liabilities	37,965
Total noncurrent liabilities	<u>319,973,029</u>

Total liabilities	<u>575,691,746</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,367,401,141
Unrestricted	<u>242,698,859</u>
Total net assets	<u>\$ 1,610,100,000</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund (Business-type Activity)
For the Year Ended June 30, 2002

OPERATING REVENUES	
Passenger fares	\$ 31,282,143
Advertising and other	5,840,054
	37,122,197
OPERATING EXPENSES	
Labor	130,990,186
Fringe benefits	80,877,264
Materials and supplies	20,469,737
Services	24,062,500
Utilities	7,212,102
Casualty and liability	3,199,473
Purchased transportation	35,779,948
Leases and rentals	791,861
Miscellaneous	4,470,598
Depreciation expense	33,355,918
	341,209,587
Total operating expenses	341,209,587
Operating loss	(304,087,390)
NONOPERATING REVENUES (EXPENSES)	
Sales tax revenue	144,217,679
Federal operating assistance grants	23,811,499
State and local operating assistance grants	103,561,477
CalTrain subsidy	(14,897,490)
CalTrain capital contribution	(10,417,503)
Altamont Commuter Express subsidy	(1,739,723)
Investment income	24,512,650
Interest expense	(14,716,798)
Other income	2,883,008
Other expense	(2,838,180)
	254,376,619
Nonoperating revenues, net	254,376,619
Change in net assets before capital contributions	(49,710,771)
Capital contributions	226,125,304
Change in net assets	176,414,533
Net assets, beginning of year	1,433,685,467
Net assets, end of year	\$ 1,610,100,000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows

Enterprise Fund (Business-type Activity)

For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from passenger fares	\$ 34,245,867
Cash received from advertising	5,840,054
Cash paid to employees	(202,655,822)
Cash paid to suppliers	(64,817,156)
Cash paid for purchased transportation	(35,779,948)
Net cash used in operating activities	<u>(263,167,005)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating grants received	142,294,481
Sales tax received	150,536,472
CalTrain subsidy	(24,991,619)
Altamont Commuter Express subsidy	(2,826,297)
Other noncapital receipts	26,508,156
Other noncapital payments	(2,838,180)
Net cash provided by noncapital financing activities	<u>288,683,013</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payment of long-term debt	(7,951,653)
Interest paid on long-term debt	(14,478,680)
Acquisition and construction of capital assets	(294,681,637)
Capital contribution from other governments	216,477,630
Proceeds from the sale of capital assets	467,365
Net cash used in capital and related financing activities	<u>(100,166,975)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	2,199,240,418
Purchases of investments	(2,138,980,020)
Investment income received	18,770,773
Net cash provided by investing activities	<u>79,031,171</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

4,380,204
<u>83,943,947</u>
<u>\$ 88,324,151</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Cash Flows (Continued)
Enterprise Fund (Business-type Activity)
For the Year Ended June 30, 2002

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (304,087,390)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	33,355,918
Changes in operating assets and liabilities:	
Receivables	2,963,724
Inventories	(4,604,878)
Other current assets	91,231
Accounts payable	(97,238)
Other current liabilities	9,211,628
Net cash used in operating activities	<u><u>\$ (263,167,005)</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash and cash equivalents, end of year:

Unrestricted	\$ 1,168,684
Restricted	87,155,467
	<u><u>\$ 88,324,151</u></u>

NONCASH INVESTING ACTIVITIES:

Increase in fair value of investments	<u><u>\$ 4,152,063</u></u>
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SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Balance Sheet
Governmental Funds
June 30, 2002

	Capital Projects Funds		Special Revenue Funds		
	Measure B Highway Program	Congestion Management & Highway Program	Congestion Management Program	Traffic Authority	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ 228	\$ -	\$ 228
Investments	-	-	257,055	25,438	282,493
Receivables, net	-	-	3,000	1,600	4,600
Due from other funds	-	-	1,400,000	-	1,400,000
Due from other governmental agencies	-	-	301,745	27,490	329,235
Restricted assets:					
Cash and cash equivalents	-	2,760,645	-	-	2,760,645
Cash with fiscal agent	3,944,281	-	-	-	3,944,281
Due from other funds	20,585,418	85,431	-	-	20,670,849
Due from other governmental agencies	6,533,646	4,155,818	-	-	10,689,464
 Total assets	 <u>\$ 31,063,345</u>	 <u>\$ 7,001,894</u>	 <u>\$ 1,962,028</u>	 <u>\$ 54,528</u>	 <u>\$ 40,081,795</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 137,794	\$ -	\$ 137,794
Other accrued liabilities	-	-	48,148	-	48,148
Liabilities payable from restricted assets:					
Accounts payable	31,063,345	7,001,894	-	-	38,065,239
Total liabilities	<u>31,063,345</u>	<u>7,001,894</u>	<u>185,942</u>	<u>-</u>	<u>38,251,181</u>
FUND BALANCES					
Unreserved, reported in special revenue funds	-	-	1,776,086	54,528	1,830,614
Total liabilities and fund balances	<u>\$ 31,063,345</u>	<u>\$ 7,001,894</u>	<u>\$ 1,962,028</u>	<u>\$ 54,528</u>	

Amounts reported for governmental activity in the statement of net assets are different because:

Compensated absences are not due and payable in the current period and therefore are not reported in the funds. (206,757)

Net assets of governmental activity (page 2-15) \$ 1,623,857

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	Capital Projects Funds		Special Revenue Funds		Total
	Measure B Highway Program	Congestion Management & Highway Program	Congestion Management Program	Traffic Authority	
REVENUES					
Member agency assessment revenue	\$ -	\$ -	\$ 1,587,191	\$ -	\$ 1,587,191
Federal technical studies					
operating assistance grants	-	-	452,451	-	452,451
Administrative fees	-	-	99,293	-	99,293
State operating assistance grants	-	-	1,953,000	-	1,953,000
Local grant revenue	107,394,333	5,273,211	-	-	112,667,544
Other revenues	-	-	8,000	-	8,000
Investment earnings	-	27,425	-	2,289	29,714
Total revenues	<u>107,394,333</u>	<u>5,300,636</u>	<u>4,099,935</u>	<u>2,289</u>	<u>116,797,193</u>
EXPENDITURES					
Current:					
Congestion management:					
Salaries and benefits	-	-	1,388,188	-	1,388,188
Services	-	-	1,282,652	-	1,282,652
Capital outlay:					
Capital improvement projects	107,394,333	5,300,636	-	2,352	112,697,321
Total expenditures	<u>107,394,333</u>	<u>5,300,636</u>	<u>2,670,840</u>	<u>2,352</u>	<u>115,368,161</u>
CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>1,429,095</u>	<u>(63)</u>	<u>1,429,032</u>
FUND BALANCES, BEGINNING OF YEAR					
As previously reported	-	-	209,410	54,591	264,001
Restated for changes in accounting principles	-	-	137,581	-	137,581
As restated	-	-	346,991	54,591	401,582
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,776,086</u>	<u>\$ 54,528</u>	<u>\$ 1,830,614</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activity in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,429,032
Change in accrued compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(69,176)</u>
Change in net assets of governmental activity (page 2-16)	<u>\$ 1,359,856</u>

SANTA CLARA TRANSPORTATION AUTHORITY

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2002

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Restricted assets:		
Cash and cash equivalents	\$ -	\$ 5,232,516
Investments	215,923,494	159,186,856
Receivables, net	1,088,128	-
Due from brokers	6,717,000	-
Due from other governmental agencies	-	4,809,326
	<u> </u>	<u> </u>
Total assets	<u>223,728,622</u>	<u>169,228,698</u>
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	86,513	6,024,558
Due to brokers	3,734,000	-
Due to other funds	-	11,442,123
Due to other governmental agencies	-	151,762,017
	<u> </u>	<u> </u>
Total liabilities	<u>3,820,513</u>	<u>169,228,698</u>
NET ASSETS		
Net assets held in trust for:		
Pension benefits	212,140,297	-
Retiree medical benefits	6,733,036	-
Retiree dental and vision benefits	1,034,776	-
	<u> </u>	<u> </u>
Total net assets	<u>\$ 219,908,109</u>	<u>\$ -</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Statement of Changes in Plan Net Assets

Pension Trust Funds

For the Year Ended June 30, 2002

ADDITIONS

Contributions	\$ 11,576,060
Investment earnings:	
Investment income	5,118,938
Net depreciation in the fair value of investments	(1,349,813)
Investment expense	(811,347)
Net investment income	2,957,778
Total additions	14,533,838

DEDUCTIONS

Benefit payments	8,077,149
Other benefits paid to participants	28,810
Administrative expenses	411,205
Total deductions	8,517,164
Net increase	6,016,674

NET ASSETS HELD IN TRUST

Beginning of year	213,891,435
End of year	\$ 219,908,109

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

NOTE 1 – THE FINANCIAL REPORTING ENTITY

The Santa Clara Valley Transportation Authority (VTA), which was established in 1972, develops, maintains, and operates a public mass transit system for the benefit of the residents of the County of Santa Clara (County), California (State). VTA's governing board consists of two members of the County Board of Supervisors, five City Council members from the City of San Jose, and five City Council members selected from among the remaining incorporated cities in the County.

The accompanying basic financial statements also include the financial activities of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) Pension Plan (Plan) in the Pension Trust Fund (Note 11). The financial activities of the Plan are blended in the basic financial statements because the Plan exclusively serves the employees of VTA.

The Santa Clara County Traffic Authority (Traffic Authority) was created upon the approval, in November 1984, of a one-half cent sales and use tax in the County by the County's voters. The tax, known as Measure A, commenced April 1, 1985, and expired on March 31, 1995. The proceeds of the tax are principally reserved for highway improvements in the County. The Measure A improvement projects mainly consist of improvements on Routes 85, 101, and 237. All improvements funded by Measure A become the property of the State. As of March 31, 1997, the Traffic Authority ceased operations as a separate entity, and effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The Traffic Authority is included as a major governmental fund in the accompanying basic financial statements.

The Santa Clara Valley Transportation Authority Congestion Management Program (CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for development and implementation of the Valley Transportation Plan 2020 (VTP2020), the long-range transportation and land use plan for the County, and for preparing and implementing the State mandated Congestion Management Program. It is also responsible for the programming and oversight of discretionary federal, State and local funds, and for serving as the program manager for certain county-wide grant funds, including the Transportation Fund for Clean Air (TFCA) and the County's Measure B Transportation Improvement Program's (MBTIP) Ancillary Program. Annual contributions from each member agency are based on a formula adopted by VTA's governing board. The contribution formula considers each member agency's share of Proposition 111, State gas tax monies, as well as employment within the County. The CMP is included as a governmental major fund in the accompanying basic financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Implementation of Governmental Accounting Standards Board Pronouncements*

In fiscal year 2002, the VTA adopted four new pronouncements issued by the Governmental Accounting Standards Board (GASB).

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002.

GASB Statement No. 34 provides new information and restructures information provided in the past. The statement of net assets replaces the balance sheet of the enterprise fund and reports assets, liabilities, and the difference between them as net assets, not equity. The statement of revenues, expenses, and changes in fund net assets replaces the statement of revenues, expenses and changes in retained earnings. GASB Statement No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories. Governmental funds still present information as in the past, however, they will also present data on the accrual basis in the government-wide statement of net assets. Also, it requires the reporting of management's discussion and analysis as required supplementary information.

GASB Statement No. 37 amends GASB Statement No. 34 to either a) clarify certain provisions or b) modify other provisions that GASB believes may have unintended consequences in some circumstances. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in management's discussion and analysis, program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc.

GASB Statement No. 38

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

GASB Interpretation No. 6

The VTA applied the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the modified accrual recognition of expenditures and liabilities. Consequently, certain long-term liabilities, such as compensated absences, should be recognized as governmental fund liabilities and expenditures to the extent that liabilities are normally expected to be liquidated with expendable available financial resources. Management has determined that none of the amounts owed to employees of the Congestion

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

Management Program for compensated absences are due for payment at year-end. Accordingly, the beginning fund balance in the Congestion Management Program Special Revenue Fund as of July 1, 2001, has been restated by \$137,581 to reflect the cumulative effect of the change in reporting compensated absences.

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about VTA, as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *business-type* and *governmental activities* of VTA. Business-type activities, which normally rely to a significant extent on fees charged to external parties, are reported separately from governmental activities, which normally are supported by taxes and inter-governmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type and governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about VTA's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on the major governmental and the enterprise fund, each displayed in a separate column.

VTA's operating revenues are generated directly from its transit operations and consist principally of passenger fares. Operating expenses for the transit operations included all costs related to providing transit services. These costs include labor, fringe benefits, materials, supplies, purchased transportation, and depreciation on capital assets. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

VTA reports the following major funds:

- The *Enterprise Fund* is used to account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's cost of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). VTA's transit operations, the activities of the Measure B Transit Projects and 2000 Measure A operations and transit projects are accounted for in the Enterprise Fund.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

- The *Governmental Funds* are used to account for VTA's general governmental activities where the proceeds of specific revenue sources are legally restricted to expenditures for specific purposes and for the acquisition of capital assets or construction of major capital projects (other than those financed by the Enterprise Fund).
- The *Measure B Highway Program Capital Project Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.
- The *Congestion Management and Highway Program Capital Project Fund* is used to account for the acquisition of capital assets and construction of highway projects administered on behalf of state and other local governments (other than those accounted for in the Measure B Highway Program Capital Project Fund).
- The *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.
- The *Traffic Authority Special Revenue Fund* is used to account for activities to wind up the affairs of the 1985 Measure A improvement projects, which become the property of the State.

VTA reports the following additional fund type:

- The *Fiduciary Funds* are used to account for assets held by VTA as a trustee or as an agent for others and which assets cannot be used to support its own programs. VTA's Trust and Agency Funds include the SCVTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The SCVTA/ATU Pension Plan and the ATU Medical Trust are reported as pension trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds.

(c) ***Basis of Accounting***

The government-wide, proprietary fund and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which VTA gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales tax and grants. Revenues from sales tax are recognized when the underlying transactions take place. Therefore, recorded sales taxes include an estimate for amounts collected by merchants at the end of the fiscal year, but not remitted to the State until subsequent to that time. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

VTA has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units. VTA has elected not to follow subsequent private-sector guidance of FASB after November 30, 1989.

(d) Cash and Investments

VTA contracts with money management firms to manage its investment portfolio. VTA's investment program manager has oversight responsibility for investments managed by these firms. The securities are held by a third-party custodial bank. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

The remaining cash balances in certain VTA funds are pooled and invested by the State of California and the County Treasury (cash and investments with fiscal agents). Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a quarterly basis to the appropriate fund(s) based on their average daily balances.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments, which are readily convertible to known amounts of cash. Restricted and unrestricted cash and cash equivalents and cash and investments with fiscal agents are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Access to cash and investments with fiscal agents is similar to that of a demand deposit account and, therefore, investments are considered to be cash equivalents.

VTA has reported its investments at fair value based on quoted market information obtained from a pricing service provided by the investment management firms and from its fiscal agents. The corresponding change in fair value of investments is recognized in the year in which the change occurs.

The fair value of VTA's investments commingled in County Treasury is based on VTA's cash position with the County as of the end of the fiscal year in proportion to the entire cash held in the commingled pool. The value reported is equal to VTA's share of the commingled pool value.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(e) Inventories

Inventories are stated at average cost and are charged to expense at the time individual items are withdrawn from inventory (consumption method). Inventory consists primarily of parts and supplies relating to transportation vehicles and facilities.

(f) Restricted Assets

Restricted assets consist of monies and other resources, the use of which is either Board designated or legally restricted for the following purposes:

- Capital and operating
- Workers' compensation insurance
- Long-term accrued vacation and sick leave benefits
- General liability insurance
- Retiree health care
- Debt service

(g) Bond Issuance Cost, Discounts and Deferred Amounts on Refundings

Bond and issuance costs and discounts for the government-wide statement of net assets and the enterprise fund are deferred and amortized over the term of the bonds using a method that approximates the interest method. Government-wide statement and enterprise fund bond discounts and deferred amount on refundings are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as a deferred cost.

(h) Capital Assets

Property, facilities, and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings, improvements, furniture and fixtures	5 to 50 years
Vehicles (excluding light-rail vehicles)	5 to 12 years
Light-rail tracks, electrification and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 10 years

Depreciation on such assets is included in the accompanying statement of activities and statement of revenues, expenses, and changes in fund net assets.

