

Date: March 21, 2008

Committee Meeting Date: March 20, 2008

Board Meeting Date: April 3, 2008

BOARD MEMORANDUM

ACTION ITEM

TO: Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Joseph T. Smith
Chief Financial Officer

SUBJECT: Measure A Variable Rate Debt Refinancing or Restructuring

Policy-Related Action: Yes

Government Code Section 84308 Applies: Yes

RECOMMENDATION:

Adopt a resolution authorizing the General Manager or his designee to agree to the terms of and execute documents relating to a negotiated sale, up to \$260 million of Measure A Sales Tax Revenue Refunding Bonds or Notes, 2008 Series A (Refunding Bonds) to refund \$236 million aggregate principal amount of Measure A 2006 Series A-D Sales Tax Revenue Bonds and to pay the costs of issuance; and, further authorize the General Manager or his designee to convert the Measure A 2006 Series A-D Sales Tax Revenue Bonds to a one-year term mode either on a stand alone basis or through a structured trust, as an alternative course of action.

BACKGROUND:

In recent years, state and local governments, nonprofit corporations, and other issuers have insured nearly half of new municipal bond issues with bond insurance. Bond insurance enabled these bond issues, for the most part, to be rated at the highest possible levels and provided comfort to investors that they would receive full payment of the bonds they purchased. For this added protection, investors were willing to accept lower interest rates which, in turn, translated to lower borrowing costs for issuers. Virtually all of VTA's outstanding debt (99%) is insured through Ambac (86%), FSA (11%), or MBIA (2%).

One year ago, there were seven municipal bond insurers with "Aaa/AAA/AAA" ratings from Moody's, Standard & Poor's and Fitch, respectively. Only two bond insurers (FSA and Assured Guaranty) currently retain such ratings without threat of downgrade. The other five insurers (Ambac, CIFG, FGIC, MBIA and XL Capital) have been downgraded below "AAA" by one or more of the rating agencies or are being reviewed for potential downgrades. The reason for this situation is that many of the bond insurers, including Ambac, have strayed from providing

insurance only for municipal bonds into providing guarantees on the debt service of structured obligations secured by sub-prime mortgage loans.

While bond insurance initially “enhanced” the credits of public agencies and broadened the market for their bonds, downgrades of these bond insurers have thrown the variable rate bond market into unprecedented turmoil. Both auction rate bonds and variable rate demand bonds¹ have been affected. Even the most prominent issuers nationwide are being penalized with higher interest rates to attract investors to purchase insured bonds. In many instances, investors have refused to purchase such bonds at any interest rate, even though the underlying municipal credits are fundamentally sound.

VTA currently has \$356 million of bonds outstanding that are secured by the 2000 Measure A ½ cent sales tax. These bonds consist of 2006 Series A-D 2000 Measure A Sales Tax Revenue Bonds (2006 Bonds) and 2007 Series A Measure A Sales Tax Revenue Refunding Bonds (2007 Bonds). For the 2006 Bonds, VTA has been significantly impacted by recent events in the municipal market through higher interest rates on these Ambac-insured bonds (which have \$236 million of principal outstanding). The fiscal year to date² average “all-in” rate³ for the 2006 Bonds has been 4.40%. However, by the end of February, this rate had increased to 7.62% (and actually had reached a high of 9.76%). This compares to the average all-in rate of 3.67% for the 2006 Bonds during the prior fiscal year.

DISCUSSION:

The recommended course of action is to issue *uninsured* variable rate refunding bonds (Refunding Bonds), secured by the 2000 Measure A ½ cent sales tax and enter into a liquidity agreement with a highly rated bank (the “Liquidity Bank”) with a short-term rating of at least VMIG-1/A-1 from Moody’s and Standard & Poor’s. The proceeds of the Refunding Bonds would be used to retire the 2006 Bonds and pay the cost of issue. Staff anticipates that the long-term credit rating of the 2008 Measure A Bonds would be rated AA+/Aa3 from Standard & Poor’s and Moody’s, respectively—consistent with the Measure A ratings on the 2007 Bonds, which are also secured by the 2000 Measure A sales tax. The current long-term ratings are based on the fact that a debt service reserve fund (funded with a surety bond through Ambac) is included with existing Measure A debt obligations. However, the proposed refunding bonds would not include a surety bond; therefore, it may become necessary to cash fund a debt service reserve fund in an amount up to \$23 million—in order to maintain the current level of long-term credit ratings. The short-term rating on the Refunding Bonds would be based on the Liquidity Bank’s short-term rating. The existing variable-to-fixed interest rate swap agreements, currently associated with the 2006 Bonds, would remain in place.

The Refunding Bonds would be weekly uninsured variable rate demand bonds. As variable rate demand bonds, interest rates would be reset weekly by remarketing agents, based on market demand. VTA would engage the services of a standby bank in case of a failed remarketing

¹ The difference between auction rate bonds and variable rate demand bonds is that in the auction rate market, when auctions fail to generate enough buyers, existing investors are stuck holding investments they cannot sell. With variable rate demand bonds, if the bonds are not remarketed, they are purchased by the bank that has agreed to buy them pursuant to an agreement between VTA and the bank.

