

To: VTA Board of Directors
From: Kurt Evans, Government Affairs Manager
Date: March 31, 2008
Subject: General Information: Weekly Legislative Report

For your information, I am attaching the weekly legislative update for the week of March 24, 2008.

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

FROM: Kurt Evans, Government Affairs Manager
Santa Clara Valley Transportation Authority

DATE: March 31, 2008

SUBJECT: Weekly Legislative Update: Week of March 24, 2008

FEDERAL

Infrastructure: Christopher Dodd (D-CT), chairman of the Senate Banking, Housing and Urban Affairs Committee, and Chuck Hagel (R-NE), a leading GOP member on the committee, have introduced the National Infrastructure Bank Act as a bipartisan measure to address the country's critical infrastructure needs. The legislation establishes the National Infrastructure Bank to evaluate and finance capacity-building infrastructure projects of regional and national significance. Under the provisions of the Dodd-Hagel bill, infrastructure projects that could be considered by the bank include publicly owned mass transit systems, roads, bridges, drinking water systems, and wastewater systems. Modeled after the Federal Deposit Insurance Corporation, the bank would be led by a five-member board of directors, each of whom would be appointed by the President and confirmed by the Senate. Infrastructure projects with a potential federal investment of at least \$75 million could be brought to the bank's attention by a project sponsor.

To determine a level of federal investment for a particular infrastructure project, the bank would use a sliding scale that takes into consideration such factors as:

- The type of infrastructure system.
- Project cost and location.
- Current and projected usage of the project.
- Non-federal revenues.
- Regional or national significance.
- Promotion of economic growth and community development.
- Reduction in traffic congestion.
- Environmental benefits.
- Land-use policies that promote smart growth.
- Mobility improvements.

Once a level of investment is determined for a project, the bank would develop a

financing package, with the full faith and credit of the federal government behind it. The financing package could include: (a) direct subsidies; (b) direct loan guarantees; (c) long-term, tax-credit, general-purpose bonds; or (d) long-term, tax-credit, infrastructure project-specific bonds. The initial ceiling to issue bonds would be \$60 billion.

The Dodd-Hagel bill requires the bank to report annually to Congress on the projects that it reviews and finances. The bank also would be required to report every three years on the economic efficacy and transparency of all current federal infrastructure financing methods, and how those methods could be improved.

Gun Control: A U.S. Supreme Court majority appears ready to rule for the first time in the nation's history that the Second Amendment gives people an individual right to own guns. Yet that dramatic consensus, which emerged during oral arguments over a Washington, D.C., handgun ban, is only part of the important debate playing out at the high court. A separate set of questions revolves around the legal standard that the justices might invoke to determine what gun restrictions stand. The details of their ultimate ruling, which is not likely until June, could determine the fate of a range of regulations nationwide, from a federal prohibition on machine guns to licensing requirements in some cities.

It is difficult to predict the practical details of a decision, but it seems clear that a majority of the Supreme Court is ready to buck the general trend of lower court judges and declare an individual right to bear arms. Most lower court judges have ruled in recent decades that the Second Amendment protects a right to arms associated with service in a state militia, such as a National Guard unit. With barely a nod to those cases, key Supreme Court justices indicated during oral arguments regarding the D.C. handgun ban that they think the Second Amendment was rooted in a concern for the ability of Americans to protect themselves, rather than militia-related interests. A swing justice on an ideologically divided court, Anthony Kennedy said he believed the Second Amendment covered a "general right to bear arms." Along with Kennedy, Chief Justice John Roberts, and Justices Antonin Scalia and Samuel Alito emphasized the amendment's "right of the people" clause over the militia references. Justice Clarence Thomas, who did not ask any questions during oral arguments, has suggested in past writings that he would be a fifth vote for individual gun rights.

The justices who seemed inclined to say the Second Amendment covers only militia-related firearms possession and appeared to be sympathetic to D.C.'s attempt to counter violence through its handgun ban were John Paul Stevens, David Souter, Ruth Bader Ginsburg, and Stephen Breyer. Stevens maintained that the history of the amendment suggests that it covers the "common defense" of the nation, rather than individual protection.

Immigration: The U.S. Department of Homeland Security is appealing a judge's ruling against its proposal to force employers to fire workers whose names do not match their Social Security numbers, and is promising to try to make the policy a law. A federal judge in San Francisco blocked the "no-match rule" in October 2007, saying it would

likely impose hardships on businesses and their workers. Employers would incur new costs to comply with the regulation, and innocent workers unable to correct mistakes in their records in time would lose their jobs, U.S. District Judge Charles Breyer wrote.

The Department of Homeland Security countered that the rule does not create new legal obligations for businesses. “It simply outlines clear steps an employer may take in response to receiving a letter from the Social Security Administration indicating that an employee’s name does not match the Social Security number on file,” department documents say. According to Homeland Security Secretary Michael Chertoff, “We are serious about immigration enforcement. The no-match rule is an important tool for cracking down on illegal hiring practices while providing honest employers with the guidance they need.”

The AFL-CIO, the American Civil Liberties Union and the U.S. Chamber of Commerce object to the program, saying it would foster discrimination at work sites, lead to job losses by lawful employees, and expose businesses to additional expense and fear of prosecution.

War in Iraq: Top U.S. military leaders presented Defense Secretary Robert Gates with their strategy for future force levels in Iraq, including expected recommendations for a pause in troop cuts for as much as six weeks later this summer. The hour-long videoconference marked the start of what will be a series of meetings, presentations and congressional testimony over the next two weeks that will assess the military, political and economic progress in Iraq.

During the Pentagon session, Gates and Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, heard from the top commander in the Middle East, Adm. William Fallon, and the U.S. commander in Iraq, Gen. David Petraeus. Officials said little about the discussions, but there was no indication that Petraeus had backed off his earlier call for a brief pause in troop cuts after July in order to see what effect the lower force levels would have on violence in Iraq. Gates has previously endorsed the idea of a pause, but has also stated that it should be brief and that he would like to continue to reduce the number of troops in Iraq after the assessment break.

STATE

Political Reform: The U.S. Supreme Court gave California one possible road map to fundamental political reform by approving Washington state’s new version of the blanket primary election.

Eight years ago, the court threw out California’s experimental blanket primary system that allowed voters to cross party lines in choosing nominees for state office, as well as Washington state’s very similar system. The decisions were victories for the major political parties, which had objected to allowing voters from other parties to participate in their nominations. The court upheld the parties’ contention that the system violated their rights to limit association. Four years later, however, Washington voters reinstated the

open primary concept in a slightly different form. The previous system placed all candidates on one ballot—hence the term “blanket”—with the top vote-getter from each party advancing to the general election. The substitute advances the top two vote-getters to the general election, regardless of party affiliation, which could mean that two candidates from the same party could face each other.

Once again, the major parties sued to throw out the system, assuming that the courts would invalidate it. The 9th District Court of Appeal did exactly that. But the U.S. Supreme Court, in a 7-2 decision, refused to overturn the new Washington primary system, which has never been implemented. While the high court’s decision is limited to Washington, it does provide an opportunity for California to reinstate a new open primary system.

In California, the two major parties are continuing to lose traction among voters, while the ranks of independents are continuing to expand. Meanwhile, the closed primary, when coupled with gerrymandered legislative and congressional districts, tends to create ideological polarization in the Legislature, and freeze moderates and independents out of meaningful roles in choosing officeholders.

The Washington system would, in effect, reduce the role of the parties to private organizations. The parties would still be able to tell voters which candidates they support, but they could not control those choices, as the current system allows. Some argue that implementing such a system in California could result in a Legislature that is less beholden to internal party factions, more moderate, and more oriented toward making policy, rather than playing partisan and ideological games.

Local Government Finance: Gov. Arnold Schwarzenegger signed into law SB 344 (Machado), which is meant to limit local government losses in the municipal bond market. Specifically, the bill allows local governments and other issuers of municipal bonds to escape volatility in the bond market by buying back their own debt.

Since last month, two little-known municipal bond markets have been in turmoil, a spillover from the meltdown in mortgage-backed securities. Interest rates for these bonds, which are resold at short intervals, have spiked after years of exceptionally low costs. State Treasurer Bill Lockyer, who sponsored SB 344, estimates that more than \$40 billion is outstanding in one type of bond, known as variable-rate demand bonds. Another \$28 billion is outstanding in the other type, auction-rate securities.