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in fiscal year 2001/02.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(i) Other Accrued Liabilities

Other accrued liabilities in the fund financial statements, including those payable from restricted assets, represent accruals for vacation and sick leave benefits, payroll, retiree health care programs, general liability claims, and workers' compensation claims. For government-wide financial statements, all of these liabilities with the exception of payroll, are reported within long-term liabilities and are disaggregated in Note 7.

(j) Vacation and Sick Leave Benefits

It is the policy of VTA to permit employees to accumulate unused vacation and sick leave benefits up to the limit designated in the various collective bargaining agreements. As vacation and sick leave are used during the year, the adjustments are reported as an expense. Accumulated vacation and sick leave are adjusted annually to reflect the value of all unused vacation and the estimated amount of sick leave that will be paid as of the end of the year. For the governmental funds, however, accumulated vacation and sick leave are reported as liabilities when payment is due.

(k) Self-Insurance

VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are accrued as a liability based on an actuarial determination of the present value of estimated future cash payments (see Note 15).

(l) Net Assets

The government-wide and enterprise fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt) and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

(m) Estimates

VTA's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues, expenses, expenditures and the disclosure of contingent liabilities to prepare the basic financial statements in conformity with GAAP. Actual results could differ from those estimates.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2002, are reported in the accompanying basic financial statements as follows:

	Business-type Activity <u>Enterprise Fund</u>	Governmental Activity <u>Governmental Funds</u>	Pension <u>Trust Funds</u>	Agency <u>Funds</u>	<u>Total</u>
Unrestricted:					
Cash and cash equivalents	\$ 1,168,684	228	-	-	1,168,912
Investments	<u>3,916,187</u>	<u>282,493</u>	-	-	<u>4,198,680</u>
Total unrestricted	<u>5,084,871</u>	<u>282,721</u>	-	-	<u>5,367,592</u>
Restricted:					
Cash and cash equivalents	54,290,997	2,760,645	-	5,232,516	62,284,158
Cash and investments with fiscal agents	32,864,470	3,944,281	-	-	36,808,751
Investments	<u>231,652,764</u>	-	<u>215,923,494</u>	<u>159,186,856</u>	<u>606,763,114</u>
Total restricted	<u>318,808,231</u>	<u>6,704,926</u>	<u>215,923,494</u>	<u>164,419,372</u>	<u>705,856,023</u>
Total cash and investments	<u><u>\$323,893,102</u></u>	<u><u>6,987,647</u></u>	<u><u>215,923,494</u></u>	<u><u>164,419,372</u></u>	<u><u>711,223,615</u></u>

As of June 30, 2002, total cash and investments among all funds consisted of the following:

Cash and deposits	\$ 63,453,070
Investments	<u>647,770,545</u>
	<u><u>\$ 711,223,615</u></u>

Deposits

As of June 30, 2002, the carrying amount of VTA's deposit balance, which includes restricted deposits, was \$63,453,070 and the bank balance was \$85,218,425. The difference between the carrying amount and the bank balance is due to outstanding checks and deposits in transit. \$100,000 of the bank balance was covered by federal depository insurance, and \$85,118,425 was collateralized in accordance with Section 53652 of the California Government Code.

The California Government Code requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits, except for repurchase agreements, which should equal 102% of VTA's deposits. The California Government Code also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of those deposits. Such collateral is held by the pledging financial institutions' trust department or agent in VTA's name.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

VTA maintains checking accounts for unrestricted operations, the Congestion Management and Highway Programs (CM&HP) and the Measure B Transportation Improvement Program (Measure B account). These checking accounts earn interest based on the bank's monthly sweep average repurchase agreement rate. At June 30, 2002, the carrying amount of these cash balances were as follows:

Unrestricted operations account	\$ 1,168,912
CM&HP account	2,760,645
Measure B account reported in the Business-type Activity (Enterprise Fund)	54,290,997
Measure B Ancillary Program Agency Fund	<u>5,232,516</u>
Measure B account	<u>59,523,513</u>
Total deposits	<u><u>\$ 63,453,070</u></u>

Investments

VTA's investment policies conform to State statutes, and provide written investment guidance regarding the types of investments that may be made and amounts which may be invested in any one financial institution or amounts which may be invested in long-term instruments. [Permissible investments included deposits with the County Treasurer in a commingled account, obligations of the U.S. Treasury, U.S. government agencies, the State of California Local Agency Investment Fund (LAIF), certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, and repurchase and reverse repurchase agreements.] Investments in commercial paper must be rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. Negotiable certificates of deposit are restricted to those rated B or better by the Thompson Bankwatch, Inc. rating service.

The County Treasury commingled pool (commingled pool) is subject to the County's Investment Policy and State Law and is reviewed by the County's Investment Committee on which VTA serves as a member. The value of the pool shares in the commingled pool which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the VTA's position in the pool.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the VTA's position in the pool.

VTA's portfolio includes structured notes and asset-backed securities, which are invested directly by VTA and indirectly through LAIF. At June 30, 2002, VTA has invested \$20,926,111 directly into structured notes and asset-backed securities, which are reported within U.S. government agency securities. At June 30, 2002, VTA's investment in LAIF is \$10,062,164. The total amount invested by all public agencies in LAIF at June 30, 2002, is \$48,082,558,174. Of that amount, 96.914% is invested in non-derivative financial products and 3.086% in structured notes and asset-backed securities. Information is not available on whether the various mutual funds in which the VTA has invested used or held derivative financial products during the year ended June 30, 2002.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

Investments are categorized below to give an indication of the custodial credit risk assumed by VTA as of June 30, 2002. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

A summary of the VTA's investments at June 30, 2002 is shown below.

	Category		Fair Value
	1	2	
<i>Pooled investments:</i>			
Investments subject to categorization:			
Corporate notes (commercial paper)	\$ 17,486,699	-	17,486,699
Corporate bonds	64,340,503	-	64,340,503
U.S. Treasury and government agency notes	304,324,916	-	304,324,916
Repurchase agreements	-	5,036,036	5,036,036
Subtotal	386,152,118	5,036,036	391,188,154
Uncategorized investments:			
Investments commingled in County Treasury			2,205,830
State of California Local Agency Investment Fund			10,062,164
Mutual funds (retention escrow fund)			19,396,487
Mutual funds			17,768,065
Total pooled investments			440,620,700
<i>Pension Plan investments:</i>			
Investments subject to categorization:			
Equity securities	63,775,603	-	63,775,603
Corporate bonds	42,913,407	-	42,913,407
U.S. Treasury and government agency notes	44,337,024	-	44,337,024
Subtotal investments	151,026,034	-	151,026,034
Uncategorized investments:			
Mutual funds			56,123,809
Total pension plan investments			207,149,843
Total investments	\$537,178,152	5,036,036	647,770,543

As of June 30, 2002, the Pension Trust Fund's restricted investments consisted of the following:

<i>ATU Pension:</i>	
Pension plan investments	\$ 207,149,843
Pooled investments	1,005,839
<i>ATU Medical:</i>	
Pooled investments	7,767,812
	\$ 215,923,494

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2002 is as follows:

Receivable Fund	Payable Fund	Amount
Enterprise Fund	Agency Funds	\$ 10,042,123 ^(a)
Congestion Management Program	Agency Funds	1,400,000 ^(a)
Congestion Management & Highway Program	Enterprise Fund	85,431 ^(b)
Measure B Highway Program	Enterprise Fund	20,585,418 ^(b)
		\$ 32,112,972

(a) Reported as due from fiduciary funds in the government-wide financial statements.

(b) Reported as internal balances in the government-wide financial statements.

Amounts due from the Agency Funds of \$11,442,123 represent Measure B Ancillary Program revenues made available through its fund swap program (see Note 9). The Enterprise Fund collects advances from Santa Clara County for the Measure B Transit and Highway Projects. The portion of funds held for highway projects are transferred to the Measure B Highway Program Capital Projects Fund as payments are made. The \$20,585,418 due to the Measure B Highway Program represents amounts held for highway project not transferred at June 30, 2002.

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2002 consisted of the following:

	Business-type Activity	Governmental Activity		
	Enterprise Fund	Governmental Funds	Agency Funds	Total
Current:				
Federal government	\$ 20,141,785	116,745	-	20,258,530
State government	29,463,093	8,642,829	-	38,105,922
County of Santa Clara	12,952,156	-	4,809,326	17,761,482
Others	670,769	2,259,125	-	2,929,894
Total	63,227,803	11,018,699	4,809,326	79,055,828
Noncurrent:				
Federal government	9,739,946	-	-	9,739,946
Total	\$ 72,967,749	11,018,699	4,809,326	88,795,774

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

Due from other governmental agencies as of June 30, 2002, is reported in the accompanying basic financial statements as follows:

	<u>Business-type Activity</u>	<u>Governmental Activity</u>	
	<u>Enterprise Fund</u>	<u>Governmental Funds</u>	<u>Agency Funds</u>
Current	\$ 44,740,260	329,235	-
Restricted	18,487,543	10,689,464	4,809,326
Noncurrent	9,739,946	-	-
Total	<u>\$ 72,967,749</u>	<u>11,018,699</u>	<u>4,809,326</u>

Due to other governmental agencies as of June 30, 2002, consisted of the following:

	<u>Business-type Activity</u>	
	<u>Enterprise Fund</u>	<u>Agency Funds</u>
State government	\$ 1,346,582	-
Peninsula Corridor Joint Powers Board	2,944,387	-
County of Santa Clara	-	146,326,180
City of San Jose		5,071,585
City of Santa Clara		317,807
Other local governments	-	46,445
Total	<u>\$ 4,290,969</u>	<u>151,762,017</u>

Due to other governmental agencies as of June 30, 2002, is reported in the accompanying basic financial statements as follows:

	<u>Business-type Activity</u>	
	<u>Enterprise Fund</u>	<u>Agency Funds</u>
Current liabilities	\$ 4,290,886	-
Liabilities payable from restricted assets	83	151,762,017
Total	<u>\$ 4,290,969</u>	<u>151,762,017</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA’s business-type activity for the year ended June 30, 2002 were as follows:

	July 1, 2001	Additions	Retirements	June 30, 2002
<i>Capital assets, not being depreciated:</i>				
Land and right of way	\$ 571,682,204	982,340	-	572,664,544
Construction in progress	<u>332,369,648</u>	<u>350,441,030</u>	<u>(74,407,475)</u>	<u>608,403,203</u>
Total capital assets, not being depreciated	<u>904,051,852</u>	<u>351,423,370</u>	<u>(74,407,475)</u>	<u>1,181,067,747</u>
<i>Capital assets, being depreciated:</i>				
Buildings, improvements, furniture and fixtures	229,819,861	3,066,150	(5,059,595)	227,826,416
Vehicles	185,850,634	63,442,528	(28,789,099)	220,504,063
Light-rail tracks and electrification	272,749,787	3,648,460	-	276,398,247
CalTrain – Gilroy extension	48,774,692	-	-	48,774,692
Other operating equipment	<u>27,452,508</u>	<u>913,790</u>	<u>-</u>	<u>28,366,298</u>
Total capital assets, being depreciated	<u>764,647,482</u>	<u>71,070,928</u>	<u>(33,848,694)</u>	<u>801,869,716</u>
<i>Less accumulated depreciation for:</i>				
Buildings, improvements, furniture and fixtures	(89,391,886)	(8,621,357)	3,468,866	(94,544,377)
Vehicles	(100,028,517)	(10,761,217)	27,496,218	(83,293,516)
Light-rail tracks and electrification	(39,225,981)	(11,030,066)	-	(50,256,047)
CalTrain – Gilroy extension	(4,428,059)	(540,718)	-	(4,968,777)
Other operating equipment	<u>(6,560,378)</u>	<u>(2,402,560)</u>	<u>-</u>	<u>(8,962,938)</u>
Total accumulated depreciation	<u>(239,634,821)</u>	<u>(33,355,918)</u>	<u>30,965,084</u>	<u>(242,025,655)</u>
Total capital assets, being depreciated, net	<u>525,012,661</u>	<u>37,715,010</u>	<u>(2,883,610)</u>	<u>559,844,061</u>
Total capital assets, net	<u>\$1,429,064,513</u>	<u>389,138,380</u>	<u>(77,291,085)</u>	<u>1,740,911,808</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2002:

Vasona Corridor Project	\$ 142,640,340
Tasman Corridor Project Extensions	131,167,358
Facilities Modifications	107,634,813
New Rail Vehicles	90,693,796
Capitol Corridor Projects	88,317,903
Guadalupe Corridor	24,961,945
Software Development	8,422,841
Silicon Valley Rapid Transit Corridor	6,137,444
Study Projects	5,151,444
Coach and Vehicle Replacement	5,084,907
Caltrain Service Improvements	4,748,296
VTA Administration Building Improvement	3,261,509
Fremont Rail Connection	2,941,800
Environmental Building and Site Modifications	<u>7,307</u>
Total project costs expended to date	621,171,703
Less right-of-way acquisitions not yet settled ⁽¹⁾	<u>(12,768,500)</u>
CIP, as reported on the balance sheet at 6/30/02	<u>\$ 608,403,203</u>

⁽¹⁾ The projects listed above include \$12,768,500 paid for right-of-way acquisitions that have not yet settled. During the process of acquiring right-of-way, VTA makes deposits with the County of Santa Clara, which are reported as due from other governments. Upon settlement of the purchase and transfer of title into the name of VTA, these acquisitions will be reported as construction in progress.

Additional information regarding projects in progress as of June 30, 2002, follows:

Total Board approved project budget	\$ 1,474,728,017
Expended to date	<u>621,171,703</u>
Expenditure budget available for CIP	<u>\$ 853,556,314</u>
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	\$ 718,898,162
Local contribution (Note 10)	<u>134,658,152</u>
Total funding sources	<u>\$ 853,556,314</u>

VTA has outstanding commitments of \$441,436,000 as of June 30, 2002, related to the above capital projects.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2002, consisted of the following:

Sales Tax Revenue Bonds:	
2001 Series A Senior Lien (\$195,230,000, less unamortized discount of \$1,631,030)	\$ 193,598,970
2000 Series A Junior Lien	39,050,000
1998 Series A Junior Lien	47,745,000
1997 Series A Refunding (\$36,390,000, less unamortized discount of \$315,966 and unamortized deferred amount on refunding of \$2,898,391)	33,175,643
Series 1985A Equipment Trust Certificates	29,660,000
Improvement Bond Series 22R	70,891
Total long-term debt	<u>343,300,504</u>
Less current portion of long-term debt	<u>(8,159,007)</u>
Long-term debt, excluding current portion	335,141,497
Less restricted portion of long-term debt	<u>(15,206,433)</u>
Long-term debt, excluding current and restricted portions	<u><u>\$ 319,935,064</u></u>

(a) 2001 Series A Senior Lien Sales Tax Revenue Bonds

In June 2001, VTA issued \$200,000,000 of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds) to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Issuance costs are being amortized over the term of the debt. The 2001 Bonds are special obligations of VTA, which are payable and secured by sales tax revenues.

The 2001 Bonds mature serially, beginning June 1, 2002 through June 1, 2026. Future annual principal payments range from \$3,295,000 to \$17,945,000 and bear interest at rates ranging from 4.5% to 5.5%.

(b) 2000 Series A Junior Lien Sales Tax Revenue Bonds

In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 20), VTA issued \$40,000,000 of 2000 Series A Junior Lien Sales Tax Revenue Bonds (2000 Bonds) to finance certain capital expenditures. Issuance costs related to such bonds are being amortized over the term of the debt. The 2000 Bonds are special obligations of VTA, which are payable from and secured by sales tax revenue.

The 2000 Bonds mature serially, beginning October 1, 2001 through October 1, 2027. Future annual principal payments range from \$980,000 to \$2,175,000 and bear a variable rate of interest not to exceed 12%. At June 30, 2002, the variable interest rate was 1.15%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(c) 1998 Series A Junior Lien Sales Tax Revenue Bonds

In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 20), VTA issued \$50,000,000 of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital projects. Issuance costs related to such bonds are being amortized over the term of the debt. The 1998 Bonds are special obligations of VTA, which are payable from and secured by sale tax revenues.

