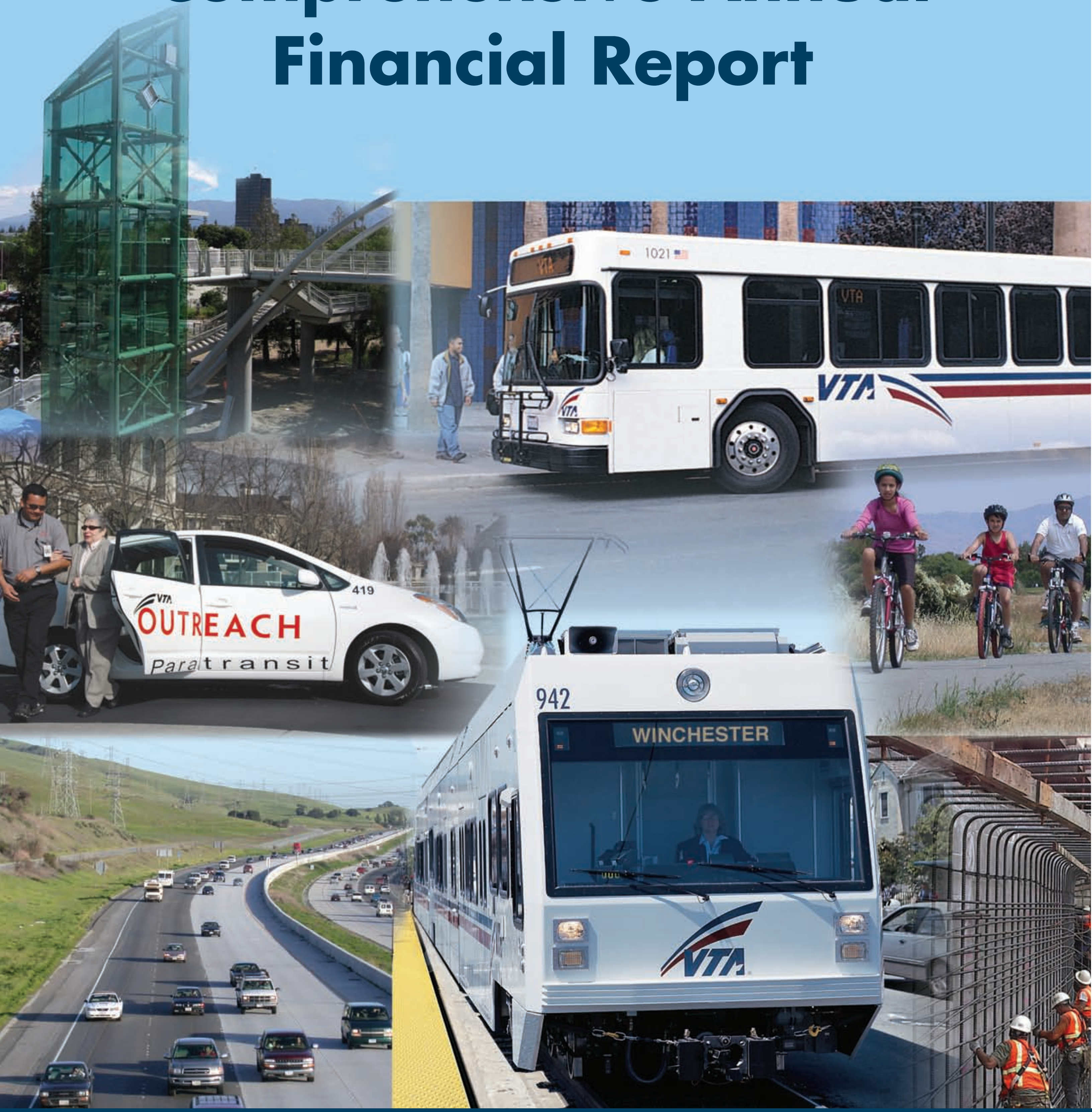
Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report



For Fiscal Year Ended June 30, 2007, Santa Clara County, California

Santa Clara Valley Transportation Authority

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2007

Paratransit services offer alternatives for seniors and persons with disabilities

VTA provides service to major attractions, like the Tech Museum of Innovation

Low-floor light rail vehicle on the Mountain View – Winchester Line

Elevator at the Hamilton Light Rail Station

Bicycle paths provide another transportation option

River Oaks Bicycle/Pedestrian Bridge

1996 Measure B U.S. 101 Widening Highway Project

SR152/156 Intersection Improvement Project

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

SAN JOSE, CALIFORNIA

Comprehensive Annual Financial Report (CAFR)

For Fiscal Year Ended June 30, 2007

Prepared by:
Fiscal Resources Division

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comprehensive Annual Financial Report
For the Year Ended June 30, 2007

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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, 2006

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

SECTION 1 — INTRODUCTION

LETTER OF TRANSMITTAL

PROFILE OF VTA

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November 26, 2007

Board of Directors
Santa Clara Valley Transportation Authority

Subject: Comprehensive Annual Financial Report

It is a pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) of the Santa Clara Valley Transportation Authority (VTA) for the year ended June 30, 2007. The CAFR 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, when applicable, in accordance with the requirements of accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The report is presented in three sections: introductory, financial, and statistical.

1. The *Introduction* section includes transmittal memorandum, and other information to familiarize the reader with VTA, a list of principal officials, and organization chart.

2. The *Financial* section, including the Independent Auditor's Report, Management Discussion & Analysis (MD&A), basic financial statements with accompanying footnotes, required supplementary information, and other supplementary information.

3. Lastly, the *Statistical* section includes selected financial data and demographic information, generally presented on a multi-year basis.

Vavrinek, Trine, Day & Company LLP, a firm of licensed Certified Public Accountants, has audited the financial statements. The goal of the audit is to obtain a reasonable assurance that the financial statements are free of material misstatements. Vavrinek, Trine, Day & Company concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion for the fiscal year ended June 30, 2007, and that the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

In addition, Vavrinek, Trine, Day & Company also conducts the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report on the fair presentation of the financial statements, agency's internal controls and compliance with legal requirements.

REPORTING ENTITY

VTA is an independent public agency responsible for bus and light rail operations in the County, regional commuter and inter-city rail service, Americans with Disabilities Act (ADA) paratransit service, congestion management, specific highway improvement and other transportation projects, and countywide transportation planning and funding. A map showing VTA's bus and rail transit service area is set forth on page 1-25. VTA was created in 1972 pursuant to the Santa Clara County Transit District Act. Prior to January 1, 1995, the County Board of Supervisors served as the VTA's Board of Directors. Effective January 1, 1995, pursuant to State of California legislation, VTA has operated under a separate Board of Directors composed of the County and city representatives. On January 1, 2000, pursuant to State of California legislation, VTA's name was officially changed from the Santa Clara Valley Transit District.

VTA is governed by a Board of Directors (the "Board" or the "Board of Directors") comprised of 12 elected officials appointed by the jurisdictions they represent. Five members of the Board and one alternate are appointed by the City of San Jose City Council. Three members of the Board and one alternate are appointed from among the city councils of the Cities of Los Altos, Mountain View, Palo Alto, Sunnyvale and Santa Clara, and the Town of Los Altos Hills. One Board member and one alternate are appointed from among the city councils of the Cities of Campbell, Cupertino, Monte Sereno and Saratoga, and the Town of Los Gatos. One Board member and one alternate are also appointed from among the city councils of the Cities of Gilroy, Milpitas and Morgan Hill. The final two seats on the Board and one alternate are appointed by the Board of Supervisors of the County of Santa Clara ("County of Santa Clara" or "Santa Clara County" or the "County"). The allocation of Board representation is generally based on population.

ECONOMIC ENVIRONMENT

Santa Clara County, home to "Silicon Valley," enjoys a diversified industrial and commercial base and is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. The County is a major employment center for the region, providing more than a quarter of all jobs in the San Francisco Bay Area region.

In the quarter ending June 30, 2007, the National Gross Domestic Product (GDP) grew at an annual rate of 4.0% up from 2.5% in the second quarter of 2006. In its recent quarterly report on economy, the Federal Reserve forecasted that the economy would slow down through the end of 2007. While not a recession, the economy is expected to experience some sluggish growth due to the housing slowdown, with moderate inflation and some modest increase in unemployment. The Federal Reserve cut its forecast for growth in 2008 though it predicted that the nation would avoid a recession and inflation would calm down. The report added that the housing downturn, credit crunch and possibility of slower consumer and business spending posed risks to the outlook.

The State's long-term structural budget deficit further complicates the financial picture for public transit agencies. During its budget crisis earlier in the decade, the State withheld funds from transit agencies entitled to them under Proposition 42 approved by the voters in March 2003. On November 7, 2004, the voters of California approved Proposition 1A, a constitutional amendment designed to protect Proposition 42 revenues from being loaned or diverted by the State to non-transportation purposes, thereby curbing a practice that the Governor and California State Legislature used during the State's economic slowdown earlier this decade. While Proposition 1A does not prevent the State from borrowing Proposition 42 revenues entirely, it does put restrictions on when and how often these revenues can be diverted to the State's General Fund, and when they must be paid back.

The economy in the Silicon Valley region, and in particular, Santa Clara County, has turned the corner and continues to work its way out of one of the most severe economic downturns to affect the area. The consensus economic opinion now believes the Silicon Valley has more than made up the lag in the regional economy and no longer lags the national economy. The unemployment rate in the County averaged 4.7% in June 2007 compared to 5.2% for the State and 4.5% at the national level.

Lower unemployment and higher consumer confidence are helping to improve VTA's revenue base. VTA's major revenue sources are dependent upon taxable sales activity in the County. After taking a major hit after the dot.com crash, taxable sales have improved in recent quarters. According to the latest data available from the State Board of Equalization, the County's taxable sales of all outlets in the third quarter of calendar year 2006 have increased 5% compared to the same period a year earlier. According to the Silicon Valley/San Jose Business Journal, office vacancy in Silicon Valley was below the 10% threshold for the first time in many years, spurring the construction of new office space.

CURRENT YEAR FINANCIAL HIGHLIGHTS

The following presents supplemental information to the MD&A, providing comparative financial data for VTA's Enterprise Fund – Transit Operations for FY2007 and FY2006.

Enterprise Fund - VTA Transit Operations	FY2007 ($000)	FY2006 ($000)	Change Amount ($000)	Change %
Operating Revenues	$ 37,876	$ 36,926	$ 950	2.6%
Operating Expenses	355,873	365,342	(9,469)	-2.6%
Sales Tax- 1976 Half-Cent	163,676	157,283	6,393	4.1%
Sales Tax- 2000 Measure A Half-Cent [a)]	161,361	38,170 [b)]	123,191	322.7%
Other Sources/(Uses)	110,778	67,175	43,603	64.9%
Transfer from Internal Service Fund	50,000	-	50,000	N/A
Capital Contributions	199,999	22,522	177,477	788.0%
Change in Net Assets [c)]	367,817	(43,266)	411,083	950.13%
Net assets, beginning of year	2,002,239	2,045,505		
Net assets, end of year	$ 2,370,056	$ 2,002,239	$ 367,817	18.37%

a) Presentation will be changed in FY08 to report the 2000 Measure A Half-Cent Sales Tax within the Special Revenue Fund.
b) This represents FY06Q4. The collection of VTA's 2000 Measure A Half-Cent Sales Tax started on April 1, 2006.
c) These funds consist primarily of 2000 Measure A Half-Cent Sales Tax which is designated for capital.

As reflected above, Enterprise Fund net assets increased $367.8 million in FY2007 to $2.4 billion. The increase in net assets was mainly due to higher sales tax revenues with the first full year collection of 2000 Measure A Sales Tax, an increase in capital grants from the State related to the Silicon Valley Rapid Transit (SVRT) project, and higher operating grants from the State under its Transit Development Act (TDA) and State Transit Assistance (STA) programs. In addition, there was a one-time transfer of $50.0 million from the Workers Compensation Internal Service Fund based on the actuarial valuation study as of June 30, 2007. Enterprise Fund operating expenses also decreased in FY2007 compared to FY2006 reflecting lower depreciation expenses and capital asset contributions to other agencies. Total FY2007 net assets comprised of the following (in thousands):

• Invested in capital assets, net of related debt	$1,888,879
• Restricted for debt service	$ 88,021
• Restricted for capital projects	$ 265,165
• Unrestricted	$ 127,991
Total Net Assets	**$2,370,056**

1976 Half-Cent Sales Tax Revenues

The 1976 Sales Tax is VTA's single largest source of revenue for operations. The State Board of Equalization (SBOE) collects the 1976 Sales Tax for VTA. The 1976 Sales Tax Revenues pay the operating expenses, and capital expenditures where state or federal capital assistance programs require that the recipient of assistance contribute locally derived revenue.

The economic recession in the early part of the decade hit Santa Clara County particularly hard. From FY2001 to FY2003, the 1976 Sales Tax revenues decreased $51 million or 28%. While the economy has certainly reestablished from that time, Santa Clara County has been slower to emerge from the downturn than the other counties in the Bay Area. Even though sales tax receipts have increased each of the last 4 years, FY2007 actual receipt of $163.7 million is still more than $20 million less than the high water mark of FY2001.

2000 Measure A Half-Cent Sales Tax Revenues

The 2000 Measure A Sales Tax is collected by the SBOE for VTA in the same manner as the 1976 Measure B Sales Tax. The collection of this half-cent sales tax revenue started after the expiration of 1996 Half-Cent Measure B Sales Tax on March 31, 2006. FY2007 was the first full year of receipts, which totaled $161.4 million. The 2000 Sales Tax revenues are restricted for projects and operational activities included on the 2000 Measure A ballot.

Transportation Development Act Revenues

Transportation Development Act (TDA) funds are derived from a quarter-cent sales tax levied by the State of California on taxable transactions occurring in the County. The Metropolitan Transportation Commission (MTC) retains a portion of these funds for administration and approximately 94.5% is returned to the source county (i.e., Santa Clara). After the sales tax, the TDA revenues are VTA's second largest source of revenue for operations. Because the TDA funds are derived from the same tax base as VTAs' other sales tax revenue sources, they have also declined from the high level of FY2001. For FY2007, the actual TDA receipts were $81.1 million, reflecting a $10 million or 14.1% growth over prior fiscal year.

State Transit Assistance Program

State Transit Assistance funds (STA) are derived from the State sales tax on gasoline and diesel fuel. STA apportionments are made to regional transportation planning agencies (MTC in the Bay Area Region) based on a formula that allocates 50% of the funds according to population and 50% according to the transit operator's qualified revenues in the region from the prior fiscal year. FY2007 STA revenues of $22.3 million include approximately $12.1 million of one-time revenue representing a repayment of Proposition 42 loans diverted by the State in FY2004 and FY2005 during its budget shortfall and excess funds that were generated with sharp increases in retail gasoline prices.

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% 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. Currently, VTA treats all bus maintenance costs for revenue and non-revenue vehicles as eligible expenditures.

Ridership and Fares

The FY2007 bus ridership was 31.7 million with $26.6 million in farebox revenues. The ridership rose 2.3% from previous year but the farebox revenues fell slightly lower in the current year as VTA implemented various subsidized fare promotions to boost ridership. The light rail ridership was 10.3 million with farebox revenues of $8.6 million, an increase of 9.2%. The light rail ridership increased not only from the first full year of Vasona line extension in FY2007 but also from higher ridership on the existing light rail lines.

FINANCIAL POLICIES

Internal Control

VTA management is responsible for establishing and maintaining an internal control system designed to ensure that its assets are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control system is designed to provide a reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed benefits likely to be derived from its implementation. The valuation of costs and benefits requires estimates and judgments by management. VTA's management believes its internal controls are adequate.

Basis of Accounting

The VTA's accounting records are maintained on the accrual basis of accounting. The activities are reported through the use of a fund accounting system.

Budgetary Control

The biennial operating and capital budget is proposed by VTA management and adopted by the Board of Directors after public discussion. The budget consists of five Funds: the Transit Enterprise Fund, the Congestion Management Program Fund, the Congestion Management Program Highway Improvement Fund, the 2000 Measure A Transit Improvement Fund, and the 1996 Measure B Transportation Improvement Program Fund. The General Manager may reallocate appropriations within each Fund to the limit of each Fund's annual appropriation. Any net increase in authorized appropriations to any Fund (including an allocation from reserves) shall require an affirmative vote of at least eight Directors.

Budgetary control is maintained at the Fund level. The Division Chief must authorize budget transfers between cost centers within that division. The Department Cost Centers Managers are responsible for controlling their budgets and monitoring expenses. VTA also maintains an encumbrance accounting system for budgetary control. Unexpended operating appropriations lapse at the end of the fiscal year. The unexpended capital budget at fiscal year-end is carried forward from year to year until the capital project is completed and officially closed or is canceled.

Operating Reserve Policies

VTA Board has established an operating reserve goal of 15% of budgeted expenses in the Transit Enterprise Fund. To calculate the actual reserve at the fiscal year end, total unrestricted current assets are reduced by total unrestricted current liabilities to determine current net assets. Current net assets are then reduced by fiscal year-end inventory balance and special item/s to calculate operating reserve balance. During the last three fiscal years, VTA's operating reserve surpassed its targeted reserve goals. The detail calculation and information on the operating reserve is shown on page 3-7.

Management's Discussion and Analysis

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the MD&A beginning on page 2-3 and should be read in conjunction with it.

Cash and 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 indices. VTA contracts with professional money managers to manage its investment portfolio and their performance are overseen by VTA staff.

The VTA/ATU Pension Plan Investment Policy functions like the Restricted/Unrestricted Investment Policy, with the notable exception that Pension Plan Trustees review and approves 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 Plan's asset allocations are reviewed relative to the targets on a monthly basis and action is taken to rebalance to within the target ranges by means of asset transfers among categories. When necessary and/or available, cash inflows/outflows are deployed in a manner consistent with the strategic asset allocation on the system.

Risk Management

VTA is exposed to various risks of loss related to tort claims, theft, damage and destruction of VTA asset and property, errors and omissions, injuries to employees and the public and natural disasters. A combination of self-insurance and commercial coverage is used by VTA to manage its risks. Further details on the types and amounts of coverage are addressed in Note 15 in the Notes to the Basic Financial Statements.

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 employee's 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 Notes 11 and 12 of the Notes to the Basic Financial Statements. In addition, there are Schedules of Funding Progress for the two plans within the Required Supplementary Information.

There are three health benefits programs for employees who retire directly from VTA as follows:

- ATU Medical Trust which includes a Spousal Medical Trust and Retiree Vision and Dental Trust
- ATU Retiree Health Care Program
- Non-ATU Retiree Health Care Program

MAJOR INITIATIVES

Hay Group Organizational and Financial Assessment

In 2006, VTA initiated a management assessment to evaluate its performance and identify opportunities for improvement. VTA designed the assessment to emphasize a critical analysis of the VTA's flaws, weaknesses and gaps, rather than areas of strength and positive results. In August 2006, VTA engaged the Hay Group, a Philadelphia-based management consulting firm. In March 2007, the Hay Group released its report on the Organizational and Financial Assessment of VTA (the "Assessment"). Among other things, the Assessment concluded that VTA suffered from weaknesses in financial management processes and policies, including those relating to internal audit functions, cash management, and budgeting and expenditure controls. The Assessment also made a number of specific organizational and financial management recommendations.

Since the release of the Hay Group report, VTA has taken a number of specific actions to implement the recommendations. On April 5, 2007, the Board approved a contract to engage Jerry G. Mikolajczyk as Chief Financial Officer for an interim basis. Mr. Mikolajczyk was directed to prepare a work plan to address the financial management recommendations contained in the Assessment. Additionally, the Board approved a contract with Karen Antion Consulting LLC ("KAC"), to provide professional services in support of implementing primarily the Assessment's recommendations in the areas of governance and organizational structure.

On June 1, 2007, VTA's General Manager announced a transformation organization structure for VTA that incorporates many of the recommendations from the Assessment. The new structure includes implementing clearly defined roles and responsibilities, a realignment of functions and positions, and an appropriate segregation of duties. VTA appointed a transformation team to work with KAC to develop and implement the transformation plan.

The Assessment is not a financial audit, and the Hay Group's methodology was not intended or designed to comply with generally accepted government auditing standards. The Assessment makes no claims of material weaknesses as defined by government auditing standards. At no time have the VTA's present independent auditors, Vavrinek, Trine, Day & Co., LLP, or any of its former independent auditors advised VTA of the existence of any material weaknesses in VTA's internal controls over financial reporting or any other reportable condition that the auditors would be required to report to VTA's Board pursuant to generally accepted government auditing standards

Comprehensive Operations Analysis

VTA conducted a comprehensive 18-month study of its entire bus system. The Comprehensive Operations Analysis (CAO) evaluated VTA bus route structure and performance and analyzed the market conditions for public transit in Santa Clara County. VTA's New Bus Service Plan was developed based on this analysis with the goal of targeting market opportunities, creating service efficiencies, and increasing customer convenience. The VTA Board approved the Comprehensive Operations Analysis (COA) proposal for New Bus Service on August 30, 2007. VTA's New Bus Service begins on Monday, January 14, 2008. VTA's transformed bus service structure, which affects over 90 percent of bus routes, will include an increased service frequency of 15 minutes or better on many core routes, enhanced Express Bus service in target markets, and 11 new Community Bus routes. These changes also include the elimination or reduction of under-utilized bus routes. Increased ridership and improved farebox recovery are twin objectives of these changes. VTA plans to undertake an elaborate outreach campaign to provide information on the New Bus Service to its customers.

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 VTA for its FY2006 Comprehensive Annual Financial Report. This was the 11^{th} consecutive year that VTA achieved this prestigious award.

In order to receive the prestigious award, 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 that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR required a concerted team effort throughout VTA, including staff from Accounting & Compliance Review, Disbursements, Revenue Services, Contracts and Purchasing, Risk Management, Budget, Investments, Service and Operations Planning, and the Debt Administration/ Business Analysis Departments. The Copy Center and the Marketing and Customer Service Departments also made significant contributions to the form, content, and production of the report. The team members demonstrated a commendable degree of personal dedication and determination in producing this document.

In addition, special thanks to Vavrinek, Trine, Day & 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.

Michael T. Burns General Manager	Jerry G. Mikolajczyk Chief Financial Officer

PROFILE OF VTA

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 (County). In 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 is also the successor organization to the Santa Clara County Traffic Authority, which terminated in March 1997.

VTA is an independent special district responsible for bus and light rail operations, ADA paratransit service, regional commuter and inter-city rail service, congestion management, specific highway improvement projects, and countywide transportation planning. As such, VTA is both an accessible transit provider and a multi-modal transportation planning and implementation organization involved with transit, highways, roadways, bikeways and pedestrian facilities. VTA provides transit services to the 326 square mile urbanized portion of the County that is comprised of 15 cities and the County with a population of approximately 1.8 million.

Bus Transit Service

VTA currently maintains an active fleet of 453 buses powered by clean diesel fuel, which includes 232 low-floor buses and 3 Zero Emission buses. The average age of the active fleet is about 7 years with the buses ranging from 1 to 14 years old. VTA's current bus fleet is equipped with devices to secure wheelchair and other mobility devices. All buses include either lifts or ramps for boarding passengers.

The bus service area of approximately 326 square miles contains 75 bus routes. There are over 4,345 bus stops and 740 bus shelters. VTA also maintains 8 Park & Ride lots - five owned by VTA and three 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.

VTA also operates Community Bus Service as part of its bus operations. This service uses smaller, more fuel-efficient vehicles with operators at a lower wage structure. The smaller vehicles allow routes to serve areas that might not have been accessible with larger, standard buses. VTA works closely with the communities in which this service is operated to design routes and schedules that meet their particular needs. Fifty 28-foot vehicles are now being procured to operate this service. The first 25, which include the 5 currently used on the Los Gatos Community Bus routes, are already placed in service. The next 25 vehicles are planned for operations in early 2008.

The Community Bus Service will adhere to VTA's Community Bus fare policy. Cities and community groups opting for these services to operate fare-free may elect to provide local contributions to meet the 20-25% farebox recovery goal established by the VTA Board. This concept is similar to the jointly funded shuttle-type services (DASH, Great America, River Oaks, and others) where employers, participating agencies, and grants support at least 25% of the route operating expenses.

Light Rail Transit Service

VTA currently operates and maintains a 42.2-mile light rail system (the "LRT System") connecting areas of Mountain View, Sunnyvale, Santa Clara, North San Jose and Milpitas to areas in South San Jose and Campbell. The VTA's fleet consists of 100 low floor light rail vehicles and three historic trolleys. With the completion of the Vasona Light Rail extension in 2005, the LRT System has 62 stations and 21 Park and Ride lots, which are fully integrated with the bus system.

Paratransit Services

As an operator of bus and light rail services, VTA is required under the Americans with Disabilities Act (ADA) to ensure that paratransit service is provided to eligible individuals with disabilities. The level of service must be comparable, in terms of hours of service and area served, to the service provided by the bus and light rail system. Since January 1997, VTA has been in full compliance with ADA paratransit provisions. VTA does not directly provide paratransit service, but contracts with Outreach and Escort, Inc., a paratransit broker service. Outreach determines and certifies qualified individuals for paratransit eligibility, receives and schedules trip requests, builds vehicle manifests, and contracts for services with taxi, sedan and accessible van service providers.

Contracted, Interagency and Other Transit Services

VTA is a partner in various ventures that expand the transportation options for our customers. These relationships include commuter rail, inter-county express bus lines, and rail feeder services. They are operated either by contract or through cooperative agreements.

Caltrain Peninsula Corridor Joint Powers Board (PCJPB)

Caltrain is a commuter rail service provided by the PCJPB, which is governed by representatives from San Francisco, San Mateo, and Santa Clara counties. It operates between Gilroy and San Francisco. There are 32 stations along the line; 15 are located in Santa Clara County. Caltrain operates 96 weekday trains including 22 Baby Bullet Express trains. In addition, six peak-hour weekday trains (three northbound in the morning and three southbound in the evening) serve five stations in South San Jose, Morgan Hill, San Martin and Gilroy. VTA light rail transfers can be made at both the Tamien and Mountain View Caltrain stations.

Funding for the operation of Caltrain comes from fares, parking revenues, and operating subsidies from the three member agencies. The PCJPB determined a formula for the amount of subsidy required by each member for operating expenses. It is based on a five-year rolling average of the percentage of morning commute boardings occurring in each member county and is updated annually based on actual ridership counts. Capital replacement and enhancement project expenses are allocated equally among members for projects on the PCJPB-owned right-of-way between San Francisco and San Jose. Capital expansion project funding is determined on a case-by-case basis. VTA contributes 100 percent of capital expenses for the Caltrain San Jose to Gilroy segment.

Altamont Commuter Express Rail Service (ACE)

The ACE is an 85-mile weekday commuter rail service from Stockton to San Jose via the Tri-Valley area of Alameda County. Operating on the Union Pacific railroad track, ACE service consists of four daily trains (four round trips), all of which originate in Stockton providing service to San Jose Diridon Station. Four afternoon and evening trains provide return trip service from San Jose to Stockton. ACE connects to VTA bus and light rail service, the Bay Area Rapid Transit District (BART), the Alameda-Contra Costa Transit District (AC Transit), Caltrain and the Capitol Corridor Intercity Rail Service. Stations are also serviced by shuttle and feeder bus service. The San Joaquin Regional Rail Commission (SJRRC) is the owner, operator, and policymaking body for ACE service. The funding for ACE service is provided under the terms of a cooperative agreement between VTA, SJRRC, and the Alameda County Congestion Management Agency.

Capitol Corridor Intercity Rail

The Capitol Corridor Intercity Rail Service is a 185-mile train corridor from Auburn and Sacramento to San Jose, through the counties of Placer, Sacramento, Yolo, Solano, Contra Costa, Alameda and Santa Clara. Capitol Corridor service consists of seven weekday round trips from Sacramento to San Jose and seven weekday round trips from Sacramento to Oakland with connecting bus and passenger rail service. Three round trips from San Jose per day extend 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 Auburn, Rocklin, Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara at Great America and San Jose Diridon Station. The Capitol Corridor Joint Powers Authority (CCJPA), which is comprised of representatives from the eight counties served by the corridor, is responsible for managing the service. Under contract with the CCJPA, BART manages the service and Amtrak operates it. The entire funding for this service is provided by the State of California.

Inter-County Bus Service

VTA 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 AC Transit, BART, City of Union City, San Mateo County Transit District (SamTrans) and VTA underwrite the net operating costs of the service based on the origin and destination of the passengers as determined through a biennial survey. VTA is responsible for approximately 36% of the net operating costs and SamTrans, AC Transit, BART and the City of Union City are responsible for the rest.

The Highway 17 Express provides direct bus service from Santa Cruz to Downtown San Jose. The service is managed and operated by Santa Cruz Metro Transit District (Metro) under a Joint Powers Authority Agreement with VTA. In 2004, Caltrain and the CCJPA joined as service partners by merging their connector bus service with the Highway 17 Express. This consolidation added new weekend and holiday service, more weekday trips and extended the route to the Downtown Santa Cruz Metro Center. These improvements are fully funded by Caltrans and CCJPA. VTA and Metro continue to share the operating subsidy for the remainder of the weekday service on a 50/50 basis.

In August 2006, VTA, Monterey-Salinas Transit (MST) and the CCJPA partnered on a new express bus service operating from Monterey to San Jose. The Monterey-San Jose Express operates daily with three round trips, covering commute times in the morning, mid-day and evening. The service provides passengers with transfers to and from Capitol Corridor trains that operate between San Jose-Oakland-Sacramento, Caltrain and VTA's bus and light rail services. The service originates in downtown Monterey with other stops in Monterey County before stopping at the Gilroy Caltrain station, Morgan Hill Caltrain station, San Jose State University, downtown San Jose and the San Jose Diridon station. The Monterey-San Jose Express was started as a one-year pilot program funded by a federal Jobs Access Reverse Commute grant, the Capitol Corridor JPA and VTA. MST operates and maintains the service.

Shuttle Program

Light Rail Shuttle

VTA offers financial assistance to employers and entities that wish to operate shuttle bus service between light rail stations and nearby employment/activity centers. The service is operated through a contractor provided by the sponsoring agency. Funding to operate this program is provided by the sponsoring agency, VTA, and grants from the Bay Area Air Quality Management District's Transportation Fund for Clean Air Program.

