

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN**
(A COMPONENT UNIT OF THE SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY)

**INDEPENDENT AUDITORS' REPORT,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN**

For Fiscal Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
Santa Clara Valley Transportation Authority
Amalgamated Transit Union Pension Plan
San Jose, California

We have audited the accompanying basic financial statements of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (the Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), as of and for the fiscal years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the Financial Statements referred to above present only the Plan and do not purport to, and do not present the financial position of the Santa Clara Valley Transportation Authority as of June 30, 2008 and June 30, 2007 and the changes in its financial position for the years then ended, in conformity with principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 2008 and 2007, and the changes in net assets for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
November 7, 2008

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**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
AMALGAMATED TRANSIT UNION PENSION PLAN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

This section provides an overview and analysis of the financial activities of Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan) for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

FINANCIAL HIGHLIGHTS

The net assets of Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan at the close of fiscal year 2008 are \$323,156,969 (net assets held in trust for pension benefits). All of the net assets are available to meet the Plan's ongoing obligations to Plan participants and beneficiaries. Net assets as at the close of fiscal year 2007 were \$349,903,731.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2008, the date of our last actuarial valuation, the funded ratio for Amalgamated Transit Union Pension Plan was approximately 81%. In general, there is approximately \$0.81 of actuarial assets to cover each dollar of actuarial liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements, which comprises these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Plan Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Plan Net Assets, on the other hand, provides a view of current year additions to and deductions from the Plan. Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB Pronouncements 25, 26, and 34). These pronouncements require certain disclosures and require the state and local governments to report using the full accrual method of accounting. The Plan complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets reports information about the Plan's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date. In addition, both realized and unrealized gains and losses are shown on investments.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

These two statements report the Plan's net assets held in trust for pension benefits (net assets) the difference between assets and liabilities - as one way to measure the Plan's financial position. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Plan's overall financial position.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See notes to Financial Statements on pages 7-11 of this report).

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information related to the Plan's progress in funding its obligations to provide pension benefits to its members.

FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position. The assets of the Plan exceeded its liabilities at the close of fiscal year 2008. Despite fluctuations in the equity markets, the Plan's board and actuary concur that the Plan remains in a financial position to meet its obligations to the plan participants and beneficiaries with a condensed 81% funded ratio as of the last annual valuation.

(Table 1)
Statement of Plan Net Assets
June 30,

	2008	2007	2006
Assets			
Investments at fair value	\$ 322,096,532	\$ 350,557,646	\$ 305,210,632
Other assets	1,287,174	1,200,459	1,073,196
Total Assets	323,383,706	351,758,105	306,283,828
Liabilities			
Current liabilities	(226,737)	(1,854,374)	(1,379,600)
Total Liabilities	(226,737)	(1,854,374)	(1,379,600)
Net Assets	\$ 323,156,969	\$ 349,903,731	\$ 304,904,228

For the year ended June 30, 2008, the Plan's total net assets held in trust for pension benefits decreased by \$26,746,762 or 7.6%, as a result of a decrease in the fair market value of investments while the Plan's other assets increased by \$86,715, or 7.2%. On the other hand, the Plan's liabilities decreased by \$1,627,637 mainly because of a decrease in the Due to VTA.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

(Table 2)

	Additions to Plan Net Assets		
	June 30,		
	2008	2007	2006
Contributions	\$ 16,137,390	\$ 14,859,393	\$ 15,277,524
Net investment income	(22,786,867)	48,245,692	25,814,986
Miscellaneous income	-	-	220,000
Total Additions	\$ (6,649,477)	\$ 63,105,085	\$ 41,312,510

VTA contributions decreased from 2006 to 2007, but increased from 2007 to 2008 due to the increase in the covered payroll base. Investment income increased from 2006 to 2007 but decreased from 2007 to 2008.

(Table 3)

	Deductions to Plan Net Assets		
	June 30,		
	2008	2007	2006
Distributions to participants	\$ 19,933,939	\$ 17,967,427	\$ 16,068,752
Other benefits paid to participants	55,981	35,829	23,260
Administrative expenses	107,365	102,326	35,386
Total Deductions	\$ 20,097,285	\$ 18,105,582	\$ 16,127,398

The distributions to participants have steadily increased over the past three years mainly as a result of increase in retirees over the past several years, an increase of 62 retirees from 2006 to 2007 and an increase of 46 from 2007 to 2008. FY 2006 recorded lower actuarial fees. Furthermore, FY 2007 and 2008 have fiduciary liability premium costs that were not incurred in FY 2006.