The 1998 Bonds mature serially, beginning October 1, 2000 through October 1, 2027. Future annual principal payments on the 1998 Bonds range from \$1,180,000 to \$2,690,000 and bear a variable rate of interest. At June 30, 2002, the variable interest rate was 1.15%, which is determined weekly based on the Bond Buyers Revenue Bond Index plus 50 basis points.

(d) 1997 Series A Sales Tax Revenue Refunding Bonds

In November 1997, VTA issued \$40,570,000 of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds). The proceeds were used to advance refund \$33,270,000 of the outstanding principal amount of its 1991 Series A Bonds, advance refund \$4,940,000 of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures of VTA. The 1997 bonds are special obligations of VTA, which are payable from and secured by sales tax revenues. As of June 30, 2002, the 1991 Series A bonds were paid in full and \$4,265,000 of the Series C Certificates remains outstanding.

The bonds mature serially, beginning June 1, 1998 through June 1, 2015. Future annual principal payments on the 1997 Bonds range from \$1,120,000 to \$2,825,000 and bear interest ranging from 4.3% to 5.0%.

(e) Series 1985A Equipment Trust Certificates

The 1985A Certificates were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, which had been issued to finance the acquisition of light-rail vehicles for the Guadalupe Corridor light-rail project. Proceeds from the sale of the 1985A Certificates were \$52,155,000, which was net of issuance costs of \$705,000. Issuance costs are being amortized over the term of the debt. In August 1998, VTA executed a Fixed Rate Swap (Swap) for the variable rate 1985A Certificates at an all-inclusive fixed rate of 4.643% including transaction costs and annual fees. The notional amount of the Swap was approximately \$29,700,000 and the term is 17 years through 2015. The Swap became effective on September 14, 1998.

The 1985A Certificates are limited general obligations of VTA and are secured by sales tax revenue and an irrevocable letter of credit in the amount of \$30,074,000, which expires on June 1, 2015. The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. As of June 30, 2002, VTA had repaid \$23,200,000 of the 1985A Certificates. As a result of making payments prior to scheduled maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(f) Improvement Bond Series 22R

The Improvement Bond Series 22R (Bonds) were assumed by VTA upon the purchase of land in fiscal 1992 to be used as VTA's administration building site. The Bonds were originally issued in 1979, bear interest at 6.9%, and mature through 2004. Future principal payments are \$34,000 and \$36,891.

(g) Scheduled Payments

Annual debt service requirements (including sinking fund requirements) to maturity for long-term debt are as follows:

Year ending June 30,	Principal	Interest ⁽¹⁾
2003	\$ 8,159,007	13,867,357
2004	8,541,884	13,525,128
2005	8,895,000	13,190,835
2006	9,285,000	12,842,267
2007	9,735,000	12,438,247
2008-2012	55,320,000	56,049,766
2013-2017	68,615,000	44,373,640
2018-2022	85,825,000	29,260,809
2023-2027	88,905,000	9,486,586
2028-2032	4,865,000	27,974
Total debt service requirements	<u>\$348,145,891</u>	<u>205,062,609</u>

⁽¹⁾ For the purposes of calculating the annual debt service requirements, the June 30, 2002 effective rate of 1.15% was used for the variable rate debt.

Changes in long-term liabilities for the business-type activity are as follows:

	July 1, 2001	Additions	Retirements	June 30, 2002	Amounts Due Within One Year
Sales Tax Revenue Bonds:					
2001 Series A Senior Lien	\$200,000,000	-	(4,770,000)	195,230,000	4,845,000
2000 Series A Junior Lien	40,000,000	-	(950,000)	39,050,000	980,000
1998 Series A Junior Lien	48,890,000	-	(1,145,000)	47,745,000	1,180,000
1997 Series A Refunding	37,445,000	-	(1,055,000)	36,390,000	1,120,000
Series 1985A Equipment Trust Certificates	29,660,000	-	-	29,660,000	-
Improvement Bond, Series 22R	102,544	-	(31,653)	70,891	34,007
Total long-term debt	356,097,544	-	(7,951,653)	348,145,891	8,159,007
Less deferred amounts	(5,083,505)	-	238,118	(4,845,387)	(238,118)
Long-term debt, net	351,014,039	-	(7,713,535)	343,300,504	7,920,889
Claims liability:					
General liability insurance	12,463,490	4,043,380	(3,393,172)	13,113,698	680,000
Worker's compensation liability	37,044,068	11,476,846	(9,277,009)	39,243,905	2,603,000
Total claims liability	49,507,558	15,520,226	(12,670,181)	52,357,603	3,283,000
Retiree health care	29,011,696	3,903,860	-	32,915,556	2,787,000
Accrued vacation and sick leave	18,205,960	2,465,096	-	20,671,056	2,000,000
Total long-term liabilities	<u>\$447,739,253</u>	<u>21,889,182</u>	<u>(20,383,716)</u>	<u>449,244,719</u>	<u>15,990,889</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

Changes in long-term liabilities for the governmental activity are as follows:

	July 1, 2001	Additions	Retirements	June 30, 2002	Amounts Due Within One Year
Accrued vacation and sick leave	\$ 137,581	69,176	-	206,757	2,267

(h) Limitations and Restrictions

There are a number of limitations and restrictions contained in the various bond indentures. VTA's management believes that VTA is in compliance with all significant limitations and restrictions.

(i) Lease - Leaseback

In September 1998, VTA simultaneously entered into two transactions to lease out 50 vehicle cars to investors (Headlease), State Street Bank and Trust Company of Connecticut, National Association (Trustee), and simultaneously sublease the vehicles back from the investors for a period of 32 to 33 years. VTA maintains ownership of the vehicles and is obligated to insure and maintain the vehicles throughout the term of the lease. VTA has the right to buy out the lease after 16.5 and 18.5 years depending on the equity investor and the condition of the equipment.

VTA received a prepayment of approximately \$92,286,000, which represented all rental obligations up to the date of the early buy-out option. Investors made equity contributions of approximately 20% and a financial institution made loans to the trust for the balance of the Headlease rental prepayment amount. VTA is required to make annual rental payments pursuant to the sublease.

Simultaneously, VTA entered into a sublease prepayment agreement with the financial institution. VTA made a payment to the financial institution in the amount of \$68,149,000 in consideration of the assumption by the financial institution of the debt portion of future rental payments, the debt portion of the early buy-out option and its absolute, unconditional and irrevocable guarantee of the prompt payment of such amounts when due.

VTA used an additional \$16,853,000 of the Headlease prepayment to purchase obligations of the United States government in various dollar amounts and maturities which coincide with the due dates of the equity portion of the sublease rental obligations and the equity portion of the early buy-out option. The investments have been transferred to a custodian. Additionally, VTA acquired a financial guaranty insurance policy to secure the equity portion of the sublease rental obligations.

VTA paid \$1,683,000 in appraisal, legal advisor and other fees. The pecuniary benefit to VTA in fiscal 1999 was \$5,600,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(j) *Japanese Operating Lease*

In June 2000, VTA had entered into a Japanese operating lease (JOL) transaction covering 285 buses of various vintages manufactured by Gillig and Flexible (Buses). VTA received payments totaling \$55.4 million and VTA is obligated to make semi-annual rental payments throughout the term of the leases. VTA paid \$53.4 million to financial institutions to assume the rental obligations. As a result of the JOL transaction, VTA realized a financial benefit of \$2,022,000.

VTA has the ability to terminate the leases on the Buses after 6 years with respect to some of the Buses, and after 8 years with respect to the remainder of the Buses. VTA will continue to operate, maintain, and insure the Buses throughout the term of the lease.

NOTE 8 – SALES TAX REVENUE

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately \$1,227,000 in fiscal year 2001/02.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program

In November 1996, the voters of Santa Clara County approved Measure A - an advisory measure listing an ambitious program of transportation improvements for the County. Also approved on the same ballot, Measure B authorized the County Board of Supervisors to collect a nine-year half-cent sales tax for general County purposes. The tax was identified as a funding source for Measure A projects. Collection of the tax began in April 1997; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. In August 1998, the California courts upheld the tax allowing the Measure A transportation program to move forward.

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA are in a position to complete a transportation program valued at \$2.1 billion. The County will administer the funding, and VTA will be responsible for project management of the transit and highway projects and will assist in the administration of the pavement management and bicycle elements of the program.

The Measure B Transit Projects, which consist mainly of light-rail extensions and new rail vehicles, become the property of VTA. The Measure B Highway projects, which consist primarily of widening highways and improvements become the property of the State. The accompanying basic financial statements include the financial activities of the Measure B Transit Projects in the Enterprise Fund and in the business-type activity, Measure B Highway Projects in a capital projects fund and in the governmental activity and the Measure B Ancillary Program, which includes pavement management and bicycle elements, in an agency fund.

In fiscal year 2001, VTA and the County entered into two agreements for Fund Swap arrangements, whereby VTA agreed to secure federal and/or State grant funds and program them for certain 1996

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

MBTIP Projects in exchange for the County to release the corresponding 1996 MBTIP Project funds for other local projects. The Tasman East Light Rail Project was programmed for \$72.8 million in grant funds with \$67.9 million being available for other local projects and the Vasona Light Rail Project was programmed for \$51.6 million with the same amount being available for other local projects.

A third agreement provided for a simultaneous exchange of funds. VTA secured 2001 Series A Senior Lien Sales Tax Revenue Bonds to reimburse the County approximately \$184.1 million of 1996 MBTIP project costs, namely the Tasman East, Vasona and Capitol Corridor Light Rail Projects. The reimbursement of 1996 MBTIP project costs made \$184.1 million available for the acquisition of low floor vehicles. On December 3, 2001, amendment #1 to the agreement was executed to increase the amount of reimbursement to \$198.3 million. As of June 30, 2002, full reimbursement of the \$198.3 million was made to the Measure B Ancillary Program Agency Fund and approximately \$53.8 million have been expended for the acquisition of low floor vehicles.

During the year, VTA paid approximately \$290.2 million for current year costs for the program. Of this amount, the County of Santa Clara contributed approximately \$243.5 million; namely \$117.3 million for transit projects in the Enterprise Fund; \$107.4 million for highway projects in the Measure B Highway Capital Projects Fund; and \$27.9 million for the Ancillary Program (Pavement and Bikeways). The remaining balance was received from various federal, State and local fund sources.

2000 Measure A Program

The Santa Clara Valley Transportation Authority 2000 Measure A Program (MAP) was created in response to the Measure A ballot approved by the voters of Santa Clara County on November 7, 2000. The MAP is responsible for a number of key capital transit projects, including the connection of rapid transit to San Jose, increased bus and light rail service and providing for related operating expenses.

The MAP is funded by the half-cent sales tax to be imposed for a period of 30 years and to take effect upon expiration of the current county of Santa Clara 1996 Measure B half-cent sales tax, April 1, 2006. VTA will receive the half-cent sales tax directly.

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

The VTA is dependent upon the receipt of 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.

FTA and FHWA reserve the right to audit expenditures financed by their grants to determine if such expenditures comply with the conditions of the grant agreements. VTA's management believes the results of such audits would not have a material adverse effect on the VTA's financial position. FTA and FHWA retain their interest in assets acquired under federal grants should the assets be disposed of prior to the end of their economic lives, or not be used for mass transit purposes.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

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

(a) Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2002, are summarized as follows:

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
FTA Section 9	\$ 23,284,688	-
Job Access and Reverse Commute Program	445,142	-
Federal Technical Studies	81,669	452,451
Total operating assistance grants	23,811,499	452,451
Capital grants:		
FTA Section 3	15,693,857	-
FTA Section 9	60,635,326	-
Total capital grants	76,329,183	-
Total operating assistance and capital grants	\$ 100,140,682	452,451

(b) State and Local Grants and Assistance

State and local grants for the business-type activity and the enterprise fund for the year ended June 30, 2002, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 95,400,982
State Transit Assistance	7,003,123
AB434	1,045,632
Other programs	111,740
Total operating assistance grants	103,561,477
Capital grants:	
Transit Capital Improvement	437,854
Traffic Congestion Relief Program	5,334,822
State Flexible Congestion Relief	4,190,860
AB434	80,422
General Fund	439,518
State/Local Partnership	497,795
Other local grants:	
Santa Clara County (Fund Swap Program)	19,583,175
Various cities and counties	1,922,430
Total capital grants	32,486,576
Total state and local grants	\$ 136,048,353

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

Transportation Development Act (TDA) funds represent VTA's share of the 0.25% sales tax collected in the County.

State Transit Assistance (STA) represents funds received pursuant to the STA Program, whereby, a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Transportation Planning and Development Account for certain transit and energy-related purposes. STA funds are allocated throughout the State on the basis of population and operating revenues and are claimed by VTA on a cost-reimbursement basis.

AB434 fees represent funds received from the Bay Area Air Quality Management District. These funds are used for shuttle services and projects promoting clean air in the South Bay.

Transit Capital Improvement (TCI) program funds are received from the State Transportation Planning and Development Account. All state funds must be matched by 50% of local funds. Projects are programmed by the California Transportation Commission, with each county assigned a county minimum allocation.

The Traffic Congestion Relief Program (TCRP) provides funds for projects throughout the State of California to reduce traffic congestion, provide for safe and efficient movement of goods, and provide system connectivity. TCRP is being implemented by the California Transportation Commission, in consultation with State Department of Transportation.

State Flexible Congestion Relief (State FCR) funds are from the State Highway Account (SHA) which is programmed in the State Transportation Improvement Program (STIP). These funds are used to reimburse project costs relating to construction of the Tasman Corridor Project.

General funds are received from the State of California through its Business Transportation and Housing Agency, Department of Transportation. The funds are to be used to reimburse project costs relating to the Vasona Lightrail-Winchester Extension Project.

State/Local Partnership (SLP) was originally created by SB140 and subsequently funded by the passage of Proposition 111 for locally funded and constructed highway and exclusive mass transit guideway projects. Applications for eligible projects are submitted to Caltrans and the amount of state match available is dependent on the number of applicants and the size of the legislative appropriation. The funds are used to reimburse project costs relating to the Tasman East Project.

Santa Clara County Fund Swap is Measure B revenue received by VTA for local projects in exchange for federal and/or State grant funds and program them for certain 1996 MBTIP Projects. Additional information on the 1996 MBTIP can be found in Note 9, starting on page 2-44.

Various cities and districts contribute revenue to light rail projects for project enhancements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

**NOTE 11 – SANTA CLARA VALLEY TRANSPORTATION AUTHORITY AMALGAMATED
TRANSIT UNION PENSION PLAN**

(a) Plan Description

All ATU employees are covered by the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan). The Plan is a noncontributory single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation.

Employees with 10 or more years of service are entitled to full annual pension benefits beginning at normal retirement age of 65. Employees with less than 10 years of service are entitled to a reduced annual benefit at age 65 providing the Pension Board approves of such a benefit. Employees with 15 or more years of service are entitled to full annual pension benefits beginning at age 55. The Plan permits early retirement if an employee becomes disabled after 10 or more years of service, and deferred vested retirement upon employee termination after 10 or more years of service, with benefits payable permitted at age 65. Employees may elect to receive their benefits in the form of a joint or survivor annuity. These benefit provisions and all other requirements are established by California statute and the labor agreement with the ATU.

VTA enhanced the Pension benefit for ATU represented employees effective February 1, 2001 and they will be enhanced again on February 1, 2003. The enhancement scheduled for February 1, 2004 was accelerated to July 1, 2002.

Separately issued audited financial statements of the Plan are available from VTA.

The current membership of the Plan as of June 30, 2002, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	542
Terminated vested members not yet receiving benefits	158
Active members	<u>1,862</u>
Total	<u><u>2,562</u></u>

(b) Basis of Accounting

Contributions are recognized as revenue in the period in which employee services are performed. Benefits (distributions to participants) and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(c) Actuarial Methods and Assumptions

<u>Description</u>	<u>Methods/Assumptions</u>						
Valuation date	January 1, 2002						
Actuarial cost method	Entry Age Normal, with normal cost determined on an aggregated basis.						
Amortization method for actuarial accrued liabilities	Level dollar open method						
Remaining amortization period	20 years (Level dollar open method)						
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year.						
Actuarial assumptions	<table border="0"> <tr> <td>Investment rate of return</td> <td align="right">8.00%</td> </tr> <tr> <td>Projected salary increases</td> <td align="right">4.28%</td> </tr> <tr> <td>Inflation rate</td> <td align="right">3.50%</td> </tr> </table>	Investment rate of return	8.00%	Projected salary increases	4.28%	Inflation rate	3.50%
Investment rate of return	8.00%						
Projected salary increases	4.28%						
Inflation rate	3.50%						

(d) Concentrations

Investments in the commingled State Street Bank and Trust Company S&P 500 Conservative Index Fund and commingled Putnam International Trust Fund represented 13.9% and 11.0%, respectively, of the Plan's net assets as of June 30, 2002.