Downtown Area Shuttle (DASH) and HP Pavilion Shuttle Programs

VTA operates a free Downtown Area Shuttle (DASH) on weekdays to employment, business and school locations in downtown San Jose. It serves the San Jose Diridon Train Station, thereby providing transfer connections from ACE, Caltrain, the Capital Corridor Intercity Rail Service, Highway 17 Express and VTA bus routes. The route circulates through downtown San Jose, where it connects to VTA's light rail system. The funding for this service is provided by VTA, the Transportation Fund for Clean Air Act, City of San Jose, and the San Jose Downtown Association.

San Jose Airport Flyer

VTA, in partnership with the City of San Jose, provides free Airport Flyer bus service connecting San Jose International Airport terminals and airport parking lots with VTA's Metro/Airport Light Rail Station and the Santa Clara Caltrain Station. Funding for this service is split equally between VTA and the City of San Jose.

Congestion Management

The Congestion Management Program (CMP) for Santa Clara County was created in 1990 in response to Proposition 111. It was established as a joint powers authority with a separate governing board. On January 1, 1995, pursuant to the separation of the Santa Clara County Transit District from the County of Santa Clara, the CMP was merged with the Transit District to form the Valley Transportation Authority (VTA) under a new governing Board.

The CMP is currently governed by a joint powers agreement entered into between its 16 member agencies, which are the 15 municipalities within the Santa Clara County and the County of Santa Clara. The Member Agencies are the cities of Campbell, Cupertino, Gilroy, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, Saratoga, San Jose, Santa Clara, and Sunnyvale and the towns of

Los Altos Hills and Los Gatos; and the County of Santa Clara. VTA serves as the managing agency of the CMP.

The CMP is responsible for development and implementation of the Valley Transportation Plan (VTP) 2030, the current comprehensive long-range multimodal transportation plan for the county, and for preparing and implementing the state-mandated CMP. It is also responsible for the programming and monitoring of discretionary federal, state, regional and local funds programmed by VTA Board of Directors, and for serving as the program manager for certain countrywide grant funds, including the Transportation Fund for Clean Air (TFCA) and the Measure B Transportation Improvement Program (MBTIP) Ancillary Program. It is also responsible for preparation and implementation of the Countywide Bicycle Plan, Pedestrian Program and the Intelligent Transportation Systems (ITS) Plan.

The CMP is funded in part by annual fees charged to each Member Agency based on a formula adopted by the VTA 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 also funded by federal and state planning grants and other grant sources, TFCA administration fees and SB45 programmed project monitoring funds. The fiscal resources of the CMP are distinct from those of VTA Transit Enterprise.

GOALS, OBJECTIVES AND STANDARDS

Vision Statement
The vision of VTA is to provide a transportation system that allows anyone to go anywhere in the region easily and efficiently.

Mission Statement
The mission of VTA is to provide the public with a safe and efficient countywide transportation system. The system increases access and mobility, reduces congestion, and improves the environment and supports economic development, thereby enhancing quality of life.

The VTA Board of Directors specified the following six key policy directions:

- Integrate land use and transportation
- Use all transportation options
- Create a safe, convenient, reliable and high quality bus/rail operation
- Build a regional perspective
- Implement the 1996 Measure B Transportation Improvement Program.
- Prioritize and complete projects included in the 2000 Measure A Transit Improvement Program

VTA STRATEGIC PLAN GOALS

VTA completed a review of its services and programs, and formulated recommendations to improve its efficiency and effectiveness, while enhancing its ability to continue providing quality services and programs to its customers within the context of current Board policy, the region's current economic realities, and financial constraints.

The Strategic Plan goals and objectives were revised and expanded to include recommendations from a Business Review Team and an Ad-Hoc Financial Stability Committee. The VTA Board reviewed and approved the following goals and objectives:

Maintain Financial Stability

- Secure adequate levels of funding to sustain the existing transportation system and secure new fund sources for system expansion.
- Increase the transit system's operating recovery ratio, with a target of 20 to 25 percent by adding new riders, increasing the average fare per passenger through a multi-year Fare Policy and annual or biennial fare reviews, and improving cost efficiencies.
- Ensure timely maintenance, replacement and/or rehabilitation of essential capital assets.
- Implement new capital programs only when operations and maintenance costs have been identified and revenue sources determined.
- Ensure the Reserve Fund policy will sustain sufficient future cash flow through changing economic cycles.
- Maintain a proactive state and federal legislative program to ensure policies and funding allocations serve the needs of VTA's mission and diverse communities.
- Pursue joint development opportunities that result in both ridership and development revenues for VTA.
- Ensure that expenditures of 2000 Measure A funds are consistent with priority projects and services as identified by the Board of Directors.

Enhance Customer Focus

- Increase ridership at least one to three percent annually.
- Maintain a high level of transit system reliability.
- Better communicate transit service information to customers and improve customer information resources as near-and long-term opportunities arise, including real-time route and schedule information, on-line trip planning, and e-commerce for VTA passes and tickets.
- Maintain a proactive media relations presence to promote services and provide awareness of VTA's benefits to the community.
- Continue to enhance transit service in order to make VTA the travel mode of first choice.
- Ensure that comprehensive public participation programs are a key element in developing transportation system plans and projects.

Improve Mobility and Access

- Provide transportation facilities and services that support and enhance the quality of life for Santa Clara County residents and the continued health of Santa Clara County's economy.
- Manage congestion by focusing investments to address the transportation system's greatest roadway, transit, bicycle and pedestrian needs.
- Increase the use of commute alternatives, especially in defined key cores, transportation corridors and station areas.
- Continually evaluate services through the Service Management Plan, using revised service standards, making necessary modifications to assure efficiency and effectiveness of transit service and expand service, as allowed by financial resources.
- Develop plans, secure environmental clearance and begin implementation of priority 2000 Measure A transit projects as funds become available.
- Complete the 1996 Measure A transit and highway projects as local, state and federal funding allows.

Integrate Transportation and Land Use

- Continue to work with the cites and the County to improve the relationship between land use and transportation decisions, and advocate for the implementation of the principles and practices contained in the Community Design and Transportation Program.
- Develop and enhance partnerships with the cities and the County to ensure adoption of the Transit-Oriented Development plans and policies along existing and future transit corridors.
- Partner with private sector and the cities to develop projects at VTA station areas to intensify residential, commercial, and retail uses.
- Through the Valley Transportation Plan (VTP), strive to provide certainty to cities and private developers that priority transit projects upon which cities base land use decisions will be implemented in a timely manner.

Increase Employee Ownership

- Continue to involve employees in the refinement of VTA business practices, such as transit routes and schedule planning.
- Continue to respond to key areas of organizational improvement identified by employees.
- Continue to work with employee labor representatives to develop strategies and to implement additional operational efficiencies.
- Foster an environment that demonstrates VTA is an employer of choice.

VALLEY TRANSPORTATION PLAN

As the designated Congestion Management Agency for the County, VTA is responsible for preparing the County's long-range transportation plan. In August 2000, VTA's Board of Directors adopted the Valley Transportation Plan 2020 (as revised, from time to time, the "Valley Transportation Plan") to satisfy this requirement. The Board of Directors adopted the current revision of the Valley Transportation Plan, Valley Transportation Plan 2030 (VTP2030), on February 3, 2005.

The Valley Transportation Plan is a long-range transportation-planning document which does not set priorities or schedules for project completion. The Valley Transportation Plan encompasses a set of investments through 2030 that offers improvements and manages the existing roadway network with an expanded high-occupancy vehicle (HOV) system, improved interchanges and freeway-to-freeway connector ramps, and freeway upgrades.

The Valley Transportation Plan also includes investments in transit improvements, including the Silicon Valley Rapid Transit Project (SVRT), consisting of the extension of the BART system to Milpitas, San Jose, and Santa Clara, a new light rail line that will serve Capitol Expressway, and a transit improvement (Bus Rapid Transit or Light Rail) on the Santa Clara/Alum Rock Corridor where VTA's highest concentration of transit riders live. The primary source of funding for transit improvements included in the Valley Transportation Plan is the 2000 Measure A Sales Tax receipts.

SHORT-RANGE TRANSIT PLAN

As a transit operator, VTA prepares a complete Short Range Transit Plan (SRTP) every four years and a "mini-SRTP" every year as required by the MTC and the Federal Transit Administration (FTA). The SRTP is used as documentation to support projects included in the Regional Transportation Plan (RTP) prepared by MTC. In addition, the SRTP supports the activities and priorities contained in the Valley Transportation Plan described below. MTC utilizes the SRTP to develop regional transit capital programming documents that are the basis for state and federal funding programs. Both the FTA and MTC use the SRTP as the detailed planning justification required for awarding operating and capital grants to the Authority.

The Capital Improvement Program (CIP) included in the SRTP assumes federal, state and local regional funding of projects that maintain and enhance services provided by VTA. Revenues for the CIP also come from the VTA's 1976 Sales Tax to match funding received from other sources.

The 10-year CIP includes routine bus replacement needs, essential facility rehabilitation, bus facilities, technology upgrades, and rehabilitation needs of the light rail system. The table set forth below summarizes costs for currently identified baseline capital projects for the 10-year period of the SRTP (Fiscal Years 2007-2016). The current SRTP does not include capital program expenditures that are funded from the 2000 Measure A Sales Tax.

Capital Improvement Program Summary
(In Thousands)

Program Area	FY 2007-2016 Totals
Revenue Vehicles and Equipment	$197,136
Operations Facilities and Equipment	97,831
Light Rail Way, Power and Signal	40,510
Passenger Facilities	24,014
Information Systems and Technology	39,646
Miscellaneous Projects	127,779
Total Program Project Costs	**$526,916**

1996 MEASURE B TRANSPORTATION IMPROVEMENT PROGRAM (MBTIP)

In November 1996, the voters in Santa Clara County approved Measure B authorizing the 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, approved by the voters in the same election. The collection of the Measure B sales 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 Measure A transportation projects to move forward.

In February 2000, the VTA Board of Directors approved a Master Agreement formalizing the partnership with the County of Santa Clara to implement the 1996 Measure B Transportation Improvement Program. With this partnership in place, the County and VTA were in a position to complete a transportation program valued at over $1.4 billion. VTA was responsible for project implementation and management of the transit and highway projects and assisted in the administration of the pavement management and bicycle elements of the program.

The Measure B sales tax expired on March 31, 2006 but the projects are expected to continue until 2010. At the January 2, 2007 Board of Directors meeting, the two remaining MBTIP Caltrain projects in Palo Alto were addressed, and authorization was provided to the General Manager to amend a cooperative agreement with the Peninsula Corridor Joint Powers Board (PCJPB) for funding the projects pending concurrence by the County Board of Supervisors. VTA and the County executed amendment No. 19 in the amount of $14.9 million in Measure B funding during March 2007, and Caltrain will move forward with advertising and constructing the station improvements at the Palo Alto and California Avenue Caltrain stations.

The Board of Directors also authorized the General Manager to negotiate and amend the Master Agreement with the County of Santa Clara to define the financial terms and responsibilities to complete the Measure B Transportation Improvement Program. This final amendment, No. 20, takes into consideration the projects still in progress; reconciles remaining payments between VTA and the County, and establishes priorities in the event that remaining contracts are closed-out under budget. Amendment No. 20 between VTA and the County was executed on June 26, 2007. Pursuant to the amendment, the County made a lump sum payment of $52 million to VTA for the completion of the projects remaining to be advertised and closed out.

2000 MEASURE A TRANSIT IMPROVEMENT PROGRAM

In August 2000, the VTA Board of Directors approved placing a ballot measure on the November 7, 2000 General Election ballot allowing Santa Clara County voters the opportunity to vote on transportation improvements funded by a 30 year half-cent sales tax to take effect after the 1996 Measure B Sales Tax expired on March 31, 2006. More than 70% of the voters approved the 2000 Measure A Transit Improvement Program.

The revenue from this Measure may be used to finance the transit projects and operations specified in the 2000 Measure A Ordinance as noted below:

- Extend San Francisco Bay Area Rapid Transit District service ("BART") from Fremont through Milpitas to Downtown San Jose and the Santa Clara Caltrain Station (the "Silicon Valley Rapid Transit Project" or "SVRT");

- Provide connections from the San Jose International Airport to BART, Caltrain commuter rail service and VTA's light rail system;

- Extend the VTA's light rail system from Downtown San Jose to the East Valley portion of Santa Clara County ("DTEV Extension");

- Purchase low floor light rail vehicles to better serve the disabled, senior and other segments of the ridership;

- Improve Caltrain by extending the system's double track to Gilroy and providing funds to electrify the system;

- Increase Caltrain service;

- Construct a new Palo Alto Intermodal Transit Center;

- Improve bus service in major bus corridors;

- Upgrade the Altamont Commuter Express ("ACE") service;

- Improve the Highway 17 express bus service;

- Connect Caltrain with the Dumbarton Rail Corridor (serving Alameda and San Mateo County);

- Purchase zero emission buses and construct service facilities;

- Provide funds to develop new light rail corridors;

- Fund operating and maintenance costs associated with increased bus, rail and paratransit service.

In June 2006, VTA's Board of Directors adopted a Revenue and Expenditure Plan (the "Expenditure Plan") that prioritizes project implementation within the framework of projected revenues, including 2000 Measure A Sales Tax Revenues. Existing revenue sources are projected to cover approximately 80% of the Expenditure Plan. VTA has not identified the revenue sources to fund the remaining portion of the Expenditure Plan. Additional funding sources under consideration include an additional ¼ of one-cent sales tax (which is assumed in the Expenditure Plan and which would require 2/3rds voter approval), transit-oriented developments, benefit assessment districts, and additional state and federal grants. If additional funding sources do not materialize, VTA may not be able to fund the entire Expenditure Plan. VTA intends to continue to advance design development so projects are ready to go into construction subject to funding availability. This strategy enhances the competitiveness of projects eligible for state and federal funds. Projects which are the subject of preliminary engineering and design will not proceed to construction without the express prior approval by the Board. VTA intends to review the Expenditure Plan on a regular basis, to update the financial status of the 2000 Measure A Transit Improvement Program and to make project priority adjustments based on updated cost and revenue information.

VTA publishes a quarterly report as a periodic update regarding the implementation of the 2000 Measure A Transit Improvement Program. As of June 30, 2007, the following activities have either been completed or are in progress, funded by a combination of funds, including 2000 Measure A Sales Tax Revenues, state and federal grants, bond proceeds and other locally obtained funds:

- Completed conceptual design, preliminary engineering and proceeding with 65% design and engineering phase on the SVRT Project;

- Completed conceptual design, preliminary design and began final design on Capitol Expressway Light Rail to Eastridge (part of the DTEV extension);

- Purchased low floor light rail vehicles and placed in revenue service;

- Completed preliminary design and began final design for extending Caltrain's double track to Gilroy;

- Implemented a rapid bus service on VTA's busiest bus route and have begun studying potential bus rapid transit improvements in other major bus corridors;

- Participated in a regional zero emission bus demonstration project;

- Conducting new rail corridor study consisting of two phases; developing a transit sustainability policy and mode-specific service design guidelines; and identifying potential new transit corridors using aforementioned policy and guidelines;

- Providing operating assistance to the VTA's transit operations.

2007 VTA
BOARD OF DIRECTORS

VTA is an independent special district governed by its own Board of Directors. The Board consists of 12 voting members, 5 alternates, and 2 ex-officio members, all of whom are elected officials appointed to serve on the Board by the jurisdictions they represent. Board membership is based on population as follows:

Group 1	Six City council members from the City of San Jose.
Group 2	Four city council members from among the Cities of Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
Group 3	Two city council members from among the Cities of Campbell, Cupertino, Los Gatos, Monte Sereno, and Saratoga.
Group 4	Two city council members from among the Cities of Gilroy, Milpitas and Morgan Hill.
Group 5	Three members from the Santa Clara County Board of Supervisors.
Group 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.

Dean Chu, Chairperson
Liz Kniss, Vice-Chairperson

GROUP 1	
City of San Jose	Chuck Reed
	David Cortese
	Nora Campos
	Forrest Williams
	Sam Liccardo
	Judy Chirco, Alt.

GROUP 2	
City of Los Altos	
Town of Los Altos Hills	Breene Kerr
City of Mountain View	Laura Macias
City of Palo Alto	
City of Santa Clara	Dominic Caserta, Alt.
City of Sunnyvale	Dean Chu

GROUP 3	
City of Campbell	
City of Cupertino	Dolly Sandoval
Town of Los Gatos	
City of Monte Sereno	
City of Saratoga	Kathleen King, Alt.

GROUP 4	
City of Gilroy	Roland Velasco, Alt.
City of Milpitas	
City of Morgan Hill	Greg Sellers

GROUP 5	
County of Santa Clara	Don Gage
	Liz Kniss
	Pete McHugh, Alt

GROUP 6	
Ex-Officio	
Metropolitan Transportation Commission	Ken Yeager

VTA BOARD OF DIRECTORS STANDING COMMITTEES

1. Administrative and Finance Committee (A & F)

2. Congestion Management Program and Planning Committee (CMPP)

3. Transit Planning and Operations Committee (TP & O)

1. Committee for Transit Accessibility (CTA)

2. Citizens Advisory Committee (CAC)

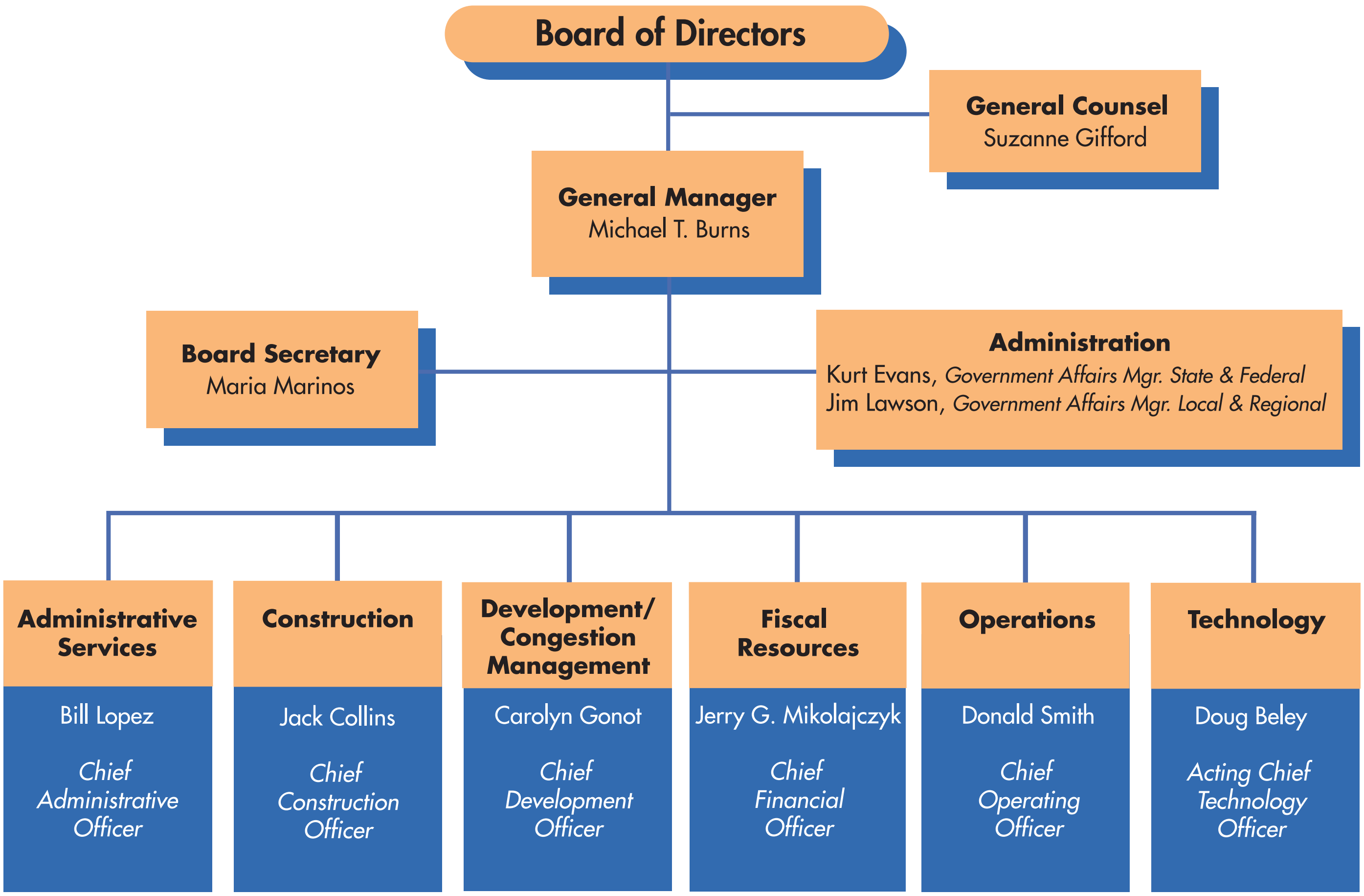
3. Bicycle and Pedestrian Advisory Committee (BPAC)

4. Technical Advisory Committee (TAC)

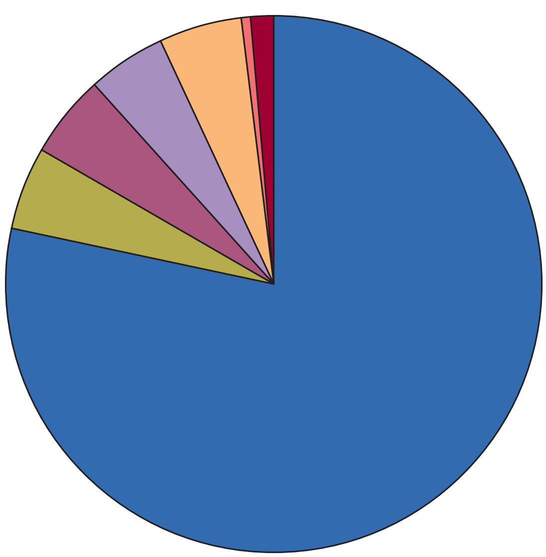
5. Policy Advisory Committee (PAC)

6. Transportation Corridor Policy Advisory Boards (PABS)

Santa Clara Valley Transportation Authority
As of June 30, 2007



Number of Employee Positions in Organizational Units

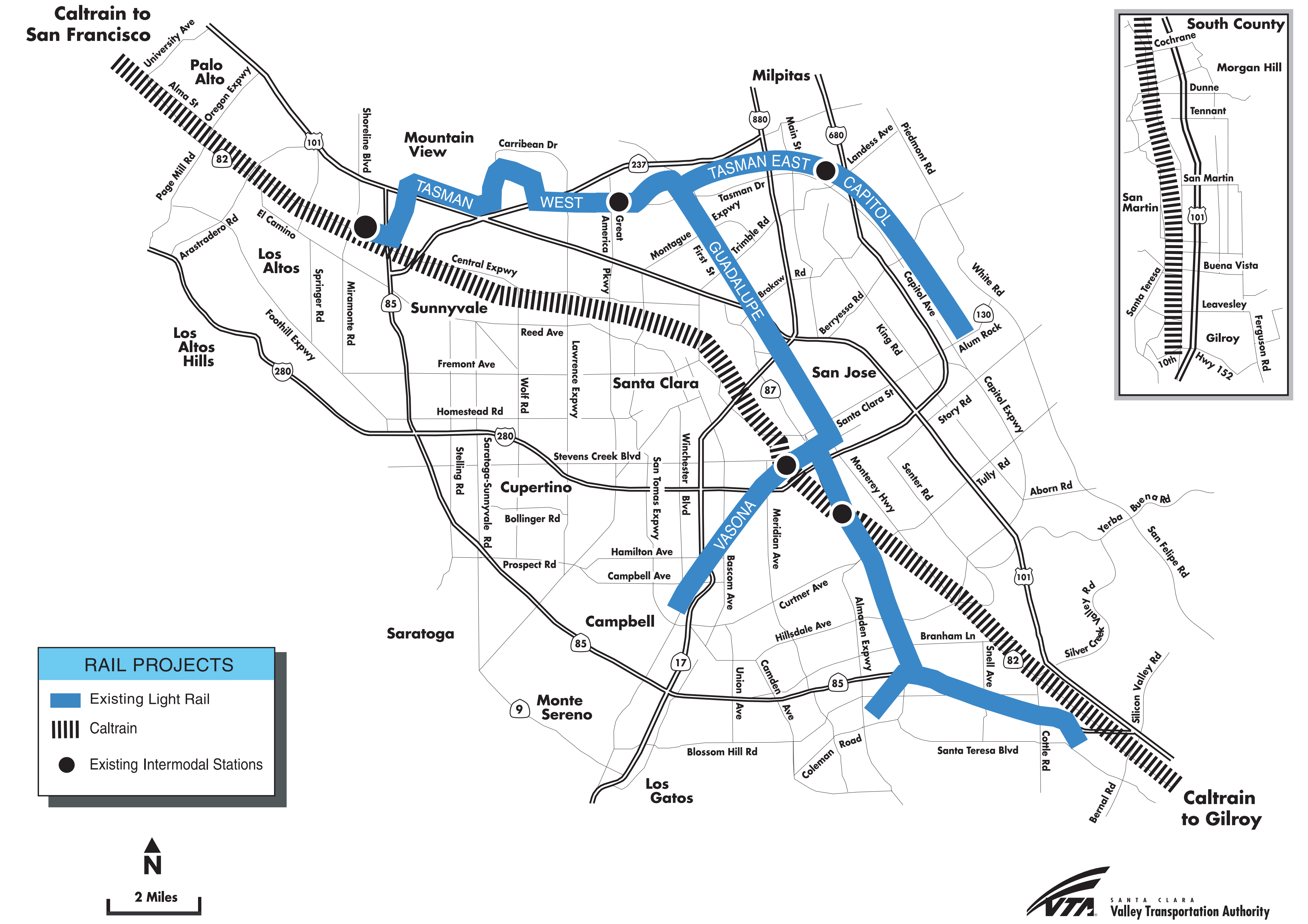


Operations	1584	78.4%
Development & Congestion Management	101	5.0%
Fiscal Resources	100	5.0%
Construction	98	4.9%
Administrative Services	102	5.0%
General Counsel	8	0.4%
General Manager	27	1.3%
Total	2020	100%

Principal Officials
As of June 30, 2007

General Manager	**Michael T. Burns**
General Counsel	**Suzanne Gifford**
Executive Assistant to the General Manager	**Ann Carey**
Board Secretary	**Maria Marinos**
Chief Administrative Officer	**Bill Lopez**
Chief Construction Officer	**Jack Collins**
Chief Development Officer	**Carolyn Gonot**
Chief Financial Officer	**Jerry G. Mikolajczyk**
Chief Operating Officer	**Donald (Dan) Smith**
Chief Technology Officer	**Vacant**
Deputy Director, Maintenance	**Michael Hursh**
Deputy Director, Construction	**Mark Robinson**
Deputy Director, Construction	**Vacant**
Deputy Director, Transportation Planning	**Vacant**
Deputy Directory Programming & Highway Administration	**John Ristow**
Deputy Director, Marketing & Public Affairs	**Bernice Alaniz**
Deputy Director, Operations	**Samuel Lau**
Government Affairs Manager – State & Federal	**Kurt Evans**
Government Affairs Manager – Local & Regional	**Jim Lawson**

Santa Clara County Bus and Rail Transit Service Area



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:

Proprietary 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 Fiduciary 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 and Schedules:

Enterprise Fund:

- ◆ Comparative Statement of Fund Net Assets
- ◆ Comparative Statement of Revenues, Expenses 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 Fiduciary Net Assets – Pension Trust Funds
- ◆ Combining Statement of Changes in Fiduciary 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

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

Independent Auditor's Report

The Board of Directors
Santa Clara Valley Transportation Authority
San Jose, California

We have audited the accompanying financial statements of the business-type activity, the governmental activities, 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, 2007, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 activities, each major fund, and the aggregate remaining fund information of VTA as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison schedules on pages 2-3 through 2-14, 2-70 through 2-71, and 2-72 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the VTA's basic financial statements. The introductory section, combining and comparative individual fund financial statements and schedules, 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have previously audited, in accordance with auditing standards generally accepted in the United States, the VTA's basic financial statements for the year ended June 30, 2006, which are not presented with the accompanying financial statements. In our report dated November 16, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities, governmental activities, each major fund and the aggregate remaining fund information. In our opinion, the 2006 supplementary information are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006. 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.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 26, 2007

Management's Discussion and Analysis

This Section of the CAFR presents a narrative overview and analysis of the financial activities of VTA for FY2007. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

- As of June 30, 2007, VTA's assets exceeded liabilities by approximately $2.5 billion. Business-type activity (Transit Operations) and governmental activity (Congestion Management) net assets were approximately $2.5 billion and $1.5 million, respectively. Of the $2.5 billion in net assets, approximately $1.9 billion was invested in capital assets net of related debt which was associated with our capital expansion program.
- Enterprise Fund operating revenues mainly from passenger fares were $37.9 million, an increase of $1.0 million or 2.6% percent compared to FY2006 and was the result of increase in ridership especially in the light rail service.
- As of June 30, 2007, VTA has total outstanding bonds in the amount of $746 million compared to $700 million the previous fiscal year. The increase was due to the issuance of additional bonds to fund the capital programs.
- Subsequent to June 30, 2007, VTA redeemed $54.7 million of 2006 Series E Revenue Bonds in FY2008. In addition, VTA issued $120.1 million of 2007 Measure A Sales Tax Revenue Bonds. The proceeds along with $17.7 million of debt service reserve funds were used to refund $137.8 million Series F and G of VTA's 2006 Measure A Sales Tax Revenue Bonds. The subsequent events (Note 21) reduced VTA's total outstanding bonds down to approximately $673.6 million.
- In FY2007, VTA Enterprise Fund net assets increased by $367.8 million. It included $357.2 million increase related to the 2000 Measure A Transit Improvement Program.
- Internal Service Funds had a net operating gain of $19.5 million. With an addition of $16.0 million in non-operating revenues and a transfer of $50.0 million to the Enterprise Fund, net assets increased by $9.2 million to $104.6 million in FY2007.
- The 1976 Sales Tax revenues increased $6.4 million or 4.1% to $163.7 million in FY2007 compared to FY2006 resulting from continuing strong taxable sales in the County.
- The 2000 Measure A Sales Tax revenues were $161.4 million in FY2007. This was the first full year of collection of this voter-approved which started in the 4th Quarter of FY2006.
- Capital grants increased $177.5 million compared to FY2006 as the State approved $365 million in grants for the SVRT project under the Traffic Congestion Relief Program (TCRP).