² As of February 29, 2008

³ Includes annual remarketing fees, liquidity fees, and swap payments.

(which occurs when supply exceeds demand). The terms of the liquidity agreement would contain termination provisions based on VTA downgrades or insolvency. Additionally, the liquidity agreement would more than likely be valid for a period of 364 days to 5 years.

By refunding the 2006 Bonds and eliminating the current Ambac “penalty rates” being required from investors, interest rates should decline by 2.0% or more from current levels. However, based on current market conditions, the annual fees associated with liquidity and remarketing are anticipated to be as high as 1.00%, annually (versus prior broker-dealer fees for 2006 Bonds of 0.25%). Staff would aggressively pursue better rates. Given these levels the projected annual “all-in rate” would be approximately 0.36% lower than the SIFMA⁴ rate, which is reset weekly, plus an additional 1.00% for liquidity and remarketing fees and an additional amount for swap payments made under the swaps. For the week of March 10, 2008, VTA’s “all-in” rate⁵ on Refunding Bonds would have been 4.92%, compared to FY 2007 actual all-in rate of 3.67% for the 2006 Bonds. This represents approximately \$3.0 million of increased debt service per year as compared to FY 2007, based on a bond issue of \$236 million. With an increase in bond issue size, if a debt service reserve fund (if required) is funded with bond proceeds, the debt service would be approximately \$4.1 million as compared to FY 2007. The anticipated debt service will decrease to the extent that Staff is successful in obtaining lower liquidity fees than projected.

Alternative Course of Action

In the current market, VTA may be unable to successfully obtain liquidity agreements with one or more banks, which would be necessary to complete a variable rate refunding.

If this were to occur, VTA’s alternative course of action for the 2006 Bonds is to convert from 7-day auction rate securities to a term of one year and at an interest rate that would be fixed for that period. Under this type of structure, based on current interest rates, VTA’s “all-in rate” is expected to be between 4.4% and 5.0%⁶. Alternatively, VTA could issue a one year bond anticipation note (BAN) in the amount of approximately \$236 million. The proceeds would be used to purchase the 2006 Bonds, which would then be placed in a trust, for which VTA would be the beneficiary. This structure would result in an anticipated “all-in” rate of 3.98% - 4.28%. The expected outcome in either case is to reduce VTA’s near term exposure to unusually high weekly interest rate resets. If market conditions do not improve, VTA may need to implement another temporary approach or try to refinance such obligations – in each case, incurring additional issuance costs for implementing the temporary solutions as well as “un-winding” them.

⁴ Index of short term rates reflecting activity in the variable rate market. Rate on 3/10/08 was 2.96%.

⁵ Includes interest to bondholders, liquidity and remarketing fees, and swap payments made to/from swap counterparties.

⁶ Includes interest to bondholders and swap payments made to/from swap counterparties.

Manner of Sale

For a negotiated sale, staff recommends using one or more underwriting firms from the pool of underwriters and broker-dealers that serve as remarketing agents and broker-dealers for existing variable rate and auction rate bonds. These firms were initially selected through a competitive process. The firms include Banc of America Securities, Citigroup Global Markets, Inc., Goldman Sachs & Co., Lehman Brothers Inc. and Morgan Stanley. In addition, VTA would include J.P. Morgan, which has managed prior debt issued in support of the Measure A Program.

Financing Team

Staff issued task orders to VTA's financial advisor (Ross Financial) and one firm in VTA's bond counsel pool (Orrick, Herrington & Sutcliffe LLP) to act as Bond & Disclosure Counsel.

Documentation

The resolution recommended for approval by the Board of Directors describes the parameters for converting or sale of any potential bond issuances; as well as, the transaction documents being approved by the Board of Directors. Documents which are required in connection with the options described above include:

- Supplemental Indenture(s)
- Disclosure Documents(s)
- Purchase Contract(s)
- Liquidity Agreement(s) and Supplemental Liquidity Agreements
- Remarketing Agreement(s)
- Continuing Disclosure Certificate(s)

A description of each of these documents is included in Attachment A. Substantially completed draft documents are attached to the Resolution as exhibits.

ALTERNATIVES:

The Board could choose to do nothing; however, if current interest rates continue, debt service would increase by approximately \$9.3 million per year for Measure A Bonds as compared to FY 2007, based on all-in rates at the end of February.

FISCAL IMPACT:

Estimated fees for the issuance of variable rate refunding bonds is \$965,000 and would be paid from bond proceeds. These costs include bond counsel, financial advisory, underwriting, rating, trustee and other miscellaneous fees. On an annualized basis, debt service is anticipated to increase by approximately \$3.0-\$4.1 million--as compared to FY 2007 actual debt service.

In lieu of refunding, fees associated with a one year temporary fix would be approximately \$950,000 (not including additional fees to "un-wind" in a year), and would be absorbed within the adopted FY 2008 Measure A Budget.