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**STATEMENTS OF PLAN NET ASSETS
AS OF FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

	2008	2007
ASSETS		
Investments		
Domestic equity securities	\$ 88,948,071	\$ 110,215,179
Corporate obligations	51,926,905	44,008,580
U.S. Government agency	68,065,540	63,647,400
U.S. Treasury obligations	10,628,781	18,355,844
Pooled cash and investment with VTA Enterprise	1,570,012	-
Money market	3,927,369	4,447,230
Mutual funds	97,029,854	109,883,413
Total investments	322,096,532	350,557,646
Interest receivable	1,287,174	1,200,459
TOTAL ASSETS	323,383,706	351,758,105
 LIABILITIES		
Due to VTA	-	1,643,590
Accounts payable	226,737	210,784
TOTAL LIABILITIES	226,737	1,854,374
 NET ASSETS		
Held in trust for pension benefits	323,156,969	349,903,731
TOTAL NET ASSETS	\$ 323,156,969	\$ 349,903,731

(A schedule of funding progress is presented on page 13)

See accompanying notes to the basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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**STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

	2008	2007
ADDITIONS:		
VTA Contributions	\$ 16,137,390	\$ 14,859,393
Net investment income:		
Net appreciation (depreciation) on investments	(31,152,245)	40,630,842
Investment earnings	9,658,575	8,826,362
Investment expense	(1,293,197)	(1,211,512)
Total net investment income	(22,786,867)	48,245,692
TOTAL ADDITIONS	(6,649,477)	63,105,085
DEDUCTIONS		
Distributions to participants	19,933,939	17,967,427
Other benefits paid to participants	55,981	35,829
Administrative expenses	107,365	102,326
TOTAL DEDUCTIONS	20,097,285	18,105,582
INCREASE (DECREASE) IN PLAN ASSETS	(26,746,762)	44,999,503
NET ASSETS		
Beginning of year	349,903,731	304,904,228
End of year	\$ 323,156,969	\$ 349,903,731

See accompanying notes to the basic financial statements

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the Santa Clara Valley Transportation Authority Amalgamated Transit Union Pension Plan (Plan), a component unit of the Santa Clara Valley Transportation Authority (VTA), provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan’s provisions.

A. General

The Plan is a noncontributory single-employer defined benefit pension plan covering VTA employees who are members of the Santa Clara Valley Transportation Authority Amalgamated Transit Union (ATU) and is administered by a Pension Board, consisting of three members appointed by VTA, three members appointed by the ATU, and one member jointly appointed. The current membership of the Plan as of June 30 comprises the following:

	2008	2007	2006
Retirees and beneficiaries currently receiving benefits	960	914	852
Terminated vested members not yet receiving benefits	181	195	181
Active Members	1,437	1,403	1,394
TOTAL	2,578	2,512	2,427

B. Pension Benefits

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

C. VTA Contributions

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vested benefits. VTA's contributions to the Plan for the fiscal year ended June 30, 2008, were made at a rate of 15.62% of covered payroll in accordance with the actuarially determined requirements computed as of January 1, 2007. For the fiscal year ended June 30, 2007, the contributions were also made at a rate of 15.62% in accordance with the actuarially determined requirements computed as of January 1, 2006.

D. Plan Termination

In the event of plan termination, the net assets of the Plan would be allocated as prescribed in the Plan documents, generally to provide the following benefits in the order indicated:

- Retirement benefits payable to retired members (as defined) and disabled members (as defined).
- Actuarial reserves for the retirement benefits of other vested members (as defined).

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying basic financial statements are presented on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed, pursuant to formal commitments as well as statutory or contractual commitments. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan.