Overview of the Financial Statements

VTA's basic financial statements are comprised of 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 includes 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 transit operation's primary function is intended to recover its costs through charges for services (business-type activities), the recovery is not significant. The governmental activity of VTA is congestion management, which includes planning, programming, and construction of highway projects. The business-type activity of VTA is transit, which includes 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 funds of VTA can be divided into three categories: governmental funds, proprietary funds (i.e., enterprise fund and internal service fund), and fiduciary funds.

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 three major governmental funds to account for the financial activities of VTA's Congestion Management Program, the Congestion Management Highway Capital Project programs, and the 1996 Measure B Highway Capital Project programs.

Proprietary funds. VTA maintains two types of proprietary funds: an enterprise fund and an internal service fund. The enterprise fund is used to report the same function presented as "business-type activity" in the government-wide financial statements. The internal service fund is used to account for activities that provide services to other funds, departments or to other governments on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the internal service fund. VTA uses the enterprise fund to account for its transit operation and capital activities, the 1996 Measure B Transit projects, and the 2000 Measure A capital and operating activities.

The enterprise fund provides 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 pension trust funds. Pension trust funds are used to account for assets held by VTA as a trustee for individuals and other organizations, such as ATU.

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.

Other information. In addition to the basic financial statements and notes, *required supplementary information* is presented as required by GAAP. The required supplementary information shows VTA's progress in funding its obligation to provide employees with pension benefits and also shows the Congestion Management Program Budgetary Schedule.

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

Government-wide Financial Analysis

The Entity-Wide Statement of Net Assets and the Statement of Activities reports a $376.6 million increase in net assets. Of this, there was an increase of $377.0 million in VTA's Business-Type activities, while the Government-type activities experienced a $464 thousand decrease in net assets. The business-type net asset increase was primarily due to lower expenditures on transit operations and higher sales tax receipts and capital grants related to the SVRT project. During FY2007, VTA acquired or built total capital assets of approximately $127.8 million (Note 6 – Capital Assets). These capital assets were funded by a variety of sources such as federal and state grants, and local funding.

Santa Clara Valley Transportation Authority's
Condensed Statement of Net Assets
(In thousands)

	Business-type activity		Governmental activity		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 769,674	$ 429,749	$ 34,549	$ 42,439	$ 804,223	$ 472,188
Capital assets, net	2,563,565	2,500,211	-	-	2,563,565	2,500,211
Total assets	3,333,239	2,929,960	34,549	42,439	3,367,788	2,972,399
Current liabilities	54,115	51,279	33,083	40,509	87,198	91,788
Long-term liabilities outstanding	804,433	781,034	-	-	804,433	781,034
Total liabilities	858,548	832,313	33,083	40,509	891,631	872,822
Net assets:						
Invested in capital assets, net of related debt	1,888,879	1,817,396	-	-	1,888,879	1,817,396
Restricted	353,186	35,153	-	-	353,186	35,153
Unrestricted	232,626	245,098	1,466	1,930	234,092	247,028
Total net assets	$ 2,474,691	$ 2,097,647	$ 1,466	$ 1,930	$ 2,476,157	$ 2,099,577

The largest portion of VTA's net assets (approximately 76%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. VTA uses these capital assets to provide services to its customers. 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 restricted assets represent mainly the funds set-aside to fund 2000 Measure A Transit Improvement Program and debt service payments with the bond trustees.

Santa Clara Valley Transportation Authority's
Statement of Activities
(In thousands)

	Business-type activity		Governmental activity		Total	
	2007	2006	2007	2006	2007	2006
Expenses:						
Operations and operating projects	$ 321,059	$ 339,857	$ 6,528	$ 5,982	$ 327,587	$ 345,839
Caltrain subsidy & capital contribution	22,509	42,200	-	-	22,509	42,200
Altamont Commuter Express subsidy	2,542	2,470	-	-	2,542	2,470
Interest Expense	13,672	11,562	-	-	13,672	11,562
Other non-operating expenses	4,636	6,972	-	-	4,636	6,972
Benefit payments	14,285	11,538	-	-	14,285	11,538
Capital projects for the benefit of other agencies	-	-	45,806	80,763	45,806	80,763
Total expenses	378,703	414,599	52,334	86,745	431,037	501,344
Program revenues:						
Charges for services	37,876	36,926	2,397	2,290	40,273	39,216
Operating grants	140,431	114,764	1,023	850	141,454	115,614
Capital grants	199,999	22,522	48,180	83,207	248,179	105,729
Total program revenues	378,306	174,212	51,600	86,347	429,906	260,559
Net program revenues	(397)	(240,387)	(734)	(398)	(1,131)	(240,785)
General revenues:						
Sales tax revenue	325,037	195,453	-	-	325,037	195,453
Investment income	27,288	10,537	267	207	27,555	10,744
Other income	1,347	9,158	3	28	1,350	9,186
Total general revenues	353,672	215,148	270	235	353,942	215,383
Special items:						
Change in provisions for workers' compensation claims	23,769	-	-	-	23,769	-
Change in net assets	377,044	(25,239)	(464)	(163)	376,580	(25,402)
Net assets beginning of year	2,097,647	2,122,886	1,930	2,093	2,099,577	2,124,979
Net assets, end of year	$2,474,691	$2,097,647	$ 1,466	$ 1,930	$2,476,157	$2,099,577

Business-type activity. Total net assets were $2.5 billion in FY2007, an increase of $377.0 million compared to FY2006. Net program revenues (total expenses minus program revenues) were $397 thousand negative during FY2007 compared to a negative amount of $240.4 million in FY2006. The improvement in net program revenues was mainly due to an increase in capital grant revenues related to the SVRT project from the State and lower operating expenditures. The general revenues along with special items also increased $162.3 million in the current fiscal year compared to prior year reflecting a full-year receipt of 2000 Measure A Sales Tax and higher investment earnings. In addition, there was a special one-time item related to the change in estimate for workers compensation program's provision for claims liability. The actuarial valuation report as of June 30, 2007, reported that the VTA's Self-Insurance Workers Compensation Program is over-funded assuming a 90% confidence level and present value of estimated outstanding losses using a 4% interest rate.

A detailed analysis of major revenue and expenditure accounts is included in the following section.

Comparison of Business-Type Activity Revenue for FY2007 and FY2006

	Change (In thousands)			
	2007	2006	Amount	Percent
Charges for services	$ 37,876	$ 36,926	$ 950	2.6%
Operating grants	140,431	114,764	25,667	22.4%
Capital grants	199,999	22,522	177,477	788.0%
Sales tax revenue- Operations	163,676	157,283	6,393	4.1%
Sales tax revenue- Capital	161,361	38,170	123,191	322.7%
Investment income	27,288	10,537	16,751	159.0%
Other income including special items	25,116	9,158	15,958	174.3%
TOTAL	$ 755,747	$ 389,360	$ 366,387	94.1%

- Charges for services, derived from bus fare box receipts, light rail ticket sales, the sale of monthly passes (including ECO Pass and tokens) and advertisement income, were up $1.0 million (2.6%) compared to FY2006. This was due to an increase in ridership mainly in the light rail segment as FY2007 was the first full-year of service of Vasona Light Rail extension which started in October 2005.

- Operating grants include the one-quarter of one percent of State sales tax from the 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 vehicle license fees (AB434), and federal planning grants. In FY2007, they increased by $25.7 million or 22.4% to $140.4 million.

  TDA funds rose by $10 million or 14.1% to $81.1 million in FY2007 reflecting a strong taxable sales activity compared to prior fiscal year. STA funds, which are allocated to VTA from the State sales tax on gasoline and diesel fuel, increased by approximately $14.6 million (188.5%) to a total of $22.3 million. This amount includes approximately $12.1 million of one-time revenues representing repayment of Proposition 42 transit grants diverted by the State in FY2004 and FY2005 and excess funds that were generated when gasoline prices increased at a faster pace than other taxable items.

- The 1976 Sales Tax revenues increased $6.4 million or 4.1% to $163.7 million in FY2007 compared to FY2006. The increase reflects continuing moderate growth in taxable sales activity in Santa Clara County.

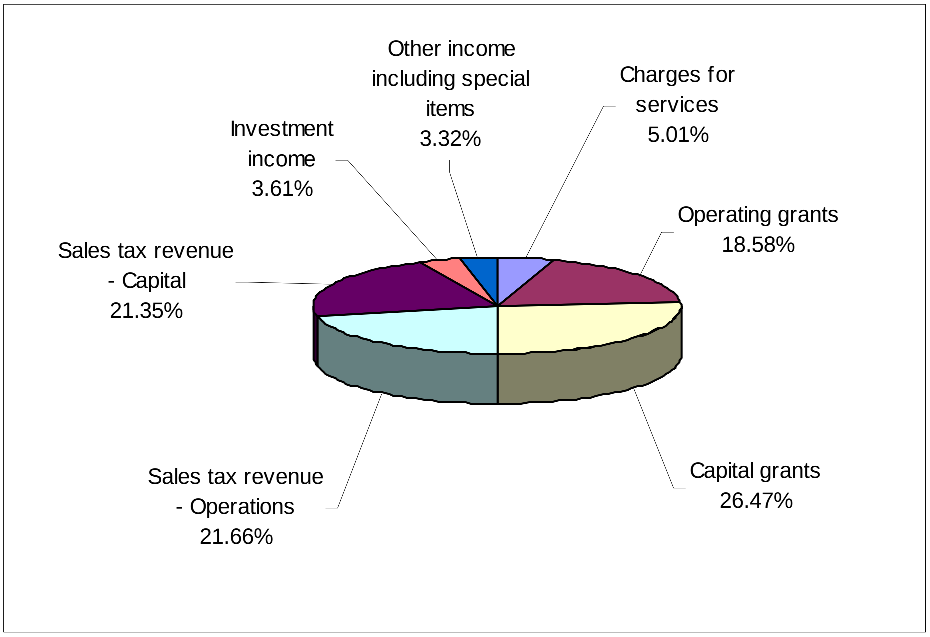
- The 2000 Measure A Sales Tax revenues were $161.4 million in FY2007 as it was the first full year of its collection.

- Capital grants increased $177.5 million or 788.0% to $200.0 million in FY2007 primarily due to the State TCRP grants for the preliminary engineering phase of the SVRT project. During FY2007, the State approved $365 million in TCRP grants to fund the SVRT project which will extend the BART service to the Silicon Valley. VTA incurred and invoiced $191.2 million in eligible expenses under the TCRP grant in FY2007.

- Investment income also increased by $16.8 million or 159.0% compared to FY2006 due to a combination of higher interest rates and greater cash available for investment.

- Other income increased $16.0 million or 174.3% in FY2007 due mainly to a special one-time item related to change in estimate for provision of workers compensation claims liability in the Internal Service Funds. The change was based on the actuarial valuation report for the VTA's workers' compensation self-insurance program as of June 30, 2007.

Revenues By Source – Business-type Activity



Comparison of Business-Type Activity Expenses for FY2007 and FY2006

			Change (In thousands)	
	2007	2006	Amount	Percent
Operations and operating projects	$ 321,059	$ 339,857	$ (18,798)	-5.5%
Caltrain subsidy & capital contribution	22,509	42,200	(19,691)	-46.7%
Altamont Commuter Express subsidy	2,542	2,470	72	2.9%
Interest expense	13,672	11,562	2,110	18.2%
Other non-operating expenses	4,636	6,972	(2,336)	-33.5%
Benefit payments	14,285	11,538	2,747	23.8%
TOTALS	$ 378,703	$ 414,599	$ (35,896)	-8.7%

- Total expenses for business-type-activity in FY2007 decreased $35.9 million or 8.7% compared to FY2006. Major contributors for the decrease include lower capital contribution of $19.7 million to other agencies, lower depreciation expenses of $12.8 million, and $8.9 million higher overhead charges to capital programs, including $3.4 million retroactive adjustments for FY2006. Higher interest expenses and ISF benefit payments offset part of the lower expense.

- Operations and operating project expenses are incurred for labor, support services, contracted services, insurance, purchased transportation and other overhead costs related to bus and light rail operations, services, and support programs. For FY2007, they were $18.8 million or 5.5% million lower than in FY2006. Even though labor costs, material and supplies, services and other expenses increased in FY2007, the depreciation, and casualty insurance expenses were lower compared to FY2006. In addition, labor vacancies were higher in FY2007 which contributed to keep the overall labor costs increase around 2%. The indirect overhead charges from Enterprise Fund to capital projects was higher as the rate changed from 3% to 8% in FY2007 after approval from the FTA due to a decrease in capital program expenditures with the completion of major rail and highway projects in FY2006.

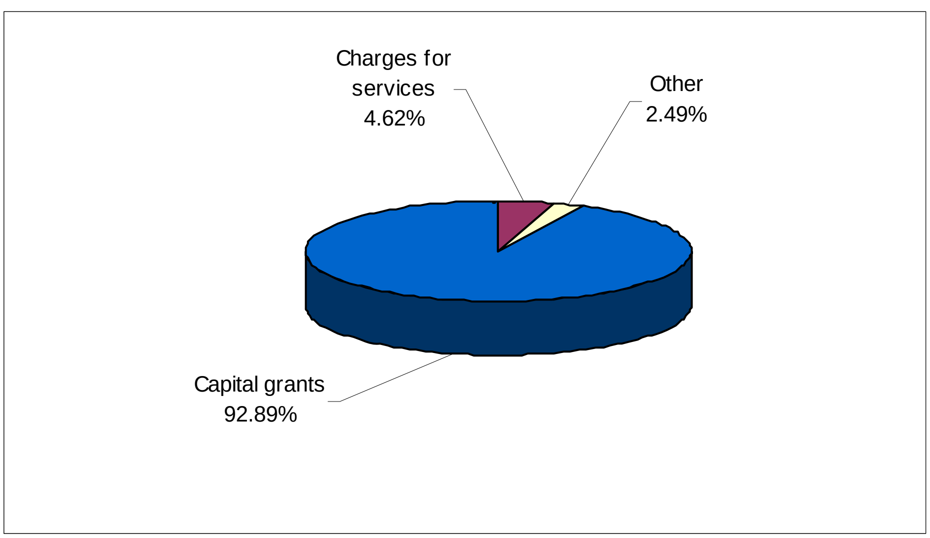
- Caltrain subsidy and capital contribution to other agencies decreased $19.7 million or 46.7% in FY2007. In FY2006, VTA completed the Gilroy Rail Track Extension project and contributed it to Caltrain as per the cooperative agreement with PCJPB. Operating subsidy to Caltrain increased by $435 thousand in the current fiscal year.

- The bond interest expenses were $2.1 million or $18.2% higher as debt service payments started on 2006 Measure A Sales Tax Revenue Bonds.

Governmental activity. Total net assets for the governmental activity decreased $464 thousand in FY2007, with an ending balance of $1.5 million. Major factor of the decrease were as follows:

- Local grant revenues and capital project expenses were both $35 million lower with the completion of major highway projects.
- Total salaries/benefit and services costs were $546 thousand higher in FY2007 as the work started on projects that were deferred in prior years.
- Federal grants and administrative fees combine increased $201 thousand in FY2007 partially offsetting higher costs in other categories.

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 funds. VTA maintains two types of proprietary funds – Enterprise Fund and Internal Service Fund.

Enterprise fund. The Enterprise Fund is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs 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 (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service).

For FY2007, operating revenues were $37.9 million, up $1 million or 2.6% from the prior fiscal year as a result of higher ridership in its transit service. Operating expenses were $9.5 million or 2.6% lower than FY2006 resulting mainly from lower depreciation expenses and higher non-labor overhead costs charged to capital programs. In addition, there was a one-time transfer of $50.0 million from Internal Service Funds due to change in estimates for provision of workers compensation claims based on the actuary valuation report. Total Enterprise Fund net assets were $2.4 billion, an increase of approximately $367.8 million compared to FY2006.

Of the total net asset increase, the $357.2 million was related to the 2000 Measure A Transit Improvement Program. VTA accounts for the 2000 Measure A Sales Tax Capital Program as part of its Enterprise Fund. Even though the 2000 Measure A program revenues and related capital expenses are reported as part of Enterprise Fund financial statements but they are restricted for capital programs and operating activities included in the 2000 Measure A Ordinance.

Internal service fund. VTA maintains an Internal Service Fund to account for the activities related to Retiree Health, Workers' Compensation, General Liability, and Compensated Absences programs. The cost of these activities are accounted for in this fund and then charged to other VTA funds. As of June 30, 2007, total net assets for this fund were $104.6 million, an increase of $9.2 million over prior fiscal year.

Governmental funds. The focus of VTA's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing 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. VTA maintains two governmental fund types – Special Revenue Fund and Capital Project Fund.

Special revenue fund. This fund accounts for the activities of the Congestion Management Agency. Total fund revenues, which mainly include member assessments and federal grants, were $3.6 million in FY2007, $350 thousand higher than prior year. Total expenses were $4.0 million, an increase of $393 thousand mainly due to higher salaries/benefit and professional services costs. The ending fund balance was $1.5 million.

Capital project fund. This fund accounts for VTA's two major capital programs – Congestion Management Highway Program and Measure B Highway Program. As of June 30, 2007, total revenues were $48.3 million which represents the total amount expended on the projects during the fiscal year and billed to other governmental agencies. There is no fund balance in these funds.

Capital Assets and Debt Administration

Capital assets. VTA's investment in capital assets for its business-type activity as of June 30, 2007, amounts to $2.6 billion net of accumulated depreciation. VTA has no capital assets invested in the governmental activities. This investment in capital assets includes: Land and Right-of-Way, Buildings, Improvements, Equipment & Furniture, Vehicles, the Caltrain-Gilroy Extension, Light Rail Tracks/Electrification, Leasehold Improvements, and Other Operating Equipment. During FY2007, VTA expended $127.8 million on capital programs. Of this amount, $90 million was related to the preliminary engineering phase of the SVRT project.

Capital Assets
(Net of Accumulated Depreciation)

	Business-type Activity (In thousands)	
	2007	2006
Land and Right-of-way	$ 1,118,577	$ 1,131,579
Construction in Progress	488,192	380,776
Buildings & Improvements		
Equipment & Furniture	296,749	309,931
Vehicles	306,697	344,318
Caltrain-Gilroy Extension	44,558	45,580
Light Rail Tracks/Electrification	276,756	277,317
Other Operating Equipment	8,537	10,710
Other	23,499	-
Total	$ 2,563,565	$ 2,500,211

Additional information on VTA's capital assets can be found in Note 6 – Capital Assets.

Long-term debt. At year-end, VTA had $746 million in bonds and certificates outstanding (net of premiums and discounts) versus $700 million last year – an increase of $46 million. During FY2007, VTA issued $428 million of 2000 Measure A Sales Tax Revenue Bonds (Series A-G) to refund $371 million of 2003 Series A Bonds, 2004 Series A Bonds, and 2004 Series E Bonds and to fund capital programs and debt service reserve. The bonds were secured solely by the 2000 Measure A Sales Tax revenues. In addition, VTA issued $26 million of 2007 Refunding Bonds, Series A to refund VTA's 1997 Sales Tax Refunding Bonds which were secured by the 1976 Half-Cent Sales Tax revenues.

Outstanding Debt

	Business-type Activity (In thousands)	
	2007	2006
Jr. Lien Sales Tax Revenue Bonds	$ 75,260	$ 77,720
Sr. Lien Sales Tax Revenue Bonds (1976 Tax)	212,955	221,520
Sr. Lien Sales Tax Revenue Bonds (2000 Tax)	428,375	371,115
Equipment Trust Certificates	29,200	29,660
Total	$ 745,790	$ 700,015

VTA redeemed $72.4 million of 2000 Senior Lien Sales Tax Revenue Bonds in FY2008. More information on this planned transaction in included in Note 21 – Subsequent Events.

VTA maintains uninsured ratings of "AAA" from Standard & Poor's (S&P), an "AA-" rating from Fitch, and an "Aa3" rating from Moody's for its Senior Lien Sales Revenue Bonds secured by 1976 Sales Tax.

The ratings for the Senior Lien Sales Tax Revenue Bonds secured by the 2000 Measure A sales tax are "Aa3" from Moody's and "AA+" from S&P. Ambac Financial Group, Inc. insures these bonds. Ambac is rated "AAA/Aaa."

The Equipment Trust Certificates have a rating of Aaa/VMIG-1 from Moody's and AAA from S&P.

Additional information on VTA's long-term debt can be found in Note 7 – Long-Term Liabilities.

Economic Factors

The economy in the Silicon Valley region, and in particular, Santa Clara County, has turned the corner and continues to work its way out of one of the most severe economic downturns to affect the area. The consensus economic opinion now believes that the Silicon Valley has more than made up the lag in the regional economy and no longer lags the national economy. The unemployment rate in the County averaged 4.7% in June 2007 compared to 4.7% for the State and 4.5% at the national level. Commercial real estate is also recovering after years of high vacancy rates, with office vacancy rates in Silicon Valley dipping below 10 percent threshold for the first time in many years, spurring the construction of new office space. Residential housing market continues to struggle as fallout from the subprime residential loan crisis.

Lower unemployment and higher consumer confidence are helping to improve VTA's revenue base. VTA's major revenue sources are dependent upon taxable sales activity in the County. After taking a major hit after the dot.com crash, taxable sales have improved in recent quarters. According to the State Board of Equalization, the County's taxable sales increased 5% in the 3rd Quarter of 2006 compared to the same period a year earlier. VTA's major revenue source for operations, the 1976 half-cent sales tax, increased $6.4 million or 4.1 percent to $163.7 million in FY2007. However, this revenue source is still well below the $184 million VTA received in FY2001. Fares is another improving revenue source, due in part to increasing ridership on both the existing service as well as due to the opening of new light rail extensions.

FY2007 was the first full year that VTA collected the 2000 Measure A Sales Tax revenues. The collection of this voter-approved half-cent sales tax measure started in the 4th Quarter of FY2006. Total receipts were $161.4 million in FY2007 compared to $38.2 million in FY2006. On June 15, 2006, the VTA's Board of Directors adopted a Revenue and Expenditure Plan (the "Expenditure Plan") that prioritizes project implementation within the framework of projected revenues, including 2000 Measure A Sales Tax Revenues. Existing revenue sources are projected to cover approximately 80% of the Expenditure Plan. VTA has not identified the revenue sources to fund the remaining portion of the Expenditure Plan. Additional funding sources under consideration include an additional ¼ of one-cent sales tax (which is assumed in the Expenditure Plan and which would require 2/3rds voter approval), transit-oriented developments, benefit assessment districts, and additional state and federal grants. If additional funding sources do not materialize, VTA may not be able to fund the entire Expenditure Plan. VTA intends to continue to advance design development so projects are ready to go into construction subject to funding availability. This strategy enhances the competitiveness of projects eligible for state and federal funds. Projects which are the subject of preliminary engineering and design will not proceed to construction without the express prior approval by the Board of Directors. VTA intends to review the Expenditure Plan on a regular basis, to update the financial status of the 2000 Measure A Program and to make project priority adjustments based on updated cost and revenue information.

Budgetary Information

FY2007 is the second year of the Biennial Budget adopted by the Board in June 2005. Since its initial adoption, the Board revised the FY 2007 Budget in January 2007, increasing expenditure appropriations by $10.2 million and revenue estimations by $32.7 million. FY2007 revenues exceeded Final Budget projections by $1.6 million while expenses were $22.0 million below projections, representing an additional increase to Reserves of $23.6 versus Final Budget. Total actual revenue over expenses of $54.3 million includes approximately $18.5 million of one-time revenues from TDA and STA funds. Because these revenues were non-recurring sources of funds, fiscally prudent practice requires they be used to fund one-time expenditures rather than expansionary programs or operations. Accordingly, they are programmed to fund a portion of FY2008 VTA Transit Capital Program.

Requests for Information

Please address all questions or requests for additional information to the Fiscal Resources Division, Attention: Chief Financial Officer, Santa Clara Valley Transportation Authority, 3331 North First Street Building C, Second Floor, San Jose, CA 95134-1927.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Net Assets
June 30, 2007
(In thousands)

	Business-Type Activity	Governmental Activity	Total
ASSETS			
Cash and investments	$ 267,248	$ 2,381	$ 269,629
Receivables, net	4,130	-	4,130
Internal balances	946	(946)	-
Due from fiduciary funds	1,644	61	1,705
Due from other governmental agencies	75,483	859	76,342
Inventories	20,234	-	20,234
Other current assets	1,597	-	1,597
Restricted assets:			
Cash and investments	307,568	12,515	320,083
Receivables, net	219	-	219
Due from other governmental agencies	73,863	19,679	93,542
Deferred charges	16,742	-	16,742
Capital assets:			
Nondepreciable	1,606,769	-	1,606,769
Depreciable, net of accumulated depreciation	956,796	-	956,796
Total assets	3,333,239	34,549	3,367,788
LIABILITIES			
Accounts payable	14,055	263	14,318
Other accrued liabilities	15,489	197	15,686
Due to other governmental agencies	756	1,325	2,081
Liabilities payable from restricted assets:			
Accounts payable	17,706	7,054	24,760
Other accrued liabilities	6,109	1	6,110
Due to other government agencies	-	24,243	24,243
Long-term liabilities:			
Due within one year	82,710	-	82,710
Debt due in more than one year	721,723	-	721,723
Total liabilities	858,548	33,083	891,631
NET ASSETS			
Invested in capital assets, net of related debt	1,888,879	-	1,888,879
Restricted for debt service	88,021	-	88,021
Restricted for capital projects	265,165	-	265,165
Unrestricted	232,626	1,466	234,092
Total net assets	$ 2,474,691	$ 1,466	$ 2,476,157

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2007
(In thousands)

	Business-Type Activity	Governmental Activity	
	Transit	Congestion Management	Total
Expenses:			
Operations and operating projects	$ 321,059	$ 6,528	$ 327,587
Caltrain subsidy & capital contribution	22,509	-	22,509
Altamont Commuter Express subsidy	2,542	-	2,542
Interest expense	13,672	-	13,672
Other non-operating expenses	4,636	-	4,636
Benefit payments	14,285	-	14,285
Capital projects for the benefit of other agencies	-	45,806	45,806
Total expenses	378,703	52,334	431,037
Program revenues:			
Charges for services	37,876	2,397	40,273
Operating grants	140,431	1,023	141,454
Capital grants	199,999	48,180	248,179
Total program revenues	378,306	51,600	429,906
Net program revenues (expenses)	(397)	(734)	(1,131)
General revenues:			
Sales tax revenue	325,037	-	325,037
Investment income	27,288	267	27,555
Other income	1,347	3	1,350
Total general revenues	353,672	270	353,942
Special items:			
Change in provisions for workers' compensation claims	23,769	-	23,769
Change in net assets	377,044	(464)	376,580
Net assets beginning of year	2,097,647	1,930	2,099,577
Net assets, end of year	$ 2,474,691	$ 1,466	$ 2,476,157

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets
Proprietary Funds (Business-type Activity)
June 30, 2007
(In thousands)

	Enterprise Fund	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,239	$ 797
Investments	102,462	161,750
Receivables, net	3,737	393
Due from other funds	2,539	-
Due from other governmental agencies	75,483	-
Inventories	20,234	-
Other current assets	1,597	-
Restricted assets:		
Cash and investments with fiscal agent	95,092	-
Investments	212,476	-
Receivables	219	-
Due from other funds	51	
Due from other governmental agencies	73,863	-
Total current assets	589,992	162,940
Noncurrent assets:		
Deferred charges	16,742	-
Capital Assets		
Non-depreciable:		
Land and right of way	1,118,577	-
Construction in progress	488,192	-
Depreciable:		
CalTrain - Gilroy extension	53,155	-
Buildings, improvements, furniture, and fixtures	460,900	-
Vehicles	458,001	-
Light-rail tracks and electrification	399,563	-
Other	31,585	-
Less accumulated depreciation	(446,408)	-
Net capital assets	2,563,565	-
Total noncurrent assets	2,580,307	-
Total assets	3,170,299	162,940

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fund Net Assets (Continued)
Proprietary Funds (Business-type Activity)
June 30, 2007
(In thousands)

	Enterprise Fund	Internal Service Fund
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	11,315	-
Accounts payable	14,055	-
Other accrued liabilities	15,476	16,695
Due to other governmental agencies	756	-
Liabilities payable from restricted assets:		
Current portion of long-term debt	54,700	-
Accounts payable	17,706	-
Other accrued liabilities	6,109	-
Total current liabilities	120,117	16,695
Non-current liabilities		
Long-term debt, excluding current portion	680,113	-
Other accrued liabilities	13	41,610
Total non-current liabilities	680,126	41,610
Total liabilities	800,243	58,305
NET ASSETS		
Invested in capital assets, net of related debt	1,888,879	-
Restricted for debt service	88,021	
Restricted for capital projects	265,165	-
Unrestricted	127,991	104,635
Total net assets	$ 2,370,056	$ 104,635

Reconciliation of the Statement of Net Assets to the Statement of Fund Net Assets:	
Net Assets of Enterprise Fund	$ 2,370,056
Net Assets of Internal Service Fund, which benefits Business-type Activity	104,635
Net Assets (page 2-16)	$ 2,474,691

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2007
(In thousands)