STANDING COMMITTEE DISCUSSION/RECOMMENDATION:

The Administration & Finance Committee considered this item on March 20, 2008. Following a discussion that is summarized below, the Committee unanimously recommended that the Board approve this item.

Question: Director Reed inquired about the reason for the increase in debt service.

Response: The majority of the anticipated increase in debt service, for the low end of the estimate of \$3.0 million, is due to the need to obtain a standby bank to provide liquidity for a variable rate refunding--in a market where demand is high; and therefore, the related cost of obtaining liquidity will be higher. However, these fees may be negotiated downwards at the end of the term (anticipated to be 3-5 years) of each applicable liquidity agreement. These fees are not currently paid with the 2006 Bonds. The high end of the estimated increase (\$4.1 million) is if VTA needed to issue bonds in an amount sufficient to fund a debt service reserve fund using bonds proceeds.

Question: Director Reed inquired about the maximum rate a standby bank would be charging based on current market conditions.

Response: Based on the terms in VTA's existing agreements (for the 1985 ETCs and 2005 Bonds), the bank rate is equal to Prime Rate (currently 6%). However, a new agreement with a liquidity bank in today's market would most likely require a 12% rate (which is the maximum allowable by law in California).

Question: Director Casas inquired about the possibility of obtaining an independent assessment of Staff's recommended action, either through the use of an internal audits department or external audit firm, at the very least for future transactions.

Response: VTA's internal audit function has not yet been established pending the finalized establishment of the Audit Committee and Audit General position. The scope of work for VTA's external auditor only provides for the validation of VTA's financial condition as reported in the annual financial reports. Among other duties, VTA's financial advisor is charged with providing objectiveness in assessing the many options available to VTA when structuring a transaction. At completion of each transaction, VTA's financial advisor provides transaction summary reports that detail the decisions point during transaction implementation, reasons for particular strategic or economic decisions, and comparisons of the results to other similar transactions that were priced around the same time as VTA's transactions. In the future, this memo will be provided to the Board of Directors, pursuant to Director Casas' request.

VTA's financial advisor, Peter Ross, of Ross Financial provided an overview of market conditions leading up to Staff's recommendation of implementing a variable rate refunding. Mr. Ross concluded with a statement that by adopting the recommended strategy (or at the very least the alternative courses of action) VTA is being proactive and taking control of its own destiny.

Prepared by: Kimberly Koenig, Fiscal Resources Manager, Department of Finance

Listing of Consultants

<u>Contractor Firm & Location</u>	<u>Contractor Role</u>	<u>Contact Name/Phone</u>
Banc of America Securities LLC Public Finance Group 600 Montgomery Street, 18 th Floor	Broker-Dealer	Scott Nagelson (415) 953-7314
Citigroup Global Markets Inc One Sansome Street, 28 th Floor San Francisco, CA 94104	Underwriter/Broker-Dealer	Michael Gomez (415) 951-1615
Goldman Sachs & Co. 555 California Street, 45 th Floor San Francisco, CA 94104	Underwriter/Broker-Dealer	Eric Zampol (415) 393-7514
J.P. Morgan 560 Mission Street, Suite 2130 San Francisco, CA 94105	Underwriter/Broker-Dealer	Dan Feitelberg (415) 315-5957
Lehman Brothers 555 California Street, 30 th Floor San Francisco, CA 94104	Underwriter	John McCray-Goldsmith (415) 274-5374
Morgan Stanley 555 California Street, Suite 2130 San Francisco, CA 94104	Underwriter/Broker-Dealer	John Sheldon (415) 576-2083

Supplemental Indenture. This document supplements the related existing master bond indenture entered into by VTA in connection with prior issues of variable rate bonds and establishes the terms and provisions of restructured existing bonds and new debt issuances. Each supplemental indenture, together with the related master bond indenture, is a legal contract between VTA and our Trustee that establishes the responsibilities of VTA and the rights of bondholders. Each master bond indenture defines the security, flow of funds, bond covenants, and other provisions provided by VTA for the protection of investors. A draft supplemental indenture, which is required for the issuance of the Refunding Bonds, is attached to the Resolution as Exhibit A. If BANs are issued, the supplemental indentures would be substantially identical to that for the Refunding Bonds, except that provisions relating to one year fixed rate term would be incorporated.

Disclosure Document(s). A disclosure document, which may take the form of an Official Statement, a remarketing memorandum or an information statement, will be required in connection with the remarketing of existing bonds being converted from one interest rate mode to another; the amendment of liquidity agreements and the offering of Refunding Bonds or BANs. The disclosure document functions as the municipal market's version of the "prospectus" or "offering circular" used in corporate markets. The disclosure document discloses pertinent information about VTA and the terms and provisions of the Refunding Bonds, BANs,, or converted debt (as the case may be), a description of the debt, its purpose, security for repayment of the debt and the risks inherent in owning the bonds. It also contains a discussion of legal matters relevant to the debt, such as the tax status of interest income earned by investors, specifically, if interest income is tax-exempt for federal and state purposes. A draft disclosure document in the form of an Official Statement is included as Exhibit B to the resolution. In the case of BANs, the final disclosure document will incorporate final pricing terms known only after the sale, including coupon interest rates, yields, prices and final principal amortization schedule (if applicable). The disclosure concerning VTA in each final disclosure document will be substantially the same as the disclosure include in the draft Official Statement attached to the Resolution.