B. Investments

Investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. The fair market value of the investments in mutual funds of \$97,029,854 and \$109,883,413 at June 30, 2008 and 2007, respectively, were valued by the respective mutual fund management firms. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

C. Net Appreciation (Depreciation) on Investments

Net appreciation (depreciation) on investments is comprised of unrealized and realized gains and losses. Unrealized appreciation (depreciation) adjusts investment carrying amounts to reflect current market values, based on quoted prices in an active market.

D. Administrative Expenses

Certain internal costs of administering the Plan are paid by the Plan. Administrative expenses for the years ended June 30, 2008 and 2007 were \$107,365 and \$102,326, respectively.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

The Plan has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Plan has written investment policies regarding the type of investments that may be made specifically for the Plan and the amount, which may be invested in any one financial institution, or amounts that may be invested in long-term instruments. Management believes the Plan has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

NOTE 3 – INVESTMENTS (Continued)

The Plan maintains all of its operating cash funds in VTA’s cash and investment pool. The pool functions as a demand deposit account for the Plan, as amounts can be withdrawn at any time upon demand. VTA’s management and its Board of Directors are responsible for oversight of the cash and investment pool. Information regarding the characteristics of the entire investment pool can be found in the VTA’s financial statements. That report may be obtained by writing to Santa Clara Valley Transportation Authority – Fiscal Resources Division, 3331 North First Street, San Jose, California, 95134. The fair market value of the Agency’s position in the cash pool is the same as the value of the cash pool shares. As of June 30, 2008 and 2007, the Plan had \$1,570,012 and \$0 in VTA’s cash and investment pool.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Plan’s investment policy provides for the use of a custodian/trustee to invest the Plan’s assets as directed by investment managers. The Plan’s investment securities were held by Union Bank Trust Department, a custodial bank, at June 30, 2008 and 2007, separate from the counterparty, in the name of Santa Clara Valley Transportation Authority (VTA). VTA’s securities are not part of Union Bank’s assets and not attachable by any of its creditors.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. One of the Plan’s primary goals is to provide sufficient liquidity to meet future pension benefit payment obligation, however, the Plan does not have any policies specifically addressing interest rate risk. The Plan had a net investment of \$88,948,071 and \$110,215,179 invested in equity based securities as of June 30, 2008 and June 30, 2007 and \$97,029,854 and \$109,883,413 invested in mutual funds as of June 30, 2008 and June 30, 2007 respectively.

The following table shows the time distribution for the maturity of the Plan’s assets as of June 30, 2008:

Type of Investment	Fair Value	Less Than 1 Year	1 - 5 Years	Greater Than 6 Years
Corporate Obligations	\$ 51,926,905	\$ -	\$ 10,902,953	\$ 41,023,952
U.S. Government agency obligations	68,065,540	146,892	2,091,689	65,826,959
U.S. Treasury obligations	10,628,781	8,097,141	2,531,640	-
Money market*	3,927,369	3,927,369	-	-
TOTAL	\$ 134,548,595	\$ 12,171,402	\$ 15,526,282	\$ 106,850,911

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

NOTE 3 – INVESTMENTS (Continued)

The following table shows the time distribution for the maturity of the Plan’s assets as of June 30, 2007:

Type of Investment	Fair Value	Less Than 1 Year	1 - 5 Years	Greater Than 6 Years
Corporate Obligations	\$ 44,008,580	\$ 899,964	\$ 7,317,145	\$ 35,791,471
U.S. Government agency obligations	63,647,400	-	2,012,216	61,635,184
U.S. Treasury obligations	18,355,844	4,229,180	14,126,664	-
Money market*	4,447,230	4,447,230	-	-
TOTAL	\$ 130,459,054	\$ 9,576,374	\$ 23,456,025	\$ 97,426,655

* The time distribution for the money market funds is based on the weighted average maturity of investments comprising the funds.

The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. U.S. Government agency obligations in the amount of \$68,065,540 and \$63,647,400 at June 30, 2008 and 2007, respectively, are mainly backed by mortgage pass-throughs which are highly sensitive to interest rates changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The Plan's investment policy has mitigated credit risk by prioritizing safety of principal above other investment objectives, by requiring third-party investment manager applicants to meet certain requirements, by diversifying the portfolio, and by establishing monitoring procedures.