	Enterprise Fund	Internal Service Fund
Operating revenues:		
Passenger fares	$ 35,242	$ -
Advertising and other	2,634	-
Charges for services	-	37,780
Total operating revenues	37,876	37,780
Operating expense:		
Labor cost	243,110	
Materials and supplies	28,398	-
Services	27,943	-
Utilities	6,638	-
Casualty and liability	3,856	-
Purchased transportation	28,132	-
Leases and rentals	112	-
Miscellaneous	1,821	4,021
Depreciation expense	51,022	-
Costs allocated to capital and other programs	(35,159)	-
Benefit payments	-	14,285
Total operating expense	355,873	18,306
Operating income/(loss)	(317,997)	19,474
Non-operating revenues (expenses):		
Sales tax revenue	325,037	-
Federal operating assistance grants	35,514	-
State and local operating assistance grants	104,917	-
CalTrain subsidy	(15,237)	-
Capital contributions to other agencies	(7,272)	-
Altamont Commuter Express subsidy	(2,542)	-
Investment earnings	11,304	15,984
Interest expense	(13,672)	-
Other income	1,347	-
Other expense	(3,581)	-
Non-operating revenues, net	435,815	15,984
Income before contributions, transfers and special item	117,818	35,458
Transfers	50,000	(50,000)
Capital contributions	199,999	-
Special item:		
Change in estimates for provision of workers' compensation claims	-	23,769
Change in net assets	367,817	9,227
Net assets, beginning of year	2,002,239	95,408
Net assets, end of year	$ 2,370,056	$ 104,635

Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets to the Statement of Activities:

Change in net assets of the Enterprise Fund	$ 367,817
Change in net assets of the Internal Service Fund, which benefits Business-type Activity	9,227
Change in net assets of the Business-type Activity (page 2-16)	$ 377,044

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2007
(In thousands)

	Enterprise Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 35,242	$ -
Cash received from advertising	2,634	-
Cash paid to employees	(207,951)	-
Cash paid to suppliers	(68,492)	-
Cash paid for purchased transportation	(28,132)	-
Cash received from contributions	-	37,780
Payments made to beneficiaries	-	(14,285)
Payments made to third party contractors	-	(4,021)
Net cash provided by/(used in) operating activities	(266,699)	19,474
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	134,265	-
Sales tax received	320,031	-
Caltrain subsidy and contribution	(15,237)	-
Altamont Commuter Express subsidy	(2,542)	-
Other miscellaneous receipts	1,347	-
Contributions to other agencies	(1,229)	-
	436,635	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,855)	-
Proceeds from issuance of bonds	456,084	-
Payoff of old Bonds	(397,945)	
Interest paid on long-term debt	(11,972)	-
Cost of bond issuance	(2,526)	-
Acquisition and construction of capital assets	(127,781)	-
Capital contribution from other governments	160,770	-
	65,775	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	514,967	22,823
Purchases in investments	(724,481)	(56,988)
Interest income received	10,970	15,333
	(198,544)	(18,832)
NET DECREASE IN CASH AND CASH EQUIVALENTS	37,167	642
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	60,164	155
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 97,331	$ 797
Reconciliation to Statement of Fund Net Assets:		
Unrestricted:		
Cash and investments	$ 2,239	$ 797
Restricted:		
Cash and investments with fiscal agent	95,092	-
	$ 97,331	$ 797

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2007
(In thousands)

	Enterprise Fund	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (317,997)	$ 19,474
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	51,022	-
Changes in operating assets and liabilities:		
Receivables	(972)	(77)
Inventories	127	-
Accounts payable	1,689	-
Other accrued liabilities	764	77
Other Current assets	(807)	-
Due to other funds	(525)	-
Net cash provided by/(used in) operating activities	$ (266,699)	$ 19,474
NONCASH INVESTING ACTIVITIES:		
Increase/(Decrease) in fair value of investments	$ 335	$ 270

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2007
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
ASSETS				
Investments	$ 2,381	$ -	$ -	$ 2,381
Due from other funds	61	-	-	61
Due from other governmental agencies	859	-	-	859
Restricted assets:				
Cash and cash equivalents	-	10,998	-	10,998
Cash and investments with fiscal agent	-	60	1,457	1,517
Due from other governmental agencies	-	18,307	1,372	19,679
Total assets	$ 3,301	$ 29,365	$ 2,829	$ 35,495
LIABILITIES				
Accounts payable	$ 263	$ -	$ -	263
Other accrued liabilities	197	-	-	197
Due to other funds	50	-	-	50
Due to other government agencies	1,325	-	-	1,325
Liabilities payable from restricted assets:	-			
Accounts payable	-	4,420	2,634	7,054
Other accrued liabilities-current	-	1	-	1
Due to other funds	-	701	195	896
Due to other governmental agencies	-	24,243	-	24,243
Total liabilities	1,835	29,365	2,829	34,029
FUND BALANCES				
Unreserved, reported in special revenue fund	1,466	-	-	1,466
Total fund balances	1,466	-	-	1,466
Total liabilities and fund balances	$ 3,301	$ 29,365	$ 2,829	$ 35,495

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007
(In thousands)

	Special Revenue Fund	Capital Projects Funds		
	Congestion Management Program	Congestion Management & Highway Program	Measure B Highway Program	Total
REVENUES:				
Member agency assessment revenue	$ 2,329	$ -	$ -	$ 2,329
Federal technical studies operating assistance grants	794	-	-	794
Administrative fees	68	-	-	68
State operating assistance grants	229	-	-	229
Local grant revenue	-	27,771	20,409	48,180
Other revenues	3	-	-	3
Investment earnings	134	133	-	267
Total revenues	3,557	27,904	20,409	51,870
EXPENDITURES:				
Current:				
Congestion management:				
Salaries and benefits	3,093	2,547	-	5,640
Services	888	-	-	888
Capital outlay:				
Capital improvement projects	40	25,357	20,409	45,806
Total expenditures	4,021	27,904	20,409	52,334
CHANGE IN FUND BALANCES	(464)	-	-	(464)
FUND BALANCES, BEGINNING OF YEAR	1,930	-	-	1,930
FUND BALANCES, END OF YEAR	$ 1,466	$ -	$ -	$ 1,466

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(In thousands)

	Pension Trust Funds	Agency Funds
ASSETS		
Restricted assets:		
Commingled Index	$ 122,209	$ -
Fixed Income	126,012	-
Money Market	5,004	2,481
Equity Securities	110,215	-
Cash with fiscal agent	-	15,769
Receivables	1,200	-
Total assets	364,640	18,250
LIABILITIES		
Liabilities payable from restricted assets:		
Accounts payable	211	3,872
Due to other funds	1,644	61
Due to other governmental agencies	-	14,317
Total liabilities	$ 1,855	$ 18,250
NET ASSETS		
Net assets held in trust for:		
Pension benefits	349,903	
Spousal medical benefits	9,639	
Retiree dental and vision benefits	3,243	
Total net assets	$ 362,785	

See accompanying Notes to the Basic Financial Statements

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2007
(In thousands)

ADDITIONS		
Employer Contributions	$	16,053
Investment earnings:		
Investment income		8,853
Net appreciation in the fair value of investments		42,155
Investment expense		(1,216)
Net investment income		49,792
Total additions		65,845
DEDUCTIONS		
Benefit payments		19,164
Other benefits paid to participants		134
Total deductions		19,298
Net increase		46,547
NET ASSETS HELD IN TRUST		
Beginning of year		316,238
End of year	$	362,785

See accompanying Notes to the Basic Financial Statements

NOTE 1 – THE FINANCIAL REPORTING ENTITY

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) (Note 11) in the Pension Trust Fund. The financial activities of the Plan are blended in the basic financial statements because the Plan exclusively serves the employees of VTA. Due to the fact that the Plan is fiscally dependent on VTA, it is considered a component unit.

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 the development and implementation of the Valley Transportation Plan (VTP), 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 countywide grant funds, including the Transportation Fund for Clean Air (TFCA), 1996 Measure B Transportation Improvement Program's (MBTIP) Ancillary Program, and 2000 Measure A Transit Improvement Program. Annual contributions from each member agency are based on a formula adopted by the VTA's Board of Directors. 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 major governmental fund in the accompanying basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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. Separate statements for each fund category – *proprietary*, *governmental*, and *fiduciary* – are presented. The emphasis of fund financial statements is on the major governmental and the enterprise funds, each displayed in separate columns.

VTA reports the following major funds:

- The *Proprietary Fund (Enterprise Fund)* is used to account for activities for which a fee is charged to external users for goods or services (a) where the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (b) where laws or regulations require that the activity's costs 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 (c) where the pricing policies of the activity establish fees and charges designated to recover its costs, including capital costs (such as depreciation or debt service). VTA reports the activities of its transit operations, 1996 Measure B Transit Improvement Program, and 2000 Measure A Transit Improvement Program as Enterprise Fund.

- 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 *Congestion Management Program Special Revenue Fund* is used to account for the congestion management planning, programming, and development services for Santa Clara County.

  - *The Congestion Management and Highway Program Capital Projects 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 Projects Fund).

  - The *Measure B Highway Program Capital Projects Fund* is used to account for acquisition of capital assets or construction of Measure B Highway projects.

VTA reports the following additional funds:

- The *Proprietary Fund (Internal Service Fund)* is used to account for activities that provide goods or services to other funds, departments or to other governments, on a cost-reimbursement basis. General Liability, Workers' Compensation, Retiree Health, and Compensated Absences are accounted for in the Internal Service Fund.

- 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 VTA/ATU Pension Plan, ATU Medical Trust, the Bay Area Air Quality Management District (BAAQMD) Program, and the Measure B Ancillary Program. The VTA/ATU Pension Plan and the ATU Medical Trust are reported as pension (other employees benefit) trust funds. The BAAQMD and the Measure B Ancillary Programs are reported as agency funds. The BAAQMD agency fund accounts for the activities that relate to the Transportation Fund for Clean Air (TFCA) Program. The Measure B Ancillary Program agency fund was established to administer the 1996 Measure B funds.

(b) Basis of Accounting

The government-wide, proprietary funds and fiduciary funds financial statements are reported using the accrual basis of accounting and the economic resources exchange measurement focus (except agency funds since agency funds only report assets and liabilities, they cannot be said to have a measurement focus). 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. Eligibility requirements for the purchase of right-of-way are considered met once the acquisition has settled.

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, services, utilities, leases and rentals, purchased transportation, and depreciation on capital assets. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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 if their receipt occurs within 180 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 Governmental Accounting Standards Board (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.

(c) 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 invested in the State Pool of California (LAIF) and the County Treasury. Unless there are specific legal or contractual requirements for specific allocations, income earned or losses arising from investments are allocated on a monthly basis (except for the local agency investment fund (LAIF) which is quarterly) 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 Bloomberg Pricing Service, from its fiscal agent for actively managed accounts and from management firms for commingled accounts.

The fair value of VTA's investments commingled in County Pool and LAIF State Pool is based on VTA's cash positions in the commingled accounts as of the end of the fiscal year.

(d) Inventories

Inventories are stated at the lower of average cost/market 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.

(e) Restricted Assets

Restricted assets consist of monies and other resources, the use of which is legally restricted for capital and operating, as well as debt service.

(f) Bond Issuance Costs, Discounts, Premiums and Deferred Amount on Refundings

Bond issuance costs, discounts, premiums and deferred amount on refundings 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, premiums 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 (asset).

(g) Capital Assets

It is VTA's policy that assets with a value of $5,000 or more, and a useful life beyond one year are capitalized, included in the capital asset accounting system and depreciated accordingly. 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 assets.

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
Leasehold improvements	10 to 35 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 until the specified asset is ready for its intended use. In the current year, VTA capitalized total interest expense of $15.8 million relating to the BART and Downtown East Valley projects.

(h) 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, they are reported as expenses. Additionally, there is an amount charged each month to accrue the estimated increase in unused vacation and sick leave. The balance is adjusted annually to reflect the year-end value of unused vacation and sick leave.

(i) 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 reported in the Internal Service Fund based on an actuarial determination of the present value of estimated future cash payments (see Notes 14 and 15).

(j) Net Assets

The government-wide and enterprise fund financial statements utilize a net asset presentation. Net assets are categorized as invested in 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 (including deferred bond issuance costs) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category consists of VTA's debt service reserve funds, net assets restricted for Measure B Transit and 2000 Measure A capital programs including VTA's share of board-designated capital projects.
- *Unrestricted Net Assets* – This category represents net assets of VTA, not restricted for any project or other purpose.

The enterprise fund statement of fund net assets reports that enterprise fund net assets $2,370,056,000 as of June 30, 2007, of which $240,307,000 is restricted by enabling legislation for the 2000 Measure A Sales Tax Programs. The 2000 Measure A half-cent sales tax was approved by Santa Clara County voters to fund certain transportation related projects.

(k) Cost Allocated to Capital and Other Programs

On the Statement of Revenues, Expenses and Changes in Fund Net Assets, the Enterprise Fund reports $35.2 million as costs allocated to capital and other programs. This amount represents a credit for direct and indirect labor and associated fringe benefits, reproduction and mileage costs, and other costs that were capitalized as construction in progress.

(l) 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.

(m) GASB Pronouncements

VTA will implement the following GASB Statements in FY2008 and in the future fiscal years:

- GASB Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,*" and GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension*".
- GASB Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*".
- GASB Statement No. 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations*".
- GASB Statement No. 50, "*Pension Disclosures*".
- GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*".

NOTE 3 - CASH AND INVESTMENTS

Total cash and investments as of June 30, 2007, are reported in the accompanying basic financial statements as follows (in thousands):

	Business-type Activity		Governmental Activity	Fiduciary Funds		
	Enterprise Fund	Internal Service Fund	Governmental Funds	Pension Trust Funds	Agency Funds	Total
Unrestricted:						
Cash and cash equivalents	$ 2,239	$ 797	$ -	$ -	$ -	$ 3,036
Investments	102,462	161,750	2,381	-	-	266,593
Total unrestricted	104,701	162,547	2,381	-	-	269,629
Restricted:						
Cash and cash equivalents	-	-	10,998	-	-	10,998
Cash and cash equivalents with fiscal agents	95,092	-	1,517	-	15,769	112,378
Investments	212,476	-	-	363,440	2,481	578,397
Total restricted	307,568	-	12,515	363,440	18,250	701,773
Total cash and investments	$ 412,269	$ 162,547	$ 14,896	$ 363,440	$ 18,250	$ 971,402

As of June 30, 2007, total cash and investments among all funds consisted of the following (in thousands):

Cash and equivalents	$ 14,034
Cash and cash equivalents with fiscal agents	112,378
Investments	844,990
	$ 971,402

Cash and Equivalents

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, 2007, the carrying amount of these cash balances are shown below (in thousands):

Unrestricted operations account	$ 3,036
CM&HP account	10,998
Total deposits	$ 14,034

Investments

Government code requires that the primary objective of the trustee is to safeguard the principal, secondarily meet the liquidity needs of the depositors, and then achieve a reasonable return on the funds under the trustee's control. Further, the intent of the Government Code is to minimize risk of loss on held investments from:

1. Credit risk
2. Custodial credit risk
3. Concentration of credit risk
4. Interest rate risk

Specific restrictions of investment are noted below:

VTA's investment policies (Unrestricted/Restricted Funds and ATU Pension Plan) 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 any one long-term instrument. VTA's permissible investments include US treasury obligations, obligations of Federal Agencies and U.S. Government sponsored enterprises, State of California obligations, local agency obligations, bonds issued by VTA, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, medium-term corporate notes, insured savings/money market accounts, negotiable certificates of deposit, mortgage and asset-back obligations, mutual funds, State of California's Local Agency agreements, and qualified structured investment. The ATU pension plan's asset allocation includes investments in bonds, equity securities, and cash.

The County Treasury commingled pool is subject to the County's Investment Policy and State law and is reviewed by the County's Investment Committee. 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 VTA's position in the pool.

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

VTA's portfolio includes asset-backed securities, which are invested directly by VTA and structured notes which are invested indirectly through LAIF. At June 30, 2007, investment in LAIF is $33.9 million. LAIF is part of the State of California Pooled Money Investment Account (PMIA), whose balance at June 30, 2007 is $65.6 billion. None of this amount was invested in derivative instruments. PMIA is not a Securities and Exchange Commission (SEC) registered pool, but it is required to invest in accordance with the guidelines established by the California Government Code. The weighted-average to maturity of the investments in PMIA at June 30, 2007 was 176 days. The value of the pool shares in investment earnings are paid quarterly based on the average daily balance. Withdrawals from LAIF are completed on a dollar for dollar basis.

Interest rate risk – This is the risk of loss due to the fair value of an investment falling due to interest rates rising. Of VTA's (Unrestricted/Restricted Funds and ATU Pension Plan) $846 million in investments, over 65% of the investments have a maturity of less than 1 year. Of the remainder, only 11% have a maturity of more than 10 years. Long-term securities of more than five years are limited to 40% of the portfolio.

Credit risk – VTA is permitted to hold investments in commercial paper 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 Rating, Inc. rating service. Purchases of mortgage and asset-back obligations do not exceed 20% of VTA's portfolio. In addition, VTA is permitted to invest in the State's Local Agency Investment Fund, money market and mutual funds that are non-rated.

Custodial Credit Risk - Deposits - For deposits, custodial credit risk is the risk that in the event of a bank failure, VTA's deposits may not be returned to it. The California Government Code Section 53652 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. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the VTA's total deposits. At June 30, 2007, VTA deposits were collaterized by securities held by the financial institutions, but not in VTA's name.

Custodial Credit Risk – Investments – For investments, custodial credit risk is the risk that in the event of a failure of the counter-party, the VTA may not be able to recover the value of its investments. All securities owned by VTA are kept in safekeeping with "perfected interest" in the name of VTA by a third-party bank trust department, acting as agent for VTA under the terms of a custody agreement executed between the bank and VTA. All securities are received and delivered using the standard delivery versus payment procedure. At year-end, VTA did not participate in reverse securities lending that would result in any possible risk in this area.

Concentration of Credit Risk - Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on VTA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. About 41% of VTA's investments at year-end are in U.S. Government or Agencies issues. There is no limitation on amounts invested in these types of issues. At June 30, 2007, VTA had $302.4 million representing 35.7% of VTA's portfolio invested in debt securities issued by the US governmental agencies. At June 30, 2007 VTA had $124.4 million, $113.2 million and $43.9 million representing 14.68%, 13.36% and 5.18% of VTA's portfolio invested in debt securities issued by the Federal Home Loan Mortgage Corporation (FHLM), Federal National Mortgage Association (FNMA), and Federal Farm Credit Banks (FFCB), respectively. Of the 13% of the portfolio invested in equities, no investment in a single issuer exceeds 5%. The investments in guaranteed investment contracts include one agreement with FSA Capital Management Services, in the amount of $26.4 million, which is approximately 5% of the investment portfolio and represents money held by a fiscal agent to pay debt service when due, in accordance with bond indentures.

Certain investments such as obligations, which are backed by the full faith and credit of the United States Treasury, are not subjected to credit ratings. The following schedule indicates the interest rate and credit risk at June 30, 2007:

	Maturity				
Type of Investment	Less than 1 year	2-5 Years	6-10 Years	Over 10 Years	Market Value
Commercial Paper	$ 41,013	$ -	$ -	$ -	$ 41,013
Corporate Bonds – Operations	9,240	59,013	-	-	68,253
Corporate Bonds - Pension Plan	900	7,317	16,739	19,053	44,009
Corporate Bonds - Retiree Health	195	2,016	4,544	5,461	12,216
US Government Agency Bonds:					
Operations	165,272	41,141	13,717	-	220,130
Pension Plan		2,012	6,179	55,456	63,647
Retiree Health	3	436	2,595	15,626	18,660
U.S. Treasury:					
Operations		14,170	7,432	-	21,602
Pension Plan	4,229	14,127	-	-	18,356
Retiree Health	3,228	3,540	-	-	6,768
SUBTOTAL	224,080	143,772	51,206	95,596	514,654
Money Market Funds - Operations	1,005	-	-	-	1,005
Money Market Funds - Pension	4,447	-	-	-	4,447
Money Market Funds Retiree	797				797
Cash with Fiscal Agents - GIC	8,038			7,559	15,597
Cash with Fiscal Agents- Money Market Funds	74,837	2,944	-	-	77,781
TOTAL INVESTMENTS with Money Managers	313,204	146,716	51,206	103,155	614,281
LAIF	33,918	-	-	-	33,918
TOTAL INVESTMENTS	$ 347,122	$ 146,716	$ 51,206	$ 103,155	648,199
Investment commingled in County					1,714
Equity-based investments					290,169
Retention fund at escrow agents (deposits)					17,286
Cash deposits					14,034
					$ 971,402

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments as rated by Standards and Poors:

Ratings	Fair Value (In Thousands)	Percentages of Portfolio
Unrated	$436,465	44.93%
Not Applicable	366,501	37.73%
BB	2,163	0.22%
BB-	634	0.07%
BB+	2,518	0.26%
BBB	6,628	0.68%
BBB-	4,289	0.44%
BBB+	5,307	0.55%
A-1	10,711	1.10%
A-1+	30,302	3.12%
A	20,969	2.16%
A-	11,567	1.19%
A+	11,037	1.14%
AA-	14,343	1.48%
AA	10,800	1.11%
AA+	2,268	0.23%
AAA	34,900	3.59%
Total	$971,402	100.00%

As of June 30, 2007, the Pension Trust fund's restricted investments consisted of the following (in thousands):

ATU Pension Plan investments	$ 350,558
ATU Spousal Medical – investment	12,325
Pooled investments with VTA	557
Total	$ 363,440

NOTE 4 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2007 is as follows (in thousands):

Due from	Due to	Amount	
VTA Transit	Congestion Management & Highway Program	$ 751	(a)
VTA Transit	Measure B Highway Program	195	(a)
VTA Transit	ATU Pension Program	1,644	(b)
Congestion Management Program	BAAQMD Agency Fund	61	(c)
		$ 2,651	

(a) represents labor and internal charges for the program
(b) represents the investment management fee
(c) represents the swap project cost under CMP program

NOTE 5 – DUE FROM AND DUE TO OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies as of June 30, 2007 consisted of the following (in thousands):

	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current:					
Federal Government	$ 35,803	$ -	$ 564	$ -	$ 36,367
State Government	110,144	835	8,364	-	119,343
County of Santa Clara					
Court Deposits :					
Measure B Highway	-	-	-	936	936
Total Court Deposits	-	-	-	936	936
Measure B Ancillary Program -SWAP	1,282	-	5,994	-	7,276
Others	-	-	283	-	283
Total County of Santa Clara	1,282	-	6,277	936	8,495
Others	2,117	24	3,102	436	5,679
Total	$ 149,346	$ 859	$ 18,307	$ 1,372	$ 169,884

Due from other governmental agencies as of June 30, 2007, is reported in the accompanying general-purpose financial statements as follows (in thousands):

	Business-Type Activity	Governmental Activity			
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Measure B Highway Program	Total
Current Assets - unrestricted	$ 75,483	$ 859	$ -	$ -	$ 76,342
Current Assets - restricted	73,863	-	18,307	1,372	93,542
	$ 149,346	$ 859	$ 18,307	$ 1,372	$ 169,884

Due to other governmental and other agencies as of June 30, 2007, consisted of the following (in thousands):

	Business-Type Activity	Governmental Activity		
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Total
State government	$ 369			$ 369
County of Santa Clara	387	1,325		1,712
City of Santa Clara			380	380
City of Sunnyvale			500	500
City of San Jose			5,287	5,287
City of Milpitas			500	500
City of Mountain View			250	250
Yerba Buena Opco, Inc			300	300
Measure B Ancillary Program			17,026	17,026
Total	$ 756	$ 1,325	$ 24,243	$ 26,324

Due to other governmental agencies as of June 30, 2007, is reported in the accompanying basic financial statements as follows (in thousands):

	Business-Type Activity	Governmental Activity		
	Enterprise Fund	Congestion Management Program	Congestion Management and Highway Program	Total
Current Liabilities	$ 756	$ 1,325	$ -	$ 2,081
Liabilities payable from restricted assets	-	-	24,243	24,243
Total	$ 756	$ 1,325	$ 24,243	$ 26,324

NOTE 6 – CAPITAL ASSETS

Capital asset changes for VTA's business-type activity for the year ended June 30, 2007 were as follows (in thousands):

	July 1, 2006	Additions	Retirements	Transfer	June 30, 2007
Capital assets, not being depreciated:					
Land and right of way	$ 1,131,579	$ -	$ (329)	$ (12,673)	$ 1,118,577
Construction in progress	380,776	127,781	-	(20,365)	488,192
Total capital assets, not being depreciated	1,512,355	127,781	(329)	(33,038)	1,606,769
Capital assets, being depreciated:					
Buildings, improvements, furniture and fixtures	462,448	-	(421)	(1,127)	460,900
Vehicles	457,616	-	(2,568)	2,953	458,001
Light-rail tracks and electrification	384,435	-	-	15,128	399,563
Caltrain – Gilroy extension	52,990	-	-	165	53,155
Other operating equipment	29,002	-	-	414	29,416
Leasehold Improvement	-	-	-	2,169	2,169
Total capital assets, being depreciated	1,386,491	-	(2,989)	19,702	1,403,204
Less accumulated depreciation for:					
Buildings, improvements, furniture and fixtures	(153,597)	(34,705)	394	23,366	(164,542)
Vehicles	(134,158)	(19,536)	2,390	-	(151,304)
Vehicles Accum Depn - Leased	21,939	-	-	-	21,939
Caltrain - Gilroy extension	(7,411)	(1,186)	-	-	(8,597)
Light-rail tracks & electrification	(107,127)	(29,042)	-	13,144	(123,025)
Other operating equipment	(18,281)	(2,598)	-	-	(20,879)
Total accumulated depreciation	(398,635)	(87,067)	2,784	36,510	(446,408)
Total capital assets, being depreciated, net	987,856	(87,067)	(205)	56,212	956,796
Total capital assets, net	$ 2,500,211	$ 40,714	$ (534)	$ 23,174	$ 2,563,565

Construction in progress (CIP), includes capitalized costs and right-of-way acquisitions associated with the following projects as of June 30, 2007 (in thousands):

Silicon Valley Rapid Transit Corridor	$ 400,815
Facilities Modifications	36,129
Guadalupe Corridor	1,847
Capitol Corridor Projects	25,173
Study Projects	11,430
Caltrain Service Improvements	8,288
Coach and Vehicle Replacements	2,339
Software Development	1,792
Other projects	379
Total project costs expended to date	$ 488,192

Additional information regarding projects in progress as of June 30, 2007 is as follows (in thousands):

Total Board approved project budget	$ 649,869
Expended to date	(488,193)
Remaining budget available for CIP	$ 161,676
Anticipated funding sources are as follows:	
Federal, State, and other local assistance (Note 10)	$ 101,949
Local contributions (Note 10)	59,727
Total funding sources	$ 161,676

VTA has outstanding commitments of about $22 million as of June 30, 2007, related to the above capital projects.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt as of June 30, 2007, consisted of the following (in thousands):

Secured by VTA's 1976 ½ Cent Sales Tax	
Series 1985A Equipment Trust Certificates	$ 29,200
1997 Series A Refunding ($3,170, less unamortized discount of $212)	2,958
1998 Series A Junior Lien	41,430
2000 Series A Junior Lien	33,830
2001 Series A Senior Lien ($13,770 less unamortized discount of $102)	13,668
2005 Series A-C Refunding ($169,740 less unamortized deferred amount in refunding of $15,370)	154,370
2007 Series A Refunding ($26,275 plus unamortized premium of $1,406 and less unamortized deferred amount in refunding of $2,660)	25,021
Secured by VTA's 2000 Measure A ½ Cent Sales Tax	
2006 Series A-G Senior Lien ($428,375 plus unamortized deferred amount in refunding $17,276)	445,651
Total long-term debt	746,128
Less current portion of long-term debt	(66,015)
Long-term debt, excluding current portion	$ 680,113

(a) Equipment Trust Certificates

- $52.5 million 1985A Certificates (1985 ETC's) were issued to finance the retirement of the Series 1984A Equipment Trust Certificates, originally issued to finance the acquisition of light-rail vehicles. The 1985 ETC's bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the 1985 ETC's at par value. The 1985 ETC's are subject to mandatory redemption before their maturity date on each June 1 on or after June 1, 2007, in part or by lot, solely from sinking fund payments and interest earnings deposited in the 1985 ETC Sinking Fund Account. In August 1998, VTA entered into an interest rate swap agreement. Pursuant to the terms of the swap agreement, VTA owes interest at a fixed rate of 4.355% to the counterparty to the swap. In return, the counterparty owes VTA interest based on the actual variable rate of the 1985 ETC's. The outstanding 1985 ETC principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreement is subject to termination before maturity of the 1985 ETC's. A termination of the swap agreement may result in VTA making or receiving a termination payment.

(b) Sales Tax Revenue Bonds, secured by 1976 ½ Cent Sales Tax Revenues

- In November 1997, VTA issued $40.6 million of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds), at a true interest cost of 5.17%, to advance refund $33.3 million of the outstanding principal amount of its 1991 Series A Bonds, advance refund $4 million of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures. Their maturities extend to June 1, 2021. Maturities from June 1, 2011 through June 1, 2021 were legally defeased on June 1, 2007 from proceeds of the 2007 Refunding bonds leaving $3,170,000 of outstanding principal as of June 30, 2007.

- In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $50 million of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital expenditures. The 1998 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In November 2000, through the California Transit Variable Rate Program of the California Transit Finance Authority (CTFA) (Note 19d), VTA issued $40 million of 2000 Series A Junior Lien Sales Tax Revenue Bonds to finance certain capital expenditures. The 2000 Bonds bear interest at a weekly rate, which is determined by the Remarketing Agent to be the rate necessary to remarket the bonds at par value. Their maturities extend to October 1, 2027 and are subject to mandatory and optional redemption provisions.

- In June 2001, VTA issued $200 million of 2001 Series A Senior Lien Sales Tax Revenue Bonds (2001 Bonds), at a true interest cost of 5.08% to finance portions of the Tasman East, Vasona, and Capitol Corridor Light Rail projects. Their maturities extend through June 1, 2026. Maturities through June 1, 2011 are not subject to redemption before their maturities. However, maturities from June 1, 2012 through June 1, 2026 are subject to optional redemption and will be redeemed on June 1, 2012 from proceeds of the 2005 Series A, B, and C Refunding Bonds.