(e) Funding Policy

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2002, were made in accordance with actuarially determined requirements computed as of January 1, 2001. VTA's contribution rate as a percentage of payroll was 10.6% for fiscal year 2001/02.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2002. The three-year trend information is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/00 ^(a)	\$ 17,524,000	100%	-
6/30/01	7,349,000	100%	-
6/30/02	10,302,000	100%	-

^(a) In fiscal year 1999/2000, the required contributions included a change to a one-year amortization period for the unfunded accrued liability totaling approximately \$10,727,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

NOTE 12 – PUBLIC EMPLOYEES’ RETIREMENT PLAN

(a) Plan Description

All eligible non-ATU employees of VTA participate in the State's Public Employees Retirement System (CalPERS). Prior to separation from the County on January 1, 1995, all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency were transferred to VTA's CalPERS account. The transfer of related assets at a market value totaling approximately \$52,300,000 was completed by CalPERS in fiscal 1999.

CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within California. CalPERS provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by state statute and VTA resolutions. VTA contracts with CalPERS to administer these benefits. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

(b) Actuarial Methods and Assumptions

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	June 30, 1999
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	16 years, closed period
Inflation rate	3.5% compounded annually
Investment return	8.25% compounded annually (net of expenses)
Salary growth	Project salary increases that vary by duration of age, service, and type of employment

(c) Funding Policy

Active members in VTA's CalPERS Plan (CalPERS Plan) are not required to contribute to the CalPERS Plan. VTA elected to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 2001 through June 30, 2002, was 4.877% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may be amended by CalPERS.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2002. For fiscal year 2002, VTA's annual pension cost was approximately \$6,361,000, which was fully contributed. The required contribution for fiscal year 2002 was determined as part of the June 30, 1999, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay.

Three-year trend information follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	\$ 5,502,000	100%	-
6/30/01	5,077,000	100%	-
6/30/02	6,361,000	100%	-

NOTE 13 - ATU MEDICAL TRUST

VTA had net assets as of June 30, 2002 of \$6,733,036 for the ATU Medical Trust (Trust) and \$1,034,776 for the Retiree Vision and Dental Trust. The Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA's required contribution to the Trust was increased from \$.20 to \$.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2002, there were 187 participating spouses who were eligible for benefits from the Trust. Contributions, which were expensed by VTA, were approximately \$847,000. Benefit payments made by the Trust for fiscal year 2002 were approximately \$331,000.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.10 per hour worked by ATU employees. As of June 30, 2002, there were 508 eligible participants. Contributions, which were expensed by VTA, were approximately \$426,000 for the Retiree Vision and Dental Trust.

NOTE 14 - RETIREE HEALTH CARE PROGRAMS

(a) ATU

VTA provides an ATU Retiree Health Care Program (ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2002, 508 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (Non-ATU Program). As of June 30, 2002, 128 retirees met the eligibility requirements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(c) Actuarial Information

An actuarial study as of January 1, 2001, projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$55,677,000 and \$23,544,000 for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded on an actuarially determined basis. For the year ended June 30, 2002, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately \$6,518,000. Benefits paid to participants of the program were approximately \$2,496,000.

The actuarial cost method used for determining the benefit obligations is the projected unit benefit cost method. The significant economic assumptions used were as follows: 1) a discount rate of 8.0%, 2) a projected salary increase of 5%, and 3) a health inflation assumption of 7%, graded down 0.5% per year to 6% after 2 years.

As of June 30, 2002, VTA had restricted assets of \$32,915,556 to cover future payments of the ATU and Non-ATU Programs.

NOTE 15 – SELF-INSURANCE

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2002:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	\$1,000,000	Statutory (no limit)
Employer's liability	\$1,000,000	\$3,000,000 per accident
Excess public entity liability	\$2,000,000	\$23,000,000
Property, boiler, and machinery	\$100,000	\$168,432,000 combined blanket limit
Flood/earthquake:		
National Flood Insurance (eligible locations)	\$5,000	\$500,000
Other insurance - flood	\$100,000 – flood	\$20,000,000
Other insurance - earthquake	5% of location value	\$20,000,000
Light rail vehicles include spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipment	\$25,000	\$20,000,000
Crime	\$25,000	\$5,000,000
Owner-controlled insurance programs:		
Light rail construction projects	\$-0-	\$10,000,000
Highway construction projects	\$-0-	\$50,000,000
Builder's risk	\$-0-	\$100,000,000

For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(a) Workers' Compensation and General Liability

The unpaid general liability and workers' compensation claim liability, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported and claims adjustment expenses. Claims liability discount rates are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors. Estimated losses for general liability and workers' compensation claims are charged to expense in the period the loss is incurred (including estimates for claims incurred but not yet reported) and are accrued as a liability based on the present value of estimated future cash payments using a 6% average discount rate for workers' compensation as of June 30, 2002, and a 6% average discount rate for general liability as of June 30, 2002, until paid. It is VTA's practice to obtain full actuarial studies annually. VTA uses third-party administrators to perform its claims processing function.

Changes in the balances of workers' compensation and general claims liabilities for the two years ended June 30, 2002, are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>
Unpaid claims at June 30, 2000	\$ 34,240,885	12,362,681
Provision for claims and claims adjustment expense	10,617,974	2,379,948
Payment for claims	<u>(7,814,791)</u>	<u>(2,279,139)</u>
Unpaid claims at June 30, 2001	37,044,068	12,463,490
Provision for claims and claims adjustment expense	11,476,846	4,043,380
Payment for claims	<u>(9,277,009)</u>	<u>(3,393,172)</u>
Unpaid claims at June 30, 2002	<u>\$ 39,243,905</u>	<u>13,113,698</u>

Estimated losses on claims other than workers' compensation and general liability are charged to expenses in the period the loss is determinable.

NOTE 16 – LEASES

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$792,000 in fiscal year 2001/02. The future lease payments under noncancellable lease agreements are as follows:

<u>Year ending June 30,</u>	
2003	\$ 477,507
2004	431,098
2005	244,984
2006	215,792
2007	224,943
2008-2012	<u>964,835</u>
Total	<u>\$ 2,559,159</u>

NOTE 17 – LITIGATION

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

Claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2002.

NOTE 18 – CONTRACTED SERVICES PROVIDED BY THE COUNTY OF SANTA CLARA

The County provides support services to VTA for protection (Office of the Sheriff), fuel for vehicles and vehicle maintenance and repairs. Amounts paid to the County for such services were approximately \$4,559,000 during fiscal year 2001/02.

NOTE 19 – JOINT VENTURES

(a) *Peninsula Corridor Joint Powers Board*

VTA is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District (SamTrans) and County of San Francisco (CCSF). The PCJPB is governed by a separate board composed of nine members, three from each participating agency. The PCJPB was formed in October 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The PCJPB began operating the Peninsula CalTrain rail service on July 1, 1992. Prior to July 1, 1992, such rail service was operated by CalTrans.

The net operating costs and administrative expenses of the PCJPB, for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 40.18%, 41.66%, and 18.16%, respectively, of the member agencies' total reimbursement for such expenses.

During the year ended June 30, 2002, VTA paid \$14,897,490 to the PCJPB for operating costs and \$10,417,503 for capital contributions and other costs. VTA reclassified \$323,374 from prepaid contributions to recognize the additional operating costs incurred by PCJPB, which exceeded the amount of the member contributions paid by VTA during the year. PCJPB made a corresponding reduction of VTA's uncommitted member contributions paid-to-date, leaving a balance of \$6,476,327 at the end of the fiscal year.

SamTrans serves as the managing agency of the PCJPB, providing administrative personnel and facilities. The disbursement of funds received by the PCJPB is controlled by provisions of various grant contracts entered into with the U.S. government, the State, and the member agencies.

VTA's agreement with the PCJPB expired in 2001 and continues in full force and effect on a year-to-year basis, until any member provides a one-year's prior written notice of withdrawal. If two or more parties to the agreement withdraw, then the agreement shall terminate at the end of the fiscal year following expiration of the one-year's notice given by the second party. In that event, the property and funds of the PCJPB would be distributed to the member agencies in accordance with a separate agreement to be entered into between the parties.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued) For the Year Ended June 30, 2002

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2002 (unaudited), is as follows:

Total assets	\$ 797,781,348
Total liabilities	<u>(117,356,279)</u>
Total equity	<u>\$ 680,425,069</u>
Operating revenues	\$ 24,163,399
Operating expenses	(61,635,180)
Non operating revenues, net	<u>37,471,781</u>
Net loss	<u>\$ -</u>

Complete financial statements for the PCJPB can be obtained from SamTrans at 1250 San Carlos Avenue, San Carlos, California 94070.

(b) *Altamont Commuter Express*

The Altamont Commuter Express (ACE) is a commuter rail service covering over 85 miles between Stockton and San Jose with stops in Manteca, Tracy, Livermore, Pleasanton, Fremont, Santa Clara, and San Jose. ACE is funded by the member agencies of VTA, the Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission which also serves as the managing agency.

ACE commenced operations in October 1998, and now provides three daily round trip commuter rail service, three times per day, from Stockton through the Tri-Valley Area of Alameda County to Santa Clara County. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 43% from VTA, 23% from San Joaquin Regional Rail Commission and 34% from the Alameda County Congestion Management Agency. During the year ended June 30, 2002, VTA contributed approximately \$2,826,297 for operating costs.

Operating costs were subsequently reduced when VTA reclassified \$1,086,574 to prepaid contributions to recognize the amount of member contributions paid to ACE that was not used for operations during the year. The balance of VTA's prepaid contribution at the end of the fiscal year is \$2,886,690.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 5000 South Airport Way, Room 201, Stockton, California 95213.

(c) *Capitol Corridor Intercity Rail Service*

VTA participates in providing the Capitol Corridor Intercity Rail Service, which runs nine daily round trips from Sacramento to Oakland. Four of these round trips extend to San Jose, while one round trip extends to Auburn. The Capitol Corridor Intercity Rail Service is provided by the Capitol Corridor Joint Powers Board, which is comprised of members of the governing bodies of VTA, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo counties, and the Bay Area Rapid Transit District.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2002

(d) *California Transit Finance Authority*

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1999 through a joint powers agreement for the purpose of establishing the California Transit Variable Rate Finance Program (Program). The Program makes low-cost, variable rate financing available to the members of the California Transit Association for the acquisition of transit equipment and facilities. Through the Program, VTA issued \$50,000,000 of Junior Lien Sales Tax Revenues Bonds in March of 1999 and \$40,000,000 in November 2000 (Note 7).

NOTE 20 – SANTA CLARA VALLEY TRAFFIC AUTHORITY

As described in Note 1, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The following item related to the Traffic Authority will have an ongoing impact.

Agreement with CalTrans

CalTrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. The Traffic Authority's contract with CalTrans required a final determination of costs from the close out process of construction projects. On April 19, 2002, VTA and CalTrans executed a Closeout and Settlement Agreement (Agreement) to finalize all remaining obligations incurred as a result of projects funded under the Santa Clara County Commuter Relief Act of 1984 (1985 Measure A). The Agreement resulted in a net settlement amount of \$3,811 in favor of VTA.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Schedule of Funding Progress ^(a)

Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan

(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/1999 ^(b)	\$165,253,455	\$175,980,221	\$10,726,766	93.9%	\$73,873,863	14.5%
1/1/2000	189,500,553	192,280,635	2,780,082	98.6%	78,537,045	3.5%
1/1/2001 ^(c)	204,874,533	226,732,913	21,858,380	90.4%	81,984,832	26.7%

(a) The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan.

(b) Change in actuarial assumption for mortality.

(c) Benefit improvements effective February 1, 2001, February 1, 2003, and February 1, 2004 all reflected in the 1/1/2001 valuation.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Overfunded Liability	Funded Ratio	Annual Covered Payroll	Overfunded Liability as a Percentage of Covered Payroll
6/30/1997	\$46,533,900	\$50,970,126	\$(4,436,226)	109.5%	\$25,952,524	(17.1%)
6/30/1998	52,867,475	62,650,398	(9,782,923)	118.5%	29,010,893	(33.7%)
6/30/1999	63,226,750	75,445,690	(12,218,940)	119.3%	34,844,154	(35.1%)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule

Congestion Management Program Special Revenue Fund

For the Year Ended June 30, 2002

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES:				
Member agency assessment revenue	\$ 1,587,000	\$ 1,587,000	\$ 1,587,191	\$ 191
Federal technical studies				
operating assistance grants	500,000	952,000	452,451	(499,549)
Administrative fees	120,000	120,000	99,293	(20,707)
State operating assistance grants	1,893,000	1,796,000	1,953,000	157,000
Other revenues	129,000	-	8,000	8,000
Investment earnings	-	-	-	-
Total revenues	<u>4,229,000</u>	<u>4,455,000</u>	<u>4,099,935</u>	<u>(355,065)</u>
EXPENDITURES:				
Current:				
Congestion management:				
Salaries and benefits	2,691,000	1,341,000	1,388,188	(47,188)
Services	<u>2,546,000</u>	<u>2,005,000</u>	<u>1,282,652</u>	<u>722,348</u>
Total expenditures	<u>5,237,000</u>	<u>3,346,000</u>	<u>2,670,840</u>	<u>675,160</u>
CHANGE IN FUND BALANCE	<u>\$ (1,008,000)</u>	<u>\$ 1,109,000</u>	<u>1,429,095</u>	<u>\$ 320,095</u>
FUND BALANCE, BEGINNING OF YEAR:				
As previously reported			209,410	
Restated for changes in accounting principles			<u>137,581</u>	
As restated			<u>346,991</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,776,086</u>	

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Note to Required Supplementary Information

For the Fiscal Year Ended June 30, 2002

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. VTA budgets annually for its Congestion Management Program Special Revenue Fund. The budget for the Special Revenue Fund is prepared on a modified accrual basis. VTA does not budget the Traffic Authority Special Revenue Fund.

Budgetary control is maintained at the fund level. Line item reclassification amendments to the budget must be authorized by the responsible director. Operating expenses are monitored by managers who are assigned responsibility for controlling their budgets. Emphasis is placed on the total budget for the division, however, capital items must be within budgeted amounts. Annual appropriations for the operating budget lapse at the end of the fiscal year to the extent that they have not been expended. The unexpended capital budget at fiscal year end is carried forward from year to year until the project is completed.