The following is a summary of the credit quality distribution for investments with credit exposure as a percentage of total investments at June 30, 2008 and 2007, as rated by Standard and Poor's:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED JUNE 30, 2008 and 2007**

NOTE 3 – INVESTMENTS (Continued)

Type of Investment	Rating	Percentage of Portfolio	
		2008	2007
Domestic equity securities	Not Applicable	27.7%	31.4%
Corporate obligations	AAA	1.4%	1.5%
	AA	2.0%	1.2%
	A	5.9%	4.5%
	BBB	5.6%	4.1%
	BB	0.2%	0.6%
	B	1.0%	0.6%
U.S. Government agency obligations	Not Applicable	21.1%	18.3%
U.S. Treasury obligations	Not Applicable	3.3%	5.2%
Pooled cash and investment with VTA Enterprise	AAA	0.5%	0.0%
Money market	Not Applicable	1.2%	1.3%
Mutual funds	Not Applicable	30.1%	31.3%
TOTAL		100.0%	100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Plan. The Plan's investment policy mitigates the concentration of credit risk by identifying percentage ranges for different types of investments and specific targets within the percentage ranges. Disclosure of concentration of credit risk is defined as any investments with one issuer that are greater than 5% of the total Plan investments. As of June 30, 2008, the Plan had \$48,011,677 or 15.0% of total Plan investments, invested in securities issued by Federal National Mortgage Association (Fannie Mae). As of June 30, 2007, the Plan had \$45,735,543 or 13.0% of total Plan investments, invested in securities issued by Fannie Mae. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

Custodial Credit Risks

The Plan held investments that are not registered in the name of VTA but are held in a mutual fund as follows:

Type of Investment	June 30, 2008 Amount	Percent of Portfolio	June 30, 2007 Amount	Percent of Portfolio
State Street Global Advisors				
S&P 500 Conservative Index	\$ 46,014,208	14.3%	\$ 52,891,135	15.1%
MFS Investment Management	51,015,646	15.8%	56,992,278	16.3%

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
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**SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR FISCAL YEAR ENDED JUNE 30, 2008**

Schedule of Employer Contributions (Unaudited) for the fiscal year ended June 30, 2008 are as follows:

<u>Year Ended (1) December 31,</u>	<u>Required Employer Contribution</u>	<u>Percentage Contributed</u>
2002	11,201,960	100.0%
2003	12,428,573	100.0%
2004	13,107,662	100.0%
2005	14,779,229	100.0%
2006	15,584,539	100.0%
2007	16,137,390	100.0%

(1) Date of actuarial valuation

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**SCHEDULE OF FUNDING PROGRESS ^a
FOR FISCAL YEAR ENDED JUNE 30, 2008**

Schedule of Funding Progress ^a – for June 30, 2008 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/2003	224,004,253	278,113,814	54,109,561	80.5%	93,951,901	57.6%
1/1/2004	247,693,872	325,530,324	77,836,452	76.1%	91,255,094	85.3%
1/1/2005	268,428,853	350,895,167	82,466,314	76.5%	88,448,718	93.0%
1/1/2006	288,829,224	363,114,404	74,285,180	79.5%	92,663,178	80.2%
1/1/2007	314,816,391	397,853,860	83,037,469	79.1%	93,985,560	88.4%
1/1/2008	344,521,552	423,739,213	79,217,661	81.3%	98,722,453	80.2%

(a) The schedule of funding progress presents the most recent actuarial information regarding the funding progress of the plan.

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**SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS
FOR JANUARY 1, 2008 VALUATION
FOR FISCAL YEAR ENDED JUNE 30, 2008**

<u>Description</u>	<u>Methods/Assumptions</u>
Valuation date	January 1, 2008
Actuarial cost method	Entry Age Normal, with normal cost determined on an aggregated basis.
Amortization method	Level dollar open method
Remaining amortization period	20 years (Level dollar open method)
Asset valuation method	Market value of assets as of the valuation date less the unrecognized investment gains or losses during the prior four years. Such gains (losses) are phased in 20% per year, subject to a minimum of 80% and a maximum of 110% of market value.
Actuarial assumptions	
Investment rate of return*	8.0%
Cost of Living	None
Projected salary increases*	22.13% for the first three years of service, 3.76% thereafter

* includes inflation at 3.50%