- In July 2005, VTA issued Sales Tax Revenue Refunding Bonds, 2005 Series A, B & C, at variable rates, in an aggregate amount of $172.5 million (2005 Bonds) to advance refund $155.3 million of VTA's Sales Tax Revenue Bonds, 2001 Series A that mature on June 1, 2012 through June 1, 2026 (Defeased Bonds). Their maturities extend to June 1, 2026 and are subject to optional and mandatory redemption and optional and mandatory tender for purchase before maturity. Proceeds of the 2005 Bonds were placed in an escrow account held by a Trustee to provide for future debt service payments on the Defeased Bonds. The advance refunding met the requirement of an in-substance debt defeasance, and the Defeased Bonds were removed from VTA's long-term debt. Accordingly, the escrow account assets and the liabilities from the Defeased Bonds are not included in VTA's financial statements. The amount outstanding on the Defeased Bonds was $155.3 million as of June 30, 2007. VTA realized debt service savings of approximately $16.9 million in net present value by refunding the 2001 Series A Bonds. Concurrent with the issuance and sale of the 2005 Bonds, VTA entered into three separate interest rate swap agreements. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.033% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on a percentage of LIBOR[1] plus a spread. The outstanding principal is used as the basis on which the interest payments are calculated. Under certain circumstances, the agreements are subject to termination before maturity of the 2005 Bonds. A termination of the swap agreement may result in VTA making or receiving a termination payment.

- In April 2007, VTA issued $26.3 million of 2007 Sales Tax Revenue Refunding Bonds, Series A (2007 Bonds) at a true interest cost of 3.97%, to current refund of VTA's 1997 Sales Tax Revenue Refunding Bonds, which mature on June 1, 2010 through June 1, 2021 (Defeased Bonds). Proceeds of the 2007 Bonds were deposited into an escrow account held by a Trustee, and were used to pay the principal and accrued interest on the Defeased Bonds on the redemption date of June 1, 2007. The amount outstanding on the Defeased Bonds was zero as of June 30, 2007. VTA realized debt service savings of approximately $1.6 million in net present value by refunding the 1997 Sales Tax Revenue Refunding Bonds. Maturities for the 2007 Bonds extend to June 1, 2021. The maturities on or before June 1, 2017 shall not be subject to redemption prior to their respective stated maturities. The maturities on or after June 1, 2018 shall be subject to redemption prior to their stated maturities.

(c) Sales Tax Revenue Bonds, Secured by 2000 Measure A ½ Cent Sales Tax

- In November 2003, VTA issued $131.2 million of 2003 Measure A Sales Tax Revenue Bonds (2003 Bonds) to: 1) finance the repayment of the 2002 Bonds and Grant Anticipation Notes that matured on December 4, 2003, 2) reimburse VTA for certain debt service payments made in connection with the 2001 Bonds, and 3) finance capitalized interest payments through October 2006. The 2003 Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2003 Bonds. The 2003 Bonds were refunded on August 10, 2006 by the proceeds of the 2006 Measure A Bonds.

[1] London Interbank Offered Rate

- In May 2004, VTA issued $104.7 million of Measure A Sales Tax Revenue Bonds (2004A Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004A Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004A Bonds. The 2004A Bonds were refunded on August 10, 2006 by the proceeds of the 2006 Measure A Bonds.

- In December 2004, VTA issued $135.2 million of Measure A Senior Lien Sales Tax Revenue Bonds (2004B Bonds) to pay certain working capital and capital expenditures and to finance capitalized interest payment through October 2006. The 2004B Bonds were issued as long-term variable rate bonds, with an initial fixed rate term through October 2, 2006, at which time there is a mandatory tender for purchase of the 2004B Bonds. The 2004B Bonds were refunded on August 10, 2006 with the proceeds of the 2006 Measure A Bonds.

- In August 2006, VTA issued $428 million of 2000 Measure A Sales Tax Revenue Bonds, Series A-G (2006 Bonds) to refund $371 million of VTA' Sales Tax Revenue 2003 Series A Bonds, 2004 Series B Bonds (Defeased Bonds); and to finance portion of the costs associated with capital projects. The Defeased Bonds were subject to a mandatory tender for purchase on October 2, 2006. On this date, VTA was obligated to remarket the Defeased Bonds as either variable or fixed rate securities. In the event of a failed remarketing, VTA's interest rate would have been reset at 150% of One-Year LIBOR for each subsequent year until a successful remarketing was completed. Had there been a failed remarketing, VTA's interest rate would have reset at 8.175% (150% of One-Year LIBOR in effect at that time). Based on this rate, the economic gain is $164.3 million. However, had VTA remarketed the Defeased Bonds as fixed rate securities, the interest rate would have reset to approximately 4.62% (prevailing rate at the time of issuance), which would have resulted in an economic gain of $15.5 million. In lieu of remarketing, VTA chose to refund the Defeased Bonds through the issuance of the 2006 Bonds. The maturities of the 2006 Bonds extend to April 1, 2036. Concurrent with the issuance and sale of the 2006 Bonds, VTA entered into four separate interest rate swap agreements for the 2006 Bonds, Series A through D. Pursuant to the terms of the swap agreements, VTA owes interest at a fixed rate of 3.765% to the counterparties to the swaps. In return, the counterparties owe VTA interest based on SIFMA Swap Index, which is reset weekly, prior to October 1, 2007. Beginning October 1, 2007, counterparties will pay VTA a variable rate of interest based on 65% of three-month LIBOR. The outstanding principal is used as the basis on which the interest payments are calculated. The swap agreements are expected to terminate on the final stated maturity date of each series of the 2006 Bonds. The 2006 Bonds Series E was issued as auction rate bonds, subject to an 8% interest rate cap provided by Bank of America. The 2006 Bonds Series F and G were issued as auction rate securities, with an initial fixed rate interest through August, at which time they are converted to 90-day auction rate securities. The 2006 Bonds Series A-G are subject to optional redemption by VTA on any Interest Payment Date immediately following the end of an Auction Period. If VTA redeems any series of the 2006 Bonds by mandatory sinking funds, the redemptions shall be on each April 1 of the mature year for each series.

(d) Interest Rate Swaps

VTA has entered into eight interest rate swap agreements. Of the agreements, one requires VTA pay a fixed interest rate and receive interest at the actual variable interest rate of the underlying bonds; three require that VTA pay fixed interest rates and receive interest at a percentage of LIBOR [1] plus a spread, and four require that VTA pay fixed interest rates and receive interest at SIFMA [2] index rate through October 1, 2007 thereafter 65% of 3-month LIBOR.

***Objective of the Swaps**:* The objective of the swaps was to take advantage of low interest rates in the marketplace at costs anticipated to be less than what VTA otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

[1] LIBOR: London Inter Bank Offering Rate is a daily reference rate based on the interest rate at which banks offer to lend unsecured funds to other banks in the London wholesale (interbank) money market.
[2]SIFMA: Securities Industry and Financial Municipal Swap Index. This index represents the national average for variable rate bonds.

***Summary**:* The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2007 were as follows:

Dollars in thousands

Associated Bonds	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value [1]	Swap Termination Date	Counterparty Credit Rating [2]
1985 ETC	$29,200	9/11/1998	4.355%	1985 ETC	$ (745)	6/1/2015	Aa1,AAA,AA+
STRRB[3] 2005 A	68,030	7/7/2005	3.033%	Cal-E[4]	3,769	6/1/2026	Aa3,AA-,AA-
STRRB 2005 B	50,855	7/7/2005	3.033%	Cal-E	2,821	6/1/2026	Aaa,AA+,AA+
STRRB 2005 C	50,855	7/7/2005	3.033%	Cal-E	2,821	6/1/2026	Aa3, A+, AA-
STRRB 2006A	85,875	8/10/2006	3.765%	SIFMA[5]	(42)	4/1/2036	Aaa,AA+,AA+
STRRB 2006B	50,000	8/10/2006	3.765%	SIFMA	(24)	4/1/2036	Aaa,AA+,AA
STRRB 2006C	50,000	8/10/2006	3.765%	SIFMA	(24)	4/1/2036	Aaa,AAA,--
STRRB 2006D	50,000	8/10/2006	3.765%	SIFMA	(24)	4/1/2036	Aa3,A+,AA-
	$434,815				$ 8,552		

[1] Includes accrued interest
[2] Moody's, Standard and Poor's, and Fitch, respectively
[3] Sales Tax Revenue Refunding Bonds
[4] Lower of 1 month LIBOR or a rate equal to: the greater of 63.5% of 1 month LIBOR or 55.5% of LIBOR plus 0.44%
[5] Swap Index to October 2007; 65% of three month LIBOR thereafter

Terms: The notional amounts of swaps match the principal amounts of the associated debt in total. VTA's swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated long-term debt.

Fair Values*:* At June 30, 2007, the swap associated with the 1985 ETCs had a negative fair value, $0.75 million. This is because interest rates have declined since the execution of the swap in 1998. The swaps associated with the 2005 Series A, B, and C Bonds (2005 Bonds) have a positive fair value, $9.4 million. The market values have increased because interest rates have risen since the execution of these swaps. The swaps associated with the 2006 Series A-G (2006 Bonds) have a negative fair value, $0.1 million, resulting from the fact that interest rates have slightly declined since the swaps were executed. The fair values include accrued interest. Because the coupons on VTA's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases or decreases.

Credit Risks: As of June 30, 2007, VTA was not exposed to credit risk on the swap associated with the 1985 ETC's, and the 2006 Bonds because their swaps had negative fair values. As of June 30, 2007, VTA was exposed to $9.4 million of credit risk, spread among the three counterparties to the swaps associated with the 2005 Bonds. All swap agreements; with the exception of the swap associated with the 1985 ETC's contain specific collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are reduced as credit ratings are reduced. The swap agreement associated with the 1985 ETC's requires the counterparty to post collateral in the event that ratings are suspended, withdrawn or falls below "Aa3" in the case of Moody's and "AA-" in the case of S&P. Collateral on all swaps must be in the form of US government securities and, in the case of the swap associated with the 1985 ETC's, must be held by a third party collateral agent; otherwise, collateral posted pursuant to all other swap agreements, may be held by the counterparty.

Each swap contains cross-default provisions that allow the non-defaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the non-defaulting party.

Basis Risk: VTA has no basis risk for the swap associated with the 1985 ETC's, as the interest rate received from the counterparty is equal to the interest paid to the 1985 ETC bondholders. For the other swaps, the interest rate on VTA's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties. To the extent these variable payments differ, VTA is exposed to basis risk. As of June 30, 2007, the weighted average interest rates of the variable rate debt associated with the 2005 Bonds, Series A-C swap transactions were 3.66%. However, VTA's variable rate payments received from the counterparties of these swaps was 3.39%. As of June 30, 2007, the weighted average interest rates of the variable rate debt associated with the 2006 Bonds, Series A-D swap transactions were 3.68%, and VTA's variable rate payments received from the counterparties of these swaps was 3.73%.

Termination Risk: VTA has the right to terminate any swap if the counterparty fails to post any collateral that may be required under the swap agreements in the event of ratings downgrade, or, if the counterparty's ratings are downgraded below investment grade. Each counterparty has the right to terminate the swap if VTA's bond insurer's (who has insured VTA's swap payments) financial strength rating falls below Aa3 by Moody's Investors Service, its claims paying ability rating falls below AA- by Standard and Poor's or it fails to maintain a rating of AA- by Fitch Ratings, or, if VTA's long-term debt obligations fall below "Baa2" by Moody's Investors Service, "BBB" by Standard and Poor's or "BBB" by Fitch Ratings. If the swaps were terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, VTA would be liable to the counterparty for payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, VTA is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swaps.

(e) Swap Payments and Associated Debt

Using rates as of June 30, 2007, debt service requirements on VTA's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
(Dollars in thousands)	Principal	Interest	Interest Rate Swap, Net	Total
Year Ending June 30:				
2008	$ 3,855	$ 15,934	$ 533	$ 20,323
2009	4,095	15,794	511	20,400
2010	4,355	15,645	487	20,466
2011	4,675	15,487	461	20,623
2012-2016	45,820	73,392	1,743	120,955
2017-2021	55,520	64,291	876	120,686
2022-2026	80,640	52,375	9	133,024
2027-2031	-	43,342	(649)	42,693
2032-2036	235,875	30,740	(460)	266,155
	$ 434,815	$ 327,000	$ 3,510	$ 765,325

(f) Long-term Debt Obligation Summary

Interest Rates on all outstanding fixed-rate obligations range from 3.66% to 5.08%. Interest on the variable rate debt is reset weekly based upon market conditions. The current-portion of principal due includes $54.7 million which VTA intends to call and redeem in FY2008. Future principal and interest obligations (per the debt service schedule) as of June 30, 2007 are as follows:

(Dollars in thousands)	Principal	Interest[2]	Total
Year ending June 30:			
2008	$ 12,440	$ 32,437	$ 44,877
2009	15,740	27,192	42,932
2010	16,530	26,556	43,086
2011	17,220	25,903	43,123
2012-2016	98,210	118,752	216,962
2017-2021	120,200	99,697	219,897
2022-2026	147,125	77,455	224,580
2027-2031	68,625	57,136	125,761
2032-2036	249,700	34,090	283,790
	$ 745,790	$ 499,218	$ 1,245,008
Unamortized bond discount, premium and deferred amount on refunding, net	338		
Total debt	746,128		
Less current portion	(66,015)		
Long-term portion of debt	$ 680,113		

(g) Restrictions and Limitations

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

[2] Rates as of 6/30/07 were used to determine variable rate interest expense.

(h) Long-term Liabilities

Long-term liability activity for fiscal years ending June 30, 2007 and 2006 is shown on the following table.

Changes in long-term liabilities for the business-type activity during FY2007 are shown below (in thousands):

	July 1, 2006	Additions	Retirements	June 30, 2007	Amounts Due Within One Year
Equipment Trust Certificates:	$29,660	$ -	($460)	$29,200	$ 2,700
Sales Tax Revenue Bonds Secured by VTA's 1976 ½ Cent Sales Tax:					
1997 Series A Refunding	31,440	-	(28,270)	3,170	1,540
1998 Series A Junior Lien	42,780	-	(1,350)	41,430	1,385
2000 Series A Junior Lien	34,940	-	(1,110)	33,830	1,145
2001 Series A	19,145	-	(5,375)	13,770	3,390
2005 Series A-C	170,860	-	(1,120)	169,740	1,155
2007 Series A	-	26,275	-	26,275	-
Sales Tax Revenue Bonds Secured by VTA's 2000 Measure A ½ Cent Sales Tax:					
2003 Series A	131,240	-	(131,240)	-	-
2004 Series A	104,710	-	(104,710)	-	-
2004 Series B	135,165	-	(135,165)	-	-
2006 Series A-G	-	428,375	-	428,375	54,700
Total outstanding debt	699,940	454,650	(408,800)	745,790	66,015
Plus (less) premiums, deferred amount on refundings and discounts	75	16,420	(16,157)	338	-
Outstanding debt, net	700,015	471,070	(424,957)	746,128	66,015
Claims liability:					
General liability	50,211	-	(23,769)	26,442	6,462
Worker's compensation	8,967	1,157	-	10,124	4,143
Compensated absences	21,841	-	(102)	21,739	6,090
Total long-term liabilities	$781,034	$472,227	($448,828)	$804,433	$82,710

Subsequent to June 30, 2007, VTA redeemed $54.7 million of 2006 Series E Revenue Bonds in FY2008. In addition, VTA issued $120.1million of 2007 Measure A Sales Tax Revenue Bonds. The proceeds along with $17.7 million of debt service reserve funds were used to refund $137.8 million Series F and G of VTA's 2006 Measure A Sales Tax Revenue Bonds.

NOTE 8 –SALES TAX REVENUES

Sales tax revenue represents sales tax receipts from the California State Board of Equalization, which, under voter-approved 1976 and 2000 Sales Tax Measures, collect a half-cent 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 $2.9 million in FY2007. The amount of the 1976 Sales Tax and 2000 Measure A Sales Tax earned during FY2007 was $163.7 million and $161.3 million respectively, totaling $325 million.

NOTE 9 – VTA PROGRAMS FUNDED THROUGH LOCAL SALES TAX MEASURES

Measure B Transportation Improvement Program (MBTIP)

In November 1996, the voters of the 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 MBTIP 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 MBTIP. With this partnership in place, the County and VTA were positioned to complete a transportation program valued at approximately $2 billion. The County would administer the funding, and VTA would be responsible for project management of the transit and highway projects and would 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, became the property of VTA. The Measure B Highway Projects, which consisted primarily of widening highways and improvements became property of the State. The accompanying basic financial statements include the financial activities of the Measure B Transit Projects in the Enterprise Fund as part of the business-type activity, Measure B Highway Projects in a Capital Project Fund as part of the governmental activity and the Measure B Ancillary Program, which includes pavement management and bicycle elements, in an agency fund. The Ancillary Program was created to administer the Measure B Pavement & Bikeways Program and Measure B local projects, also known as the Local Program Reserves.

In FY2007, VTA paid approximately $21.2 million for current year costs for the program. Of this amount, the County contributed approximately $19.7 million; namely $0.1 million ($30 thousand Measure B funding and $97 thousand Measure B swap fund) for transit projects in the Enterprise Fund; $16.8 million ($14.6 million Measure B fund & $2.2 million Measure B swap fund) for highway projects in the Measure B Highway Capital Projects Fund; and $2.8 million for the Ancillary Program (Measure B Projects, Pavement and Bikeways). The remaining funding was received from various Federal, State and local fund sources.

In June 2007, VTA and the County signed Amendment Number 20 (Amendment) to the Master Agreement and made a lump-sum payment $51.2 million to VTA in July 2007 (Note 21 – Subsequent Events). In addition, VTA would receive the residual sales tax received by the County on the Measure B program in the subsequent years. In return, VTA would assume full responsibility for completion of the remaining MBTIP Projects for which VTA is currently responsible, and to closeout the MBTIP Program. The projected cost of remaining MBTIP program is estimated at $60.7 million. The difference between the projected costs and lump sum payment by the County under Amendment 20 would be covered by advance payments received by VTA, interest earnings, and residual sales tax to be received on the Measure B program.

2000 Measure A Transit Improvement Program

The voters of Santa Clara County created the Santa Clara Valley Transportation Authority 2000 Measure A Transit Improvement Program in response to the Measure A ballot approved on November 7, 2000 imposing one half-cent for a period of 30 years and to take effect upon expiration of the County of Santa Clara 1996 Measure B half-cent Sales Tax, April 1, 2006. Revenues from the 2000 Measure A Sales Tax may be used to finance the transit projects and the increased cost of operations as described in the 2000 Measure A Ordinance and VTA's Valley Transportation Plan formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements.

As the collection of 2000 Measure A Sales Tax did not start until April 1, 2006, VTA issued revenue bonds to fund the capital programs included in the 2000 Measure A Transit Improvement Program. During FY2007, the State approved $365 million grant under its Traffic Congestion Relief Program (TCRP) to fund the preliminary engineering phase of the SVRT project. VTA incurred and invoiced $191.2 million to the State under the TCRP grant in FY2007. In addition, VTA received $161.4 million in 2000 Measure A Sales Tax revenues in the current fiscal year. In FY2007, total capital expenditures were $90 million and operating assistance to VTA's transit operations totaled $29.8 million. At June 30, 2007, total net assets for 2000 Measure A Transit Improvement Program were $240.3 million, which are reported as part of Net Assets Restricted for Capital Projects in the Statement of Fund Net Assets for Proprietary Funds.

NOTE 10 – FEDERAL, STATE, AND LOCAL ASSISTANCE

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.

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, 2007 are summarized as follows (in thousands):

	Business-type Activity	Governmental Activity
	Enterprise Fund	Congestion Management Program
Operating assistance grants:		
FTA Section 9	$ 34,890	$ -
Job Access and Reverse Commute Program	596	-
Federal Technical Studies	28	794
Total Operating Assistance Grants	35,514	794
Capital Grants:		
FTA Section 3	3,222	-
FTA Section 9	2,029	-
Total Capital Grants	5,251	-
Total Operating Assistance and Capital Grants	$ 40,765	$ 794

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 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.

The Job Access and Reverse Commute Program was authorized in Section 3037 of the Transportation Equity Act for the 21st Century (TEA-21). This program, administered by the FTA, is intended to implement a variety of transportation services that will connect welfare recipients to employment and other job-related activities and opportunities.

FTA Section 3 capital grants represent the transit capital investment program (49 U.S.C. 5309), which provides capital assistance for three primary activities:

- New and replacement of buses and facilities
- Modernization of existing rail systems, and
- New fixed guideway systems

FTA Section 9 grants represent the federal program (49 U.S.C. 5307), which makes federal resources available to urbanized areas and to Governors for transit capital and operating assistance in urbanized areas and for transportation related planning.

The grants from the following passthrough fund agreements are presented as part of the Capital Grants – FTA Section 9:

- MTC-TLC represents funds received from the Metropolitan Transportation Commission – Transportation for Livable Communities program capital grants for the San Fernando Station Plaza/Los Gatos Creek Trail Improvement Project. Funds for this program come from the federal transportation funds pursuant to TEA-21 Restoration Act.

- TransLink® fees are funds received from the Metropolitan Transportation Commission in accordance with the TransLink® Phase II site preparation fund agreement whereby VTA is to perform site preparation on its premises for the implementation of TransLink® Phase II project. The agreement is funded in whole or in part from the proceeds of a grant from the United States Department of Transportation.

- Intelligent Transportation System (ITS) fees are received from the California Department of Transportation pursuant to TEA-21, Section 5208 Funding for California ITS Integration Projects with VTA being the implementing agency for ITS integration activities in Santa Clara County and the Silicon Valley.

(b) State and Local Grants and Assistance

State and local grants for the year ended June 30, 2007, are summarized as follows (in thousands):

		Business-type Activity	Governmental Activity
		Enterprise Fund	Congestion Management Program
Operating assistance grants:			
Transportation Development Act		$ 81,061	$ -
State Operating Assistance Grants		22,513	229
Measure B Assistance		61	-
AB434		1,282	-
Total operating assistance grants		104,917	229
Capital grants:			
Traffic Congestion Relief Program		191,158	-
AB434		44	-
Other Local Grants:			
Santa Clara County (Measure B Program) – (Note 9)		5	
VTA Transit	$ 87		
Measure B Transit Program	97	184	-
Various cities, counties and others		3,357	-
Total capital grants		194,748	-
Total state and local grants		$ 299,665	$ 229

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.

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. The California Transportation Commission (CTC), in consultation with State Department of Transportation, implements TCRP. On February 1, 2007, the CTC approved/allocated $364.5 million for the preliminary engineering phase of the Silicon Valley Rapid Transit 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.

Various cities, counties and others contribute revenue to light rail projects and Silicon Valley Rapid Transit Corridor for project enhancements and to procurement of zero emission buses and the corresponding facility improvements.

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

(a) Plan Description

All ATU employees are covered by the Plan. The Plan is 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 provided the Pension Board approves of such 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, 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 benefits for ATU represented employees effective February 1, 2001 and they were enhanced again on February 1, 2003. The enhancement scheduled for February 1, 2004 was accelerated to July 1, 2002.

Separately issued audited GAAP basis financial statements of the Plan are available and can be obtained from Santa Clara Valley Transportation Authority, Fiscal Resources, 3331 North First Street, Building C-2, San Jose, California 95134-1906.

The current membership of the Plan as of June 30, 2007, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	914
Terminated vested members not yet receiving benefits	195
Active members	1,403
Total	2,512

(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.

(c) Actuarial Methods and Assumptions

Description	Methods/Assumptions	
Valuation date	January 1, 2007	
Actuarial cost method	Aggregate entry age normal	
Amortization method	Level dollar open method	
Remaining amortization period	20 years (Level dollar open)	
Actuarial asset valuation method	Market value less unrecognized investment gain or losses during the prior four years, phased in at 20% per year, subject to a minimum of 80% and a maximum of 110% of market value.	
Actuarial assumptions	Investment rate of return	8.00%
	Projected salary increases	22.13% for the first three years of service, 3.76% thereafter.
	Inflation rate	3.50%
	Cost of living adjustments	NONE

(d) Concentration

Investments in the commingled State Street Bank and Trust Company S&P 500 Conservative Index Fund and commingled Fidelity Fund represented 15.09% and 16.29%, respectively, of the Plan's investments as of June 30, 2007.

(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, 2007 were made in accordance with actuarially determined requirements computed as of January 1, 2006. VTA's contribution rate as a percentage of payroll was 15.62% for fiscal year FY2007. The schedule of funding progress can be found on page 2-70.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2007. The three-year trend information is shown below (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	$14,292	100%	$ -
6/30/06	15,278	100%	-
6/30/07	14,859	100%	-

NOTE 12 – PUBLIC EMPLOYEES' RETIREMENT PLAN

(a) Plan Description

All eligible non-ATU employees of VTA participate in the California 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 FY1999.

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. A separate report for VTA's plan is not available.

(b) *Actuarial Methods and Assumptions*

Description	***Methods/Assumptions***
Valuation date	June 30, 2005
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll
Average Remaining Period	28 years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%

(c) *Funding Policy*

Active members in VTA's 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, 2006 through June 30, 2007, was 11.852% for the employer and 7% 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. The amortization period used is closed which means that amortization periods for initial unfunded liability, benefit change, and assumption change decline every year. The schedule of funding progress can be found on page 2-71.

(d) *Net Pension Obligation*

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2007. For FY2007, VTA's annual pension cost was approximately $5.9 million, which was fully contributed. The required contribution for FY2007 was determined as part of the June 30, 2005, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. Three-year trend information follows (in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	$ 5,171	100%	$ -
6/30/06	6,501	100%	-
6/30/07	5,929	100%	-

NOTE 13 – ATU SPOUSAL MEDICAL AND VISION/DENTAL TRUST

VTA had assets and related liabilities as of June 30, 2007 of approximately $9.7 million for the ATU Spousal Medical Trust and $3.2 million for the Retiree Vision and Dental Trust.

The Spousal Medical Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, contribution to the Spousal Trust was changed from $.20 to $.25 per hour worked by all ATU employees, effective February 4, 2002. As of June 30, 2007, there were 228 participating spouses who were eligible for benefits from the Spousal Medical Trust. Contributions, which were expensed by VTA, were approximately $853 thousand. Benefit payments made by the Trust for FY2007 were approximately $1.2 million.

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, 2007, there were 747 eligible participants. Contributions, which were expensed by VTA, were approximately $341 thousand for the Retiree Vision and Dental Trust.

NOTE 14 – INTERNAL SERVICE FUND

As of June 30, 2007, the composition of assets and liabilities by individual components of the Internal Service Fund were as follows (in thousands)

	Workers' Compensation	General Liability	Retiree Health	Compensated Absences	Total
Assets	$ 29,338	$ 10,124	$ 101,739	$ 21,739	$ 162,940
Liabilities	(26,442)	(10,124)	-	(21,739)	(58,305)
Net assets (reserve)	$ 2,896	$ -	$ 101,739	$ -	$ 104,635

Workers' Compensation and General Liability

VTA contracts with third-party administrators to process claims for both programs. VTA's annual contribution to General Liability is based on a budgeted self-insured expense amount. Contributions to Workers' Compensation fund occur every pay period. Actuarial studies for both activities are obtained on an annual basis.

Actuarial Information

An actuarial analysis as of June 30, 2007 disclosed that the present values of estimated outstanding losses, at 4% average discount rate using a 90% confidence level, are $26.4 million and $4.3 million for Workers' Compensation and General Liability, respectively. However, VTA has decided to maintain the provision of estimated outstanding losses for the General Liability program at $10.1 million at June 30, 2007. For Workers' Compensation, the decrease in reserves is predominantly due to paid and incurred development that was far less than anticipated. This favorable emergence is particularly pronounced in the claim experience after January 1, 2004, the date of the first statutory benefit reform. The decrease in reserves for General Liability program was based on similar trends for all policy periods. The accrued liabilities for both Workers' Compensation and General Liability claims were based on the actuarial estimates. It is VTA's practice to obtain full actuarial studies annually.

Changes in the balance of Workers' Compensation and General Claims Liabilities for the two years ended June 30, 2007, are as follows (in thousands):

	Workers' Compensation	General Liability
Unpaid claims at June 30, 2005	$ 50,211	$ 6,368
Provision for claims and claims adjustment expense	19,751	5,164
Payment for claims	(19,751)	(2,565)
Unpaid claims at June 30, 2006	50,211	8,967
Provision for claims and claims adjustment expense	19,868	2,747
Payment for claims and other adjustments	(6,864)	(1,590)
Change in estimates for provision for future claims	(36,773)	-
Unpaid claims at June 30, 2007	$ 26,442	$10,124

Retiree Health

(a) ATU

VTA provides an ATU Retiree Health Care Program (the 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, 2007, 820 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees.

(b) Non-ATU

All non-ATU represented employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program).

As of June 30, 2007, 276 retirees met the eligibility requirements.

Non-ATU represented employees, hired on or after the following dates must have 8 years of service (2,088 days) with VTA to qualify the retiree medical coverage and must retire directly from VTA with age at least 50 years:

- Service Employees International Union (SEIU) represented employees on or after May 15, 2006.
- Transportation Authority Engineers and Architects Association (TAEA) represented employees on or after December 5, 2006.

Actuarial Information

An actuarial study as of July 1, 2007 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 $178 million and $69.8 million, for the ATU and Non-ATU Programs, respectively. VTA's contributions are advance funded to an Internal Service Fund on an actuarially determined basis. For the year ended June 30, 2007, VTA made contributions to both the ATU and Non-ATU programs, which were expensed, of approximately $16.5 million. Benefits paid to participants of the program were approximately $6.1 million.

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 7.0%, 2) a projected salary increase of 5.0%, and 3) a health cost inflation assumption of 10% from 2007 to 2008, then graded down 1.0% per year for the next 5 years, to an ultimate rate of 5.0% each year thereafter.

As of June 30, 2007, VTA had assets of $101.7 million to cover costs of the ATU and Non-ATU Programs. The assets are held in the Internal Service Fund of VTA.

Compensated Absences

This represents the amount charged each month to accrue the estimated increase in unused vacation and sick leave. This account is adjusted annually to reflect the year-end value of unused vacation and sick leave. Compensated absences are limited to leaves that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee. At June 30, 2007, the outstanding balance of compensated absence liability was $21.7 million.

