

Fitch: "AA" for 2002-2006 maturities; "AAA" for 2007-2026 maturities
 Moody's: "Aa3" for 2002-2006 maturities; "Aaa" for 2007-2026 maturities
 Standard & Poor's: "AA" for 2002-2006 maturities; "AAA" for 2007-2026 maturities
 See "RATINGS" herein

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2001 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2001 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2001 Bonds. See "TAX MATTERS" herein.

\$200,000,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
Sales Tax Revenue Bonds
2001 Series A

Dated: Date of Delivery**Due: June 1, as shown below**

The Sales Tax Revenue Bonds described above (the "2001 Bonds") are being issued by the Santa Clara Valley Transportation Authority (the "Authority") to finance portions of the Tasman East, Vasona and Capitol Corridor light rail extensions and pay the costs of issuance of the 2001 Bonds.

The 2001 Bonds are being issued as fully registered bonds without coupons in the denominations of \$5,000 or any integral multiple thereof. The 2001 Bonds will be registered in the name of Cede & Co., as holder of the 2001 Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the 2001 Bonds purchased. Interest on the 2001 Bonds is payable on each June 1 and December 1, commencing December 1, 2001. The principal or redemption price of and interest on the 2001 Bonds is payable by wire transfer to DTC which, in turn, will remit such principal, redemption price or interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2001 Bonds, as more fully discussed herein. The 2001 Bonds will mature on June 1 in the years and amounts and bear interest at the annual rates set forth below.

The 2001 Bonds are subject to redemption prior to maturity, as more fully described herein.

The 2001 Bonds are limited obligations of the Authority payable from and secured solely by a pledge of the Revenues (which is defined herein and which principally includes the receipts from the imposition in Santa Clara County of a one-half of one percent retail transactions and use tax (the "Sales Tax"), less certain administrative fees paid to the California State Board of Equalization), as described herein. The Sales Tax was approved by the electorate of the County of Santa Clara in 1976 and does not have a termination date.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGE OF THE REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 2001 BONDS.

Payment of the principal of and interest on the 2001 Bonds maturing on or after June 1, 2007 (the "Insured 2001 Bonds") when due will be insured by a municipal bond insurance policy to be issued by



simultaneously with the delivery of the 2001 Bonds.

MATURITY SCHEDULE

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2002	\$4,770,000	5.500%	2.700%	2015*	\$ 3,335,000	4.750%	4.870%
2003	4,845,000	5.500	3.050	2016*	8,940,000	4.875	4.950
2004	5,085,000	5.000	3.300	2017*	9,345,000	5.000	5.000
2005	5,310,000	5.000	3.550	2018*	9,785,000	5.000	5.070
2006	5,545,000	5.500	3.700	2019*	10,245,000	5.000	5.110
2007*	5,375,000	5.000	3.850	2020*	10,725,000	5.000	5.140
2008*	3,390,000	4.500	3.950	2021*	11,230,000	5.000	5.160
2009*	3,440,000	4.500	4.100	2022*	14,765,000	5.000	5.190
2010*	3,485,000	4.500	4.250	2023*	15,500,000	5.000	5.210
2011*	3,455,000	5.250	4.350	2024*	16,275,000	5.000	5.220
2012*	3,355,000	5.250	4.550**	2025*	17,090,000	5.000	5.230
2013*	3,470,000	5.250	4.660**	2026*	17,945,000	5.000	5.240
2014*	3,295,000	5.250	4.760**				

* MBIA Insured.

** Yield to call.

The 2001 Bonds were sold via competitive sale on May 23, 2001 pursuant to an Official Notice of Sale dated May 16, 2001. The 2001 Bonds are offered when, as and if issued, subject to the approval of validity by Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Authority by its General Counsel. It is anticipated that the 2001 Bonds will be available for delivery to DTC on or about June 7, 2001.

Dated: May 23, 2001

No dealer, salesman or any other person has been authorized by the Santa Clara Valley Transportation Authority (the "Authority") or the Underwriter to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. The information set forth herein has been obtained from the Authority and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriter. The information in this Official Statement is subject to change, and neither the delivery of this Official Statement nor any sale made after any delivery shall, under any circumstances, create any implication that there has been no change since the date of this Official Statement. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the 2001 Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Official Statement is not to be construed as a contract with the Purchasers of the 2001 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

THE PRICES AT WHICH THE 2001 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITER (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITER MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE 2001 BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2001 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION CONCERNING THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY

Board of Directors

Manuel Valerio, Chairperson
Blanca Alvarado
David Cortese
Don Gage
Jane Kennedy
Judy Nadler

Ron Gonzales, Vice-Chairperson
Cindy Chavez
Pat Dando
Dennis Kennedy
Sally Lieber
Forrest Williams