SB 344 clarifies that when local governments and others buy back their own bonds, it does not legally “extinguish” the debt. Without this legislation, the bonds might have lost their tax-exempt status and their insurance, and local governments might have been forced to seek reauthorization from the voters.

Disabled Parking: Lawmakers killed AB 1940 (DeVore), a proposal to qualify women for “temporarily disabled” parking placards during the final three months of pregnancy and the first two months after birth. The author of the legislation, Assembly Member

Chuck DeVore (R-Irvine), said he had hoped to provide a “transition period” for women struggling with birth-related problems. He argued that AB 1940 would assist women who are not necessarily disabled, but are having a particularly painful day, or have swollen feet, or have given birth and find themselves struggling to switch their newborn from a car seat to a stroller in a parking lot with cars racing by. The Department of Motor Vehicles, however, said pregnant women already can obtain disabled placards if their doctors diagnose major mobility problems. “This is practical logistics,” DeVore countered. “It goes way beyond a strict definition of medical necessity.” The Assembly Transportation Committee was not persuaded, and the measure failed to achieve the necessary votes for approval.

Child Care: Legislation to grant collective bargaining rights to grandparents, aunts and uncles, and other subsidized child-care providers was vetoed by Gov. Schwarzenegger. SB 867 (Cedillo) targeted a pivotal service for low-income parents, with about 90,000 providers assisting 700,000 families at a public cost of more than \$3 billion. The Governor’s veto message cited the state’s budget deficit, which despite recent trims is pegged at \$8 billion. “Given California’s significant budget challenge, I cannot consider bills that would add significant fiscal pressures to the state’s structural budget deficit,” he wrote.

California’s subsidized child-care system stems, in part, from pressures in the 1990s for the state to help welfare mothers re-enter the work force by paying relatives or others to provide care. Supporters of SB 867 said the legislation would bolster a vital program that suffers from extreme turnover because providers typically work more than 60 hours per week for annual salaries of less than \$16,000. Opponents countered that granting collective bargaining rights would cost taxpayers more for less care. They also argued that SB 867 would allow providers to be charged union fees and would limit opportunities for non-union competition.

REGIONAL

Metropolitan Transportation Commission (MTC): At its March 26 meeting, MTC approved the Final Vision Policy Strategies for Transportation 2035, as well as the Spare the Air/Free Transit Campaign for 2008. The commission also adopted support positions for the following state legislation: (1) SB 1731 (Yee), which allows MTC to increase its current vehicle registration surcharge for implementing congestion mitigation strategies by \$1; and (2) AB 2094 (DeSaulnier) which expands the membership of the Joint Policy Committee to include the San Francisco Bay Conservation and Development Commission.

Dumbarton Rail: At its March 25 meeting, the Dumbarton Rail Policy Advisory Committee approved the bus alternative for the Dumbarton Rail Corridor Project draft environmental document, as well as the by-laws for its recently formed citizens’ advisory panel. The bus alternative includes four routes operating over the Dumbarton auto bridge, serving the major origins and destinations along the Dumbarton rail corridor. The committee also received updated operational simulations for the proposed rail service.

The simulations revealed the potential difficulties with merging Dumbarton trains with current Caltrain service at Redwood City. If it becomes apparent that these difficulties cannot be resolved, simulations will be run to determine the feasibility of requiring a transfer between Dumbarton rail service and Caltrain at the Redwood City Station.

San Francisco Urban Partnership Grant: The Golden Gate Bridge, Highway and Transportation District Board of Directors approved a resolution expressing its intent to implement a congestion-pricing component as part of a proposed toll increase for motorists traveling over the Golden Gate Bridge. While the toll increase is not scheduled for formal action by the board until later this summer, the passage of the intent resolution was significant because it allowed for a March 31 deadline tied to the potential allocation of \$158 million in federal Urban Partnership Program (UPP) funding by the U.S. Department of Transportation for Doyle Drive to be met.

High Occupancy Toll Lanes: The Alameda County Congestion Management Agency (CMA) has proposed a new high-occupancy toll (HOT) lane for the Bay Area. The new lane is a 12-mile stretch of eastbound I-580. VTA and the Alameda County CMA are already working together on a HOT for I-680. It is anticipated that both HOT lanes will open in 2011.

NOTE: Also contributing to this report were Susan Lent with Akin, Gump, Strauss, Hauer & Feld; Mark Watts with California Strategies; and Scott Haywood, VTA's Policy and Community Relations Manager.

From: Board.Secretary
Sent: Wednesday, April 02, 2008 9:23 AM
To: Board.Secretary
Cc: Burns, Michael
Subject: Auction Rate Securities & Variable Rate Demand Bonds - April 3, 2008
Board Agenda Items #18 and #19

Attachments: Memo to VTA on Recommended Approach (033108).doc

VTA Board of Directors:

At the Administration and Finance Committee meeting, Board Member David Casas inquired whether an independent assessment of staff's recommendation to refund the 2005 and 2006 bonds with uninsured Variable Rate Bonds was available. While it is not common practice to have an independent assessment prior to the transaction, VTA's financial advisor, Peter Ross, has prepared a summary report for the proposed transaction. Attached is an analysis from Mr. Ross that provides restructuring options available for the agency relative to its Variable Rate obligations and a recommended course of action. All of these options were considered prior making the staff recommendation.

If you have any questions concerning the attached analysis, please contact Joseph Smith, CFO, at 408-321-5630 or Kim Koenig, Fiscal Resources Manager at 408-321-5768.

Joseph T. Smith
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ROSS FINANCIAL

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MEMORANDUM

To: Joe Smith and Kimberly Koenig

From: Peter Ross

Date: March 31, 2008

Re: VTA's Variable Rate Obligations – Restructuring Options

This memorandum discusses the impact of the current market turbulence on VTA's outstanding variable rate obligations and analyzes potential restructuring options available to VTA. Based on current market conditions, the analysis recommends that VTA:

- 1) Refund its outstanding 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A-D (the "2006 ARS") through the issuance of uninsured variable rate demand bonds supported by a liquidity facility from a bank(s) with high short-term ratings;
- 2) Refund its outstanding Sales Tax Revenue Refunding Bonds, 2005 Series A-C (the "2005 Bonds") using the same approach described in the first recommendation;
- 3) Take no action, for the time being, with respect to its 1998 and 2000 Junior Lien Variable Rate Demand Bonds (the "1998 and 2000 Bonds") issued through the California Transit Finance Authority; and
- 4) Take no action, for the time being, with respect to its 1985 Adjustable Rate Refunding Equipment Trust Certificates (the "1985 ETCs").

This memorandum notes, however, that the markets over the past three or four months have been extremely volatile and unpredictable. While VTA may choose to implement the recommended or any other strategy, it needs to remain flexible to adopt fallback positions.

BACKGROUND

The Bond Insurers. Over the past several years, the majority of new municipal debt issues have carried bond insurance from one of the seven bond insurers rated "Aaa/AAA/AAA" from Moody's, Standard & Poor's and Fitch. Bond insurance enhanced the credit of the municipal borrower by guaranteeing that the principal of and interest on its bonds would be repaid. Bond insurance provided comfort to investors, simplified the marketing of bonds, lowered issuers' borrowing costs and, in general,

stabilized the overall municipal marketplace. Bond insurers considered their "Aaa/AAA/AAA" sacrosanct. Without these pristine ratings, their business would disappear. A reduction in these ratings was considered unimaginable.

At present, five of the seven bond insurers have experienced a downgrade in their ratings or are viewed by the rating agencies with negative outlooks that could lead to a downgrade. The reason for this situation stems from these insurers' significant subprime exposure created by insuring non-municipal structured products which bundled subprime loans on residential and other real estate assets. The affected insurers are: Ambac, CIFG, FGIC, MBIA and XL Capital. Of these insurers, Ambac and MBIA have raised additional capital – as a result of which Moody's and Standard & Poor's have affirmed their "Aaa/AAA" ratings but with negative outlooks that could lead to future downgrades. Fitch has maintained Ambac at "AA" with a negative outlook. The other three bond insurers have been severely downgraded. Last week, Fitch downgraded XL Capital to junk status and FGIC to "BBB". By contrast, the ratings of FSA and Assured Guaranty, which have minimal subprime exposure, remain intact.