Purchase Contract. This document, which is utilized in a negotiated sale, is a contract between VTA and the senior managing underwriter. It sets forth the price to be paid for the Refunding Bonds or BANs and all closing conditions, including required legal opinions and certifications. A draft of the bond purchase contract is attached to the Resolution as Exhibit C.

Liquidity Agreement(s). This document is a contract between VTA and a selected bank or other financial institution, referred to as a liquidity provider. A liquidity agreement, which may be in the form of standby bond purchase agreement or a letter of credit, sets forth the terms under which the bank will agree to purchase the bonds in the event the remarketing agent is unable to place them with investors. A draft of the liquidity agreement is attached to the Resolution as Exhibit D. If VTA issues Refunding Bonds, it will need to enter into a new liquidity agreement or, if the use of a direct pay letter of credit structure is used, a letter of credit and reimbursement agreement.

Remarketing Agreement. A remarketing agreement is a contract between VTA and one or more remarketing agents who agree to remarket VTA's variable rate demand bonds. A remarketing agreement will need to be executed in connection with the Refunding Bonds. Additionally, Staff would like the flexibility to replace existing underwriters or hire additional underwriters, as necessary. A draft is attached to the Resolution as Exhibit E.

Continuing Disclosure Certificate(s). This is an agreement to provide certain financial information and other data to the market on a continuing basis. In addition, the continuing disclosure certificate lists certain events, which, if determined material by VTA, must be disclosed to the market place. Information to be disclosed includes VTA's audited financial reports and updated information relative to sales tax revenue collections. A continuing disclosure certificate would be executed for the BANs or if the existing bonds are converted to a term rate mode. A draft continuing disclosure certificate is attached to the Resolution as Exhibit F.

Resolution No. _____

**RESOLUTION OF THE BOARD OF DIRECTORS OF SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY AUTHORIZING THE ISSUANCE OF 2000
MEASURE A SALES TAX REVENUE REFUNDING BONDS, CONVERSION OF
EXISTING 2000 MEASURE A SALES TAX REVENUE BONDS FROM AN
AUCTION RATE MODE, PURCHASE OF EXISTING 2000 MEASURE A SALES
TAX REVENUE BONDS IN AN AUCTION RATE MODE AND THE EXECUTION
AND DELIVERY OF ALL DOCUMENTATION NECESSARY IN CONNECTION
THEREWITH**

WHEREAS, the Santa Clara Valley Transportation Authority (the "Authority") is a public transit district duly organized and existing under the provisions of the Santa Clara Valley Transportation Authority Act, being Part 12 of Division 10 of the Public Utilities Code of the State of California, Sections 100000 et seq. (the "Law");

WHEREAS, the Board of Directors of the Authority (the "Board") is authorized to issue bonds or notes payable from the proceeds of retail transactions and use taxes (hereinafter referred to as the "Measure A Sales Tax"), authorized pursuant to a ballot measure ("Measure A") approved on November 7, 2000 by the voters of the County of Santa Clara, which comprises the territory of the Authority, which Measure A Sales Tax was levied by the Authority pursuant to Section 100250 et seq. of the Law and Ordinance No. 01-1, adopted by the Board on March 1, 2001;

WHEREAS, the Authority has heretofore issued \$58,950,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series A (the "2006 Series A Bonds"), all of which remain outstanding, \$58,975,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series B (the "2006 Series B Bonds"), all of which remain outstanding, \$58,975,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series C (the "2006 Series C Bonds"), all of which remain outstanding, and \$58,975,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Bonds, 2006 Series D (the "2006 Series D Bonds," and together with the 2006 Series A Bonds, the 2006 Series B Bonds and the 2006 Series C Bonds, hereinafter collectively referred to as the "2006 Series Bonds"), all of which remain outstanding, pursuant to an Indenture, dated as of August 1, 2006, as supplemented and amended by a First Supplemental Indenture, dated as of August 1, 2006, and a Second Supplemental Indenture, dated as of September 1, 2007 (hereinafter collectively referred to as the "Existing Indenture"), between the Authority and Deutsche Bank National Trust Company ("Deutsche Bank"), as trustee (the "Trustee");

WHEREAS, in connection with the issuance of the 2006 Series Bonds, the Authority entered into (i) an interest rate swap transaction with Bank of America, N. A. (the "B of A Swap"), (ii) an interest rate swap transaction with Citibank, N. A., New York (the "Citibank