NOTE 15 –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. For the past three fiscal years, settlement amounts have not exceeded commercial insurance coverage. For additional information on workers' compensation and general liability, see Note 14. Coverage provided by self-insurance/insurance and excess coverage as of June 30, 2007, is shown below:

Type of Coverage	Self-Insurance/Deductible	Excess Coverage (in aggregate)
Workers' compensation	Self-Insured	None
Employer's liability	$3,000,000	$23,000,000 per accident
Excess public liability/property damage	$3,000,000	$22,000,000
Property, boiler, and machinery	$100,000	$70,000,000 combined blanket limit
National Flood Insurance (eligible locations)	$5,000	$500,000
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	Included in the $20,000,000 with buses
Public officials liability	Self-Insured $3,000,000	$22,000,000

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 2030. These agreements are accounted for as operating leases. Rent expense was approximately $448 thousand in FY2007. The future lease payments under noncancellable lease agreements are as follows (in thousands):

Year ending June 30,	
2008	$ 194
2009	198
2010	203
2011	207
2012	198
2013-2016	791
2017-2021	1,051
2022-2026	1,129
2027-2030	1,070
Total	$ 5,041

NOTE 17 – LITIGATION

The projected costs which would settle by June 30, 2008 are approximately $6.3 million. VTA's management believes its actuarially determined reserves and excess insurance coverage will adequately cover estimated potential material adverse losses as of June 30, 2007.

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 $4.98 million during FY2007.

NOTE 19 – JOINT VENTURES

(a) Peninsula Corridor Joint Powers Board

VTA is a member agency of the Peninsula Corridor Joint Powers Board (PCJPB), along with the San Mateo County Transit District (SamTrans) and the City 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 Corridor rail service (Caltrain), which began operating 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. In FY2007, VTA, SamTrans, and CCSF are responsible for 40.28%, 41.91%, and 17.80%, respectively, of the member agencies' total reimbursement for such expenses. During the year ended June 30, 2007, VTA paid $15.6 million to the PCJPB for operating costs.

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.

Summary financial information (not included in VTA's financial statements) for the PCJPB for the years ended June 30, 2006 and 2005, are as follows [(a):]

(in thousands)	2006	2005
Total assets	$ 1,074,617	$ 982,021
Total liabilities	(59,368)	(62,364)
Total net assets	$ 1,015,249	$919,657
Operating revenues	$ 33,123	$ 26,092
Operating expenses	(72,577)	(70,098)
Non-operating revenues, net	12,526	14,030
Capital contributions	122,520	69,828
Change in net assets	$ 95,592	$ 39,852

[(a)] Latest audited information available.

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 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 four daily round trips commuter rail service from San Joaquin County 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 42% from VTA, 28% from San Joaquin Regional Rail Commission and 30% from the Alameda County Congestion Management Agency. In June 2003, VTA entered into a Cooperative Service Agreement with the San Joaquin Regional Rail Commission (SJRRC) and the Alameda County Congestion Management Agency (ACCMA) for continued VTA funding of Altamont Commuter Express (ACE) commuter rail service. The cooperative agreement replaced the ACE Joint Powers Agreement (JPA) executed by the ACE member agencies – VTA, SJRRC and ACCMA. During the year ended June 30, 2007, VTA contributed approximately $2.5 million for operating costs.

Summary financial information (not included in VTA's financial statements) for the Altamont Commuter Express for the years ended June 30, 2005 and 2004 , are as follows [(a)]:

(in thousands)	2005	2004
Total assets	$ 86,755	$ 87,023
Total liabilities	(2,003)	(2,251)
Total net assets	$ 84,752	$ 84,772
Operating revenues	$ 3,451	$ 2,913
Operating expenses	(14,293)	(13,517)
Non-operating revenues, net	8,433	4,125
Capital contributions	2,666	39,570
Special item – transfer from ACE Authority	-	51,681
Change in net assets	$ 257	$ 84,772

[(a)] Latest audited information available.

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 949 East Channel Street, Stockton, California 95202.

(c) Capitol Corridor Intercity Rail Service

VTA is a member agency of the Capitol Corridor Joint Powers Authority, which provides intercity rail service between Sacramento and San Jose. 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 (BART). BART is the managing agency for the Capitol Corridor Service. VTA offers no funds to the operation of this service.

Complete financial statements for the Capitol Corridor Service can be obtained from the San Francisco Bay Area Rapid Transit District (BART) at P.O. Box 12688, Oakland, California 94606-2688.

(d) California Transit Finance Authority

VTA is a participant of the California Transit Finance Authority (CTFA), which was formed in 1997 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. In December 1997, the CTFA issued $200,000,000 of variable rate demand bonds (the "CTFA Bonds") to fund the Program. In March 1998, VTA borrowed $50,000,000 under the Program and evidenced its borrowing through the issuance of $50,000,000 Junior Lien Sales Tax Revenue Bonds, 1998 Series A held by the CTFA Bond trustee. In November 2000, VTA borrowed an additional $40,000,000 under the Program and evidenced its borrowing through the issuance of $40,000,000 Junior Lien Sales Tax Revenue Bonds, 2000 Series A held by the CTFA Bond trustee. (Note 7 – Long-Term Liabilities).

Complete financial statements for the CTFA can be obtained from Shaw/Yoder Inc. at 1414 K Street, Suite 320, Sacramento, California 95814.

NOTE 20 – OTHER FINANCING TRANSACTIONS

(a) Lease-Leaseback

In September 1998, VTA simultaneously entered into two transactions to lease out 50 vehicle cars to investors (Headlease), U.S. Bank National Association (Successor Trustee), and simultaneously subleased 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 certain rental obligations owed by the investors under the Headlease. 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 payment agreement with a financial institution. VTA made a payment to the financial institution for $68,149,000 in consideration of the agreement by the financial institution to make payments equal to 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 part of the equity portion of the sublease termination 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.

(b) 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 lease. 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 lease 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. In June 2006, VTA terminated the lease on 88 buses.

(c) Sublease Agreement with Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT)

In May 2003, the VTA Board approved the execution of the sublease agreements with the Utah Transit Authority (UTA) and Sacramento Regional Transit District (RT) for the sublease of 50 UTDC Light Rail Vehicles (LRVs) with aggregate prepaid rent in the amount of $9.3 million. In 1998, VTA entered into a US leveraged lease (1998 LILO) with respect to VTA's UTDC light rail vehicles. VTA implemented this transaction by entering into two transactions:

1) lease out the UTDC LRVs to investors, documented in a head lease for a period of approximately 33 years, and
2) to lease back the same UTDC LRVs from the investors (documented in a sublease).

Per the sublease agreement, VTA would ship 29 LRV cars to UTA and 21 LRV cars to Sacramento. The UTA/RT Agreements provide that UTA and RT would pay the prorated portion of the prepaid rent for the UTDC LRVs upon the delivery of each vehicle to UTA or RT. The aggregate amount of rental payments for UTA and RT are $5.2 million and $4.1 million, respectively. During FY06, VTA shipped 14 cars to UTA, 21 cars to Sacramento, and the remaining 15 cars were shipped to UTA with total proceeds of approximately $2.3 million.

Because the sublease agreement contains a bargain purchase option, the transaction is considered a capital lease. VTA maintains ownership of the LRVs and is obligated to operate, maintain and insure the LRVs throughout the term of the Sublease. During any event of loss, the following alternatives are available:

1) UTA or RT shall pay to VTA on the first Stipulated Loss Value Determination Date occurring after UTA/RT delivers the Election Notice.

2) Provided no event of default, UTA/RT shall substitute or replace within 170 days of giving of the Election Notice.

The basic sublease term is approximately 13 years with a sublease renewal term of 9 years thereafter. The sublease transaction was recorded as a capital lease during FY2004. The net book value of assets amounting to $23 million was taken out from the books and a loss in the amount of $16 million was immediately recognized as a special item in FY2004 and FY2005 respectively.

(d) Lease to Service Contracts

In August and December 2003, VTA entered into four "lease to service" agreements covering 66 Kinkisharyo low floor light rail vehicles. These agreements included four head leases to lease the vehicles to trusts created by equity and simultaneously lease them back under separate leases. Under certain conditions there could be 12-19 year service periods following the lease periods, which range from 24-30 years. VTA received prepayments of the head lease rents from the investors of approximately $291.2 million, of which $221.5 million was invested with a debt payment undertaker, who will make the scheduled lease rent payments and $33.5 million was invested in fixed rate securities or payment undertakers to fund purchase options at the end of the lease terms, should VTA decide to exercise its purchase options. Approximately $30 million represents considerations for tax benefits net of $6.2 million in expenses, and is reported as revenue from head lease in the enterprise fund.

VTA is obligated to insure and maintain the light rail vehicles. The lease agreements provide for VTA's right to continue to use and control the light rail vehicles. VTA has also agreed to indemnify the lessor from any taxes imposed by United States taxing authorities and from any other increased costs.

(e) Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (the "2005 Tax Act"). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the "Code"). Section 4965 imposes a federal excise tax (the "New Excise Tax") on the net income or proceeds of certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions, such as the VTA. Based on Notice 2007-18 published by the Internal Revenue Service which provides clarifications to the language included in the 2005 Tax Act, VTA is not expected to incur any excise tax liability with respect to any lease transactions.

NOTE 21 – SUBSEQUENT EVENTS

- In July 2007, VTA received $51.2 million payment from the County per Amendment 20 of the Master Agreement. In return, VTA would assume full responsibility for completion of the remaining MBTIP Projects for which VTA is currently responsible, and to closeout the MBTIP Program. The projected cost of remaining MBTIP program is estimated at $60.7 million and is expected to run through 2010. The difference between the projected costs and lump sum payment by the County under Amendment 20 would be covered by cash on hand held by VTA at June 30, 2007, projected interest earnings, and the residual sales tax to be received by VTA on the Measure B program.

- In August 2007, VTA redeemed 2006 Measure A Sales Tax Revenues Bonds, Series E, which totaled $54.7 million using the using the surplus funds.

- In July 2007, VTA completed the sale transaction and received $20.1 million for the sale of approximately three miles of former Western Pacific Railroad Road (WPPR) right-of-way to BART. With the acquisition of this property BART would be in a position to construct the Warm Springs Extension, which is precursor to the construction of the potential BART extension to the Silicon Valley.

- In September 2007, VTA issued $120.1 million traditional fixed rate bonds, 2000 Measure A Sales Tax Revenue Refunding Bonds, 2007 Series A (Measure A 2007 Bonds), at a true interest cost of 4.60%. The proceeds along with $17.7 million debt service reserve funds were used to refund $137.8 million Series F and Series G of VTA's 2006 Measure A Sales Tax Revenue Bonds (Defeased Bonds), which were originally issued as 90-day auction rate securities. Proceeds of the Measure A 2007 Bonds plus debt service reserve funds were deposited into an escrow account held by a Trustee, and will be used to pay the principal and accrued interest on the Defeased Bonds on their next interest payment date in November 2007, which is also the first available date that the Defeased Bonds can be redeemed. Maturities for the Measure A 2007 Bonds extend to April 1, 2036.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress [a]
As of June 30, 2007

Santa Clara Valley Transportation Authority Amalgamated Transit Authority Transit Union Pension Plan

(Unaudited)

(In thousands)

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
1/1/2005	268,429	350,895	82,466	76%	88,449	93%
1/1/2006	288,829	363,114	74,285	80%	92,663	80%
1/1/2007	314,816	397,854	83,037	79%	93,985	88%

(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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedule of Funding Progress
As of June 30, 2007

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

(In thousands)

	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Actuarial Accrued Liability (AAL)	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
6/30/2003	$ 126,069	$107,061	$ 19,009	84.9%	$56,006	33.9%
6/30/2004	142,663	119,709	22,954	83.9%	50,877	45.1%
6/30/2005	160,104	135,508	24,596	84.6%	50,194	49.0%

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Required Supplementary Information
Budgetary Comparison Schedule
Congestion Management Program Special Revenue Fund
For the Year Ended June 30, 2007
(In thousands)

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
Revenues:				
Assessments to member agencies	$ 2,329	$ 2,329	$ 2,329	$ -
Federal grant revenues	835	835	794	(41)
Administrative fees	120	120	68	(52)
State operating assistance grants	658	658	229	(429)
Local Program Reserve	250	250	-	(250)
Other non-operating revenue	15	15	3	(12)
Total Revenue	4,207	4,207	3,423	(784)
Expenditures:				
VTA labor and overhead costs	3,193	3,193	3,093	100
Services and other:				
Materials and supplies	1	1	1	-
Professional services	1,000	1,000	817	183
Other services	8	8	8	-
Data processing	35	35	7	28
Office expense	15	15	9	6
Communication and telephone services	3	3	1	2
Employee related expense	35	35	23	12
Lease and rentals	4	4	4	-
Miscellaneous	36	36	18	18
Project expenditures	100	100	40	60
Total expenditures	4,430	4,430	4,021	409
Change in fund balance, on a budgetary basis	$ (223)	$ (223)	(598)	$ (375)
Revenues and Expenditure not budgeted:				
Investment earnings			134	
Change in fund balance, on a GAAP basis			(464)	
Fund Balance, Beginning of Year			1,930	
Fund Balance, End of Year			$ 1,466	

Budgetary Basis of Accounting

State law requires the adoption of an annual budget, which must be approved by the VTA's 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.

Budgetary control is maintained at the fund level. The Division Chief must authorize line item reclassification amendments to the budget. Managers are assigned the responsibility for controlling their budgets and monitoring operating expenses. 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.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets
Enterprise Fund
June 30, 2007 and 2006
(In thousands)

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,239	$ 2,424
Investments	102,462	17,093
Receivables, net	3,737	2,765
Due from other funds	2,539	2,014
Due from other governmental agencies	75,483	68,270
Inventories	20,234	20,361
Other current assets	1,597	790
Total current assets	208,291	113,717
Restricted assets:		
Cash and cash equivalents	-	6,255
Cash and investments with fiscal agent	95,092	51,485
Investments	212,476	35,153
Receivables, net	219	76
Due from other funds	51	-
Due from other governmental agencies	73,863	30,189
Total other non-current assets	381,701	123,158
Other non-current assets:		
Deferred charges	16,742	16,447
Capital Assets		
Nondepreciable:		
Land and right-of-way	1,118,577	1,131,579
Construction in progress	488,192	380,776
Depreciable		
Buildings, improvements, furniture, and fixtures	460,900	462,448
Vehicles	458,001	457,616
Light-rail tracks and electrification	399,563	384,435
CalTrain - Gilroy extension	53,155	52,990
Other	31,585	29,002
Less: Accumulated depreciation	(446,408)	(398,635)
Net capital assets	2,563,565	2,500,211
Total assets	$ 3,170,299	$ 2,753,533

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Fund Net Assets (Continued)
Enterprise Fund
June 30, 2007 and 2006
(In thousands)

	2007	2006
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 11,315	$ 10,855
Accounts payable	14,055	12,368
Other accrued liabilities	15,476	14,712
Due to other governmental agencies	756	10
Total current liabilities	41,602	37,945
Liabilities payable from restricted assets:		
Current portion of long-term debt	54,700	6,385
Accounts payable	17,706	12,849
Other accrued liabilities-current	6,109	4,409
Due to other governmental agencies	-	6,913
Restricted portion of long-term debt	-	43,182
Total liabilities payable from restricted assets	78,515	73,738
Non-current liabilities		
Long-term debt, excluding current portion	680,113	639,593
Other accrued liabilities	13	18
Total non-current liabilities	680,126	639,611
Total liabilities	800,243	751,294
NET ASSETS		
Investment in capital assets, net of related debt	1,888,879	1,817,396
Restricted for debt service	88,021	-
Restricted for capital projects	265,165	35,153
Unrestricted	127,991	149,690
Total net assets	$ 2,370,056	$ 2,002,239

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund
June 30, 2007 and 2006
(In thousands)

	2007	2006
OPERATING REVENUES:		
Passenger fares	$ 35,242	$ 34,335
Advertising and other	2,634	2,591
Total operating revenues	37,876	36,926
OPERATING EXPENSES:		
Labor cost	243,110	237,997
Materials and supplies	28,398	27,777
Services	27,943	20,141
Utilities	6,638	6,186
Casualty and Liability	3,856	6,114
Purchased transportation	28,132	27,395
Leases and rentals	112	205
Miscellaneous	1,821	2,000
Depreciation expense	51,022	63,766
Costs Allocated to Capital and Other Programs	(35,159)	(26,239)
Total operating expense	355,873	365,342
Operating loss	(317,997)	(328,416)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax revenue	325,037	195,453
Federal operating assistance grants	35,514	33,565
State and local operating assistance grants	104,917	81,199
Caltrain subsidy	(15,237)	(14,801)
Capital contribution to other agencies	(7,272)	(27,399)
Altamont Commuter Express subsidy	(2,542)	(2,470)
Investment earnings	11,304	6,457
Interest expense	(13,672)	(11,562)
Other income	1,347	9,158
Other expense	(3,581)	(6,972)
Non-operating revenue, net	435,815	262,628
Income(loss) before contributions and transfers	117,818	(65,788)
Transfers	50,000	-
Capital contributions	199,999	22,522
Change in net assets	367,817	(43,266)
Net assets, beginning of year	2,002,239	2,045,505
Net assets, end of year	$ 2,370,056	$ 2,002,239

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Comparative Statement of Cash Flows
Proprietary Funds (Business-type Activity)
For the Years Ended June 30, 2007
(In thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passenger fares	$ 35,242	$ 34,335
Cash received from advertising	2,634	2,591
Cash paid to employees	(207,951)	(211,758)
Cash paid to suppliers	(68,492)	(62,730)
Cash paid for purchased transportation	(28,132)	(27,395)
Net cash provided by/(used in) operating activities	(266,699)	(264,957)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	134,265	114,764
Sales tax received	320,031	195,453
Caltrain subsidy and contribution	(15,237)	(18,836)
Altamont Commuter Express subsidy	(2,542)	(2,470)
Receipts for services provided to other agencies	1,347	220
Contributions to other agencies	(1,229)	(1,860)
	436,635	287,271
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment of long-term debt	(10,855)	(10,955)
Proceeds from issuance of bonds	456,084	172,530
Payoff of Old Bonds	(397,945)	(171,000)
Interest paid on long-term debt	(11,972)	(11,562)
Cost of bond issuance	(2,526)	(1,527)
Acquisition and construction of capital assets	(127,781)	(121,321)
Capital contribution from other governments	160,770	22,522
Proceeds from sale of capital assets	-	214
	65,775	(121,099)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	514,967	521,436
Purchases in investments	(724,481)	(518,996)
Interest income received	10,970	3,351
	(198,544)	5,791
NET DECREASE IN CASH AND CASH EQUIVALENTS	37,167	(92,994)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	60,164	153,158
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 97,331	$ 60,164

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Statement of Cash Flows (Continued)
Proprietary Funds (Business-type Activity)
For the Year Ended June 30, 2007
(In thousands)

	2007	2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Operating income/(loss)	$ (317,997)	$ (328,416)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	51,022	63,766
Changes in operating assets and liabilities:		
Receivables	(972)	3,879
Due from other governmental agencies	-	(5,037)
Inventories	127	(1,648)
Accounts payable	1,689	523
Other accrued liabilities	764	2,761
Other Current assets	(807)	(399)
Due to other funds	(525)	(386)
Net cash provided by/(used in) operating activities	$ (266,699)	$ (264,957)
Reconciliation of cash and cash equivalents to the Statement of Fund Net Assets:		
Cash and cash equivalents, end of year:		
Unrestricted	$ 2,239	$ 2,424
Restricted	95,092	57,740
	$ 97,331	$ 60,164
NONCASH INVESTING ACTIVITIES:		
Increase/(Decrease) in fair value of investments	$ 335	$ (474)

Santa Clara Valley Transportation Authority
Budgetary Comparison Schedule
Enterprise Fund
For the Year Ended June 30, 2007
(In thousands)

	FY07 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES				
Fares	$ 36,857	$ 35,107	$ 35,242	$ 135
1976 1/2 Cent Sales Tax	156,120	163,462	163,676	214
Transportation Development Act funds	73,376	81,210	81,061	(149)
2000 Measure A Sales Tax	28,815	30,170	29,782	(388)
State Transit Assistance funds	8,112	22,511	22,321	(190)
Federal Operating Grants	34,546	35,598	35,514	(84)
State Operating Grants	1,100	1,442	1,474	32
Local Operating Assistance	-	-	61	61
Investment Earnings	2,097	4,175	5,896	1,721
Advertising Income	1,933	1,933	1,900	(33)
Other Income	15,901	15,901	16,131	230
Total revenues	**358,857**	**391,509**	**393,058**	**1,549**
OPERATING EXPENSES				
Labor Costs	240,507	246,915	243,110	3,805
Materials & Supplies	12,925	13,926	15,840	(1,914)
Security	8,062	6,823	7,019	(196)
Professional & Special Services	4,790	6,348	4,574	1,774
Other Services	7,483	7,466	7,471	(5)
Fuel	10,119	13,619	11,409	2,210
Traction Power	3,441	3,426	3,146	280
Tires	1,105	1,446	1,350	96
Utilities	2,373	2,373	2,411	(38)
Insurance	4,194	4,159	3,856	303
Data Processing	2,652	2,502	2,384	118
Office Expense	422	432	420	12
Communications	1,208	1,208	1,081	127
Employee Related Expense	1,011	1,053	768	285
Leases & Rents	654	654	461	193
Miscellaneous	1,265	1,466	1,170	296
Reimbursements	(26,885)	(29,475)	(42,942)	13,467
Total operating expenses	**275,326**	**284,341**	**263,528**	**20,813**
OTHER EXPENSES				
Americans with Disability Act programs	27,446	27,446	29,271	(1,825)
Caltrain Subsidy	15,940	15,923	15,883	40
Light Rail Shuttles	927	927	883	44
Altamont Commuter Express subsidy	3,952	3,902	3,785	117
Highway 17 Express	443	443	387	56
Dumbarton Express	413	413	371	42
Monterey-San Jose Express Service	-	68	78	(10)
Contribution to Other Agencies	597	597	465	132
Debt Service	23,593	25,613	24,118	1,495
Other expenses	20	22	27	(5)
Contingencies	2,000	1,121	-	1,121
Total other expenses	**75,331**	**76,475**	**75,268**	**1,207**
Total operating and other expenses	**350,657**	**360,816**	**338,796**	**22,020**
Net income, on a budgetary basis	**$ 8,200**	**$ 30,693**	**$ 54,262**	**$ 23,569**

Santa Clara Valley Transportation Authority
Budgetary Comparison Schedule (Continued)
Enterprise Fund
For the Year Ended June 30, 2007
(In thousands)

	FY07 Adopted Budget	Final Budget	Actual	Favorable (Unfavorable)
Net income, on a budgetary basis	$ 8,200	$ 30,693	$ 54,262	$ 23,569
Reconciliation of net income on a budgetary basis to net income on a GAAP Basis:				
Project Revenues - VTA Enterprise			2,202	
Project Expenditure			(4,048)	
Capital Contributions to Other Agencies			(7,272)	
Bond Principal Payment			10,855	
Amortization of Bond Discounts			(1,390)	
Unrealized Gain on investment			335	
Transfer in from Internal Service Fund			50,000	
Loss on Disposal of Assets			(69)	
Depreciation			(51,022)	
Surplus of Measure B Transit			184	
Surplus of Measure A Program			313,780	
Net Income, on a GAAP Basis			**$ 367,817**	

Santa Clara Valley Transportation Authority
Schedule of Restricted Assets and Related Current Liabilities
Enterprise Fund
June 30, 2007
(In thousands)

	Capital & Operating	Debt Service	Total Enterprise
Restricted assets:			
Cash and equity with fiscal agent	$ 57,071	$ 38,021	$ 95,092
Investments	212,476	-	212,476
Receivable	219	-	219
Due from other funds	51	-	51
Due from other gov agencies	73,863	-	73,863
Total assets	$ 343,680	$ 38,021	$ 381,701
Liabilities payable from restricted assets:			
Accounts payable	$ 17,706	$ -	$ 17,706
Other accr liab - current	6,109	-	6,109
Current portion of long-term debt	-	54,700	54,700
Total liabilities	$ 23,815	$ 54,700	$ 78,515

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2007
(In thousands)

	ATU Pension	ATU Medical: Spousal Medical	ATU Medical: Retiree Vision/Dental	ATU Medical: Total ATU Medical	Total
ASSETS					
Restricted assets:					
Investments	$ 350,558	$ 9,639	$ 3,243	$ 12,882	$ 363,440
Receivables	1,200	-	-	-	1,200
Total assets	351,758	9,639	3,243	12,882	364,640
LIABILITIES					
Restricted liabilities:					
Accounts payable	211	-	-	-	211
Due to other funds	1,644	-	-	-	1,644
Total liabilities payable from restricted assets	1,855	-	-	-	1,855
Total liabilities	1,855	-	-	-	1,855
NET ASSETS					
Net assets held in trust for:					
Pension benefits	349,903	-	-	-	349,903
Spousal medical benefits	-	9,639	-	9,639	9,639
Retiree dental and vision benefits	-	-	3,243	3,243	3,243
Total net assets	$ 349,903	$ 9,639	$ 3,243	$ 12,882	$ 362,785

SANTA CLARA VALLEY TRANSPORTATION AGENCY
Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2007
(In thousands)

	ATU Pension Trust	ATU Medical Trust: Spousal Medical	ATU Medical Trust: Vision/ Dental	ATU Medical Trust: Total Medical Trust	Total
ADDITIONS					
Contributions	$ 14,859	$ 853	$ 341	$ 1,194	$ 16,053
Investment earnings:					
Investment income	8,826	21	6	27	8,853
Net appreciation in the fair value of investments	40,631	1,266	258	1,524	42,155
Investment expense	(1,216)	-	-	-	(1,216)
Net investment income	48,241	1,287	264	1,551	49,792
Total additions	63,100	2,140	605	2,745	65,845
DEDUCTIONS					
Benefit payments	17,967	1,197	-	1,197	19,164
Other benefits paid to participants	134	-	-	-	134
Total deductions	18,101	1,197	-	1,197	19,298
Net increase	44,999	943	605	1,548	46,547
NET ASSETS HELD IN TRUST					
Beginning of year	304,904	8,696	2,638	11,334	316,238
End of year	$ 349,903	$ 9,639	$ 3,243	$ 12,882	$ 362,785

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2007
(In thousands)

	BAAQMD Program	Measure B Ancillary Program	Total
Assets			
Restricted assets:			
Cash and equity with fiscal agent	$ -	$ 15,769	$ 15,769
Investments	2,481	-	2,481
Total assets	2,481	15,769	18,250
Liabilities			
Liabilities payable from restricted assets:			
Accounts payable	2,420	1,452	3,872
Due to other funds	61		61
Due to other governmental agencies	-	14,317	14,317
Total liabilities payable from restricted assets	$ 2,481	$ 15,769	$ 18,250

Santa Clara Valley Transportation Authority
Combining Statement of Changes in Fiduciary Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007
(In thousands)

	Balance 30-Jun-06	Increase	Decrease	Balance 30-Jun-07
BAAQMD Program				
Restricted assets:				
Investments	$ 3,983	$ -	$ 1,502	$ 2,481
Liabilities payable from restricted assets:				
Accounts payable	3,983	-	1,563	2,420
Due to other funds	-	61	-	61
Total liabilities payable from restricted assets	3,983	61	1,563	2,481
Measure B Ancillary Program				
Restricted assets:				
Cash with fiscal agent	$ 4,798	$ 10,971	$ -	$ 15,769
Investments	83	-	83	-
Due from other funds	25		25	-
Total restricted assets	4,906	10,971	108	15,769
Liabilities payable from restricted assets:				
Accounts payable	-	1,452	-	1,452
Due to other governmental agencies	4,906	9,411	-	14,317
Total liabilities payable from restricted assets	4,906	$ 10,863	-	15,769
Total - All Agency Funds				
Restricted assets:				
Cash with fiscal agent	$ 4,798	$ 10,971	$ -	$ 15,769
Investments	4,066	-	1,585	2,481
Due from other funds	25	-	25	-
Total restricted assets	8,889	10,971	1,610	18,250
Liabilities payable from restricted assets:				
Accounts payable	3,983	1,452	1,563	3,872
Due to other funds	-	61	-	61
Due to other governmental agencies	4,906	9,411	-	14,317
Total liabilities payable from restricted assets	$ 8,889	$ 10,924	$ 1,563	$ 18,250

FINANCIAL TRENDS:

These schedules contain trend information to help the reader understand how VTA's financial performance and financial condition have changed over time:

- Table 1 – Changes in Net Assets
- Table 2 – Net Assets by Component
- Table 3 – Fund Balances and Changes in Fund Balances, Governmental Funds
- Table 4 – Current Ratio
- Table 5 – Operating Revenues and Operating Expenses
- Table 6 – Non-Operating Assistance and Interest Income
- Table 7 – Targeted Operating Reserves

REVENUE CAPACITY:

These schedules contain information to help the reader assess VTA's most significant local revenue source, the sales tax:

- Table 8 – Revenue Base and Revenue Rates
- Table 9 – Overlapping Revenue
- Table 10 – Principal Sales Tax Payers

DEBT CAPACITY:

These schedules present information to help the reader assess the affordability of VTA's current levels of outstanding debt and the VTA's ability to issue additional debt in the future:

- Table 11 – Total Outstanding Debt by Type
- Table 12 – Ratios of Outstanding Debt
- Table 13 – Direct and Overlapping Debt and Debt Limitation
- Table 14 – Pledged Revenue Coverage-1976 Half-Cent Sales Tax Revenue Bonds
- Table 15 – Pledged Revenue Coverage-2000 Measure A Half-Cent Sales Tax Revenue Bonds
- Table 16 – Projected Pledged Revenue Coverage

DEMOGRAPHIC AND ECONOMIC INFORMATION:

These schedules offer demographic and economic indicators to help the reader understand the environment within which VTA's financial activities take place:

- Table 17 – Population Trends
- Table 18 – Income and Unemployment Rates
- Table 19 – Wage and Salary Employment by Industry (Annual Average)
- Table 20 – Silicon Valley Major Employers

OPERATING INFORMATION:

These schedules contain service and infrastructure data to help the reader understand how the information in VTA's financial report relates to the services VTA provides and the activities it performs:

- Table 21 – Operating Indicators
- Table 22 – Farebox Recovery Ratio
- Table 23 – Revenue Miles
- Table 24 – Passenger Miles
- Table 25 – Selected Statistical Data
- Table 26 – System Data
- Table 27 – Employees
- Table 28 – Capital Assets

TABLE 1

Santa Clara Valley Transportation Authority
Financial Trends - Changes in Net Assets
Six Years Ended June 30, 2007
(accrual basis of accounting)
(In thousands)

	Fiscal Year					
	2002 [1]	2003	2004	2005	2006	2007
Expenses						
Business-type activities:						
Operations and operating projects	$ 341,209	$ 335,760	$ 286,098	$ 300,430	$ 339,857	$ 321,059
CalTrain subsidy & capital contributions	25,315	22,298	16,805	14,112	42,200	22,509
Altamont Commuter Express subsidy	1,740	2,715	2,392	2,470	2,470	2,542
Interest expense	14,717	14,222	13,690	13,761	11,562	13,672
Other expenses	2,838	4,858	3,022	3,316	6,972	4,636
Benefit payments	-	-	14,816	21,370	11,538	14,285
Total business-type activities expenses	385,819	379,853	336,823	355,459	414,599	378,703
Governmental activities:						
Operations and operating projects	2,740	3,582	2,858	4,735	5,982	6,528
Capital projects for the benefit of other agencies	112,697	141,271	115,262	94,146	80,763	45,806
Total governmental activities expenses	115,437	144,853	118,120	98,881	86,745	52,334
Total primary government expenses	$ 501,256	$ 524,706	$ 454,943	$ 454,340	$ 501,344	$ 431,037
Program Revenues						
Business-type activities:						
Charges for services	$ 37,122	$ 34,376	$ 33,422	$ 34,692	$ 36,926	$ 37,876
Operating grants	127,373	104,132	111,577	113,925	114,764	140,431
Capital grants	226,125	316,997	217,053	96,860	22,522	199,999
Total business-type activates program revenues	390,620	455,505	362,052	245,477	174,212	378,306
Governmental activities:						
Charges for services	1,686	2,177	1,862	2,231	2,290	2,397
Operating grants	2,405	852	517	1,190	850	1,023
Capital grants	112,668	141,364	116,012	95,746	83,207	48,180
Total governmental activates program revenues	116,759	144,393	118,391	99,167	86,347	51,600
Total primary government revenues	$ 507,379	$ 599,898	$ 480,443	$ 344,644	$ 260,559	$ 429,906
Net (Expense)/Revenue						
Business-type activities	$ 4,801	$ 75,652	$ 25,229	$(109,982)	$ (240,387)	$ (397)
Governmental activities	1,322	(460)	271	286	(398)	(734)
Total primary government net expense	$ 6,123	$ 75,192	$ 25,500	$(109,696)	$ (240,785)	$ (1,131)
General Revenues and Other Changes in Net Assets						
Business-type activities:						
Sales tax revenue	$ 144,218	$ 132,632	$ 138,917	$ 145,008	$ 195,453	$ 325,037
Investment income	24,512	14,245	6,382	11,206	10,537	27,288
Other income	2,883	4,104	2,102	2,628	9,158	1,347
Special items:						
Loss from sublease of vehicles	-	-	(15,918)	(7,773)	-	-
Revenue from headlease	-	-	29,999	-	-	-
Gain on sale of land	-	12,224	-	-	-	-
Change in provisions for workers' compensation claims	-		-	-	-	23,769
Total business-type activities	171,613	163,205	161,482	151,069	215,148	377,441
Governmental activities:						
Sales tax revenue	-	61	-	-	-	-
Investment income	30	99	79	174	207	267
Other income	8	12	18	19	28	3
Total governmental activities	38	172	97	193	235	270
Total primary government	$ 171,651	$ 163,377	$ 161,579	$ 151,262	$ 215,383	$ 377,711
Change in Net Assets						
Business-type activities	176,414	238,857	186,711	41,087	(25,239)	377,044
Governmental activities	1,360	(288)	368	479	(163)	(464)
Total primary government	$ 177,774	$ 238,569	$ 187,079	$ 41,566	$ (25,402)	$ 376,580

Notes:
[1] The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.
Source: Comprehensive Annual Financial Reports

TABLE 2

Santa Clara Valley Transportation Authority
Financial Trends - Net Assets by Component
Six Years Ended June 30, 2007
(accrual basis of accounting)
(In thousands)

	Fiscal Year					
	2002 [1]	**2003**	**2004**	**2005**	**2006**	**2007**
Business-type activities						
Invested in capital assets, net of related debt	$1,367,401	$1,686,313	$1,846,221	$1,867,513	$1,817,396	$1,888,879
Restricted	-	-	65,780	44,400	35,153	353,186
Unrestricted	242,699	162,644	169,798	210,973	245,098	232,626
Total business-type activities net assets	1,610,100	1,848,957	2,081,799	2,122,886	2,097,647	2,474,691
Governmental activities						
Invested in capital assets, net of related debt	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Unrestricted	1,624	1,336	1,705	2,184	1,930	1,466
Total governmental activities net assets	1,624	1,336	1,705	2,184	1,930	1,466
Primary government						
Invested in capital assets, net of related debt	1,367,401	1,686,313	1,846,221	1,867,513	1,817,396	1,888,879
Restricted	-	-	65,780	44,400	35,153	353,186
Unrestricted	244,323	163,980	171,503	213,157	247,028	234,092
Total primary government net assets	$1,611,724	$1,850,293	$2,083,504	$2,125,070	$2,099,577	$2,476,157

Notes:

[1] The data is shown retroactively to fiscal years when VTA implemented GASB Statement No. 34.

Source: Comprehensive Annual Financial Reports

TABLE 3

Santa Clara Valley Transportation Authority
Financial Trends - Fund Balances and Changes in Fund Balances, Governmental Funds
Ten Years Ended June 30, 2007
(modified accrual basis of accounting)
(In thousands)

	Fiscal Year									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006** [1]	**2007**
Revenues										
Member agency assessment revenue	$ 1,240	$ 1,240	$ 1,240	$ 1,240	$ 1,587	$ 2,032	$ 1,783	$ 2,174	$ 2,250	$ 2,329
Federal technical studies operating assistance grants	-	1,089	1,042	453	452	453	223	1,036	621	794
Federal grants	6,486	3,310	27	-	-	-	-	-	-	-
Other contributions	-	-	390	-	-	-	-	-	-	-
Sales tax	1,410	1,262	-	71	-	60	-	-	-	-
Administrative fees	55	-	85	53	99	145	80	57	40	68
State operating assistance grants	833	62	31	118	1,953	400	293	63	229	229
Local grant revenue	-	767	15,888	41,107	112,668	141,364	116,013	95,746	83,207	48,180
Other revenues	265	-	2	35	8	12	17	19	28	3
Investment earnings	497	106	15	37	30	99	79	174	207	267
Program reimbursement	514									
Total revenues	11,300	7,836	18,720	43,114	116,797	144,565	118,488	99,269	86,582	51,870
Expenditures										
Current:										
Congestion management:										
Salaries and benefits	644	1,711	1,296	1,551	1,388	2,604	2,733	4,177	5,179	5,640
Services	1,041	1,626	1,786	1,469	1,283	919	390	640	803	888
Program expenditures	9,946	7,226	70	-	-	-	-	-	-	-
Other	37	-	-	-	-	-	-	-	-	-
Capital outlay:										
Capital improvement projects	-	-	15,888	40,963	112,697	141,271	115,262	94,064	80,763	45,806
Total expenditures	11,668	10,563	19,040	43,983	115,368	144,794	118,385	98,881	86,745	52,334
Excess (deficiency) of revenues over expenditures	(368)	(2,727)	(320)	(869)	1,429	(229)	103	388	(163)	(464)
Other financing sources (uses):										
Transfer in	-	-	-	-	-	-	-	86	-	-
Transfer out	-	-	-	-	-	-	-	(86)	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	$ (368)	$ (2,727)	$ (320)	$ (869)	$ 1,429	$ (229)	$ 103	$ 388	$ (163)	$ (464)
Total Governmental Funds										
Reserved	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unreserved	4,180	1,453	1,133	402	1,831	1,602	1,705	2,093	1,930	1,466
Total Governmental Funds	$ 4,180	$ 1,453	$ 1,133	$ 402 [2]	$ 1,831	$ 1,602	$ 1,705	$ 2,093	$ 1,930	$ 1,466

Notes:

[1] The major changes to prior fiscal years are explained in Management Discussion & Analysis.

[2] FY2001 restated for changes in accounting principles.

Source: Comprehensive Annual Financial Reports

TABLE 4

Santa Clara Valley Transportation Authority
Financial Trends – Current Ratio
Enterprise Fund
Ten Years Ended June 30, 2007

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 and restricted assets, by all current liabilities and liabilities payable from restricted assets. A Current Ratio of 1 or higher is an indication of financial strength. In FY2007 VTA's current ratio was 4.9. This is the largest increase in seven years and is attributable to greater investment balances held by VTA in FY2007.

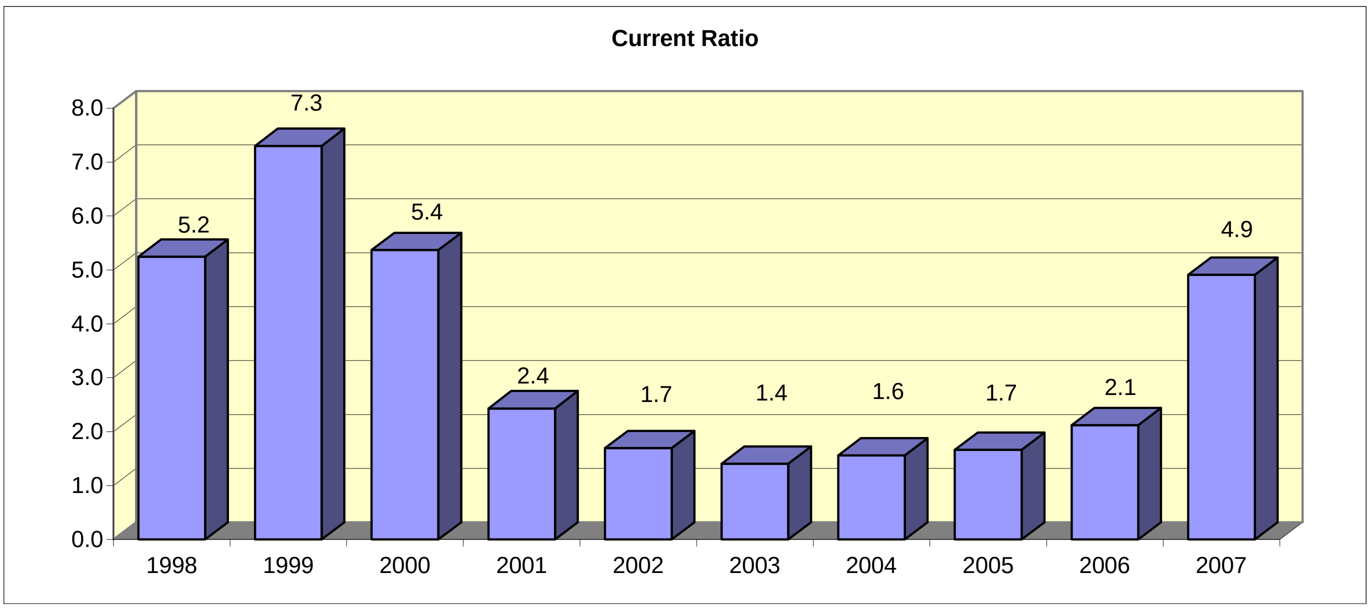


TABLE 5

Santa Clara Valley Transportation Authority
Financial Trends - Operating Revenues and Operating Expenses
Enterprise Fund
Ten Years Ended June 30, 2007

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

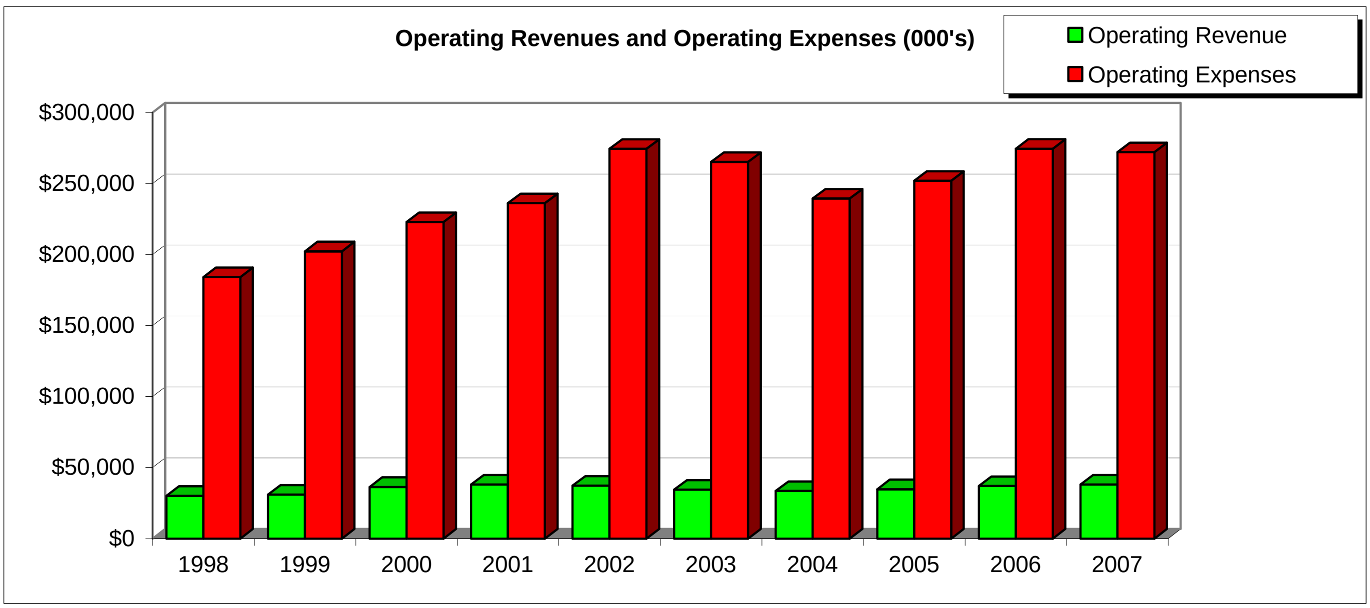
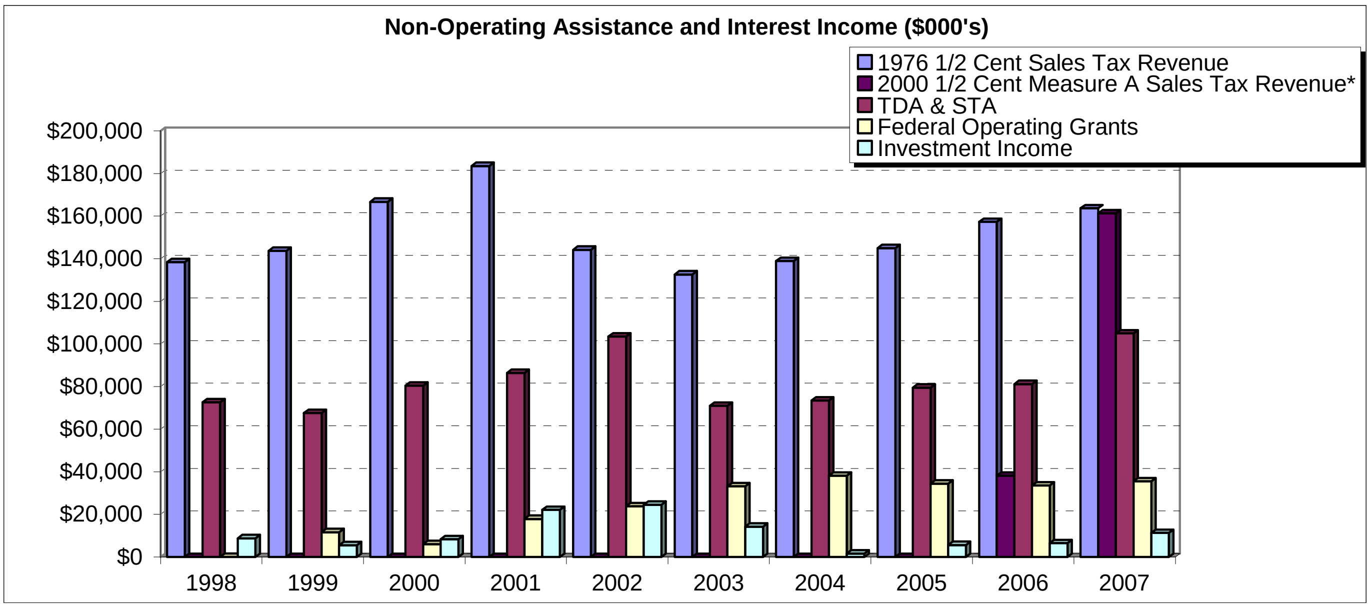


TABLE 6

Santa Clara Valley Transportation Authority
Financial Trends - Non-Operating Assistance and Interest Income
Enterprise Fund
Ten Years Ended June 30, 2007

The following chart illustrates trends in selected non-operating revenue sources. Sales tax revenue is the largest non-operating revenue source shown in the following graph. This is the second year 2000 Measure A Half-Cent Sales Tax revenue has been collected. FY2007 marks the third consecutive year sales tax income has increased. TDA and STA also showed positive growth.

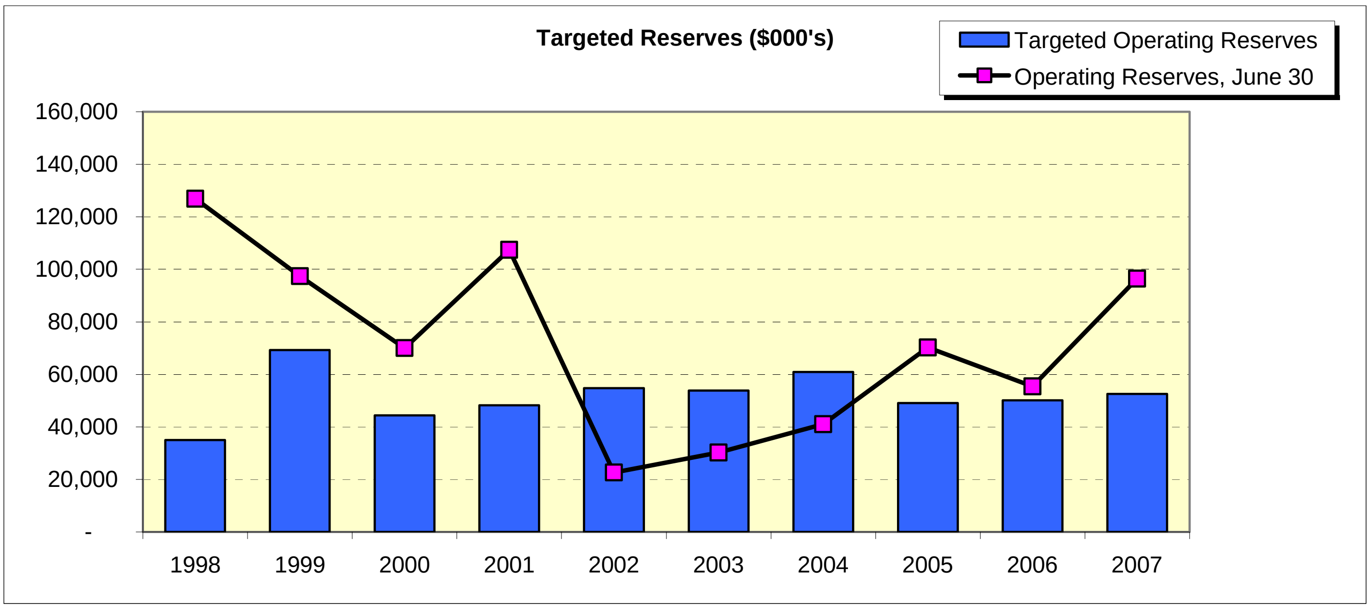


*The collection of VTA's 2000 Measure A Sales Tax started on April 1, 2006.

TABLE 7

Santa Clara Valley Transportation Authority
Financial Trends - Targeted Operating Reserves
Enterprise Fund
Ten Years Ended June 30, 2007

The policy adopted by the VTA Board established an operating reserve goal of 15% of budgeted expenses. To calculate the actual reserve at fiscal year end, total current assets are reduced by total current liabilities to determine current net assets. Current Net Assets are then reduced by inventory and transfers to reach a current operating reserve total. During the last three fiscal years, VTA's operating reserves surpassed its targeted reserve goal.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Current Assets	$180,799	$ 120,689	$ 113,002	$169,905	$ 84,793	$ 96,026	$ 111,232	$ 126,644	$ 113,717	$ 208,291
Total Current Liabilities	(42,302)	(11,085)	(25,941)	(46,804)	(41,876)	(43,785)	(45,865)	(37,762)	(37,945)	(41,602)
Net Current Assets	138,497	109,604	87,061	123,101	42,917	52,241	65,367	88,882	75,772	$ 166,689
Less: Inventory	(11,609)	(12,229)	(17,006)	(15,634)	(20,239)	(21,951)	(24,335)	(18,713)	(20,361)	(20,234)
Operating Reserves, June 30	$126,888	$ 97,375	$ 70,055	$107,467	$ 22,678	$ 30,290	$ 41,032	$ 70,169	$ 55,411	$ 96,455
Operating Reserves Target (15% of Budgeted Expenses)	$ 35,033	$ 69,257	$ 44,366	$ 48,221	$ 54,784	$ 53,843	$ 60,899	$ 49,112	$ 50,081	$ 52,599

TABLE 8

Santa Clara Valley Transportation Authority
Revenue Capacity - Revenue Base and Revenue Rates
Ten Years Ended June 30, 2007

	Fiscal Year									
Revenue Rates (In thousands)	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Passenger Fares [1]	$ 27,201	$ 27,070	$ 32,325	$ 33,838	$ 31,282	$ 30,960	$ 30,625	$ 32,061	$ 34,335	$ 35,242
Percentage Increase/(Decrease) from Prior Year	15.1%	-0.5%	19.4%	4.7%	-7.6%	-1.0%	-1.1%	4.7%	7.1%	2.6%
Revenue Base										
Number of Passengers [2]	53,028,298	54,349,470	54,921,324	56,474,822	52,690,092	45,221,844	38,375,374	37,077,149	39,217,851	41,990,098
Percentage Increase/(Decrease) from Prior Year	0.8%	2.5%	1.1%	2.8%	-6.7%	-14.2%	-15.1%	-3.4%	5.8%	7.1%
Fare Structure										
Adult Local Fare	$ 1.10	$ 1.10	$ 1.25	$ 1.25	$ 1.25	$ 1.40	$ 1.50	$ 1.75	$ 1.75	$ 1.75
Youth Local Fare	$ 0.60	$ 0.60	$ 0.70	$ 0.70	$ 0.70	$ 0.85	$ 1.25	$ 1.50	$ 1.50	$ 1.50
Senior/Disabled Local Fare	$ 0.35	$ 0.35	$ 0.40	$ 0.40	$ 0.40	$ 0.45	$ 0.75	$ 0.75	$ 0.75	$ 0.75
Half-Cent Sales Tax Revenues (In thousands)										
1976 1/2 Cent Sales Tax [3]	$ 138,429	$ 143,712	$ 166,764	$ 183,540	$ 144,218	$ 132,632	$ 138,917	$ 145,008	$ 157,283	$ 163,676
2000 Measure A 1/2 Cent Sales Tax [4]	-	-	-	-	-	-	-	-	38,170	161,361
Total Sales Tax Revenue Receipts [5]	$ 138,429	$ 143,712	$ 166,764	$ 183,540	$ 144,218	$ 132,632	$ 138,917	$ 145,008	$ 195,453	$ 325,037
Percentage Increase/(Decrease) from Prior Year										
1976 1/2 Cent Sales Tax	7.3%	3.8%	16.0%	10.1%	-21.4%	-8.0%	4.7%	4.4%	8.5%	4.1%
2000 Measure A 1/2 Cent Sales Tax [4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	322.7%
Total Sales Tax Revenue Receipts										

Notes:

[1] Includes fares for directly operated transit services such as bus, light rail, and shuttle services.

[2] Source: VTA Operations Division.

[3] The 1976 half-cent Sales Tax was approved by County voters in 1976 to fund VTA's transit operations and transportation improvements.

[4] The 2000 Measure A half-cent Sales Tax was approved by County voters in 1996 to fund specific transportation improvement projects . The collection of this half-cent tax measure started in April 2006. The increase reflects the first full-year its collection in FY2007.

[5] VTA receives the sales tax based on the total taxable sales activity in the County.

TABLE 9

Santa Clara Valley Transportation Authority
Revenue Capacity - Overlapping Revenue
Sales Tax Rates
Ten Years Ended June 30, 2007

Fiscal Year	State	City	County [1]	VTA [2]	Total
1998	6.25%	1.00%	0.5%	0.5%	8.25%
1999	6.25%	1.00%	0.5%	0.5%	8.25%
2000	6.25%	1.00%	0.5%	0.5%	8.25%
2001	6.25%	1.00%	0.5%	0.5%	8.25%
2002	6.25%	1.00%	0.5%	0.5%	8.25%
2003	6.25%	1.00%	0.5%	0.5%	8.25%
2004	6.25%	1.00%	0.5%	0.5%	8.25%
2005	6.25%	1.00%	0.5%	0.5%	8.25%
2006[1]	6.25%	1.00%	0.5% [3]	1.00% [3]	8.75%
2007	6.25%	1.00%	0.0%	1.00%	8.25%

Notes:

(1) Measure B, approved by Santa Clara County voters in the November 1996 General Election, authorized the Santa Clara County Board of Supervisors to collect a half-cent sales tax for nine years. The 1996 sales tax funded specific countywide transportation projects approved by voters under Measure A during the same election. The 1996 sales tax expired on March 31, 2006.

(2) VTA has two specific sales tax measures approved by the voters. The 1976 half-cent sales tax measure was approved by voters in 1976 and does not have a sunset clause. The 2000 Measure A half-cent sales tax was approved in the 2000 General Election and became effective on April 1, 2006. The 30-year sales tax measure will sunset on March 31, 2036.

(3) There was a partial year collection of 1996 Measure B sales tax, as the expiration was March 31, 2006. The collection of VTA's 2000 Measure A Sales Tax started on April 1, 2006.

Source: California Board of Equalization

TABLE 10

Santa Clara Valley Transportation Authority
Revenue Capacity - Principal Sales Tax Payers
(In millions)

	Fiscal Year 2006 [1]			Fiscal Year 1997		
Principal Revenue Payers	**Rank**	**Percentage of Taxable Sales**	**Amount**	**Rank**	**Percentage of Taxable Sales**	**Amount**
Total all Other Outlets	1	33.9%	$ 10,712.8	1	41.9%	$ 11,301.1
Automotive [2]	2	17.3%	5,484.4	3	10.0%	2,695.9
Specialty Stores	3	11.4%	3,605.2	2	10.5%	2,839.4
General Merchandise	4	9.2%	2,908.7	4	8.8%	2,362.1
Eating and Drinking	5	8.1%	2,547.2	5	6.7%	1,812.9
Apparel Stores	6	3.8%	1,215.0	9	2.8%	766.8
Building Material	7	5.2%	1,647.8	7	3.9%	1,039.0
Business and Personal Services	8	3.9%	1,243.6	6	4.8%	1,286.4
Household Group	9	2.8%	878.0	10	2.8%	753.8
Food Stores	10	2.7%	843.6	11	2.7%	715.7
Other Retail Stores [3]	11	1.7%	537.6	12	1.0%	263.1
Service Stations				8	3.7%	984.8
Package Liquor Stores				13	0.5%	130.7
Total [4]		100.0%	$ 31,623.9		100.0%	$ 26,951.5

Notes:

[1] 2007 data not available at printing.

[2] After 1997, "Automotive" includes service stations.

[3] After 1997, "Other Retail Stores" includes package liquor stores

[4] Total may not add due to independent rounding.

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

TABLE 11

Santa Clara Valley Transportation Authority
Debt Capacity - Total Outstanding Debt by Type
Ten Years Ended June 30, 2007
(In thousands)

Fiscal Year	Series 1985 A Equipment Trust Certificates	1976 Sales Tax Revenue Bonds	2000 Sales Tax Revenue Bonds	Total Outstanding Debt
1998	$ 29,660	$ 86,515	$ -	$ 116,175
1999	29,660	85,790	-	115,450
2000	29,660	85,008	-	114,668
2001	29,660	321,354	-	351,014
2002	29,660	313,641	-	343,301
2003	29,660	387,810	-	417,470
2004	29,660	297,415	250,042	577,117
2005	29,660	288,758	390,309	708,727
2006	29,660	280,319	390,036	700,015
2007	29,200	271,277	445,651	746,128 (1)

Notes:
(1) $72.4 million redeemed in FY2008.

TABLE 12

Santa Clara Valley Transportation Authority
Debt Capacity - Ratios of Outstanding Debt
Ten Years Ended June 30, 2007
(In thousands)

Fiscal Year	Total Outstanding Debt	Total County Taxable Sales [1]	Total Debt as a % of Taxable Sales	Personal Income	Total Debt as a % of Personal Income
1998	$ 116,175	$ 32,572,589	0.36%	$ 64,850,110	0.18%
1999	115,450	31,623,873	0.37%	73,045,821	0.16%
2000	114,668	30,194,000	0.38%	91,386,181	0.13%
2001	351,014	28,491,600	1.23%	83,838,707	0.42%
2002	343,301	27,062,700	1.27%	77,548,912	0.44%
2003	417,470	27,453,900	1.52%	77,680,349	0.54%
2004	577,118	32,133,200	1.80%	82,638,917	0.70%
2005	708,727	37,303,700	1.90%	85,118,085	0.83%
2006	700,015	30,348,640	2.31%	87,671,627	0.80%
2007	746,128	27,488,820	2.71%	90,301,776	0.83%

Notes:

The total VTA outstanding debt is pledged by its sales tax revenues. VTA has two sales tax revenue measures approved by the voters. The 1976 1/2 cent Sales Tax measure was approved in 1976 and the 2000 Measure A 1/2 cent Sales Tax was passed by County voters in the 2000 general election. The collection of this tax measure started in April 2006.