Impact of Insurer Downgrades - General. The impact of insurer downgrades on the municipal market has been tumult – especially on tax-exempt municipal obligations bearing a variable rate. The most affected types of variable rate securities are: variable rate demand bonds, where liquidity is provided by third party banks ("VRDBs") and auction rate securities ("ARS"), which involve no third party liquidity ("ARS").

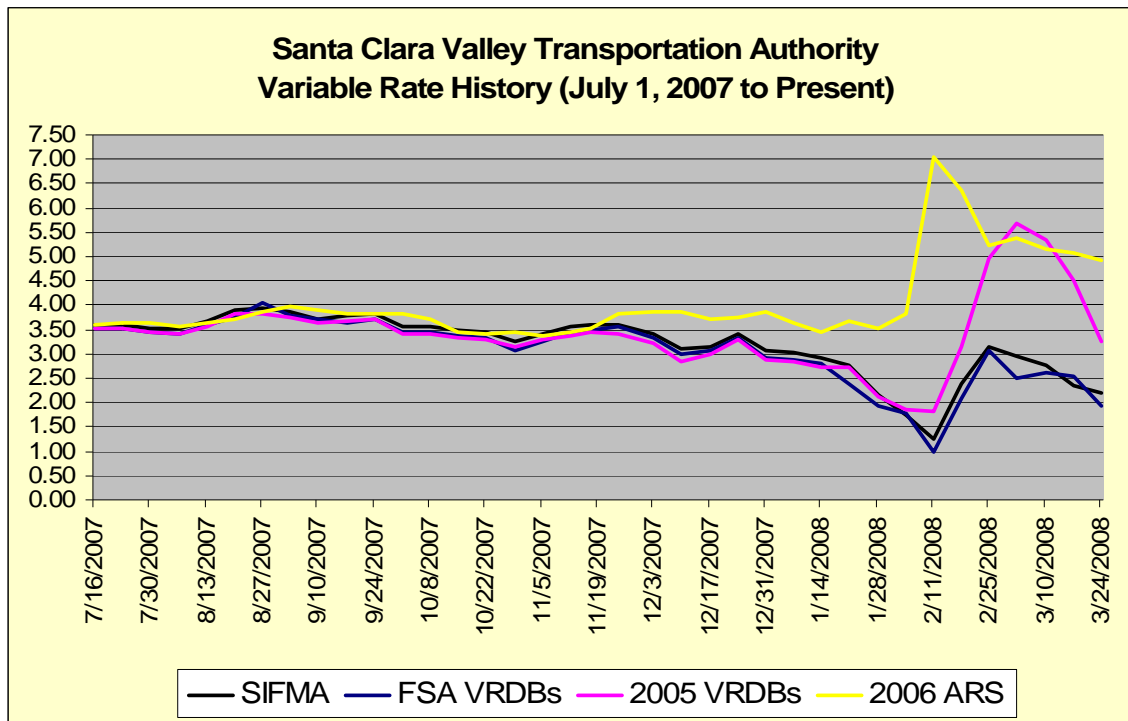
For ARS, the impact of insurer downgrades has been profound. Investors, mostly short-term retail and corporate buyers, began to retreat in December 2007 and all but disappeared by late January/early February – even for FSA-insured obligations. Investors were "shocked" to learn that their liquidity was not provided by a third party bank but by the ability of the broker-dealer to hold successful auctions. Prior to the insurer meltdown, the auction process worked smoothly, so the absence of bank liquidity did not matter. Now, the prevailing view of market participants is that the auction rate market is fundamentally scarred and will never achieve its prior levels.

For VRDBs, which are accompanied by bank liquidity, a striated market has developed. The lowest rates are experienced by: (1) uninsured VRDBs with strong underlying municipal credit and third party liquidity; (2) insured VRDBs with bond insurance provided by FSA or Assured Guaranty and third party liquidity; and (3) VRDBs secured by high quality letter of credit banks. These kinds of VRDBs are considered "clean." By contrast, VRDBs insured by one of the affected five insurers bear significantly higher rates. Within this universe of "non-clean" VRDBs, a further hierarchy of investor preferences exists: MBIA-insured, Ambac-insured and the others. Yet, within this hierarchy, the market has seen little predictability in rate setting by remarketing agents. In many instances, remarketing agents cannot find any investors for the non-clean VRDBs and, in some instances, have drawn on the liquidity facility to the detriment of their issuer clients.

Impact of Insured Downgrades on VTA. VTA has five series of variable rate bonds as outlined in the table below:

Bond Issue	O/S Par (\$mm)	Bond Insurer	Liquidity	Hedge
1985 Equipment Trust Certificates ("1985 ETCs")	\$29.2	Ambac	Dexia	Cost of Funds swap with Gen Re (through Lehman)
1998 Jr. Lien Bonds ("1998 Bonds")	\$41.4	FSA	Dexia	Unhedged
2000 Jr. Lien Bonds ("2000 Bonds")	\$33.8	FSA	Dexia	Unhedged
2005 Sales Tax Revenue Bonds ("2005 Bonds")	\$169.6	Ambac	Depfa	Libor-based swap with Citi, Goldman and Morgan Stanley
2006 Measure A Sales Tax Revenue Bonds ("2006 ARS")	\$235.9	Ambac	None	Libor-based swap with Citi, Goldman, Morgan Stanley and BofA

Of these series, the rates on the 1985 ETCs, the 2005 Bonds and the 2006 Bonds have been most impacted by market turmoil, as these obligations are insured by Ambac. The 1998 and 2000 Bonds trade essentially "clean" because of the FSA insurance. The chart below shows the trading history of VTA's variable rate obligations and the national variable rate index ("SIFMA") since July 2007:



The chart shows that up until late-November 2007, VTA's auction rate and VRDBs traded in fairly predictable fashion – and essentially in line with the SIFMA index. In mid-to-late January, rates on the 2006 ARS began to soar in relation to SIFMA and the FSA-insured VRDBS (the 1998 and 2000 Bonds). In mid-February, the rates on the 2005 Bonds began an upward movement as investors began to shun Ambac-insured bonds. The specific impact for each of VTA's variable transactions is described below.

- Impact on 1985 ETCs.** While VTA has experienced higher interest costs associated with the Ambac-insured 1985 ETCs, the economic impact on VTA to date has been nil. The reason relates to the associated cost of funds swap: whatever rate VTA pays on the 1985 ETCs, it receives under the swap from the counterparty. Thus, VTA is left with its original swap rate + the annual costs associated with the 1985 ETCs (0.23%). A risk to VTA arises, however, if the remarketing agent (Lehman Brothers) cannot remarket the 1985 ETCs at any rate and then draws on the liquidity bank (Dexia). In that event, the rate VTA receives on the swap is the SIFMA index rate less 0.12% – resulting in a mismatch to the higher actual bond rate. Lehman has reiterated to VTA on several occasions that it will not draw on the Dexia liquidity facility.
- Impact on 1998 and 2000 Bonds.** As noted, because of the FSA insurance, the 1998 and 2000 Bonds essentially trade as “clean” variable rate bonds. The rate carries a very slight penalty because no underlying ratings based on VTA's credit were ever

assigned to the 1998 and 2000 Bonds. At the time of their issuance, an underlying rating was not considered important.

Impact on 2005 Bonds. The economic impact to VTA with respect to the 2005 Bonds has been notable. These Bonds have associated fixed rate swaps that bear a rate of 3.03%. VTA's net interest cost is measured by this fixed swap rate plus the variable rate it pays on the 2005 Bonds, less the variable rate it receives under the swaps.

In Fiscal Year 2006-07, VTA's net interest cost was 3.35%. In the current Fiscal Year, VTA's net interest cost was 3.36% through February 2008. In March 2008, VTA's net interest cost jumped to 6.16%, causing its Fiscal Year 2007-08 year to date average net interest cost to increase to 3.67%. VTA's allocable debt service for July 2007 was \$463,682; its allocable debt service for March 2008 is \$870,818.

Of potentially greater concern, the Depfa liquidity facility has been drawn on with respect to approximately \$7 million of the 2005 Bonds, causing these Bonds to be considered "bank bonds." The rate on such "bank bonds" is based on the prime rate – which is 5.25%. Additionally, if the "bank bonds" are not remarketed after 90 days, VTA must begin to amortize such bonds over a 10 year period rather than through the 2026 bond maturity.