Supplemental budgetary changes made to the Special Revenue Funds throughout the year are not significant but are reflected in the accompanying financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Fund Net Assets

Enterprise Fund

June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,168,684	\$ 1,168,184
Investments	3,916,187	80,967,452
Receivables, net	4,125,506	6,258,040
Due from other funds	-	957,474
Due from other governmental agencies	44,740,260	55,741,907
Inventories	20,238,940	15,634,062
Other current assets	<u>10,603,942</u>	<u>9,178,327</u>
Total current assets	<u>84,793,519</u>	<u>169,905,446</u>
Restricted assets:		
Cash and cash equivalents	54,290,997	17,101,988
Cash and investments with fiscal agents	32,864,470	65,673,775
Investments	231,652,764	233,632,667
Receivables, net	1,162,665	937,579
Due from other funds	10,042,123	37,591,028
Due from other governmental agencies	<u>18,487,543</u>	<u>38,346,625</u>
Total restricted assets	<u>348,500,562</u>	<u>393,283,662</u>
Other noncurrent assets:		
Deferred bond issuance costs	1,845,911	1,937,142
Due from other governmental agencies	<u>9,739,946</u>	<u>-</u>
Total other noncurrent assets	<u>11,585,857</u>	<u>1,937,142</u>
Capital Assets		
Nondepreciable:		
Land and right of way	572,664,544	571,682,204
Construction in progress	608,403,203	332,369,648
Depreciable:		
Buildings, improvements, furniture and fixtures	227,826,416	229,819,861
Vehicles	220,504,063	185,850,634
Light-rail tracks and electrification	276,398,247	272,749,787
CalTrain - Gilroy extension	48,774,692	48,774,692
Other operating equipment	28,366,298	27,452,508
Less: accumulated depreciation	<u>(242,025,655)</u>	<u>(239,634,821)</u>
Net capital assets	<u>1,740,911,808</u>	<u>1,429,064,513</u>
Total assets	<u>2,185,791,746</u>	<u>1,994,190,763</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2002 and 2001

	2002	2001
LIABILITIES		
Liabilities:		
Current portion of long-term debt	\$ 8,159,007	\$ 7,951,653
Accounts payable	20,512,900	21,506,471
Other accrued liabilities	8,913,513	6,170,180
Due to other funds	-	6,878,484
Due to other governmental agencies	4,290,886	4,297,737
Total current liabilities	41,876,306	46,804,525
Liabilities payable from restricted assets:		
Accounts payable	72,020,831	73,867,833
Other accrued liabilities - current	8,070,000	5,488,708
Due to other funds	20,670,849	-
Due to other governmental agencies	83	-
Restricted portion of long-term debt	15,206,433	14,049,932
Other accrued liabilities - noncurrent	97,874,215	91,239,151
Total liabilities payable from restricted assets	213,842,411	184,645,624
Noncurrent liabilities:		
Long-term debt, excluding current portion	319,935,064	329,012,454
Other accrued liabilities	37,965	42,693
Total noncurrent liabilities	319,973,029	329,055,147
Total liabilities	575,691,746	560,505,296
NET ASSETS		
Invested in capital assets, net of related debt	1,367,401,141	1,020,443,176
Unrestricted	242,698,859	413,242,291
Total net assets	\$ 1,610,100,000	\$ 1,433,685,467

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Years Ended June 30, 2002 and 2001

	2002	2001
OPERATING REVENUES:		
Passenger fares	\$ 31,282,143	\$ 33,837,418
Advertising and other	5,840,054	4,144,280
Total operating revenues	37,122,197	37,981,698
OPERATING EXPENSES:		
Labor	130,990,186	106,878,425
Fringe benefits	80,877,264	61,845,432
Materials and supplies	20,469,737	27,428,007
Services	24,062,500	27,427,617
Utilities	7,212,102	5,070,826
Casualty and liability	3,199,473	1,472,704
Purchased transportation	35,779,948	23,488,884
Leases and rentals	791,861	668,600
Miscellaneous	4,470,598	3,414,544
Depreciation expense	33,355,918	31,428,077
Total operating expenses	341,209,587	289,123,116
Operating loss	(304,087,390)	(251,141,418)
NONOPERATING REVENUES (EXPENSES):		
Sales tax revenue	144,217,679	183,540,308
Federal operating assistance grants	23,811,499	17,867,231
State and local operating assistance grants	103,561,477	86,387,503
CalTrain subsidy	(14,897,490)	(14,821,111)
CalTrain capital contribution	(10,417,503)	-
Altamont Commuter Express subsidy	(1,739,723)	(656,932)
Investment income	24,512,650	22,077,809
Interest expense	(14,716,798)	(6,805,934)
Other income	2,883,008	1,370,638
Other expense	(2,838,180)	(435,020)
Nonoperating revenues, net	254,376,619	288,524,492
Change in net assets before capital contributions	(49,710,771)	37,383,074
Capital contributions	226,125,304	154,647,899
Change in net assets	176,414,533	192,030,973
Net assets, beginning of year:		
As previously reported	1,433,685,467	1,243,663,056
Restatement	-	(2,008,562)
As restated	1,433,685,467	1,241,654,494
Net assets, end of year	\$ 1,610,100,000	\$ 1,433,685,467

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Comparative Statement of Cash Flows

Enterprise Fund

For the Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	\$ 34,245,867	\$ 31,055,846
Cash received from advertising	5,840,054	4,144,280
Cash paid to employees	(202,655,822)	(161,651,960)
Cash paid to suppliers	(64,817,156)	(44,426,133)
Cash paid for purchased transportation	<u>(35,779,948)</u>	<u>(23,488,884)</u>
Net cash used in operating activities	<u>(263,167,005)</u>	<u>(194,366,851)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	142,294,481	103,594,825
Sales tax received	150,536,472	191,116,107
CalTrain subsidy	(24,991,619)	(14,821,111)
Altamont Commuter Express subsidy	(2,826,297)	(656,932)
Other noncapital receipts	26,508,156	21,380,589
Other noncapital payments	<u>(2,838,180)</u>	<u>(7,313,013)</u>
Net cash provided by noncapital financing activities	<u>288,683,013</u>	<u>293,300,465</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	-	240,000,000
Costs of issuing bonds	-	(384,227)
Payment of long-term debt	(7,951,653)	(2,124,298)
Interest paid on long-term debt	(14,478,680)	(6,636,012)
Acquisition and construction of capital assets	(294,681,637)	(210,699,604)
Payment to the Measure B Ancillary Fund	-	(159,318,378)
Capital contribution from other governments	216,477,630	152,649,779
Proceeds from the sale of capital assets	<u>467,365</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(100,166,975)</u>	<u>13,487,260</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,199,240,418	1,250,114,514
Purchases of investments	(2,138,980,020)	(1,314,459,042)
Investment income received	<u>18,770,773</u>	<u>14,985,253</u>
Net cash provided by (used in) investing activities	<u>79,031,171</u>	<u>(49,359,275)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,380,204	63,061,599
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>83,943,947</u>	<u>20,882,348</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 88,324,151</u></u>	<u><u>\$ 83,943,947</u></u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
 Comparative Statement of Cash Flows (Continued)
 Enterprise Fund
 For the Years Ended June 30, 2002 and 2001

	2002	2001
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (304,087,390)	\$ (251,141,418)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	33,355,918	31,428,077
Changes in operating assets and liabilities:		
Receivables	2,963,724	(2,781,572)
Inventories	(4,604,878)	1,371,758
Other current assets	91,231	(620,914)
Accounts payable	(97,238)	20,305,321
Other current liabilities	9,211,628	7,071,897
Net cash used in operating activities	\$ (263,167,005)	\$ (194,366,851)
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash and cash equivalents, end of year:		
Unrestricted	\$ 1,168,684	\$ 1,168,184
Restricted	87,155,467	82,775,763
	\$ 88,324,151	\$ 83,943,947
 NONCASH INVESTING ACTIVITIES:		
Increase in fair value of investments	\$ 4,152,063	\$ 3,468,413

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Budgetary Comparison Schedule

Enterprise Fund

For the Year Ended June 30, 2002

	Original Budget	Final Budget ^(a)	Actual	Variance Positive (Negative)
OPERATING REVENUES:				
Passenger fares	\$ 33,586,000	\$ 29,875,000	\$ 31,282,143	\$ 1,407,143
Advertising and other	6,008,000	6,008,000	5,840,054	(167,946)
Total operating revenues	<u>39,594,000</u>	<u>35,883,000</u>	<u>37,122,197</u>	<u>1,239,197</u>
OPERATING EXPENSES:				
Labor and fringe benefits	198,868,000	207,738,000	211,867,450	(4,129,450)
Services and supplies	80,690,000	80,513,000	60,206,271	20,306,729
Purchased transportation	28,011,000	35,311,000	35,779,948	(468,948)
Total operating expenses	<u>307,569,000</u>	<u>323,562,000</u>	<u>307,853,669</u>	<u>15,708,331</u>
Operating loss	<u>(267,975,000)</u>	<u>(287,679,000)</u>	<u>(270,731,472)</u>	<u>16,947,528</u>
NONOPERATING REVENUES (EXPENSES):				
Sales tax revenue	180,000,000	152,000,000	144,217,679	(7,782,321)
Federal operating assistance grants	7,504,000	23,285,000	23,811,499	526,499
State and local operating assistance grants	104,438,000	104,438,000	103,561,477	(876,523)
CalTrain subsidy	(20,030,000)	(20,030,000)	(25,314,993)	(5,284,993)
Altamont Commuter Express subsidy	(3,680,000)	(3,680,000)	(1,739,723)	1,940,277
Investment income	10,850,000	15,000,000	24,512,650	9,512,650
Interest expense	(19,586,000)	(16,586,000)	(14,716,798)	1,869,202
Other income	4,122,000	4,122,000	2,883,008	(1,238,992)
Other expense	(1,410,000)	(1,369,000)	(2,838,180)	(1,469,180)
Nonoperating revenues, net	<u>262,208,000</u>	<u>257,180,000</u>	<u>254,376,619</u>	<u>(2,803,381)</u>
Net income (loss) - budget basis, before capital contributions	<u>(5,767,000)</u>	<u>(30,499,000)</u>	<u>(16,354,853)</u>	<u>14,144,147</u>
Capital contributions	-	-	226,125,304	226,125,304
Net income - budget basis	<u>(5,767,000)</u>	<u>(30,499,000)</u>	<u>209,770,451</u>	<u>240,269,451</u>
Depreciation	-	-	(33,355,918)	(33,355,918)
Net income - GAAP basis	<u>\$ (5,767,000)</u>	<u>\$ (30,499,000)</u>	<u>\$ 176,414,533</u>	<u>\$ 206,913,533</u>

^(a) The budget for the year ended June 30, 2002, represents the revised budget as amended to reflect all subsequently approved budget modifications through the end of fiscal year 2001/02, as well as adjustments to add back carried forward encumbrances from fiscal year 2000/01, and subtract outstanding commitments as of June 30, 2002.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Schedule of Restricted Assets and Related Liabilities

Enterprise Fund

June 30, 2002

	Capital and Operating	General Liability Insurance	Workers' Compensation Insurance	Retiree Health Care	Accrued Vacation and Sick Leave	Debt Service	Total
RESTRICTED ASSETS:							
Cash and cash equivalents	\$ 54,290,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,290,997
Cash and investments with fiscal agents	17,658,037	-	-	-	-	15,206,433	32,864,470
Investments	125,708,549	13,113,698	39,243,905	32,915,556	20,671,056	-	231,652,764
Receivables, net	1,162,665	-	-	-	-	-	1,162,665
Due from other funds	10,042,123	-	-	-	-	-	10,042,123
Due from other governmental agencies	18,487,543	-	-	-	-	-	18,487,543
Total assets	\$ 227,349,914	\$ 13,113,698	\$ 39,243,905	\$ 32,915,556	\$ 20,671,056	\$ 15,206,433	\$ 348,500,562
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:							
Accounts payable	\$ 72,020,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,020,831
Other accrued liabilities - current	-	680,000	2,603,000	2,787,000	2,000,000	-	8,070,000
Due to other funds	20,670,849	-	-	-	-	-	20,670,849
Due to other governmental agencies	83	-	-	-	-	-	83
Long-term debt	-	-	-	-	-	15,206,433	15,206,433
Other accrued liabilities - noncurrent	-	12,433,698	36,640,905	30,128,556	18,671,056	-	97,874,215
Total liabilities	\$ 92,691,763	\$ 13,113,698	\$ 39,243,905	\$ 32,915,556	\$ 20,671,056	\$ 15,206,433	\$ 213,842,411

SANTA CLARA TRANSPORTATION AUTHORITY

Combining Statement of Plan Net Assets

Pension Trust Funds

June 30, 2002

	ATU Pension	ATU Medical	Total
ASSETS			
Restricted assets:			
Investments	\$ 208,155,682	\$ 7,767,812	\$ 215,923,494
Receivables, net	1,088,128	-	1,088,128
Due from brokers	6,717,000	-	6,717,000
	<u>215,960,810</u>	<u>7,767,812</u>	<u>223,728,622</u>
Total assets			
LIABILITIES			
Accounts payable	86,513	-	86,513
Due to brokers	3,734,000	-	3,734,000
	<u>3,820,513</u>	<u>-</u>	<u>3,820,513</u>
Total assets			
NET ASSETS			
Net assets held in trust for:			
Pension benefits	212,140,297	-	212,140,297
Retiree medical benefits	-	6,733,036	6,733,036
Retiree dental and vision benefits	-	1,034,776	1,034,776
	<u>212,140,297</u>	<u>7,767,812</u>	<u>219,908,109</u>
Total net assets			

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Plan Net Assets
Pension Trust Funds
For the Year Ended June 30, 2002

	ATU Pension	ATU Medical	Total
ADDITIONS			
Contributions	\$ 10,302,474	\$ 1,273,586	\$ 11,576,060
Investment income:			
Investment earnings	4,493,902	625,036	5,118,938
Net depreciation in the fair value of investments	(1,349,813)	-	(1,349,813)
Investment expense	(811,347)	-	(811,347)
Net investment income	2,332,742	625,036	2,957,778
Total additions	12,635,216	1,898,622	14,533,838
DEDUCTIONS			
Benefit payments	7,746,376	330,773	8,077,149
Other benefits paid to participants	28,810	-	28,810
Administrative expenses	411,205	-	411,205
Total deductions	8,186,391	330,773	8,517,164
Net increase	4,448,825	1,567,849	6,016,674
NET ASSETS HELD IN TRUST			
Beginning of year	207,691,472	6,199,963	213,891,435
End of year	\$ 212,140,297	\$ 7,767,812	\$ 219,908,109

SANTA CLARA TRANSPORTATION AUTHORITY
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2002

	BAAQMD Program	Measure B Ancillary Program	Total
ASSETS			
Restricted assets:			
Cash and cash equivalents	\$ -	\$ 5,232,516	\$ 5,232,516
Investments	6,453,190	152,733,666	159,186,856
Due from other governmental agencies	-	4,809,326	4,809,326
	<u>\$ 6,453,190</u>	<u>\$ 162,775,508</u>	<u>\$ 169,228,698</u>
LIABILITIES			
Liabilities payable from restricted assets:			
Accounts payable	\$ 6,024,558	\$ -	\$ 6,024,558
Due to other funds	-	11,442,123	11,442,123
Due to other governmental agencies	428,632	151,333,385	151,762,017
	<u>\$ 6,453,190</u>	<u>\$ 162,775,508</u>	<u>\$ 169,228,698</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
BAAQMD Program				
Restricted assets:				
Investments	\$ 5,630,824	\$ 932,501	\$ 110,135	\$ 6,453,190
Liabilities payable from restricted assets:				
Accounts payable	\$ 5,285,689	\$ 738,869	\$ -	\$ 6,024,558
Due to other funds	110,135	-	110,135	-
Due to other governmental agencies	235,000	193,632	-	428,632
Total liabilities payable from restricted assets	<u>\$ 5,630,824</u>	<u>\$ 932,501</u>	<u>\$ 110,135</u>	<u>\$ 6,453,190</u>
Measure B Ancillary Program				
Restricted assets:				
Cash and cash equivalents	\$ 3,592,124	\$ 21,204,584	\$ 19,564,192	\$ 5,232,516
Investments	159,318,378	-	6,584,712	152,733,666
Due from other governmental agencies	-	4,809,326	-	4,809,326
Total restricted assets	<u>\$ 162,910,502</u>	<u>\$ 26,013,910</u>	<u>\$ 26,148,904</u>	<u>\$ 162,775,508</u>
Liabilities payable from restricted assets:				
Due to other funds	\$ 37,591,028	\$ -	\$ 26,148,904	\$ 11,442,124
Due to other governmental agencies	125,319,474	26,013,910	-	151,333,384
Total liabilities payable from restricted assets	<u>\$ 162,910,502</u>	<u>\$ 26,013,910</u>	<u>\$ 26,148,904</u>	<u>\$ 162,775,508</u>
Totals - All Agency Funds				
Restricted assets:				
Cash and cash equivalents	\$ 3,592,124	\$ 21,204,584	\$ 19,564,192	\$ 5,232,516
Investments	164,949,202	932,501	6,694,847	159,186,856
Due from other governmental agencies	-	4,809,326	-	4,809,326
Total restricted assets	<u>\$ 168,541,326</u>	<u>\$ 26,946,411</u>	<u>\$ 26,259,039</u>	<u>\$ 169,228,698</u>
Liabilities payable from restricted assets:				
Accounts payable	\$ 5,285,689	\$ 738,869	\$ -	\$ 6,024,558
Due to other funds	37,701,163	-	26,259,039	11,442,124
Due to other government agencies	125,554,474	26,207,542	-	151,762,016
Total liabilities payable from restricted assets	<u>\$ 168,541,326</u>	<u>\$ 26,946,411</u>	<u>\$ 26,259,039</u>	<u>\$ 169,228,698</u>

SECTION 3 — STATISTICAL SECTION

GOVERNMENT-WIDE INFORMATION:

- ◆ GOVERNMENT-WIDE EXPENSES BY FUNCTION
- ◆ GOVERNMENT-WIDE REVENUES

FUND INFORMATION:

FINANCIAL RATIOS

- ◆ CURRENT RATIOS
- ◆ OPERATING RECOVERY RATIOS
- ◆ TIMES DEBT SERVICE COVERAGE

TEN YEAR COMPARISONS

- ◆ OPERATING REVENUE AND NET OPERATING EXPENSES
- ◆ NON-OPERATION ASSISTANCE AND INTEREST INCOME
- ◆ ACTUAL RESERVE TO TARGET RESERVE
- ◆ VEHICLE REVENUE MILES
- ◆ PASSENGER MILES
- ◆ SELECTED FINANCIAL DATA
- ◆ SELECTED STATISTICAL AND DEMOGRAPHIC DATA

BUS AND RAIL SYSTEM FACTS

- ◆ CURRENT BUS SYSTEM DATA
- ◆ CURRENT RAIL SYSTEM DATA

Santa Clara Valley Transportation Authority
Government-wide Expenses by Function
 (amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Transit</u>	<u>Congestion Management</u>		<u>Total</u>
		<u>General Government</u>	<u>Highways and Streets</u>	
2002	\$ 385,819	2,740	112,697	\$ 501,256

NOTE: Government-wide financial statements have been prepared in accordance with the requirements of GASB 34. Financial statements were not restated for previous years for purposes of providing ten year trend data. In future years, as information becomes available, additional years will be presented.