Alternate Board Members

Randy Attaway
Sandra Eakins
Pete McHugh
Thomas Springer
Ken Yeager

Administrative Staff

Peter M. Cipolla, General Manager
Suzanne Gifford, General Counsel
Scott Buhrer, Chief Financial Officer
Frank Martin, Director, Operations
James Pierson, Director, Planning & Development
Jack Collins, Director, Rail, Design & Construction
Kaye Evleth, Director, Human Resources
Mike Evanhoe, Director, Congestion Management & Highway
Anne-Catherine Vinickas, Director, Marketing & Customer Service

SPECIAL SERVICES

Financial Advisor

Ross Financial
San Francisco, California

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

U.S. Bank Trust National Association
San Francisco, California

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
General	1
Authority for Issuance	1
Purpose	1
Security	1
Continuing Disclosure	3
References	3
THE AUTHORITY	3
THE 2001 BONDS	6
General	6
Redemption Provisions	6
APPLICATION OF 2001 BOND PROCEEDS	7
DEBT SERVICE SCHEDULE	8
SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS	8
Limited Obligation	8
Pledge of Revenues	9
Revenue Fund; Allocation of Revenues	9
Bond Reserve Fund	10
Additional Bonds and Parity Debt	11
Subordinate Obligations	12
Outstanding Debt	12
Future Financing Plans	13
THE MBIA INSURANCE CORPORATION INSURANCE POLICY	13
THE SALES TAX	15
General	15
State Sales Tax	16
Collection	17
Historical Sales Tax Revenues	17
Projected Sales Tax Revenues and Debt Service Coverage	18
INVESTMENT CONSIDERATIONS	18
Economy of the County and the State	18
California Energy Crisis	18
The Sales Tax	19
Proposition 218	19
Further Initiatives	20
Loss of Tax Exemption	20
Sales Tax Litigation in California	20
FINANCIAL STATEMENTS	21
LITIGATION	21
TAX MATTERS	21
LEGAL MATTERS	23
RATINGS	23
UNDERWRITING	23
FINANCIAL ADVISOR	24
CONTINUING DISCLOSURE	24

MISCELLANEOUS.....	24
APPENDIX A The Authority.....	A-1
APPENDIX B Audited Financial Statements For Fiscal Year Ended June 30, 2000.....	B-1
APPENDIX C County Demographic and Economic Information	C-1
APPENDIX D Summary of Certain Provisions of the Indenture	D-1
APPENDIX E Book Entry Only System.....	E-1
APPENDIX F Proposed Form of Bond Counsel Opinion	F-1
APPENDIX G Proposed Form of Continuing Disclosure Certificate	G-1
APPENDIX H Specimen Municipal Bond Insurance Policy.....	H-1

OFFICIAL STATEMENT

\$200,000,000
SANTA CLARA VALLEY TRANSPORTATION AUTHORITY
SALES TAX REVENUE BONDS
2001 SERIES A

INTRODUCTION

General

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering by the Santa Clara Valley Transportation Authority (the "Authority") of \$200,000,000 principal amount of Santa Clara Valley Transportation Authority Sales Tax Revenue Bonds, 2001 Series A (the "2001 Bonds"). The Authority was formerly known as the Santa Clara County Transit District.

Authority for Issuance

The 2001 Bonds are being issued by the Authority under and pursuant to the Santa Clara Valley Transportation Authority Act, being Sections 100000 *et seq.* of the California Public Utilities Code and the provisions of the Revenue Bond Law of 1941, being Section 54300 *et seq.* of the California Government Code as referenced in the Santa Clara Valley Transportation Authority Act (collectively, the "Act") and the Indenture, dated as of November 1, 1997, between the Authority and First Trust of California, National Association, now known as U.S. Bank Trust National Association, as trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of November 1, 1997, and a Second Supplemental Indenture, dated as of May 1, 2001 (collectively, the "Indenture"), between the Authority and the Trustee. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," or, if not defined therein, in the Indenture.

Purpose

The 2001 Bonds are being issued in order to finance portions of the Authority's expenditures associated with its Tasman East, Vasona and Capitol Corridor light rail extensions and pay the costs of issuance of the 2001 Bonds.

Security

The 2001 Bonds are limited obligations of the Authority payable from and secured by certain revenues (the "Revenues") pledged under the Indenture, including a pledge of revenues (the "Sales Tax Revenues") derived from a one-half of one percent (0.5%) retail transactions and use tax (the "Sales Tax"), imposed in accordance with the Act and the California Transactions and Use Tax Law (Revenue and Taxation Code Section 7251 *et seq.*), net of an administrative fee paid to the California State Board of Equalization (the "Board of Equalization") in connection with the collection and disbursement of the Sales Tax. The Sales Tax was approved by the electorate of the County of Santa Clara in 1976 and does not have a termination date.