Impact on 2006 ARS. The economic impact to VTA with respect to the 2006 ARS has been more severe. Like the 2005 Bonds, the 2006 ARS also have associated fixed rate swaps that bear a rate of 3.765%. The same method to calculate VTA's net interest cost applies.

In Fiscal Year 2006-07, VTA's net interest cost was 3.67%. In the current Fiscal Year, VTA's net interest cost was 3.90% through November 2007, prior to the disruption of the ARS market. For each month thereafter, VTA's net interest cost increased steadily: 4.32% in December 2007, 4.71% in January, 6.77% in February and 7.21% in March. On a year to date basis, VTA's net interest cost has been 4.71%. VTA's allocable debt service for July 2007 was \$760,697; its allocable debt service for March 2008 is \$1,417,216.

VTA's Options

The market turmoil has primarily affected VTA with respect to the 2005 Bonds and the 2006 ARS¹. To address the adverse impacts, VTA can adopt one of five basic strategies:

¹ As noted previously, while the rates on the 1985 ETCs have experienced similar convulsions as the rates on the 2005 Bonds, VTA has suffered no adverse impact due to the cost of funds swap with Gen Re. If Lehman draws on the Dexia liquidity facility, the situation would change. Therefore, VTA has an interest in assuring that Lehman finds investors. The liquidity amendment strategy (discussed in this section) could have merit for the 1985 ETCs, as could simply obtaining bond underlying ratings.

- Do nothing
- Fix the rate on the 2005 Bonds and 2006 ARS for a year or other interim period – i.e., sidestep the current market volatility for an interim period
- Amend applicable liquidity agreements
- Refund these obligations as fixed rate bonds or
- Refund these obligations as variable rate demand bonds

The goals of the optimal strategy are: low rates, minimized upfront costs, preservation of existing swaps and a long-term solution. Refunding the 2005 Bonds and 2006 ARS with new VRDBs accomplishes these goals. The strategy maintains the existing swaps but, in effect, replaces the outstanding Ambac-insured variable rate obligations with “cleaner” variable rate demand bonds with interest rates which correlate with the variable rates on the swaps.

Do Nothing. This strategy is premised on several principles: (1) VTA already has paid for the Ambac insurance; (2) VTA would not need to incur additional transaction costs; (3) VTA can keep its outstanding swaps in place; and (4) Ambac could regain its prior trading value at which point everything would be fine. This last principle is bolstered by the fact that Ambac, in early March, raised \$1.5 billion in capital and stabilized its Moody's and Standard & Poor's ratings at “Aaa/AAA” with negative outlooks; Fitch, however, maintained its “AA” rating also with a negative outlook. Indeed, with respect to VTA's VRDB's, the spread between VTA's Ambac-insured variable rates and the FSA-insured variable rates (on the 1998 and 2000 Bonds shown in the table as “CTFA VRDBs) narrowed over the course of this past month:

Week of	Ambac/Dexia	FSA/CSFB	Ambac/Depfa	Ambac/Depfa	Ambac/Depfa	SIFMA
	1985 ETCs	CTFA VRDBs	2005 A Bonds	2005 B VRDBs	2005 C VRDBs	
	Lehman	Lehman	Goldman	Citigroup	Morgan Stanley	
5-Mar	2.80	2.50	5.00	5.00	7.00	2.96
12-Mar	3.80	2.60	5.00	5.00	6.00	2.75
19-Mar	3.75	2.55	5.00	4.50	4.00	2.33
26-Mar	3.75	1.95	3.75	3.50	2.50	2.21

Given the more fundamental dislocation of the auction rate market, a similar analysis relating to the 2006 ARS is of little value.

While Ambac may regain its former trading value, the question is when. For each month that the 2005 Bonds and 2006 ARS experience an interest rate penalty associated with the Ambac insurance, VTA incurs a cost in higher debt payments. The following chart measures the economic effect of various interest rate penalties over time on the aggregate amount of the 2005 Bonds and the 2006 ARS:

Ambac Trading Penalty

Months	0.10%	0.25%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
1	33,800	84,500	169,000	338,000	507,000	676,000	845,000	1,014,000
2	67,600	169,000	338,000	676,000	1,014,000	1,352,000	1,690,000	2,028,000
3	101,400	253,500	507,000	1,014,000	1,521,000	2,028,000	2,535,000	3,042,000
4	135,200	338,000	676,000	1,352,000	2,028,000	2,704,000	3,380,000	4,056,000
5	169,000	422,500	845,000	1,690,000	2,535,000	3,380,000	4,225,000	5,070,000
6	202,800	507,000	1,014,000	2,028,000	3,042,000	4,056,000	5,070,000	6,084,000
7	236,600	591,500	1,183,000	2,366,000	3,549,000	4,732,000	5,915,000	7,098,000
8	270,400	676,000	1,352,000	2,704,000	4,056,000	5,408,000	6,760,000	8,112,000
9	304,200	760,500	1,521,000	3,042,000	4,563,000	6,084,000	7,605,000	9,126,000
10	338,000	845,000	1,690,000	3,380,000	5,070,000	6,760,000	8,450,000	10,140,000
11	371,800	929,500	1,859,000	3,718,000	5,577,000	7,436,000	9,295,000	11,154,000
12	405,600	1,014,000	2,028,000	4,056,000	6,084,000	8,112,000	10,140,000	12,168,000
18	608,400	1,521,000	3,042,000	6,084,000	9,126,000	12,168,000	15,210,000	18,252,000
24	811,200	2,028,000	4,056,000	8,112,000	12,168,000	16,224,000	20,280,000	24,336,000

Thus, for example, if the 2005 Bonds and 2006 ARS trade at 1% higher rates for six months as a result of the Ambac penalty, VTA's would incur higher debt service costs of approximately \$2,028,000 over a clean variable rate transaction. A rate of penalty of 1.50% for six months translates into over \$3 million of higher cost.

For the "do nothing" strategy to be economically advantageous to VTA, the expectation must be that the Ambac penalty will dissipate very quickly. While the penalty may become reduced, as the March 2008 results suggest, the market has given no indication that the penalty will become *de minimus* any time soon. Even after Ambac's capital raise, Fitch did not adjust its "AA" rating, and all three rating agencies have reiterated their negative outlooks. Investor memories may be short – but not that short. Indeed, Ambac's own expectations are that at least 6 to 12 months will be needed for it to burnish its image among investors. Finally, a major improvement in Ambac's trading value will likely benefit only the 2005 Bonds. The rates on the 2006 ARS are anticipated to remain relatively high given the more profound dislocation of the overall auction rate market.

Interim Period Rate Fix. This strategy entails a conversion of the 2005 Bonds and the 2006 ARS to a fixed rate for an interim period, e.g., one year. The principles underlying this strategy are: (1) VTA retains the Ambac bond insurance; (2) it can sidestep the current period of market turbulence with relatively low fixed rate; and (3) it can keep its swaps in place. The rate will differ for the 2005 Bonds and the 2006 ARS as a different conversion approach is involved². Based on input from VTA's existing investment bankers, the one-year fixed conversion rate would be approximately 1.90 to 2.00% for the

² For the 2005 Bonds, VTA would change the mode from weekly to a one-year mode. No new bonds would be issued. For the 2006 ARS, VTA also would convert its weekly ARS to a one year mode but simultaneously issue non-credit-enhanced bond anticipation notes ("BANs"). VTA would use the proceeds of the BANs to purchase the converted ARS, which would be held in a trust. VTA would pay debt service on both the BANs and the ARS, but the ARS debt service would flow back to VTA, leaving the BANs as VTA's net payment obligation. At maturity of the BANs, if the market regains normalcy, the ARS would be "remarketed"; the proceeds from the remarketed ARS would be used to retire the BANs. The BAN approach would not be used with respect to the 2005 Bonds for Federal tax reasons.

2005 Bonds and approximately 1.70%³. In addition, VTA will need to pay transaction costs estimated at approximately \$1.25 million to accomplish both conversions⁴. VTA could finance the transaction costs associated with the 2006 ARS conversion. It would need to cash fund the costs associated with the 2005 Bond conversion.