[1] Actual data is available through 2004. 2007 assumes a 3% growth rate over 2006 taxable sales.

This table shows the relationship between the revenue bonds and both the total taxable sales in the County and total personal income of the residents of the County.

TABLE 13

Santa Clara Valley Transportation Authority
Debt Capacity – Direct and Overlapping Debt and Debt Limitation

PLEASE NOTE:

Santa Clara Valley Transportation Authority does not have overlapping debt with other governments.

Santa Clara Valley Transportation Authority does not have a legal debt limit.

TABLE 14

Santa Clara Valley Transportation Authority
Debt Capacity - Pledged Revenue Coverage - 1976 Half-Cent Sales Tax Revenue Bonds
Ten Years Ended June 30, 2007
(In thousands)

	Available Revenue	Annual Debt Service			
Fiscal Year	**Sales Tax Revenue**	**Principal**	**Interest [1]**	**Total**	**Coverage [2]**
1998	$ 138,429	$ 368	$ 4,014	$ 4,382	31.6
1999	143,712	725	4,763	5,488	26.2
2000	166,764	782	4,616	5,398	30.9
2001	183,540	2,124	6,806	8,930	20.6
2002	144,218	7,952	14,717	22,669	6.4
2003	132,632	8,159	14,222	22,381	5.9
2004	138,917	8,894	13,691	22,585	6.2
2005	145,008	9,290	13,761	23,051	6.3
2006	157,283	10,955	11,562	22,517	7.0
2007	163,676	10,855	13,672	24,527	6.7

Notes:

(1) Interest does not include capitalized interest or interest paid from bond proceeds.

(2) Bond indenture require VTA to maintain coverage ratio fat least 2.0 times on its outstanding bonds.

TABLE 15

Santa Clara Valley Transportation Authority
Debt Capacity - Pledged Revenue Coverage - 2000 Measure A Half-Cent Sales Tax Revenue Bonds
Four Years Ended June 30, 2007
(In thousands)

	Available Revenue	Annual Debt Service			
Fiscal Year	**Sales Tax Revenue**	**Principal**	**Interest [1]**	**Total**	**Coverage [2]**
2004	$ -	$ -	$ 1,874	$ 1,874	-
2005	-	-	11,996	11,996	-
2006	38,170	-	17,467	17,467	n/a [3]
2007	161,361	-	15,202	15,202	10.6

Notes:

[1] Interest does not include capitalized interest or interest paid from bond proceeds.

[2] Bond indenture require VTA to maintain coverage ratio fat least 2.0 times on its outstanding bonds.

[3] Collected only fourth quarter for FY2006.

TABLE 16

Santa Clara Valley Transportation Authority
Debt Capacity – Projected Pledged Revenue Coverage
(Proforma and Unaudited)

The table below presents a five-year projection of forecasted debt service coverage for the Bonds and the Equipment Trust Certificates, based on estimates of the 1976 Sales Tax Revenues for the five years ending June 30, 2008 through 2012.

Santa Clara Valley Transportation Authority
1976 Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2008 – 2012 (Proforma and Unaudited)
(In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue (1)*	Percent Increase	Aggregate Debt Service (2)	Projected Coverage (3)
2008	$171,532	------	$17,227	9.96
2009	179,766	4.80%	17,230	10.43
2010	189,761	5.56%	17,240	11.01
2011	200,957	5.90%	17,241	11.66
2012	212,250	5.62%	17,240	12.31

(1) Source: Growth rates provided by Center for Continuing Study of the California Economy.
(2) Includes debt service on the 1985 Equipment Trust Certificates at the swap rate of 4.335% and actual debt service on the 1997, 2001, and the 2007 Bonds. Debt Service on the 2005 Bonds is calculated based on the rate established pursuant to the 2005 Swap Agreement, 3.033%.
(3) Does not include any additional Parity Debt.

The table below presents a five-year projection of forecasted debt service coverage for the 2006 Bond, based on estimates of the 2000 Measure A Sales Tax Revenues for the five years ending June 30, 2008 through 2012.

Santa Clara Valley Transportation Authority
2000 Measure A Sales Tax Revenues and Debt Service Coverage
Fiscal Years Ending June 30, 2008 – 2012 (Proforma and Unaudited)
(In thousands)

Fiscal Year Ending June 30	Projected Sales Tax Revenue (1)*	Percent Increase	Aggregate Debt Service (2)	Projected Coverage (3)
2008	$171,532	------	$19,376(4)	8.85
2009	179,766	4.80%	17,463	10.29
2010	189,761	5.56%	17,582	10.79
2011	200,957	5.90%	17,668	11.37
2012	212,250	5.62%	17,696	11.99

(1) Source: Growth rates provided by Center for Continuing Study of the California Economy.
(2) Includes debt services on the 2006 Series A-D Bonds, which is calculated based on the rate established pursuant to the 2006 Swap Agreement, 3.765%.
(3) Does not include any additional Parity Debt.
(4) Does not include $54.7 million of early redemption for the 2006 Series E Bonds.

* No assurance is given that actual results will meet the forecasts of VTA in any way, regardless of the level of optimism communicated in the information. VTA is not obligated to issue any updates or revisions to the forecasts if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

TABLE 17

Santa Clara Valley Transportation Authority
Demographic and Economic Data – Population Trends

The number of Santa Clara county residents is gradually increasing on a yearly basis according to population estimates provided by the State of California. In 2007, the County's population increased by approximately 7.5% in comparison to the 2000 Census. Revised estimates show a 2.0% gain in the population of Santa Clara County from 2005 to 2006. By the year 2050, it is predicted that the County's population will grow to 2-3 million.

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

County of Santa Clara Population

	1960	1970	1980	1990	2000	2007
Campbell	11,863	24,731	26,843	36,048	38,138	39,748
Cupertino	3,664	18,216	34,297	40,263	50,546	55,162
Gilroy	7,348	12,665	21,641	31,487	41,464	49,649
Los Altos	19,696	24,872	25,769	26,303	27,693	28,104
Los Altos Hills	3,412	6,862	7,421	7,514	7,902	8,607
Los Gatos	9,036	23,466	26,906	27,357	28,592	29,407
Milpitas	6,572	27,149	37,820	50,686	62,698	66,568
Monte Sereno	1,506	3,074	3,434	3,287	3,483	3,565
Morgan Hill	3,151	6,485	17,060	23,928	33,556	38,418
Mountain View	30,889	54,206	58,655	67,460	70,708	73,262
Palo Alto	52,475	55,999	55,225	55,900	58,598	62,615
San Jose	204,196	445,779	629,400	782,248	894,943	973,672
Santa Clara	58,880	87,717	87,700	93,613	102,361	114,238
Saratoga	14,861	27,199	29,261	28,061	29,843	31,401
Sunnyvale	51,898	95,408	106,618	117,229	131,760	135,721
Unincorporated	162,056	152,181	127,021	106,193	100,300	97,919
County Total*	641,503	1,066,009	1,295,071	1,497,577	1,682,585	1,808,056
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648	37,662,518

*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

TABLE 18

Santa Clara Valley Transportation Authority
Demographic and Economic Data - Income and Unemployment Rates

Year	Santa Clara County Personal Income (In millions) [1][2]	Santa Clara County Per Capita Personal Income [1][2]	Unemployment Rate [3]
1998	$ 64,850,110	$ 39,091	3.2%
1999	$ 73,045,821	$ 43,701	3.1%
2000	$ 91,386,181	$ 54,195	3.1%
2001	$ 83,838,707	$ 49,615	5.1%
2002	$ 77,548,912	$ 46,305	8.5%
2003	$ 77,680,349	$ 46,363	8.5%
2004	$ 82,638,917	$ 49,132	6.6%
2005	$ 85,118,085	$ 50,606	5.5%
2006	$ 87,671,627	$ 52,124	5.0%
2007	$ 90,301,776	$ 53,687	4.7%

Sources:
California Employment Development Department - Santa Clara County Profile

(1) Bureau of Economic Analysis U.S. Department of Commerce.

(2) Actual data is available though 2004. 2005, 2006, and 2007 assume a 3% increase in personal income over prior year.

(3) Not Seasonally Adjusted.

TABLE 19

Santa Clara Valley Transportation Authority
Demographic and Economic Data – Wage and Salary Employment by Industry (Annual Average)
(In thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Civilian Labor Force *	937.5	958.8	965.5	1,001.8	1,005.8	958.2	895.1	828.8	823.7	834.4
Civilian Employment	909.2	927.9	936.3	982.0	960.0	877.6	821.6	774.2	778.7	797.1
Civilian Unemployment	28.3	30.9	29.2	19.8	45.8	80.6	73.5	54.6	45.0	37.3
Civilian Unemployment Rate										
County	3.0%	3.2%	3.0%	2.0%	4.6%	8.5%	8.2%	6.6%	5.5%	4.5%
State of California	6.3%	5.9%	5.2%	4.9%	5.3%	6.7%	6.5%	6.5%	5.4%	4.9%
Wage and Salary Employment **										
Total Farm Agriculture	5.1	5.2	5.3	5.0	4.6	4.5	4.2	4.1	3.8	3.8
Construction and Mining	36.5	41.3	44.8	47.6	48.0	42.5	39.0	40.1	42.7	45.5
Manufacturing	247.2	246.1	234.9	251.7	240.5	201.2	177.0	167.9	168.6	167.4
Transportation & Public Utilities	16.7	17.0	17.3	17.6	16.3	15.0	14.2	13.3	13.0	12.6
Wholesale Trade	41.9	42.4	42.3	42.2	40.7	35.7	33.5	34.0	35.1	37.6
Retail Trade	82.5	83.8	86.6	90.6	88.2	83.6	81.0	80.2	81.7	83.1
Finance, Insurance & Real Estate	32.4	33.8	34.2	34.0	35.2	35.0	34.8	34.7	35.9	36.8
Services	380.9	403.0	419.8	451.8	440.0	391.7	379.9	385.0	384.8	401.3
Government	88.5	88.9	91.4	94.5	94.6	98.1	94.8	91.7	93.0	93.5
Total ***	931.7	961.5	976.6	1,035.0	1,008.1	907.3	858.4	851.0	858.6	881.6

* 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 March 2006.

** Wage and salary employment is reported by place of work. Data are benchmarked to March 2006.

*** Totals may not be precise due to independent rounding.

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

In 2006, the County had 881,600 wage and salary jobs. This marked the second consecutive time since the year 2000 that there had been an increase in that figure when compared to the previous year. Manufacturing jobs make up approximately one out of every five workers (19%) of the labor force in Santa Clara County. San Jose in particular is ranked high in manufacturing strength and productivity among other large metropolitan areas.

Unemployment figures are steadily decreasing. In June 2007, Santa Clara County's unemployment rate was 4.7%. One factor is that Silicon Valley's high-tech industry is benefiting from globalization and is attracting a greater stream of investment funds, ranking first in venture capital per capita.

Sources: State of California, Employment Development Department
Dice.com, April 2007 - Technology Job Market – Silicon Valley, CA Q1 2007

TABLE 20

Santa Clara Valley Transportation Authority
Demographic and Economic Data –Silicon Valley Major Employers

Company Name	Number of Employees	Nature of Operations
Stanford University, Hospital & Clinics, Linear Accelerator	23,756	Academic research, hospital, medical research, electron accelerators, related facilities
Cisco Systems, Inc.	16,500	Computer network equipment manufacturer
AT&T Inc.	15,500	IP-based communications wireless, high-speed internet, voice, directory publishing
Santa Clara County	15,012	County government
Lockheed Martin Space Systems Co.	7,951	Aerospace systems
State of California	7,568	State government
Oracle Corp.	7,500	Software
City of San Jose	7,169	Municipal government
Hewlett-Packard Co.	7,000	Technology solutions provider
IBM Corp.	6,500	Creates, develops and manufactures information technologies
Intel Corp.	5,700	Microprocessor manufacturer
New United Motor Manufacturing Inc.	5,500	Automotive manufacturing
Applied Materials Inc.	4,156	Semiconductor equipment manufacturer
San Jose State University	4,100	Education
Sun Microsystems Inc.	3,500	Network computing servers, storage, software and services
San Jose Unified School District	2,927	Public education
Hitachi America Ltd.	2,880	Supplies North America with a broad range of high-tech products
Santa Cruz County	2,627	County government
Network Appliance Inc.	2,324	Provides unified network storage solutions
Xilinx Inc.	2,300	Supplies field-programmable gate arrays and complex programmable logic devices
Ebay Inc.	2,200	Online global trading platform
Sanmina-SCI Corp.	2,100	Provides end-to-end manufacturing solutions
Santa Clara Valley Transportation Authority	2,035	Bus, light rail and paratransit operations; transportation planning
Adobe Systems Inc.	2,000	Software manufacturer
National Semiconductor Corp.	2,000	Analog and mixed-signal semiconductors

Source: Silicon Valley/San Jose Business Journal, (Book of Lists July 27, 2007)

Source: Silicon Valley/San Jose Business Journal, (Books of Lists July 27, 2007)

The concentration of Santa Clara County's productivity is derived primarily from numerous high-technology and bioscience companies. Public-sector employers continue to rank high among the largest employers in Silicon Valley. As depicted in the chart above, as an employer, Santa Clara County itself, continues to have the largest public-sector employee base with 15,012 workers. The City of San Jose alone has almost 7,200 full-time employees.

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

TABLE 21

Santa Clara Valley Transportation Authority
Operating Information - Operating Indicators
Ten Years Ended June 30, 2007

BUS

Fiscal Year	Total Ridership	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Buses	Active Buses	Bus Fleet
1998	46,118,198	150,437	21,184,990	1,464,964	18,026	201,818	398	506	508
1999	47,486,765	154,082	22,399,973	1,565,500	18,950	179,561	415	522	520
2000	47,007,594	151,480	22,923,518	1,623,603	19,373	178,688	427	512	512
2001	47,237,748	152,708	22,640,485	1,616,941	19,177	182,187	418	502	502
2002	44,900,522	144,823	22,043,527	1,589,200	18,714	177,883	402	491	491
2003	39,169,325	126,030	20,556,769	1,497,846	17,471	152,036	375	454	524
2004	32,902,350	105,588	18,681,967	1,359,608	15,755	136,693	345	457	523
2005	30,296,718	97,117	18,259,119	1,330,707	15,315	125,953	344	441	525
2006	30,938,044	99,966	18,499,971	1,346,841	15,573	120,581	345	440	524
2007	31,646,555	102,123	18,705,711	1,364,903	15,793	128,290	345	453	539

LIGHT RAIL

Fiscal Year	Total Ridership [1]	Average Weekday Ridership	Scheduled Miles	Scheduled Hours	Vehicle Revenue Miles	Passenger Miles	Peak Cars	Light Rail Fleet
1998	6,910,100	22,727	1,368,229	87,285	1,336	32,993	33	55
1999	6,862,705	22,579	1,359,589	88,800	1,334	32,820	33	55
2000	7,913,730	25,673	1,648,334	112,202	1,608	35,758	43	55
2001	9,237,074	30,383	1,986,763	136,483	1,926	42,462	41	54
2002	7,789,570	25,573	2,032,588	137,087	1,962	34,656	41	68
2003	6,052,519	19,772	1,567,594	106,416	1,499	26,815	29	98
2004	5,473,024	17,636	1,464,325	98,930	1,372	24,166	26	80
2005	6,780,431	21,436	1,774,543	114,663	2,460	32,290	34	100
2006	8,279,807	26,137	2,129,189	138,348	2,810	41,913	39	100
2007	10,343,543	32,978	2,220,230	143,816	3,358	54,528	53	100

Note:
Source: VTA Operations Division.
(1) Light rail ridership increased in FY2006 with the opening of the Vasona Light Rail Extension.

TABLE 22

Santa Clara Valley Transportation Authority
Operating Information - Farebox Recovery Ratio
Ten Years Ended June 30, 2007

The farebox recovery ratio is a measure capturing the percentage of system operated expenses recovered by fare revenue. This ratio is calculated by fare revenue generated from directly operated service (motor bus and light rail) divided by expenses for these same services. Operating expenses consist of bus and light rail modal operating expenses reported annually in the National Transit Database.

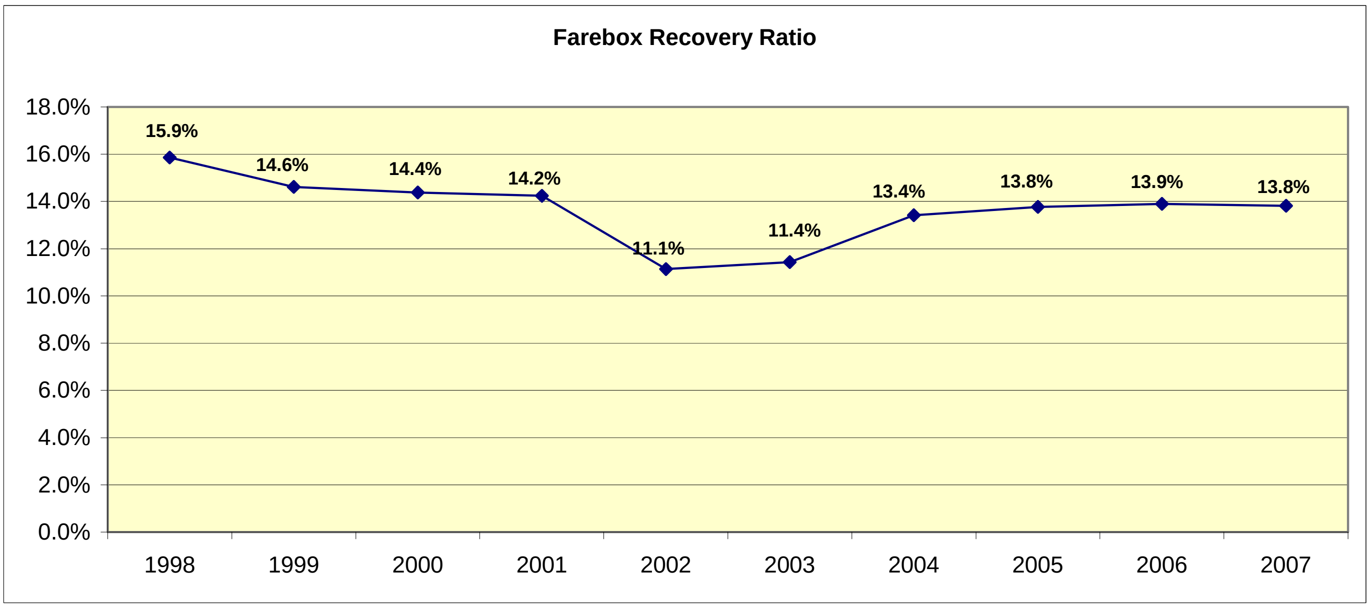


TABLE 23

Santa Clara Valley Transportation Authority
Operating Information - Revenue Miles
Ten Years Ended June 30, 2007

The following chart shows total vehicle miles in revenue service. FY2007 marked the second consecutive year since FY2002 that there was an increase in total revenue miles. This is attributable to the opening of the Vasona light rail extension between the San Fernando and Winchester stations in October 2005. FY2007 was the first full-year of its service.

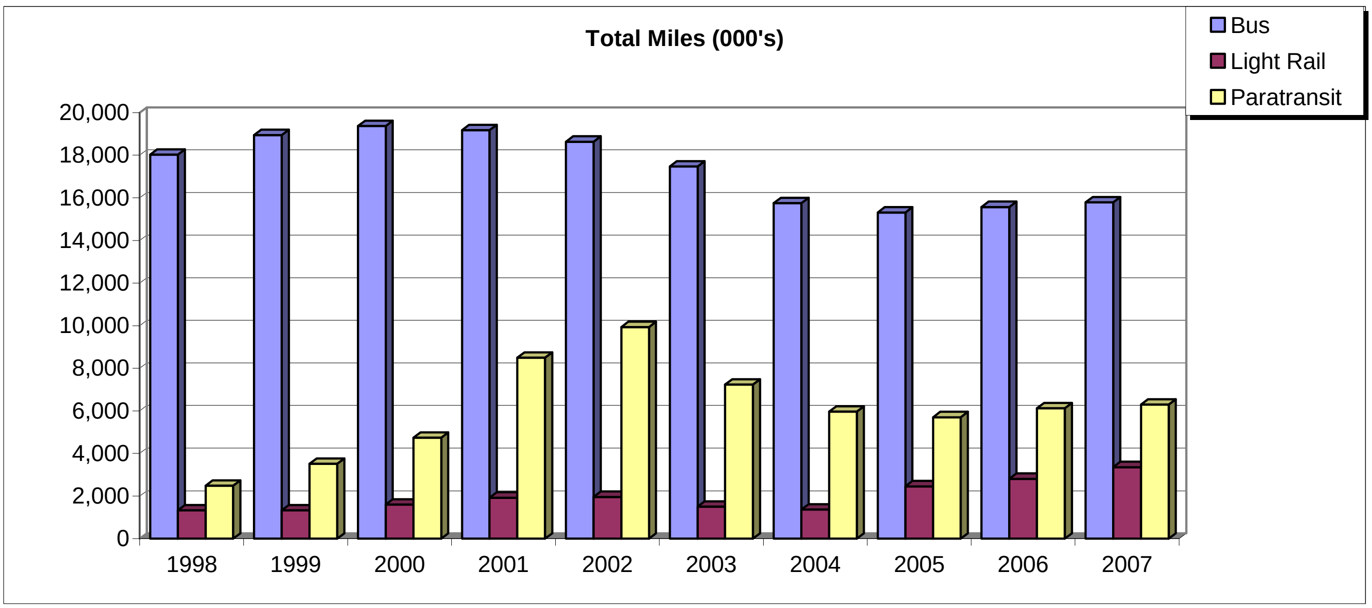


TABLE 24

Santa Clara Valley Transportation Authority
Operating Information - Passenger Miles
Ten Years Ended June 30, 2007

Passenger mile statistics are presented in the chart below. Despite the decline in total passenger miles in recent years due to a continued drop in employment in the County and service cuts by VTA, the light rail passenger miles have increased the last two fiscal years due to the opening of new system lines. The increase in total passenger miles during FY2007 is due to the increase in ridership which was a continued result of the first full-year of the Vasona light rail extension.

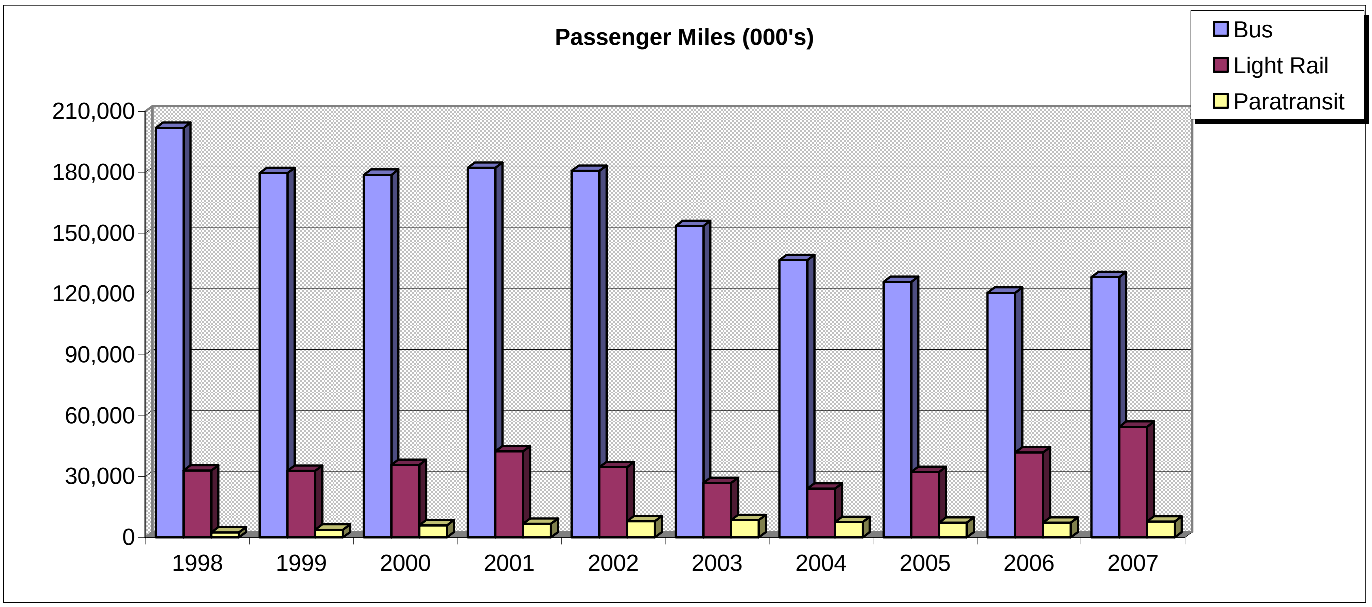


TABLE 25

Santa Clara Valley Transportation Authority
Operating Information – Selected Statistical Data
Ten Years Ended June 30, 2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FAREBOX REVENUE ($000's)*	$ 27,201	$ 27,070	$ 32,326	$ 33,837	$ 31,282	$ 30,959	$ 30,625	$ 32,061	$ 34,335	$ 35,242
VEHICLE REVENUE MILES (000's)										
BUS	18,026	18,950	19,373	19,177	18,714	17,471	15,755	15,315	15,573	15,793
LIGHT RAIL	1,336	1,334	1,608	1,926	1,962	1,499	1,372	2,460	2,810	3,358
PARATRANSIT	2,494	3,523	4,748	8,495	9,937	7,233	5,967	5,702	6,126	6,296
PASSENGER MILES (000's)										
BUS	201,818	179,561	178,688	182,187	177,883	152,036	136,693	125,953	120,581	128,290
LIGHT RAIL	32,993	32,820	35,758	42,462	34,656	26,815	24,166	32,290	41,913	54,528
PARATRANSIT	2,494	3,798	6,013	6,711	7,947	8,497	7,546	7,314	7,896	7,835
FLEET SIZE										
BUS	508	520	512	502	491	524	523	525	524	539
LIGHT RAIL	55	55	55	54	68	98	80	100	100	100
CASH FARE SINGLE RIDE										
ADULT	$1.10	$1.10	$1.25	$1.25	$1.25	$1.40	$1.50	$1.75	$1.75	$1.75
YOUTH	$0.60	$0.60	$0.70	$0.70	$0.70	$0.85	$1.25	$1.50	$1.50	$1.50
SENIOR	$0.35	$0.35	$0.40	$0.40	$0.40	$0.45	$0.75	$0.75	$0.75	$0.75

* Note: Includes fare revenue from motor bus, light rail and shuttle services.

TABLE 26

Santa Clara Valley Transportation Authority
Operating Information - System Data
Fiscal Year Ended June 30, 2007

Urbanized Area (UZA):

326 Square Miles

Routes:

Type of Route	Number of Routes
Local	56
Limited Stop	5
Express	10
Rapid	1
Light Rail	3
Total	75

Hours of Operation:

Monday-Sunday 24 hours

Park and Ride Lots:

	Number of Lots	Number of Parking Spaces
Bus	8	560
Light Rail	21	6,471
Caltrain	16	5,029
Total	45	12,060

Facilities:

Type of Facility	Number of Facilities
Bus Stops	4,345
Shelters	740
Benches	2,252
Trash Receptacles	934
Transit Centers	15

TABLE 27

Santa Clara Valley Transportation Authority
Operating Information - Employees
Five Years Ended June 30, 2007

Full-time Equivalent Employees [1]

Fiscal Year	Operations	Development & Congestion Management	Fiscal Resources	Construction	Administrative Services	General Counsel	General Manager	Total
2003	1,850	125	122	130	126	8	37	2,398
2004	1,720	114	118	119	116	9	34	2,230
2005	1,665	111	113	114	106	9	37	2,155
2006	1,597	104	105	107	101	9	30	2,053
2007	1,584	101	100	98	102	8	27	2,020

Note:

(1) A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,088. The table shows the total full-time equivalent by division.

TABLE 28

Santa Clara Valley Transportation Authority
Operating Information - Capital Assets
Ten Years Ended June 30, 2007
(In thousands)

	Fiscal Year									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Capital assets, not being depreciated:										
Land and right of way	$ 457,060	$ 442,330	$ 515,329	$ 571,682	$ 572,665	$ 570,715	$ 747,679	$ 761,818	$ 1,131,579	$ 1,118,577
Construction in Progress	229,992	376,556	217,897	332,370	608,403	923,872	690,853	775,711	380,776	488,192
Total capital assets, not being depreciated	687,052	818,886	733,226	904,052	1,181,068	1,494,587	1,438,532	1,537,529	1,512,355	1,606,769
Capital assets, being depreciated:										
Buildings, improvements, furniture and fixtures	140,434	164,480	204,247	229,820	227,826	237,239	337,565	340,546	462,448	460,900
Vehicles	176,688	177,720	178,103	185,851	220,504	306,328	363,270	480,174	457,616	458,001
Light-rail tracks and electrification	71,913	64,438	245,809	272,750	276,398	281,182	375,049	365,505	384,435	399,563
Caltrain – Gilroy extension	33,498	48,763	48,763	48,775	48,775	48,962	52,990	52,990	52,990	53,155
Other operating equipment	15,014	7,957	29,010	27,452	28,366	28,706	28,830	28,830	29,002	29,416
Leasehold Improvement	-	-	-	-	-	-	-	-	-	2,169
Total capital assets, being depreciated	437,547	463,358	705,932	764,648	801,869	902,417	1,157,704	1,268,045	1,386,491	1,403,204
Less accumulated depreciation										
Total accumulated depreciation	(162,218)	(184,339)	(208,592)	(239,635)	(242,026)	(270,924)	(289,653)	(335,200)	(398,635)	(446,408)
Total capital assets, being depreciated, net	275,329	279,019	497,340	525,013	559,843	631,493	868,051	932,845	987,856	956,796
Total capital assets, net	$ 962,381	$ 1,097,905	$ 1,230,566	$ 1,429,065	$ 1,740,911	$ 2,126,080	$ 2,306,583	$ 2,470,374	$ 2,500,211	$ 2,563,565

Source: Comprehensive Annual Financial Reports