**Santa Clara Valley Transportation Authority
Government-wide Revenues
(amounts expressed in thousands)**

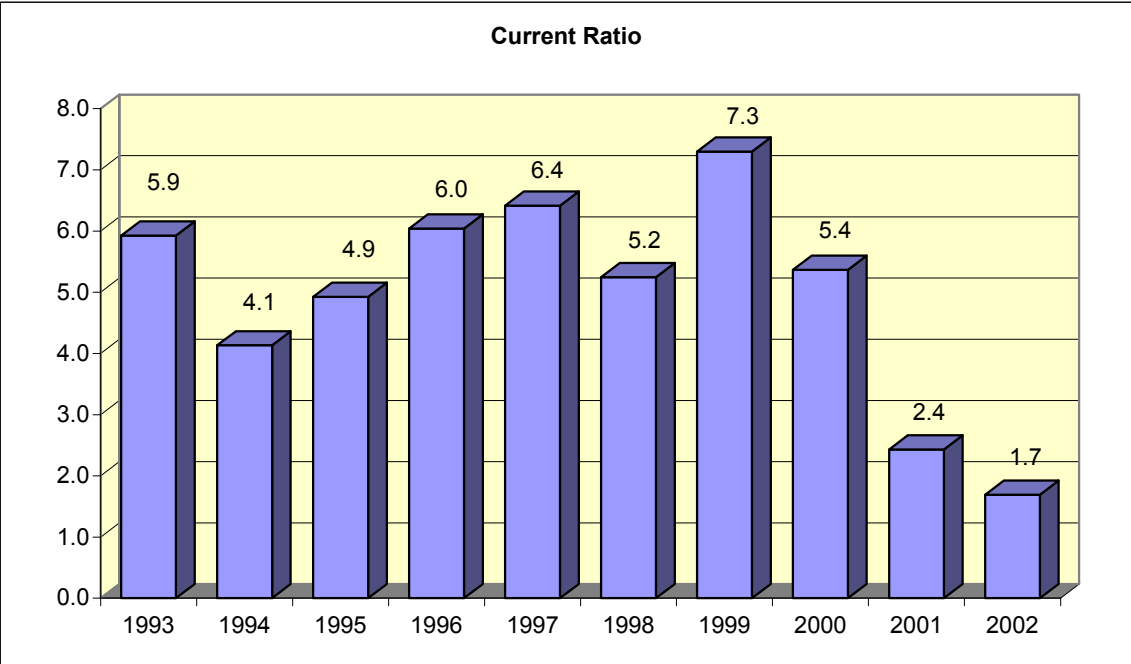
Fiscal Year	Program Revenues			General Revenues			Total
	Charges for Services	Operating Grants	Capital Grants	Sales Tax Revenue	Investment Income	Other Income	
2002	\$ 38,809	129,778	338,793	144,218	24,542	2,891	\$679,031

NOTE: Government-wide financial statements have been prepared in accordance with the requirements of GASB 34. Financial statements were not restated for previous years for purposes of providing ten year trend data. In future years, as information becomes available, additional years will be presented.

FINANCIAL RATIOS 1993 - 2002

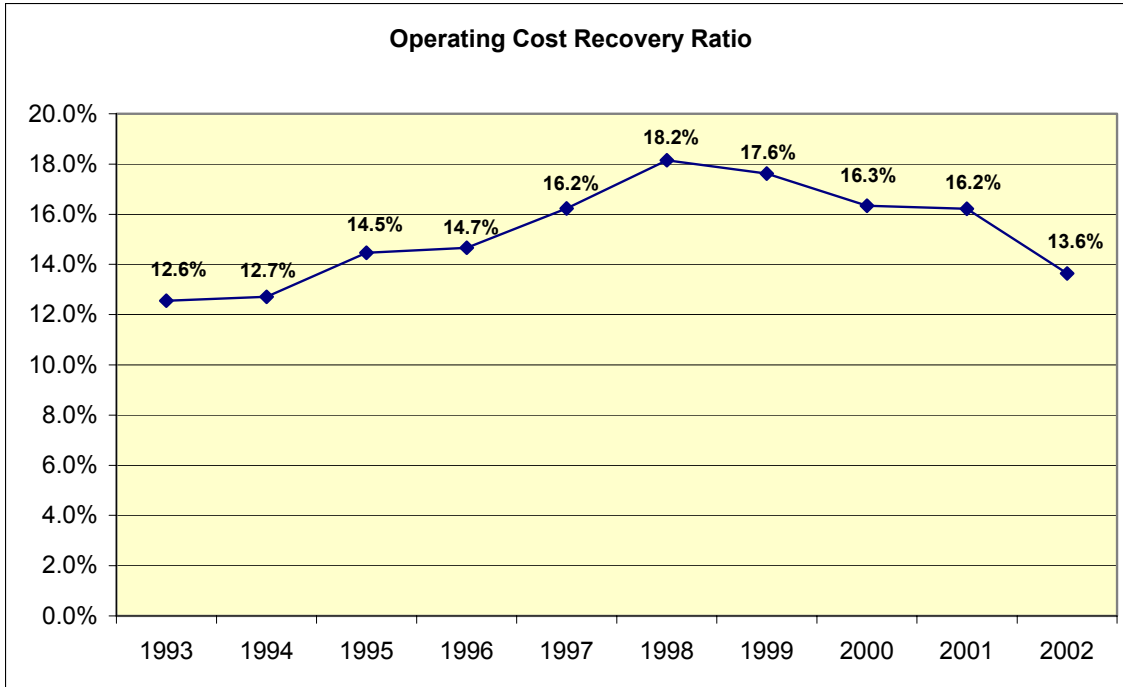
Current Ratios

The Current Ratio indicates VTA's ability to meet all of its short-term liabilities with liquid assets and is determined by dividing total current assets - restricted and unrestricted, by all current liabilities - restricted and unrestricted, and payable from current restricted assets. A Current Ratio of 1 or higher is an indication of financial strength. VTA's current ratio dropped by 29.2% compared to FY01, but at 1.7 we remain financially sound.



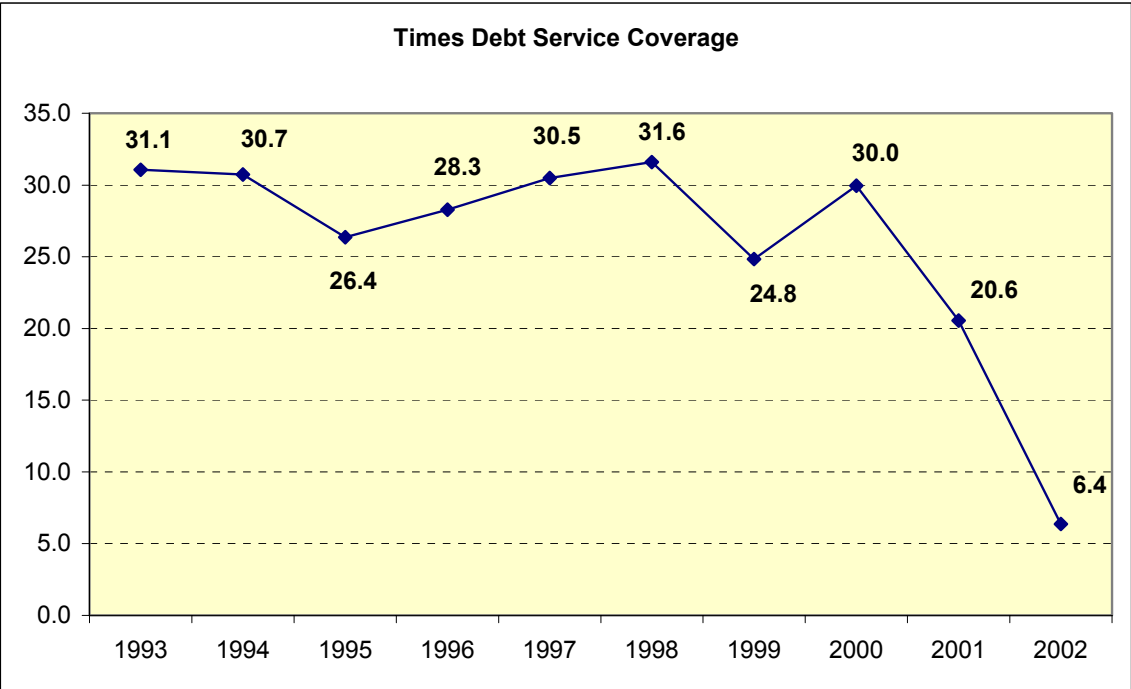
Operating Recovery Ratio

The operating recovery ratio is the operating revenue divided by the net operating expenses. This key measure shows almost a four percent gain from 1994 to fiscal 1998 in keeping with VTA's strategic plan. During FY02 operating income decreased, while the operating expenses increased. The combination led the Operating Recovery Ratio to decrease by 2.6 percentage points during the fiscal year, falling farther from the ongoing target of 25%.



Times Debt Service Coverage

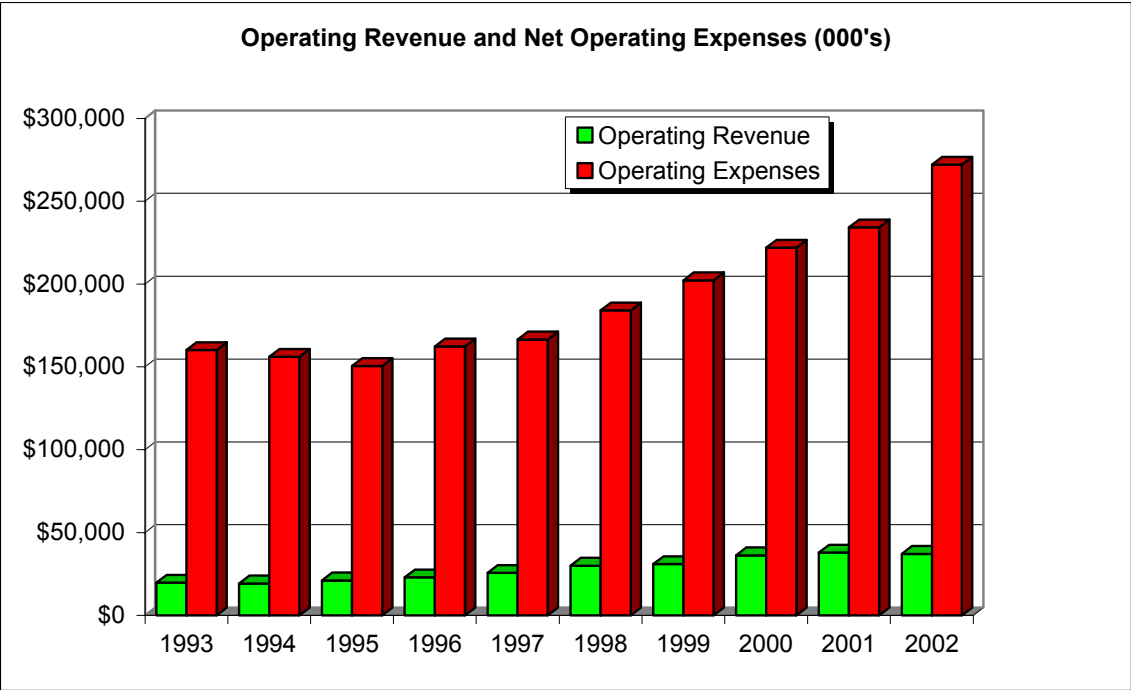
The Times-Debt-Service-Coverage Ratio indicates VTA's financial position to cover its debt service with operating income and is determined by dividing sales tax revenue by debt service. For fiscal year 2002, the ratio decreased by 14.2% to 6.4%. The main factor is that sales tax revenue fell by over \$39 million when compared to FY01.



TEN - YEAR COMPARISONS (1993 - 2002)

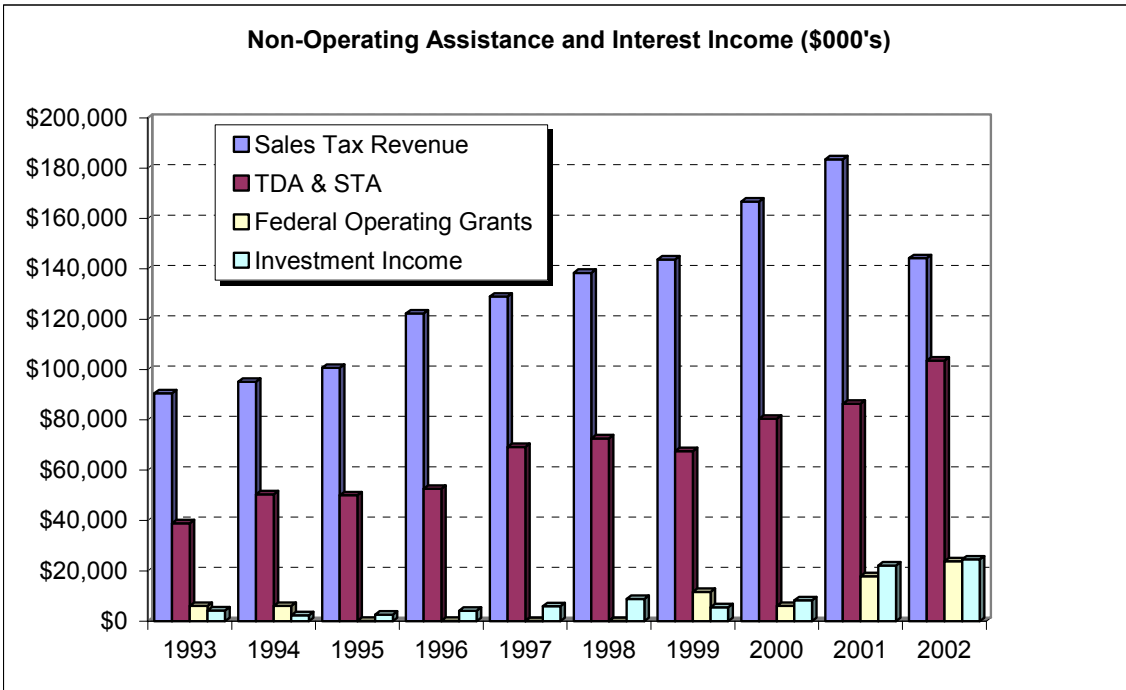
Operating Revenues and Net Operating Expenses

The chart below shows a comparison of operating revenue to expenses. Operating expenses are exclusive of purchased transportation and depreciation to more accurately depict operations related to directly operated service.