The conversion approach would produce considerably lower rates than the current rates on the 2005 Bonds and the 2006 ARS. In fact, the rate indications are even lower than current trading levels of clean VRDBs. However, the approach has certain drawbacks, especially relative to a variable rate demand bond refunding (the fifth option):

- From an interest rate standpoint, the optimal conversion approach for the 2006 ARS would occur through an issuance of Bond Anticipation Notes and the use of a newly formulated “trust” structure. To date, the structure has not been implemented. While VTA’s bond counsel has vetted the legal and tax issues, unanticipated practical pitfalls could arise.
- Underwriter estimates of one-year conversion rates have been extremely volatile and inconsistent. Currently, the short-end of the yield curve is inverted – one year rates are lower than weekly rates. From a strategic standpoint, it is impossible to predict with any precision the benefit of the conversion approach vs. clean variable rate bonds.
- Given the Federal Reserve Bank’s posture for future interest rate cuts, the conversion approach would not allow VTA to participate in potentially lower short-term rates that likely would apply to new VRDBs.
- The approach loses correlation with VTA’s swaps. VTA’s swaps were structured to mirror seven day tax-exempt variable rates not one year rates.
- There is no guaranty that current market conditions will improve after a year. This is particularly the case with the auction rate market. In such event, VTA either would need to implement another interim term transaction or issue refunding bonds as a permanent solution. In either case, VTA would need to incur another set of transaction costs as well as assume a certain amount of rate risk.

³ The 2005 Bonds would bear a higher rate for two reasons. First, the Ambac insurance would carry a rate penalty. Second, the conversion must be at par, which creates certain marketing inefficiencies. By contrast, the BANs would carry VTA’s unenhanced rating and could be easily marketed with a premium coupon to VTA’s ultimate cost benefit. As noted in the previous footnote, the use of BANs with respect to the 2005 Bonds has potential adverse Federal tax implications.

⁴ Mostly these costs represent underwriter “takedowns” to market the converted obligations – approximately \$2.00 to \$2.50 per \$1,000 of converted bonds. In addition, VTA would need to pay bond counsel, rating agencies, financial advisor and trustee fees.

Overall, the interim conversion approach has certain appeal based on the low one year rate. However, it does not represent a long-term strategy (especially as it pertains to the 2006 ARS). As a potential fallback strategy, it merits consideration.

Amend Applicable Liquidity Agreements. This approach pertains only to the 2005 Bonds and, potentially, to the 1985 ETCs⁵. One of the reasons that Ambac-insured and other insured variable rate demand bonds trade at such high levels is that the liquidity banks have the ability to terminate their agreements in the event the insurer is severely downgraded or becomes insolvent. These termination rights originally stemmed from the requirements of the rating agencies which, at the time, viewed an insurer downgrade as a more remote event than an issuer downgrade. The amendment approach would tie liquidity agreement termination events to both issuer and insurer downgrades. Therefore, if VTA maintains its ratings, the liquidity bank could not terminate even if the insurer becomes insolvent.

Based on the few transactions that have implemented this approach (e.g., Connecticut Housing Finance Authority), VTA could expect a 0.50% to 0.75% reduction in its weekly variable rates. That said, the market experience with this approach is not well-developed and the remarketing agents have different perspectives on the overall effectiveness of this approach. To date, none of the variable rate demand bonds with amended liquidity agreements have remotely traded like “clean” transactions.

The liquidity amendment approach should be relatively quick to implement. Ambac has indicated its willingness to provide the needed consents. The approach also keeps intact certain favorable provisions that are no longer available with the new liquidity agreements in the current market⁶.

The cost of such amendments is high. Depfa Bank, which provides the liquidity for the 2005 Bonds, indicated that its annual fee would increase from 24 basis points to 60 basis points. Dexia, which provides liquidity for the 1985 ETCs, would charge 0.8% to 1.0% every six months to waive its current termination rights⁷. In addition, there may be upfront legal costs associated with the consent process – estimated at approximately \$50,000.

Overall, the financial impact of amending VTA's liquidity agreements is unclear. The higher liquidity fees largely negate the lower variable interest rate – at least based on rather limited market experience. Further, the resulting interest rates still exceed the clean variable rate transactions. As a result, the approach does not seem to represent a compelling primary strategy. It could become a reasonable fallback approach if either the

⁵ The 2006 ARS have no associated liquidity agreement.

⁶ For example, in existing liquidity agreements, bank bonds would bear a rate equal to prime (or prime + a spread) subject to a maximum rate of 12%. In the new liquidity arrangements, the rate would be the higher of these two rates.

⁷ Dexia's rationale is that it wants to force issuers into new liquidity or letter of credit arrangements with more onerous provisions.

recommended strategy cannot be implemented or if VRDBs with amended liquidity agreements begin to trade like clean VRDBs.

Issue Fixed Rate Refunding Bonds. Under this strategy, VTA would refund the 2005 Bonds and 2006 ARS with fixed rate bonds secured by its own credit. The approach is simple to implement, involves traditional securities, eliminates the need for third party credit enhancers or liquidity providers and offers the advantage of certainty. The disadvantages of this approach, however, are considerable:

- ***Relatively high interest cost*** – Long-term fixed rates have increased by approximately 0.5% over the past several months. High quality tax-exempt rates now exceed rates on U.S. Treasury bonds for the equivalent maturity. In the current market, VTA's average interest costs for fixed rate refundings of the 2005 Bonds (final maturity of 2026) and the 2006 ARS (final maturity of 2036) would be approximately 4.70% and 5.25%, respectively. The general market sentiment is for higher long-term tax-exempt rates in light of the expected supply of municipal bonds to be issued.
- ***High Transaction Costs*** – Long-term fixed rate bonds are the most expensive to market because of the long-term maturity and current market volatility. Takedowns are twice what issuers paid six months ago. As a result, the total transaction costs are estimated \$2.5 million, which VTA could finance through the bond issue.
- ***Impact on Outstanding Interest Rate Swaps.*** A decision to issue fixed rate refunding bonds effectively would require VTA either to terminate or restructure its outstanding interest rate swaps associated with the 2005 Bonds and/or the 2006 ARS. In the current market, VTA could terminate the 2005 and 2006 swaps at a cost of approximately \$3.8 million and \$29.1 million, respectively – as fixed swap rates have declined since the time VTA entered into these transactions. VTA could potentially restructure the swaps as “forward starting swaps” – to hedge future debt issuances. The resulting swap interest rates would need to increase by an estimated 50 to 75 basis points or so; moreover, VTA has no planned bond issuances that require hedging at this point.

This refunding strategy is the most expensive of VTA's options to address the current market turmoil. While the approach represents a permanent solution, the effect on VTA's existing swaps, alone, renders this strategy economically undesirable.

Issue Variable Rate Demand Refunding Bonds. Under this approach, VTA would refinance the 2005 Bonds and 2006 ARS with new VRDBs. The refunding bonds would be uninsured, backed by VTA's sales tax revenue streams. A highly rated bank or a group of banks would provide liquidity to bondholders for remarketed bonds.

This strategy offers the following advantages to VTA:

- **Low Variable Rates.** According to VTA's remarketing agents, this structure would produce the lowest variable rate over the long run. Investors covet this kind of product both for diversification reasons and to reduce bond insurer exposure. As an example, this week, SANDAG, VTA's counterpart in San Diego County, issued sales tax-backed variable rate demand bonds at an initial rate of 1.80% - compared with VTA's rate of 1.95% on its FSA-insured 1998 and 2000 Bonds.
- **No Swap Impact.** The approach allows VTA to maintain its existing swaps and establishes the best correlation between the variable rates on the bonds and the swaps.
- **No Bond Insurance.** The approach eliminates reliance on third party credit enhancers. VTA's strong credit ratings will back the bonds and, in so doing, VTA retains greater control over its own destiny.
- **Long-term Solution.** This refunding approach, in effect, provides a long-term, if not permanent, solution to the existing market turmoil and allows VTA to give effect to the original intent of the 2005 Bonds/2006 ARS.

This approach entails certain drawbacks and challenges, however.