Swap"), (iii) an interest rate swap transaction. with Goldman Sachs Mitsui Marine Derivative Products, L.P. (the "Goldman Swap"), and (iv) an interest rate swap transaction with Morgan Stanley Capital Services Inc. (the "Morgan Stanley Swap," and, together with the B of A Swap, the Citibank Swap and the Goldman Swap, hereinafter collectively referred to as the "Swap Agreements");

WHEREAS, the 2006 Series Bonds currently bear interest at variable interest rates determined pursuant to periodic auctions (such 2006 Series Bonds being sometimes hereinafter referred to as "Auction Mode Bonds");

WHEREAS, interest expense on the Auction Mode Bonds has increased as a result of current market conditions;

WHEREAS, the Authority desires to decrease its interest expense with respect to the Auction Mode Bonds;

WHEREAS, in order to decrease such interest expense, the Authority desires to authorize (i) such actions as are necessary to refund and defease one or more series of Auction Mode Bonds, (ii) such action as are necessary to transfer the Swap Agreements to the Bonds, and (iii) such actions as are necessary to convert one or more series of Auction Mode Bonds to another interest rate mode or interest rate modes;

WHEREAS, in order to provide for the refunding and defeasance of one or more Series of Auction Mode Bonds, the Authority now desires to authorize the issuance of one or more additional series of sales tax revenue bonds, in an aggregate principal amount not to exceed two hundred sixty million dollars (\$260,000,000), such sales tax revenue bonds to be secured by the Measure A Sales Tax and to be issued pursuant to the provisions of the Existing Indenture, as supplemented and amended by a Third Supplemental Indenture thereto (the "Supplemental Indenture," and, together with the Existing Indenture, hereinafter collectively referred to as the "Indenture") to be entered into between the Authority and Trustee;

WHEREAS, such sales tax revenue bonds shall be entitled "Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series" (hereinafter collectively referred to as the "Bonds"), each such additional series of Bonds to bear such additional letter or number designation as shall be set forth in the Supplemental Indenture as finally executed and delivered;

WHEREAS, the proceeds of the Bonds will be applied to refund and defease one or more Series of Auction Mode Bonds and to pay costs of issuance of the Bonds and may be applied to fund a reserve fund for all or a portion of the Bonds;

WHEREAS, there has been prepared and distributed to the Board a proposed form of Supplemental Indenture providing for the issuance of the Bonds in one or more series (each a "Series of Bonds");

WHEREAS, it is currently contemplated that such Bonds will be issued as variable

rate demand bonds;

WHEREAS, there has been prepared and distributed to the Board, a proposed form of bond purchase contract (each, a "Purchase Contract") pursuant to which the Authority proposes to sell one or more Series of Bonds to one or more investment banking firms (each, an "Underwriter") to be selected by the General Manager of the Authority or the Chief Financial Officer of the Authority or any designee appointed by either in accordance with Section 14 of this Resolution (each, hereinafter referred to as an "Authorized Officer"), with the advice of Ross Financial (the "Authority Financial Advisor");

WHEREAS, there has been prepared and distributed to the Board, a proposed form of official statement describing the Bonds and related matters (the "Official Statement"), to be used in connection with the offering and sale of the Bonds;

WHEREAS, there has been prepared and distributed to the Board, a proposed form of standby bond purchase agreement (each such form of agreement being hereinafter referred to as a "Liquidity Agreement"), to be entered into between the Authority and one or more financial institutions, insurance companies or associations (each, a "Liquidity Provider"), to be selected by an Authorized Officer, with the advice of the Authority Financial Advisor, such Liquidity Agreement to provide liquidity for the purchase of Bonds issued as variable rate demand bonds;

WHEREAS, there has been prepared and distributed to the Board, a proposed form of agreement providing for the remarketing of one or more Series of Bonds issued as variable rate demand bonds (each such form of agreement being hereinafter referred to as a "Remarketing Agreement"), to be entered into between the Authority and one or more remarketing agents (each, a "Remarketing Agent"), to be selected by an Authorized Officer, with the advice of the Authority Financial Advisor, such Remarketing Agreement to provide for the remarketing of Bonds issued as variable rate demand bonds;

WHEREAS, there has been prepared and distributed to the Board, a proposed form of continuing disclosure certificate (each a "Continuing Disclosure Certificate"), to be executed by the Authority in the event that a continuing disclosure undertaking is required pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5) in connection with the issuance of one or more Series of Bonds;

WHEREAS, in order to minimize interest expense and maximize benefits to the Authority in connection with the issuance of the Bonds, it may be desirable to utilize credit enhancement in connection with the issuance of one or more Series of Bonds;

WHEREAS, also in order to minimize interest expense and maximize benefits to the Authority in connection with the issuance of the Bonds, it may be desirable for the Authority to fund a reserve fund for all or a portion of the Bonds, and, if funding of a reserve fund is determined to be desirable, it may be desirable for the Authority to secure a commitment for a surety bond, an irrevocable letter of credit, or an insurance policy to fund all or a portion of such reserve fund;