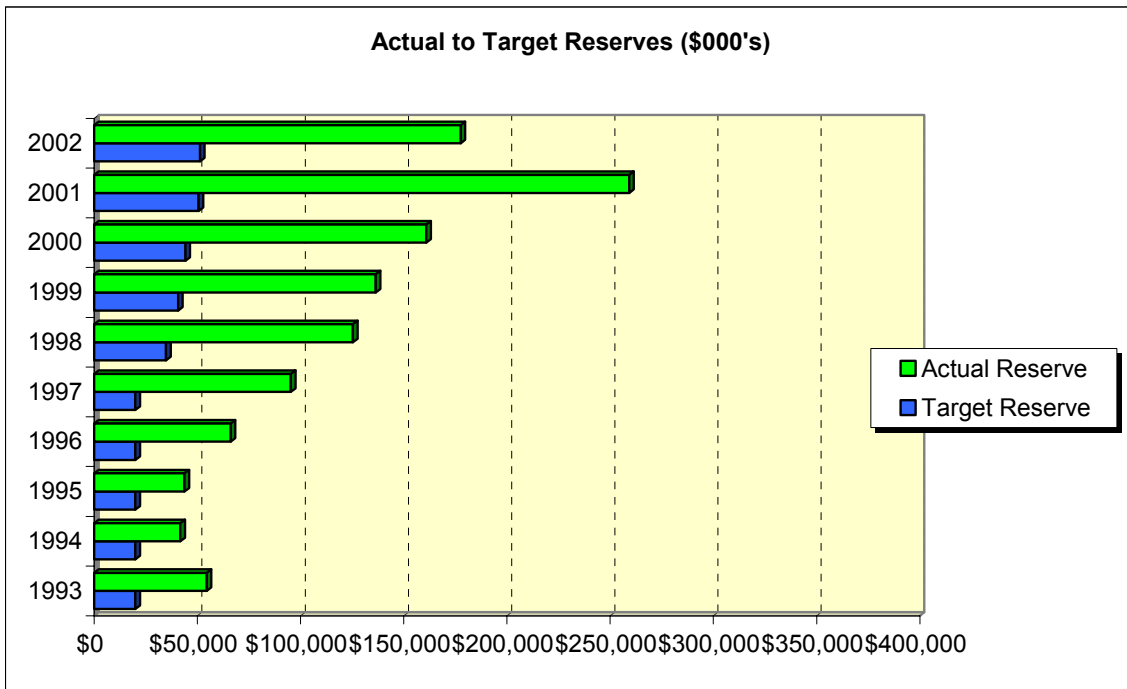
Non-operating Assistance and Interest Income

The following chart illustrates trends in selected material non-operating revenue sources. Sales tax revenue in Santa Clara County is the greatest contributing factor to the non-operating revenue sources shown in the following graph. Therefore, this is the first year in the last ten that there has been a significant drop in non-operating revenue.



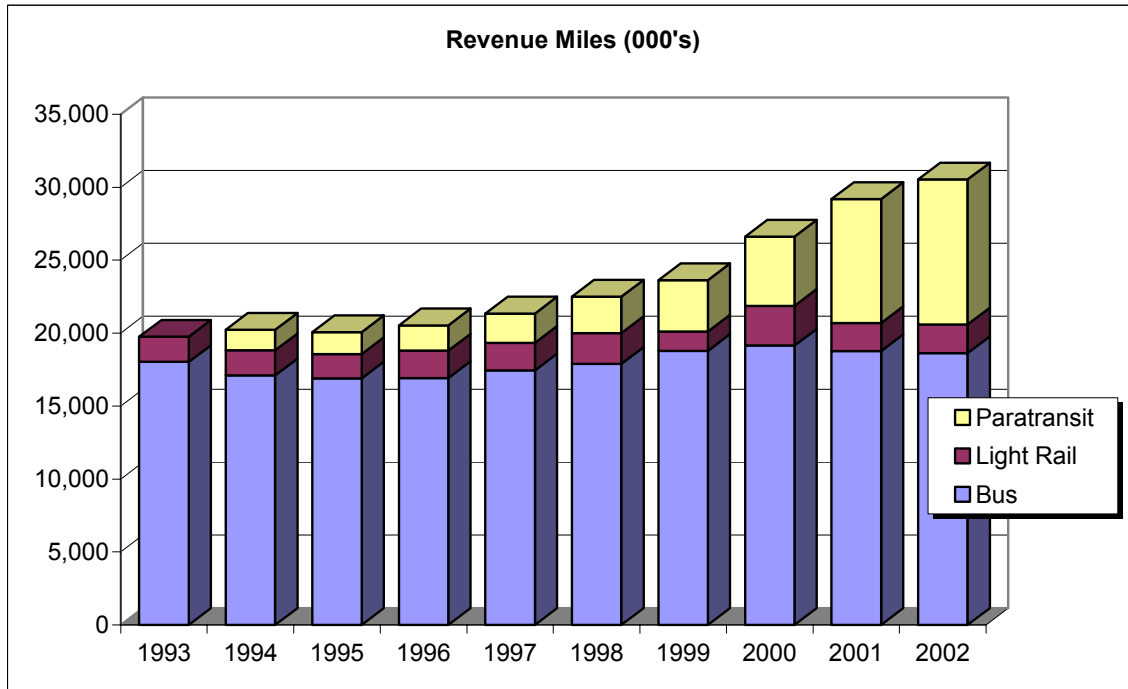
Actual Reserves to Target Reserves

This table compares the actual reserve to the minimum target level reserve. Total budgetary reserves result from the difference between current unrestricted assets and current unrestricted liabilities. Although VTA strives to maintain its target reserve at a minimum level of 15% of the operating budget, this is the first year we will not be able to meet this goal. Due to the commitment of reserves for the local share of approved capital designated for Board projects as well as our operating encumbrance, the remaining balance designated as operating reserves fell short of the 15% target. The actual reserve in FY02 represents the total budgetary reserves available. The following chart illustrates that this is the first year since FY94 that the amount of actual reserves did not surpass the prior year's actual reserves.



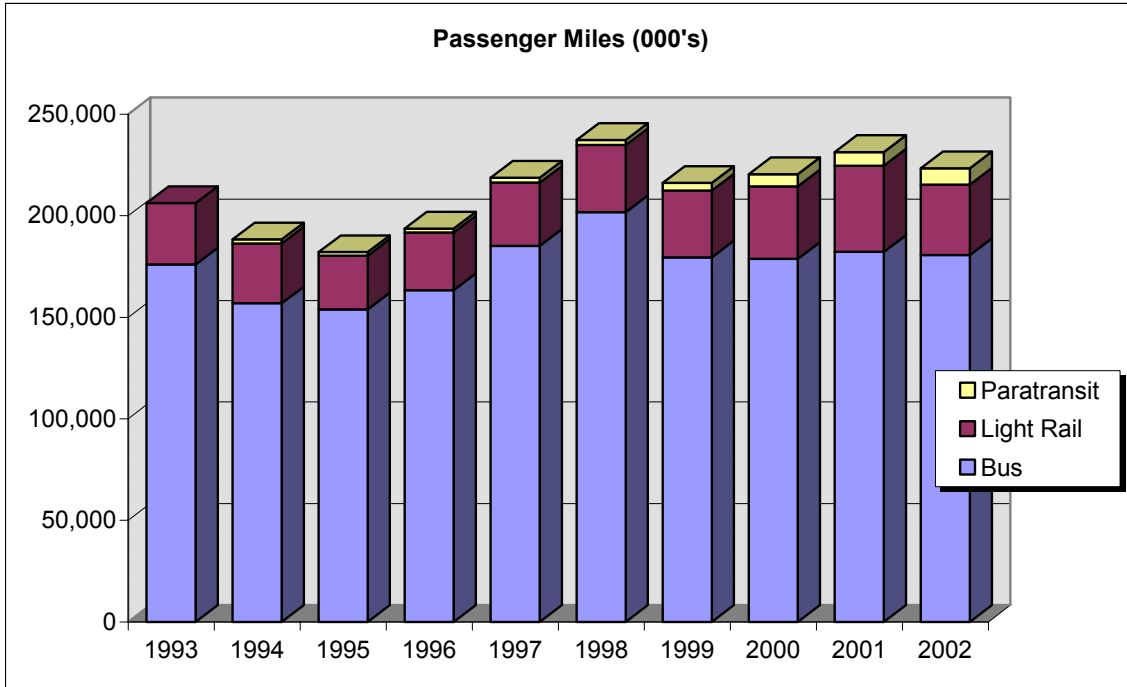
Vehicle Revenue Miles

The following chart depicts vehicle miles in revenue service. During FY02 total revenue miles increased slightly due to the increase in Paratransit service. Since the inception of its service in 1994, Paratransit vehicle revenue miles have continued to increase annually in order to meet the requirements of the federal Americans with Disabilities Act as well as service demand.



Passenger Miles

Passenger mile statistics are presented in the chart below. This is the first year since FY99 that VTA's passenger miles have dropped down below prior year levels. As with vehicle revenue miles, Paratransit continues to grow, but we experienced declines in Bus and Lightrail due primarily to the large drop in employment over the past year.



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Selected Financial Data

(Dollars in \$000's)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
OPERATING REVENUES	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 30,003	\$ 30,956	\$ 36,253	\$ 37,982	\$ 37,122
OPERATING EXPENSES										
LABOR	67,458	67,387	68,533	71,810	77,297	82,030	88,779	98,372	106,878	130,990
FRINGE BENEFITS	50,719	44,100	39,146	46,457	43,054	48,661	53,575	75,354	61,845	80,877
MATERIALS AND SUPPLIES	13,536	15,455	14,582	16,649	16,911	17,044	19,646	15,540	27,428	20,470
SERVICES	13,954	12,449	10,400	12,310	12,583	14,709	15,200	21,379	27,428	24,063
UTILITIES	3,300	3,152	3,337	3,277	3,409	3,603	4,071	5,167	5,071	7,212
CASUALTY AND LIABILITY	5,419	6,102	7,200	4,120	2,413	3,923	3,895	2,403	1,473	3,199
PURCHASED TRANSPORTATION	3,240	4,340	4,714	5,746	8,916	11,821	15,487	17,456	23,489	35,780
LEASES & RENTALS	1,710	1,448	1,079	773	299	394	467	637	669	792
MISCELLANEOUS	779	1,592	1,576	1,184	1,628	1,915	1,107	3,011	3,415	4,471
TOTAL OPERATING EXPENSES	160,115	156,025	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,854
DEPRECIATION EXPENSE	14,784	15,043	17,263	23,266	24,418	24,322	24,263	25,910	31,428	33,356
NON-OPERATING REVENUES/(EXPENSES)										
SALES TAX REVENUE	90,547	95,134	100,638	122,274	128,969	138,429	143,712	166,764	183,540	144,218
FEDERAL OPERATING ASSISTANCE GRANT	6,042	6,067	146	110	49	59	11,656	6,051	17,867	23,811
TDA & STA	38,897	50,411	50,007	52,597	69,243	72,624	67,589	80,436	86,388	103,561
CALTRAIN SUBSIDY AND CAPITAL CONTRIBUTIONS	(4,803)	(11,793)	(11,900)	(11,973)	(11,689)	(12,254)	(11,291)	(7,850)	(14,821)	(25,315)
ACE SUBSIDY	-	-	4,972	2,086	2,584	-	(837)	(3,821)	(657)	(1,740)
INTEREST INCOME	4,236	2,310	2,554	4,148	5,943	8,785	5,535	8,286	22,078	24,513
INTEREST EXPENSE	(2,915)	(2,932)	(3,640)	(3,863)	(3,731)	(4,014)	(4,763)	(4,616)	(6,806)	(14,717)
OTHER REVENUES/(EXPENSES)	(7,525)	291	(1,355)	(231)	(550)	234	8,896	3,399	936	45
CONTRIBUTION TO FUND UNFUNDED LIABILITY						(22,889)				
TOTAL NON OPERATING REVENUES - NET	124,479	139,488	141,422	165,148	190,818	180,974	220,497	248,649	288,524	254,377
CAPITAL CONTRIBUTIONS (1)									154,648	226,125
NET INCOME (LOSS)	\$ (30,715)	\$ (12,301)	\$ (5,312)	\$ 2,520	\$ 25,467	\$ 2,555	\$ 24,963	\$ 19,674	\$ 192,031	\$ 176,415

(1) The GASB issued Statements No. 33 and No. 36 established accounting and financial reporting standards for nonexchange transactions involving financial and capital resources. VTA reports grants received for the acquisition of property, facilities, and equipment, as capital contributions on the Statement of Revenues, Expenses and Net Assets instead of additions to contributed capital starting in fiscal year 2001.

Selected Financial Data (continued)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current Assets (\$000's)	\$ 151,356	\$ 145,373	\$ 164,755	\$ 219,762	\$ 245,843	\$ 334,148	\$ 328,355	\$ 364,166	\$ 563,189	\$ 433,294
Current Liabilities	25,546	35,175	33,443	36,375	38,328	63,682	44,974	67,816	231,450	255,719
Net Working Capital	\$ 125,810	\$ 110,198	\$ 131,312	\$ 183,387	\$ 207,515	\$ 270,466	\$ 286,381	\$ 296,350	\$ 331,739	\$ 177,575
Current Ratio	5.9	4.1	4.9	6.0	6.4	5.2	7.3	5.4	2.4	1.7
Total Assets (\$000's)	\$ 931,217	\$ 966,761	\$ 1,007,266	\$ 1,046,516	\$ 1,105,068	\$ 1,297,983	\$ 1,427,642	\$ 1,596,048	\$ 1,994,191	\$ 2,185,792
Contributed Capital	460,037	483,864	505,388	501,599	540,365	634,828	746,779	851,494	744,766	N/A
Retained Earnings Restricted	31,531	25,451	31,693	29,165	33,159	122,914	90,828	116,361	208,638	177,575
Retained Earnings Unrestricted	308,871	313,100	311,910	326,650	358,089	286,849	355,661	366,309	480,281	1,432,525
Total Retained Earnings/Net Assets	340,402	338,551	343,603	355,815	391,248	409,763	446,490	479,670	688,919	1,610,100
Liabilities	130,778	144,345	158,275	189,101	173,455	253,392	234,393	264,884	560,505	575,692
Actual Reserve (including minimum target level)	\$ 54,600	\$ 41,800	\$ 43,744	\$ 66,195	\$ 95,310	\$ 125,410	\$ 136,400	\$ 160,910	\$ 259,245	\$ 177,575
DEBT SERVICE (\$000's)	\$ 2,915	\$ 3,096	\$ 3,817	\$ 4,323	\$ 4,231	\$ 4,382	\$ 5,786	\$ 5,568	\$ 8,930	\$ 22,668
Times Debt Service Coverage	31.1	30.7	26.4	28.3	30.5	31.6	24.8	30.0	20.6	6.4
OPERATING REVENUE	\$ 19,705	\$ 19,279	\$ 21,096	\$ 22,964	\$ 25,577	\$ 31,275	\$ 32,898	\$ 36,253	\$ 37,982	\$ 37,122
OPERATING EXPENSES (excluding depreciation)	160,115	156,025	150,567	162,326	166,510	184,100	202,227	239,318	257,695	307,854
EXCLUSIONS (purchased transportation)	(3,240)	(4,340)	(4,714)	(5,746)	(8,916)	(11,821)	(15,487)	(17,456)	(23,489)	(35,780)
NET OPERATING EXPENSES	\$ 156,875	\$ 151,685	\$ 145,853	\$ 156,580	\$ 157,594	\$ 172,279	\$ 186,740	\$ 221,862	\$ 234,206	\$ 272,074
OPERATING COST RECOVERY RATIO	12.6%	12.7%	14.5%	14.7%	16.2%	18.2%	17.6%	16.3%	16.2%	13.6%

Selected Statistical Data

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
FAREBOX REVENUE (\$000's)	\$ 18,841	\$ 18,343	\$ 19,884	\$ 21,523	\$ 23,633	\$ 27,201	\$ 27,070	\$ 32,326	\$ 33,837	\$ 31,282
VEHICLE REVENUE MILES (000's)										
BUS	18,027	17,112	16,896	16,931	17,451	17,904	18,784	19,140	18,770	18,633
LIGHT RAIL	1,724	1,715	1,662	1,868	1,888	2,092	1,328	2,722	1,924	1,962
PARATRANSIT		1,406	1,511	1,729	1,994	2,494	3,523	4,748	8,495	9,937
PASSENGER MILES (000's)										
BUS	176,029	156,872	153,902	163,348	185,226	201,818	179,561	178,688	182,187	180,720
LIGHT RAIL	30,183	29,501	26,413	28,428	31,037	32,992	32,820	35,758	42,462	34,656
PARATRANSIT		1,937	1,795	1,881	2,420	2,494	3,798	6,013	6,711	7,947
FLEET										
ACTIVE BUS	605	464	460	460	470	508	520	512	502	491
LIGHT RAIL	56	55	55	55	55	55	55	55	54	68
CASH FARE SINGLE RIDE										
ADULT	\$1.00	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.10	\$1.25	\$1.25	\$1.25
YOUTH	\$0.50	\$0.55	\$0.55	\$0.55	\$0.60	\$0.60	\$0.60	\$0.70	\$0.70	\$0.70
SENIOR	\$0.25	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.40	\$0.40	\$0.40

Section - 3

Santa Clara County Demographic Data

Population

The County's population has grown by 168% since 1960s. The proportion of residents living in cities has remained at approximately 94.0 percent since 2000, which is up by over 20% within the last 40 years. All of the cities in the County reported population increases when compared to 2001, with Gilroy posting the largest population growth (2.9 percent). The number of residents living in the unincorporated areas of the County decreased slightly (.3 percent) in 2002. In the year 2040, it is predicted that the County's population will grow 51% to approximately 2.6 million residents.