Transaction Costs. VTA obviously would need to incur transaction costs to implement the refunding. The aggregate transaction costs to refund approximately \$405 million of bonds would approximate \$1.25 to \$1.5 million – about the same as the conversion approach but much less than a fixed rate refunding. However, the cost of staying with Ambac-insured variable rate bonds could exceed those costs within a few months. Based on most recent reset rates, the current average Ambac rate penalties for the 2005 Bonds and 2006 ARS are approximately 1.30% and 2.35%, or a weighted average penalty of approximately 1.90%. At these penalties, VTA would break even in two to three months, as shown in the Ambac Trading Penalty chart.

Liquidity Banks. VTA would need to secure liquidity from banks in a market where liquidity has become a scarce resource. This scarcity has resulted in increased pricing, shorter terms, more onerous provisions in the liquidity agreements, longer time frames for approval and increased instances of unfulfilled bank commitments. With respect to pricing, for example, VTA in 1998 obtained a 17-year liquidity facility for 16 basis points/year from Dexia for the 1985 ETCs. In 2005, VTA obtained a 10 year liquidity facility from Depfa for 14 basis points for the 2005 Bonds⁸. By contrast, in the current market, liquidity facilities typically extend for a maximum term of 3 years, subject to renewal, with annual fees of 35 to 45 basis points. If pricing improves in three years, VTA could negotiate a lower fee or replace the liquidity bank.

⁸ The annual fee for the Depfa liquidity facility increased to 24 basis points in January as a result of Fitch's downgrade of Ambac.

No Impact on Ambac's Swap Insurance. While Ambac currently taints VTA's bonds, it still has value with respect to VTA's outstanding swaps. Counterparties would not likely wish to amend the swap agreements to remove Ambac without a rate adjustment or other consideration. Thus, VTA would need assurance that refunding the 2005 Bonds and 2006 ARS would not impact Ambac's current involvement in the swaps. Ambac issued separate insurance policies for the bonds and the swaps. The two policies, by their terms, are not inter-connected. In Bond Counsel's view, a bond refunding should not affect the outstanding swap insurance policy. Ambac may resist this interpretation.

2006 Debt Service Reserve Fund. Finally, VTA will need to address the debt service reserve fund situation associated with the 2006 ARS, which is payable from 2000 Measure A sales tax revenues. At present, Ambac provides a surety in lieu of a cash-funded reserve. That surety will terminate upon a refunding. VTA has the legal ability to issue new senior lien sales tax bonds without a reserve fund, but that approach may produce a slightly lower rating on the bonds. VTA could offset a potential rating impact by funding the reserve with bond proceeds or its own monies, and/or modifying certain other provisions relating to the issuance of additional bonds. The 2005 Bonds, payable from 1976 sales tax revenues, are unaffected by this situation⁹.

The following table summarizes the impacts of VTA's basic strategies associated with the 2005 Bonds and 2006 ARS as of with week of March 24, 2008:

	Do Nothing	One Year Conversion	Amend Liq. Agmt.	Fixed Rate Ref. Bonds	Var. Rate Ref. Bonds
Interest Rates	2005 Bonds: 2.50% - 3.75% 2006 ARS - 4.50%	2005 Bonds ~ 1.90-2.00% for 2006 ARS ~ 1.70%	2005 Bonds - Reduce current rate by ~ 50bp 2006 ARS: N/A	2005 Bonds ~ 4.60%; 2006 ARS: ~ 5.25%	~1.80%
Annual Fees	2005 Bonds: 31bp 2006 ARS - 25.5 bp	2005 Bonds - 24 bps 2006 ARS - none	2005 Bonds - 67 bp 2006 ARS - N/A	None	~50 bp
Bank Liquidity Risks	Taxable rate for tendered bonds; termination if Ambac insolv.	Same termination risk for 2005 Bonds	Significantly reduced	N/A	Significantly reduced
Swap Impact	None - but high neg. basis	None - but lock in neg. basis	None - reduced negative basis	Terminate at ~\$32mm cost or use for future hedge	None; regain correlation with swap

⁹ VTA's bonds backed by a senior lien of the 1976 sales tax has an additional bonds test of 2 times - i.e., historical sales tax revenues must exceed outstanding and new debt service by at least 2 times. Because VTA relies on 1976 sales tax revenues for operations, debt service coverage is very high. The reserve requirement for this program is a springing one - VTA has no need to fund a reserve so long as debt service coverage does not dip below 3 times. By contrast, the 2000 Measure A sales tax is designed to fund mostly capital projects. The additional bonds test is more flexible at 1.3 times, consistent with similar capital-intensive programs financed with sales tax bonds. In such instances, funded reserves are required by the rating agencies to maximize ratings.

Transaction Costs	None	~\$1.25 mm	~\$50k	~\$2.5 mm	\$1.25 to \$1.5 mm
Permanency of Strategy	No	None – market turmoil could remain after one year.	2005 Bonds – probably yes 2006 ARS – no impact	Yes	Yes – unless need to replace liquidity bank

Conclusion and Recommendation

From an economic standpoint, the full refunding of the 2005 Bonds and the 2006 ARS with uninsured VRDBs represents the most effective financing strategy. Based on current investor demand, the approach will most likely achieve the lowest variable interest rate, preserve the swaps and, in general, allow VTA to retain the benefit of the original transactions it entered into in 2005 and 2006. Short of issuing expensive fixed rate bonds, the approach provides as much of permanent solution as possible.

The implementation of a variable rate demand bond refunding requires VTA to procure new liquidity facilities. Most likely, it will need three to four banks given the amount of debt currently affected. Based on a recent survey of banks, sufficient liquidity capacity appears available for a desirable credit like VTA. However, there are notable incidences of banks withdrawing from existing commitments for non-credit related reasons. The market remains volatile and unpredictable, and investor sentiment changes almost on a daily basis. As a result, it is important for VTA to have fallback options.

The recommended fallback options are:

- If Limited Bank Liquidity Capacity – Apply it to refund the 2006 ARS, as that market now suffers from broader structural concerns. With respect to 2005 Bonds, then evaluate an amendment to the Depfa liquidity arrangement and the conversion approach.
- If No Bank Liquidity Capacity – Implement the conversion approach for the 2006 ARS.

Recent legislation and SEC guidance now allow issuers to purchase their own ARS and VRDBs for a limited period (currently, 180 days). This capability could help alleviate the impact of higher borrowing costs on the one hand by bolstering investment returns on the other. To the extent it has the cash, VTA could readily avail itself of these investment options while it is in the process of implementing its preferred strategy for the 2005 Bonds and 2006 ARS.

Please feel free to contact me with any questions.

From: Board.Secretary
Sent: Wednesday, April 02, 2008 6:22 PM
To: Board.Secretary
Cc: Burns, Michael
Subject: 4/3/08 VTA Board Meeting Agenda Item #11. Contract to Replace and Upgrade Ticket Vending Machine Components to Support Translink

Attachments: A&F Committee Supplemental Information Reports.pdf

VTA Board of Directors:

At the March 20, 2008 Administration and Finance Committee meeting, Board Member Casas and Alternate Board Member McHugh requested that supplemental information be provided to the Board of Directors regarding the Contract to Replace and Upgrade Ticket Vending Machine Components to Support Translink item (A&F Agenda Item #13). Attached is a memorandum from Chief Administrative Officer Bill Lopez responding to the requests of Board Member Casas and Alternate Board Member McHugh.

The attached supplemental information pertains to the April 3, 2008 Board of Directors Meeting Agenda Item #11. Authorize the General Manager to execute a sole-source procurement agreement with VenTek Transit, the original equipment manufacturer of VTA's Ticket Vending Machines (TVM's), in an amount not to exceed \$4,500,000 to replace and upgrade components of 269 TVM's used by VTA and Caltrain to support Translink; and further, authorize the General Manager to execute a fund transfer agreement with the Metropolitan Transportation Commission (MTC) to receive grant funding for the TVM Upgrade Project.