WHEREAS, the Board now deems it necessary and advisable and in the financial interest of the Authority (i) to authorize the issuance and sale of the Bonds pursuant to the Indenture and the Purchase Contract, (ii) to approve the forms of, and to authorize the execution and delivery of, the Supplemental Indenture, one or more Purchase Contracts, one or more Liquidity Agreements, one or more Remarketing Agreements, and one or more Continuing Disclosure Certificates (such agreements and documents being hereinafter collectively referred to as the "Financing Documents") and the Official Statement, (iii) to approve the distribution of the Official Statement in preliminary and final form, (iv) to authorize the negotiation and securing of credit enhancement for one or more Series of Bonds, (v) to authorize the negotiation and securing of a commitment for a surety bond, an irrevocable letter of credit, or an insurance policy to fund all or a portion of any reserve fund established in connection with the Bonds, (vi) to authorize the taking of such actions as are necessary to transfer the Swap Agreements from the Auction Mode Bonds to the Bonds, (vii) to authorize the taking of such actions as are necessary to convert one or more series of Auction Mode Bonds to another interest rate mode or interest rate modes or to purchase and hold such Auction Mode Bonds for a period of time, and (viii) to authorize the taking of various other actions in connection with therewith;

WHEREAS, all acts, conditions and things required by the Law and the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the financing contemplated hereby do exist, have happened and have been performed as required by law, and the Authority is now duly authorized and empowered, pursuant to each requirement of law, to authorize and consummate the financing for the purposes, in the manner and upon the terms provided in this Resolution.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Santa Clara Valley Transportation Authority as follows:

Section 1. The foregoing recitals are true and correct and the Board hereby so finds and determines.

Section 2. The issuance by the Authority of not to exceed \$260,000,000 aggregate principal amount of Santa Clara Valley Transportation Authority 2000 Measure A Sales Tax Revenue Refunding Bonds, 2008 Series, in such form as an Authorized Officer shall determine is necessary in order to minimize interest expense and maximize benefits to the Authority, is hereby authorized and approved.

Section 3. The proposed form of the Supplemental Indenture, between the Authority and the Trustee, attached hereto as Exhibit A, and the terms and provisions thereof, which are hereby incorporated by reference, are hereby approved. The Acting Assistant Board Secretary (hereinafter referred to as the "Secretary") is directed to file a copy of said form of Supplemental Indenture with the minutes of this meeting. Each Authorized Officer, acting alone, is authorized and directed to execute and deliver the Supplemental Indenture to the Trustee, in substantially the form of the Supplemental Indenture attached hereto as Exhibit A, with such additions thereto or changes therein, as the Authorized Officer

executing the same, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of the Supplemental Indenture.

The date, maturity date or dates (not to exceed April 1, 2036), interest rate or rates or method of determining the same if Bonds are issued as variable rate demand bonds, such interest rates not to exceed 12% with respect to Bonds issued as variable rate demand bonds (excluding variable rate demand bonds purchased by a Liquidity Provider, which may bear interest at such rate as shall be specified in the Liquidity Agreement and acceptable to the Authorized Officer executing the Liquidity Agreement) and not to exceed such maximum interest rate as shall be acceptable to the Authorized Officer executing the Supplemental Indenture with respect to Bonds issued in any other interest rate mode permitted by the Indenture), interest payment dates, forms, denominations, registration and exchange privileges, place or places of payment, terms of redemption (optional redemption may or may not be provided, as determined by the Authorized Officer executing the Supplemental Indenture), and all other terms of the Bonds shall be (subject to the foregoing limitations) as provided in the Supplemental Indenture as finally executed and delivered.

Section 4. The proposed form of Official Statement, attached hereto as Exhibit B, describing the Bonds and related matters, and the terms and provisions thereof, which are hereby incorporated by reference, are hereby approved. The Secretary is directed to file a copy of said form of Official Statement with the minutes of this meeting. The Official Statement in preliminary form may be deemed final by either Authorized Officer on behalf of the Authority for purposes of compliance with Securities and Exchange Commission Rule 15c2-12 and the distribution of the Official Statement in such preliminary form as is deemed final by either Authorized Officer is hereby authorized.

Each Authorized Officer, acting alone, is hereby authorized and directed to execute and deliver a final Official Statement in substantially the form of the Official Statement attached hereto as Exhibit B, with such additions thereto or changes therein as such Authorized Officer, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of the Official Statement. The Underwriters are hereby authorized and directed to distribute copies of the Official Statement to persons purchasing the Bonds.

Section 5. The proposed form of Purchase Contract attached hereto as Exhibit C, providing for the sale of one or more Series of Bonds, and the terms and conditions thereof, which are hereby incorporated by reference, are hereby approved. The Secretary is directed to file a copy of said form of Purchase Contract with the minutes of this meeting. The sale of the Bonds at the principal amount thereof, less an underwriters' discount of not to exceed 0.35% of such principal amount, less any agreed-upon original issue discount, plus any original issue premium, in accordance with said form of Purchase Contract is hereby authorized and approved. Each Authorized Officer is hereby authorized and directed to negotiate with Underwriters, to select one or more Underwriters, with the advice of the Authority Financial Advisor, and, acting alone, to execute and deliver one or more Purchase Contracts, each such Purchase Contract to be in substantially the form of Purchase Contract

attached hereto as Exhibit C, with such additions thereto or changes therein, as such Authorized Officer executing the same, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of each such Purchase Contract.