The following table provides a historical summary of population in the County and its incorporated cities.

County of Santa Clara Population

	1970	1980	1990	2000	2001	2002
Campbell	24,731	26,843	36,048	38,138	38,200	38,400
Cupertino	18,216	34,297	40,263	50,546	50,800	52,200
Gilroy	12,665	21,641	31,487	41,464	42,700	43,950
Los Altos	24,872	25,769	26,303	27,693	27,800	27,850
Los Altos Hills	6,862	7,421	7,514	7,902	7,925	8,000
Los Gatos	23,466	26,906	27,357	28,592	28,800	28,950
Milpitas	27,149	37,820	50,686	62,698	62,900	63,800
Monte Sereno	3,074	3,434	3,287	3,483	3,490	3,520
Morgan Hill	6,485	17,060	23,928	33,556	34,100	34,800
Mountain View	54,206	58,655	67,460	70,708	71,200	71,600
Palo Alto	55,999	55,225	55,900	58,598	60,200	60,500
San Jose	445,779	629,400	782,248	894,943	903,800	918,000
Santa Clara	87,717	87,700	93,613	102,361	103,200	104,300
Saratoga	27,199	29,261	28,061	29,843	29,850	30,450
Sunnyvale	95,408	106,618	117,229	131,760	132,200	132,800
Unincorporated	152,181	127,021	106,193	100,300	100,800	100,500
County Total*	1,066,009	1,295,071	1,497,577	1,682,585	1,697,965	1,719,620
California	18,136,045	23,668,145	29,760,021	33,871,648	34,385,000	35,037,000
Totals may not be precise due to independent rounding.						
Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit						

Sources: Department of Finance, Statistics & Demographic Research
California Employment Development Department

Employment and Industry

A highly skilled and diverse work force characterizes the County's labor market, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. In 2002 the County experienced a drastic increase in the unemployment rate. In June 2002 preliminary figures reported that unemployment in the County reached 7.8% and the State's unemployment rate was 6.6%. Twenty years of research tells us that this is the first time in twenty years, if ever that the unemployment rate in the County surpassed that of the State's. Job cuts continue primarily due to the declining technology segment of the economy. Since September 1999, there have been about 100,000 jobs lost in Silicon Valley. This is over three times the amount of jobs lost in the recession of the early 90s. The job prospects continue to be scarce, but some economists predict that when the market rebounds it will be strong due to the continuous growth of the Internet. It is expected that venture capital investments will be big this year, which might pull us out of this slump. This has been the trend in previous downturns.

In 2001 the County had over one million wage and salary jobs. The County experienced a gain of over four thousand wage and salary positions between 2001 and 2000. Three major industry sectors comprise 75 percent of the County's employment: manufacturing (25%), services (36%) and retail trade (14%).

Sources: Department of Finance, Statistics & Demographic Research
California Employment Development Department
Silicon Valley/San Jose Business Journal, July 19, 2002

County of Santa Clara
Wage and Salary Employment by Industry
Annual Average (in thousands)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Civilian Labor Force *	856.2	860.6	867	895.0	937.5	958.8	965.5	1008.2	1012.7
Civilian Employment	797.9	806.9	824.2	862.8	909.2	927.9	936.3	988.2	967.5
Civilian Unemployment	58.3	53.7	42.8	32.2	28.3	30.9	29.2	20.0	45.2
Civilian Unemployment Rate									
County	6.8%	6.2%	4.9%	3.6%	3.0%	3.2%	3.0%	2.0%	4.5%
State of California	9.4%	8.6%	7.8%	7.2%	6.3%	5.9%	5.2%	4.9%	5.3%
Wage and Salary Employment **									
Total Farm Agriculture	5.4	5.1	4.5	5.1	5.1	5.2	5.3	5.0	4.5
Construction and Mining	26.3	26.5	28.8	32.8	37.4	41.8	45.6	49.2	49.2
Manufacturing	231.7	226.0	231.2	245.9	258.2	261.3	250.7	261.9	254.0
Transportation & Public Utilities	23.6	23.8	24.0	25.4	27.2	28.3	28.3	29.4	30.2
Wholesale Trade	45.5	46.0	48.7	52.4	56.0	56.4	56.0	55.5	52.6
Retail Trade	112.2	114.3	117.4	122.2	126.7	130.1	134.0	140.8	140.2
Finance, Insurance & Real Estate	31.5	30.0	28.7	30.0	30.6	31.8	32.3	32.3	33.4
Services	237.9	245.1	265.3	283.9	301.8	317.8	332.9	366.4	362.3
Government	87.9	88.3	87.8	87.4	88.5	88.9	91.4	94.5	94.6
Total ***	802.0	805.1	836.4	885.1	931.5	961.6	976.5	1035.0	1021.0
* Labor force data are based upon place of residence. Employment includes self-employed, unpaid family, workers domestics, and workers involved in labor-management disputes. Data are Benchmarked to 2001.									
** Wage and salary employment is reported by place of work. Data are benchmarked to 2001.									
*** Totals may not be precise due to independent rounding.									
Sources: California State Department of Employment Development. Department of Finance, Statistics & Demographic Research.									

Major Employers

The County is the location of many of the largest 100 public companies (as measured by market value) in the San Francisco Bay Area and is the headquarters for numerous high technology and computer manufacturing corporations. In addition, many County residents work for large public and private companies that are headquartered in other San Francisco Bay Area counties or outside the region. At this time, public-sector employers top the list of the largest employers in the valley. Santa Clara County ranks as number one, employing over 16,000 workers. The City of San Jose alone has over 6,400 full-time employees. These positions tend to remain more stable in a volatile job market, but have been impacted recently.

Source: San Jose and Silicon Valley Business Journal (Book of Lists 2002)

The table below lists the largest employers in the Silicon Valley, which encompasses the County and surrounding areas.

Largest Employers Silicon Valley

Company Name	Number of Employees	Nature of Business
Santa Clara County	16,018	Government Services
Cisco Systems	14,000	Computer Network Equipment Manufacturer
Hewlett-Packard	12,000	Computing and Imaging Solutions
Stanford University	9,944	Education
Kaiser Permanente	7,135	Non-Profit Healthcare
Intel	7,000	Manufactures Microprocessors
Lockheed Martin Missiles & Space	6,920	Commercial and Military Space Products
City of San Jose	6,436	Municipal government
Applied Materials	6,172	Semiconductor Manufacturing Equipment
New United Motor manufacturing, Inc	5,000	Automotive Manufacturing
San Jose Unified School District	3,586	Public Education
Santa Clara Valley Transportation Authority	2,857	Transportation Authority
San Jose State University	2,326	Higher Education
National Semiconductor Inc.	2,200	Design, Manufacturing, and Marketing of Semiconductors
Cadence	2,026	Software Developer

Source: San Jose and Silicon Valley Business Journal (Book of Lists July 26, 2002)

Commercial Activity

Santa Clara County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 1992 through 2001.

County of Santa Clara Taxable Transactions by Sector 1992 to 2001 (in \$thousands)	
1992	18,088,500
1993	18,865,200
1994	19,778,000
1995	22,512,100
1996	25,740,500
1997	26,967,000
1998	27,488,815
1999	30,348,644
2000	33,843,217
2001	36,597,963

Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax)

Construction Activity

In September 2001 it was reported that residential permits in Santa Clara County dropped by 36.9%. Home sales in the Bay area continued to decline and at the beginning of FY02, in Santa Clara County alone, the prices fell 22% over a one-year span. In addition, there was a decline in the median home price of 3.4%. There were heightened sales during the months of April and May 2002, but it is expected that prices will slide once again now that inventory is high.

With respect to office or commercial space, the valley ranks extremely high in downtown office vacancy rates with relation to the rest of the country. It was recently reported that over 30% of the total available properties in Silicon Valley have no occupants.

According to the Construction Industry Research Board calendar year 2001 total permit valuations for new residential and non-residential construction decreased by 21.6%. The number of single-family units decreased to 1,642, but the number of multiple family units went up by 2.3% to 4,318.

Source: Department of Finance
Silicon Valley Business Ink, July 26, 2002

The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the County since 1992.

County of Santa Clara
 Building Permit Valuations
 1992 to 2001

Year	Valuation (\$ millions)			New Dwelling Units		
	New Residential	Non-Residential	Total	Single Family	Multiple Family	Total
1992	549.4	612.2	1,161.6	1,751	1,301	3,052
1993	556.6	597.6	1,154.2	1,848	1,331	3,179
1994	637.5	596.0	1,233.5	2,128	1,817	3,945
1995	657.1	859.4	1,516.5	2,213	1,232	3,445
1996	911.5	1,290.0	2,201.5	4,032	3,542	7,574
1997	1,329.6	1,914.7	3,244.3	4,367	4,443	8,810
1998	1,294.6	1,882.0	3,176.6	3,911	3,615	7,526
1999	1,306.0	1,856.0	3,162.0	3,333	3,677	7,010
2000	1,348.8	2,865.9	4,214.7	2,834	4,220	7,054
2001	1,051.5	2,254.8	3,306.3	1,642	4,318	5,960

Sources: Construction Industry Research Board



CURRENT BUS SYSTEM DATA July 2002

Demographic Information of Service Area		Routes by Service Type		Bus Deployment	
Santa Clara County Population	1,719,600 *		No. of Routes	Weekday	Base to Peak ratio 69.2%
Urbanized Area (UZA)	326 sq. miles	Grid	14	AM Peak	376
Route Mileage (round trip)	2,925	Crosstown - Regular	17	Midday	263
Facilities		Crosstown - Limited Stop	6	PM Peak	380
Number of Bus Stops	4,703	Feeder - Neighborhood	22	Evenings	222
Number of Shelters	725	Feeder - Shuttle	2	Saturday	200
Number of Benches	2,310	Express - Commute	7	Sunday	172
Number of Trash Receptacles	897	Express - Regional	4		
Number of Transit Centers	14	total	72		Active Buses 491
Park and Ride Lots					
	Bus	Light Rail	Caltrain	Total	
Number of Lots	15	15	15	45	
Parking Spaces	770	6,034	4,560	11,364	

* Source: Employment Development Department (EDD)

Historical Data					
Fiscal Year	Active Buses	Scheduled Hours	Scheduled Miles	Ridership (in million)	Ave. Weekday Ridership
1978	250	680,351	9,874,025	15,740,000	54,200
1979	330	744,403	10,974,722	21,000,000	71,320
1980	410	866,922	13,208,223	27,220,000	93,690
1981	494	1,071,450	16,121,241	31,660,000	106,435
1982	654	1,289,275	19,315,699	34,310,000	114,614
1983	654	1,375,751	20,486,007	34,870,000	117,921
1984	587	1,393,663	20,709,523	35,745,658	120,025
1985	542	1,423,306	21,054,147	35,827,506	121,031
1986	542	1,478,363	21,828,651	34,970,518	117,218
1987	542	1,523,996	22,743,434	34,157,000	114,845
1988	526	1,534,980	23,054,441	35,220,000	118,432
1989	518	1,524,689	22,904,636	37,024,000	124,958
1990	508	1,539,093	22,983,312	38,700,000	132,000
1991	512	1,586,495	23,683,679	41,652,000	141,000
1992	512	1,563,141	23,313,885	40,104,000	135,375
1993	474	1,437,719	21,544,840	38,943,000	131,368
1994	461	1,367,725	20,577,474	38,737,136	128,392
1995	460	1,367,258	20,401,172	39,183,337	130,432
1996	457	1,371,163	20,452,092	42,625,173	139,787
1997	468	1,407,689	20,721,892	45,887,950	150,224
1998	506	1,464,964	21,184,990	46,118,198	150,437
1999	522	1,565,500	22,399,973	47,486,765	154,082
2000	512	1,623,603	22,923,518	47,007,594	151,480
2001	502	1,616,941	22,640,485	47,237,748	152,708
2002	491	1,589,200	22,043,527	44,900,522	144,821



CURRENT LIGHT RAIL SYSTEM DATA July 2002

Demographic Information of Service Area			Facilities and Transit Way Mileages			
Santa Clara County Population	1,719,600 *			Guadalupe	Tasman	Total
Urbanized Area (UZA)	326 sq. miles		Total Number of Stations	31	19	50
Hours of Operation per day	24 **		% of Platform Lifts equipped	100%	100%	100%
Park and Ride Lots			Length of Line	18.0 miles	11.5 miles	29.5 miles
	No. of Lots	Parking Spaces	Route Mileage (round trip)	36.0 miles	22.4 miles	58.4 miles
Light Rail	15	6,034	Headways			
Caltrain	1 ***	338		Weekday	Saturday	Sunday
total	16	6,372	Minutes	15	15	15
			Active Cars			
			Light Rail	62 ****	Historic Trolley	3

* Source: Employment Development Department (EDD)

*** Downtown Mountain View - Caltrain Station (non-VTA lot)

** Tasman Line operates 20 hrs. Almaden line operates 17.5 hrs. on weekdays and 16 hrs. on weekends

**** Includes 12 Kinkisharyo cars in testing prior to final acceptance.

System Line Openings			
Segment Name	Opening Date	Length	Cumulative Length
Younger St. to Old Ironsides	December 11, 1987	7.6	7.6
Downtown San Jose to Younger St.	June 17, 1988	0.7	8.3
Tamien to Downtown San Jose	August 17, 1990	2.1	10.4
Almaden to Ohlone/Chynoweth	April 25, 1991	1.1	11.5
Santa Teresa to Tamien	April 25, 1991	8.6	20.1
Downtown Mountain View to Old Ironsides	December 20, 1999	7.6	27.7
Tasman to Baypointe	December 20, 1999	0.4	28.1
Baypointe to I-880 Milpitas	May 17, 2001	1.4	29.5

Historical Data							
Fiscal Year	Scheduled Hours	Scheduled Miles	Light Rail Ridership	Historic Trolley Ridership	Total Ridership	Ave. Weekday Ridership	
1988	16,622	222,329	359,965	0	359,965	1,101	
1989	42,665	538,799	2,078,725	39,985	2,118,710	7,630	
1990	45,378	557,449	2,431,520	67,465	2,498,985	8,083	
1991	67,424	890,617	3,890,482	110,660	4,001,142	12,569	
1992	94,191	1,394,480	6,018,280	117,281	6,135,561	19,756	
1993	85,419	1,283,621	6,206,903	38,796	6,245,699	20,339	
1994	79,280	1,203,823	6,108,755	24,246	6,133,001	19,735	
1995	78,630	1,198,107	5,635,697	23,622	5,659,319	18,138	
1996	82,006	1,274,202	6,144,587	23,498	6,168,085	20,008	
1997	84,909	1,339,564	6,704,027	24,365	6,728,392	22,006	
1998	87,285	1,368,229	6,865,223	44,877	6,910,100	22,727	
1999	88,800	1,359,589	6,819,307	43,398	6,862,705	22,579	
2000	112,202	1,648,334	7,874,710	39,020	7,913,730	25,673	
2001	136,483	1,986,763	9,200,445	36,629	9,237,074	30,383	
2002	137,087	2,032,588	7,769,121	20,449	7,789,570	25,573	