Tracene Y. Crenshaw
Acting Assistant Board Secretary
Office of the Board Secretary
(408) 321-5544

Date: 4/02/2008
Committee Meeting Date: 3/20/2008
Board Meeting Date: 4/03/2008
ACTION ITEM

BOARD MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Bill Lopez
Chief Administrative Officer

SUBJECT: A&F Committee Supplemental Information Reports

At the March 20, 2008 Administration and Finance Committee meeting staff received requests to follow up with supplemental information regarding the VenTek Transit contract item, as follows:

- Alternate Board Member McHugh requested a report on the advisability of requiring the contractor to provide a performance bond to manage any potential risk associated with the financial condition of VenTek International.
 - Vice Chairman Casas asked staff to conduct a quantitative analysis of savings resulting from a Sole Source procurement versus an open RFP.
-

1. Analysis into costs associated with a performance bond.

The cost of a performance bond to cover the TransLink[®] Integration project could add an additional \$45,000 to \$225,000 to the cost of the project, provided an underwriter could be found.

The project, as planned, consists of a component procurement phase, a software development/integration phase and an assembly phase. Several underwriters were found to not cover commercial software development efforts under a traditional performance bond in California. Because of the lack of hard data, the cost estimate above is based upon the pricing of a traditional construction bond of between 1% and 5% of total project budget.

Due to the estimated high cost, low anticipated availability of an underwriter and VTA's long and stable association with VenTek Transit, staff recommends that other risk mitigation mechanisms be utilized such as progress payments, software escrow and a review of the VenTek Transit financial statements.

The TransLink® Integration project will be broken into six non-concurrent phases, each with its own task order. Every phase will have a statement of work, functional requirements and specific set of deliverables. Payment will be contingent upon VTA and JPB satisfaction of these deliverables as to schedule and quality. In addition, a software escrow will be established to further mitigate the risk of intellectual property loss. Finally, as noted above, VTA staff has conducted a review of the VenTek Transit's financial statements and found no issues of concern.

2. Quantitative Analysis into savings resulting from a Sole Source procurement plan versus an open RFP.

The attached table summarizes and compares the estimated costs and savings of utilizing a Sole Source procurement agreement as opposed to an RFP process.

Table 1: Quantitative Analysis of Sole Source Procurement Savings

<u>Metric</u>	<u>Metric Description</u>	<u>Scenario 1 Sole-source procurement with current vendor</u>	<u>Scenario 2 Competitive procurement; current vendor wins contract</u>	<u>Scenario 3 Competitive procurement; new vendor wins contract</u>	<u>Data source and comments</u>
Components Procurement	Obtain the materials required to replace or update TVM components including proprietary central processor	\$3,750,000	\$3,750,000	\$4,992,242	Based upon for replacement part price list from current vendor. Processor reverse engineering effort cost by new vendor estimated to be 100% of replacement cost.
Design & Engineering	Design physical placement of replaced components and update proprietary TVM software accordingly	\$50,000	\$50,000	\$100,000	Costs estimated with a 100% premium for new vendor reverse engineering of software.
Hardware Deployment	Replace and upgrade TVM components in all 269 TVMs	\$250,000	\$250,000	\$375,000	Based on staff estimates of with a 50% premium for new vendor to cover staffing issues and training.
TransLink® Integration	Work with contractor to integrate proprietary TVM software with proprietary TransLink® program	\$250,000	\$250,000	\$437,500	Estimates based on prior experience with Motorola/ERG software libraries with a 75% premium added for inexperience.
Quality Assurance	Design and conduct an extensive series of functionality tests to ensure proper performance of updated software.	\$50,000	\$50,000	\$50,000	Costs based on a 15 day testing period with an allowance for 1 round of rework.
Software Deployment	Loading the updated software into all 269 TVMs	\$150,000	\$150,000	\$262,500	Estimates based on prior experience deploying TVM software with a 75% premium added for inexperience.
Rail Operations	Estimated costs associated with any changes in design or process (i.e.: retraining, retooling) resulting from a change of TVM vendor	\$0	\$0	\$112,000	Data source is staff estimation based on prior TVM replacement and upgrade experiences.
Administrative and Marketing	Cost to VTA for RFP and projected increased project administration costs associated with new vendor plus awareness campaign to alert riders of any changes in TVM operation	\$0	\$99,000	\$121,500	Costs based on staff estimation of RFP costs plus a 0.5% of total budget allowance for additional project and administration costs for new vendors. Any RFP scenario will add three months minimum to project.
Scenario total		\$4,500,000	\$4,599,000	\$6,450,742	

To: VTA Board of Directors
From: Kurt Evans, Government Affairs Manager
Date: April 4, 2008
Subject: General Information: President's FY 2009 Transportation
Budget

For your information, I am attaching a summary of the President's FY 2009 budget submittal to Congress as it pertains to transportation.

MEMORANDUM

TO: Santa Clara Valley Transportation Authority
Board of Directors

FROM: Kurt Evans, Government Affairs Manager
Santa Clara Valley Transportation Authority

DATE: April 4, 2008

SUBJECT: Summary of President's FY 2009 Transportation Budget

BACKGROUND

President George W. Bush has submitted a \$3.1 trillion budget to Congress for FY 2009. It includes \$68.2 billion in total transportation spending, a \$2.13 billion reduction from the amount that was enacted in FY 2008. The cuts primarily come from four areas—the federal-aid highway program, transit, Amtrak, and airport grants.

The highway program is proposed to be reduced by \$800 million from the amount that was guaranteed in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). In the case of transit, the President is recommending \$10.1 billion, roughly a \$600 million increase over the \$9.5 billion appropriated for FY 2008, but \$202 million less than the level of spending guaranteed in SAFETEA-LU. However, he is also proposing to transfer \$3.2 billion from the Mass Transit Account to the Highway Account to prevent the latter from ending FY 2009 with a negative balance. This temporary fix would: (a) hasten the insolvency of the Mass Transit Account, putting it in the red in FY 2010, rather than in FY 2012; and (b) absent new revenues, preclude federal transit programs from being funded at even current levels in FY 2010.

The following summarizes the key elements of the President's proposed FY 2009 transportation budget.

FEDERAL TRANSIT ADMINISTRATION

The Federal Transit Administration (FTA) provides planning, technical assistance and financial resources necessary to provide public transportation that safely and efficiently moves tens of millions of people every day, connecting them to their jobs and communities. The President is proposing \$10.1 billion in FY 2009 to fund the various programs that are under FTA's jurisdiction. The breakdown for the key program categories is as follows:

Urbanized Area Formula Program = \$5.3 billion. These funds are allocated to public transit operators in urbanized areas (UZAs) through a complex formula and can be used for any transit capital purpose. Under the provisions of SAFETEA-LU, these formula funds can also be used for preventive maintenance, as well as for paratransit services required by the federal Americans with Disabilities Act (ADA), provided that the amount dedicated for this purpose does not exceed 10 percent and the operator is in full compliance with ADA. On average, VTA receives approximately \$35 million-\$45 million per year in UZA formula funds, depending on federal appropriations levels.

Rural Area Formula Program = \$538 million. These funds are allocated to public transit operators that are not in a UZA. In California, Caltrans is responsible for distributing these funds to rural public transit operators as directed by the California Transportation Commission (CTC).

Elderly and Individuals with Disabilities Program = \$134 million. These funds are granted to non-profit organizations to provide transportation services to elderly and disabled individuals who cannot use or do not have access to public transit systems. In California, Caltrans is responsible for administering these funds as directed by the CTC. As VTA's paratransit broker, Outreach is the principal recipient of these funds locally.

Job Access/Reverse Commute Program = \$165 million. This formula grant program funds projects designed to provide access to employment opportunities for welfare recipients and low-income individuals. It also funds reverse commute initiatives. In addition to public transit operators, funds under this program can be allocated to other governmental entities and non-profit organizations, provided that they coordinate their activities with their local public transit operators. VTA and the county together are responsible for programming Santa Clara County's formula share of Job Access/Reverse Commute Program funds, which amounts to roughly \$500,000 per year, depending on federal appropriations levels.

New Freedom Program = \$93 million. This formula program provides funding for new transportation services beyond those required by ADA for individuals with special mobility needs. Roughly \$440,000 per year is available to VTA, depending on federal appropriations levels.

Bus and Bus Facilities Program = \$984 million. These discretionary funds are earmarked by Congress primarily for the purchase of buses, as well as for the construction or upgrading of bus facilities. For FY 2009, VTA has submitted an appropriations request for our Advanced Zero-Emission Bus Demonstration Program. Congresswoman Zoe Lofgren is sponsoring this request on our behalf.