Section 6. The proposed form of Liquidity Agreement, attached hereto as Exhibit D, and the terms and conditions thereof, which are hereby incorporated by reference, are hereby approved. The Secretary is directed to file a copy of said form of Liquidity Agreement with the minutes of this meeting. Each Authorized Officer is authorized and directed to negotiate with Liquidity Providers, to select one or more Liquidity Providers, with the advice of the Authority Financial Advisor, and, acting alone, to execute and deliver one or more Liquidity Agreements, each in substantially the form of the Liquidity Agreement attached hereto as Exhibit D, with such additions thereto or changes therein, as such Authorized Officer executing the same, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of each such Liquidity Agreement.

Section 7. The proposed form of Remarketing Agreement, attached hereto as Exhibit E, and the terms and conditions thereof, which are hereby incorporated by reference, are hereby approved. The Secretary is directed to file a copy of said form of Remarketing Agreement with the minutes of this meeting. Each Authorized Officer is authorized and directed to negotiate with Remarketing Agents, to select one or more Remarketing Agents, with the advice of the Authority Financial Advisor, and, acting alone, to execute and deliver one or more Remarketing Agreements, each in substantially the form of the Remarketing Agreement attached hereto as Exhibit E, with such additions thereto or changes therein, as such Authorized Officer executing the same, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of each such Remarketing Agreement.

Section 8. The proposed form of the Continuing Disclosure Certificate, attached hereto as Exhibit F, and the terms and conditions thereof, which are hereby incorporated by reference, are hereby approved. The Secretary is directed to file a copy of said form of Continuing Disclosure Certificate with the minutes of this meeting. In the event that Bonds requiring an undertaking under Securities and Exchange Commission Rule 15c2-12(b)(5) are issued, each Authorized Officer, acting alone, is hereby authorized to execute and deliver one or more Continuing Disclosure Certificates, each in substantially the form of the Continuing Disclosure Certificate attached hereto as Exhibit F, with such additions thereto or changes therein, as such Authorized Officer executing the same, with the advice of counsel to the Authority, may require or approve, the approval of such additions or changes to be conclusively evidenced by the execution and delivery of each such Continuing Disclosure Certificate.

Section 9. Each Authorized Officer is hereby authorized and directed to negotiate with providers of credit enhancement with respect to the Bonds and, if an Authorized Officer, with the advice of the Authority Financial Advisor, determines that securing credit enhancement is necessary to minimize interest expense and maximize benefits to the

Authority, such Authorized Officer is hereby authorized to secure credit enhancement on such terms as such Authorized Officer, with the advice of the Authority Financial Advisor, determines are appropriate, and each Authorized Officer is authorized and directed to execute and deliver such agreements as are deemed necessary or desirable by such Authorized Officer in connection with securing such credit enhancement.

Section 10. Each Authorized Officer is hereby authorized and directed to negotiate with financial institutions and/or insurance companies, as applicable, and, if an Authorized Officer, with the advice of the Authority Financial Advisor, determines that it is necessary to minimize interest expense and maximize benefits to the Authority, such Authorized Officer is hereby authorized to secure an irrevocable letter of credit, or a surety bond, or an insurance policy (hereinafter referred to as a "Reserve Fund Instrument") on such terms as such Authorized Officer, with the advice of the Authority Financial Advisor, determines are appropriate, in order to fund a reserve fund for one or more Series of Bonds, and each such Authorized Officer is authorized and directed to execute and deliver such agreements as are deemed necessary or desirable by such Authorized Officer in connection with securing such Reserve Fund Instrument.

Section 11. In the event an Authorized Officer, with the advice of the Authority Financial Advisor, determines that it is in the best interest of the Authority to convert one or more series of Auction Mode Bonds to another interest rate mode or interest rate modes or to purchase and hold such Auction Mode Bonds for a period of time, each Authorized Officer and each other appropriate officer of the Authority, are authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver (i) any and all agreements, including without limitation, bond purchase agreements, disclosure agreements, remarketing agreements and trust agreements, (ii) any and all amendments to any existing agreements entered into, delivered by or acknowledged by, the Authority in connection with the Auction Mode Bonds, including, without limitation, amendments to the Indenture, the Swap Agreements and the tax certificate, and (iii) any and all certificates, documents, instruments and notices, including without limitation, disclosure certificates, signature certificates and no-litigation certificates, and to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate conversion or purchase of the Auction Mode Bonds.