Clean Fuels Grant Program = \$52 million. This program provides grants to public transit operators to help them utilize clean-fuel technologies for their bus fleets. The funds were originally intended to be distributed according to a complex formula that takes into consideration a public transit provider's fleet size and passenger miles, as well as the severity of the air quality problems in the area in which the public transit provider operates. However, Congress historically has opted to transfer these funds to the Bus/Bus Facilities Program and to earmark them for specific projects under that program.

Fixed Guideway Modernization Program = \$1.7 billion. These funds are distributed by formula to UZAs for rehabilitation and enhancement projects related to existing rail systems. On average, our area receives approximately \$15 million to \$20 million per year, depending on federal appropriations levels. These funds are shared by VTA and Caltrain.

New Starts/Small Starts = \$1.6 billion. These discretionary funds are earmarked by Congress primarily for major rail expansion projects called “New Starts.” There is a \$200 million takedown for smaller New-Starts-eligible projects, including bus rapid transit, with a federal share of less than \$75 million. These projects are called “Small Starts.” VTA is not requesting any of these funds in FY 2009.

FEDERAL HIGHWAY ADMINISTRATION

The Federal Highway Administration (FHWA) is primarily responsible for preserving and improving the 160,000-mile National Highway System, which includes Interstate facilities and other roadways of importance for national defense and mobility. The President is proposing \$39.4 billion in FY 2009 to fund federal-aid highway programs, which fall under the jurisdiction of FHWA. The breakdown for the key program categories is as follows:

National Highway System (NHS) = \$6.3 billion. This formula program funds improvements to highways designated as part of the NHS. These include the current Interstate system, other rural principal arterials, urban freeways and connecting urban principal arterials, facilities on the U.S. Defense Department’s designated Strategic Highway Network, and roads connecting the NHS to intermodal facilities. California’s share of these formula funds are programmed through the State Transportation Improvement Program (STIP) process.

Interstate Maintenance Program = \$5.2 billion. This formula program funds maintenance, rehabilitation, restoration, and reconstruction work related to highways on the Interstate System. California’s share of these formula funds are programmed through the STIP process.

Bridge Replacement and Rehabilitation Program = \$4.5 billion. This formula program funds replacement, rehabilitation and systematic preventive maintenance work related to highway bridges. California’s share of these formula funds are programmed through the STIP process.

Surface Transportation Program (STP) = \$6.6 billion. This flexible funding category under the highway title provides money for roadway, highway, bridge, and transit capital improvement projects. Under federal law, these funds are allocated by formula to the states. In California, the money is then suballocated to metropolitan planning organizations (MPOs), such as MTC in the Bay Area, and programmed at the regional level. Acting in its congestion management agency role, VTA is responsible for submitting to MTC the prioritized list of projects in Santa Clara County for our share of these funds, which amounts to about \$8 million to \$15 million per year, depending on federal appropriations levels.

Congestion Mitigation and Air Quality Improvement Program (CMAQ) = \$1.8 billion. This is another category of flexible funds under the highway title. CMAQ funds are available to

urbanized areas that have not attained the ozone and carbon monoxide air quality standards established in the federal Clean Air Act or that have been designated as maintenance areas for ozone and carbon monoxide. The funds may be applied to projects and programs that contribute to the attainment of these air quality standards. Similar to STP dollars, CMAQ funds are allocated by formula to the states. Again, in California, the money is then suballocated to the MPOs. VTA is responsible for submitting to MTC the prioritized list of projects in Santa Clara County for our share of these funds, which amounts to about \$5 million to \$10 million per year, depending on federal appropriations levels.

Transportation Infrastructure Finance and Innovation Act (TIFIA) Program = \$122 million. These funds are used to help stimulate private capital investment in transportation infrastructure. Under TIFIA, approved applicants receive credit assistance in the form of direct loans, loan guarantees or lines of credit for up to one-third of the cost of large infrastructure construction projects of national or regional significance.

Intelligent Transportation Systems (ITS) = \$110 million. These funds are used for ITS research, development and implementation.

Emergency Relief (ER) Program = \$100 million. These funds are used to repair or reconstruct federal-aid highways that have suffered serious damage as a result of natural disasters.

FEDERAL AVIATION ADMINISTRATION

The Federal Aviation Administration (FAA) is responsible for promoting aviation safety and efficiency, and reducing congestion in U.S. airspace. This includes: (a) building, maintaining, and operating the nation's air traffic control system; (b) overseeing commercial and general aviation safety through regulation and inspection; and (c) providing assistance to improve the capacity and safety of airports throughout the country. For FY 2009, the President is requesting \$14.6 billion for the programs that fall under the jurisdiction of FAA, a decrease of 2 percent compared to the FY 2008 appropriations level of \$14.9 billion. The key components of the FAA budget request are as follows:

Air Traffic Organization = \$9.7 billion. These funds go for operations, maintenance, communications, and logistical support related to the nation's air traffic control and air navigation systems.

Grants-in-Aid for Airports = \$2.8 billion. This program provides money for planning and developing airports in the United States, including grants for security, safety, capacity, and noise-reduction projects.

FEDERAL RAILROAD ADMINISTRATION

The Federal Railroad Administration (FRA) is responsible for ensuring safe, secure and efficient nationwide rail transportation. For FY 2009, the President is requesting \$1.1 billion for FRA activities, which represents a decrease of approximately 30 percent from the FY 2008 level of \$1.56 billion. Most of this cut is related to Amtrak. The FY 2009 request for Amtrak is \$900

million, which is roughly \$400 million less than the amount that was appropriated in the current fiscal year. Included in the Amtrak request is \$100 million for capital matching grants to the states for intercity passenger rail projects to enable them, rather than Amtrak, to undertake rail infrastructure projects that address their transportation goals and priorities.

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

The National Highway Traffic Safety Administration (NHTSA) is responsible for conducting highway and vehicle safety research, setting and promulgating vehicle safety standards, studying driver behavior to reduce the frequency and severity of motor vehicle crashes, and providing grants to the states for the administration of highway traffic safety programs. For FY 2009, the President is requesting a total of \$851 million for NHTSA's activities. This figure represents a 1.5 percent increase over the current fiscal year amount of \$838 million. The key programs under NHTSA are as follows:

Vehicle Safety Research = \$122 million. NHTSA uses these funds to conduct research on how to make motor vehicles safer.

Highway Safety Research and Development = \$106 million. These funds go for research activities related to reducing highway fatalities, preventing injuries, and minimizing the economic toll of highway accidents.

State and Community Grants = \$235 million. This is a formula grant program that supports state highway safety programs designed to reduce motor vehicle accidents.

Alcohol-Impaired Driving Countermeasures Incentive Grants = \$139 million. These grant funds are allocated to the states to encourage them to adopt and implement programs to reduce impaired driving.

Seat Belt Performance Grants = \$124.5 million. These incentive grants are used to encourage state efforts to increase seat belt usage. States can qualify for a grant by enacting a primary seat belt use law or, beginning in 2008, by achieving a statewide seat belt use rate of 85 percent for the two prior consecutive years. A state may use these grant funds for any project that corrects or improves a hazardous roadway location or feature, or that proactively addresses highway safety problems.

FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION

The Federal Motor Carrier Safety Administration (FMCSA) is responsible for promoting the safety of commercial motor vehicles, which includes large trucks and buses, by conducting research, education, and testing, as well as by promulgating safety standards. For FY 2009, the President is recommending \$541 million for FMCSA, which represents a 2 percent increase over the FY 2008 enacted budget of \$530 million. Important activities of FMCSA are as follows:

Commercial Motor Vehicle Safety = \$193.5 million. These funds go for FMCSA activities related to reducing the incidence and severity of commercial vehicle crashes and hazardous materials incidents.

Commercial Motor Vehicle Security = \$7.4 million. These funds are used to improve the security of motor carriers transporting hazardous materials.

Motor Carrier Safety Assistance Program = \$209 million. This grant program provides funds to the states to conduct motor carrier compliance reviews and roadside inspections, and to enforce violations that are uncovered during roadside inspections.

International Border Enforcement = \$32 million. These funds go for state safety enforcement efforts at the international borders to ensure that Mexican and Canadian trucks and buses adhere to the same safety standards as U.S. motor carriers.

Commercial Driver's License = \$25 million. This program is geared toward improving state commercial driver's license oversight activities to prevent unqualified drivers from being issued licenses.