Section 12. In the event one or more escrow funds are established in connection with the refunding and defeasance of one or more series of 2006 Series Bonds, each Authorized Officer is hereby authorized and directed to take such actions as are necessary in connection with the investment of funds deposited in such escrow fund or funds, and, if applicable, Deutsche Bank is hereby authorized and directed to file such applications and other documents on behalf of the Authority as may be required to order and obtain U.S. Treasury Obligations - State and Local Government Series to be purchased with proceeds of the Bonds and deposited in such escrow fund or fund.

Section 13. All approvals, consents, directions, notices, orders, requests and other actions permitted or required by any of the documents authorized by this Resolution, including, without limitation, any of the foregoing which may be necessary or desirable in

connection with any investment of the proceeds of the Bonds, any investment or reinvestment of the amounts held on deposit in any of the funds or accounts established under the Indenture, any amendment of any of such documents or any other documents executed in connection with the issuance of the Bonds, including, without limitation, amendment of the Swap Agreements, or the redemption, purchase in lieu of redemption, refunding or defeasance of any Bonds, may be given by either Authorized Officer without further authorization or direction by the Board, and each Authorized Officer acting alone, is hereby authorized and directed to give any such approval, consent, direction, notice, order or request and to take any such action which such Authorized Officer may deem necessary or desirable to further the purposes of this Resolution.

Section 14. Each Authorized Officer and each other appropriate officer of the Authority, are authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver any and all agreements, certificates, documents and instruments, including, without limitation, signature certificates, no-litigation certificates, disclosure certificates, tax certificates, letters of representation relating to book-entry registration, escrow agreements or instructions, insurance agreements, certificates concerning Purchase Contract representations, certificates concerning the contents of the Official Statement and contracts for rebate compliance services, and to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the actions which the Authority has approved in this Resolution, including conversion of one or more Series of Auction Mode Bonds to another interest rate mode or modes or purchase of one or more Series of Auction Mode Bonds, and to carry out, consummate and perform the duties of the Authority set forth in the Financing Documents and all other documents executed in connection with the issuance of the Bonds and the defeasance and refunding of the 2006 Series Bonds.

Each of the General Manager and the Chief Financial Officer of the Authority may appoint in writing a designee to perform any of the actions which such officer of the Authority may take under this Resolution.

Section 15. Each Authorized Officer, with the advice of the Authority Financial Advisor, is authorized and directed, for and in the name and on behalf of the Authority: (i) to select one or more additional or replacement Liquidity Providers for one or more Series of Bonds or converted Auction Mode Bonds, to execute and deliver any replacement or substitution for any Liquidity Agreement in effect with respect to one or more Series of Bonds or converted Auction Mode Bonds and to terminate any existing Liquidity Agreement entered into in connection with one or more Series of Bonds or converted Auction Mode Bonds; (ii) to select one or more additional or replacement Remarketing Agents for one or more Series of Bonds or converted Auction Mode Bonds, to execute and deliver any replacement or substitution for any Remarketing Agreement in effect with respect to one or more Series of Bonds or converted Auction Mode Bonds and to terminate any existing Remarketing Agreement entered into in connection with one or more Series of Bonds or converted Auction Mode Bonds; (iii) to select one or more additional or replacements providers of credit enhancement for one or more Series of Bonds or converted Auction Mode Bonds, to execute and deliver any replacement or substitution for any agreement entered into

in connection with securing credit enhancement with respect to one or more Series of Bonds or converted Auction Mode Bonds and to terminate any existing credit enhancement entered into in connection with one or more Series of Bonds or converted Auction Mode Bonds; and (iv) to select one or more additional or replacements providers of Reserve Fund Instruments for one or more Series of Bonds or converted Auction Mode Bonds, to execute and deliver any replacement or substitution for any agreement entered into in connection with securing a Reserve Fund Instrument with respect to one or more Series of Bonds or converted Auction Mode Bonds and to terminate any existing Reserve Fund Instrument entered into in connection with one or more Series of Bonds or converted Auction Mode Bonds.

Section 16. The Acting General Counsel of the Authority is authorized and directed to provide such opinions, on behalf of the Authority, as are required under the terms of the Financing Documents and as are required to consummate any of the financing, conversion or purchase transactions authorized by this Resolution.

Section 17. All actions heretofore taken by the members of the Board, each Authorized Officer, the Acting General Counsel of the Authority or any other officers, agents or employees of the Authority, with respect to the issuance of the Bonds, the refunding and defeasance of the 2006 Series Bonds, and the other transactions contemplated hereby, by the Financing Documents and by the Official Statement, are hereby ratified, confirmed and approved.

Section 18. If any section, paragraph clause or provision of this Resolution shall, for any reason, be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph or clause or provision shall not affect any of the remaining provisions of this Resolution.

PASSED AND ADOPTED by the Board of Directors of the Santa Clara Valley Transportation Authority this 3rd day of April, 2008, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

Liz Kniss, Chairperson
Santa Clara Valley Transportation Authority

ATTEST:

Acting Assistant Board Secretary

Approved as to Form:

Acting General Counsel