The Authority has previously issued \$40,570,000 aggregate principal amount of Santa Clara County Transit District Sales Tax Revenue Refunding Bonds, 1997 Series A (the "1997 Bonds"), of which \$37,445,000 aggregate principal amount will be outstanding as of June 1, 2001, and \$52,860,000 aggregate principal amount of Santa Clara County Transit District Adjustable Rate Refunding Equipment Trust Certificates, Series 1985 A (the "1985 Equipment Trust Certificates") of which \$29,660,000 aggregate principal amount will be outstanding as of June 1, 2001. The 1997 Bonds were issued pursuant to the Indenture. The 1985 Equipment Trust Certificates were issued pursuant to an Equipment Trust Indenture, dated as of June 1, 1984, which was amended and restated by the Amended and Restated Equipment Trust Indenture, dated as of December 1, 1998 (the "Equipment Trust Indenture"), by and between the Authority and U.S. Bank Trust National Association, as trustee. The 1997 Bonds and the 1985 Equipment Trust Certificates are payable from and secured equally by a pledge of the Sales Tax Revenues on a parity with the 2001 Bonds. (The 2001 Bonds, the 1997 Bonds and the 1985 Equipment Trust Certificates are referred to herein as the "Senior Obligations.") The Authority has also issued \$50,000,000 aggregate principal amount of Santa Clara County Transit District Junior Lien Sales Tax Revenue Bonds, 1998 Series A (the "1998 Junior Lien Bonds"), of which \$48,890,000 aggregate principal amount will be outstanding as of June 1, 2001, and \$40,000,000 aggregate principal amount of Santa Clara Valley Transportation Authority Junior Lien Sales Tax Revenue Bonds, 2000 Series A (the "2000 Junior Lien Bonds," and together with the 1998 Junior Lien Bonds, the "Junior Obligations"), all of which will be outstanding as of June 1, 2001. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Outstanding Debt" herein.

Based on 1999-2000 Sales Tax Revenues of \$166,764,390, combined maximum annual debt service coverage of the 2001 Bonds, the 1985 Equipment Trust Certificates and the 1997 Bonds will be approximately 8.85 times. For a more detailed description of the Sales Tax and the Authority's Sales Tax Revenues, see "THE SALES TAX," "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Pledge of Revenues" and APPENDIX A - "THE AUTHORITY" herein.

In addition to the Senior Obligations, additional Parity Debt may hereafter be issued and paid from the Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Additional Bonds" herein.

Although a Bond Reserve Fund is created under the Indenture, the initial reserve fund requirement will be zero dollars (\$0), so long as the prior Fiscal Year's Sales Tax Revenues cover Maximum Annual Debt Service by 3.00 times. At such time as the prior Fiscal Year's Sales Tax Revenues no longer cover Maximum Annual Debt Service by 3.00 times, the Authority will be required to make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund in an amount equal to the Bond Reserve Requirement, all as provided in the Indenture. The Bond Reserve Fund may be funded with cash, a letter of credit, a surety bond, an insurance policy or a combination thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Bond Reserve Fund" and APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions" herein.

Payment of the principal of and interest on the 2001 Bonds maturing on and after June 1, 2007 (the "Insured 2001 Bonds") when due will be insured by a municipal bond insurance policy (the "Insurance Policy") issued by MBIA Insurance Corporation (the "Insurer") simultaneously with

the delivery of the 2001 Bonds. See "THE MBIA INSURANCE CORPORATION INSURANCE POLICY" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGE OF THE REVENUES, IS PLEDGED TO THE PAYMENT OF THE 2001 BONDS.

Continuing Disclosure

The Authority has covenanted for the benefit of the owners and beneficial owners of the 2001 Bonds to provide certain financial information and operating data relating to the Authority by not later than 210 days following the end of the Authority's Fiscal Year (presently June 30), commencing with the report for the 2000-01 Fiscal Year, and to provide notices of occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" herein and APPENDIX G - "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE."

References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document, copies of which are available for inspection at the offices of the Authority.

THE AUTHORITY

The Authority is an independent public agency responsible for bus and light rail operations in the County of Santa Clara (the "County"), regional commuter and inter-city rail service, ADA Paratransit service, congestion management, specific highway improvement projects, and countywide transportation planning. The Authority, originally known as the Santa Clara County Transit District, was created in 1972 pursuant to the Santa Clara County Transit District Act in order to provide transit services in the County. Prior to January 1, 1995, the County Board of Supervisors served as the Authority's Board of Directors. Effective as of January 1, 1995, pursuant to California legislation, the Authority has operated under a separate Board of Directors.

Also on January 1, 1995, the Authority assumed the responsibilities of the Santa Clara County Congestion Management Agency ("CMA"). On April 1, 1997 the Authority began serving as the successor to the Santa Clara County Traffic Authority, an authority that received the proceeds of a half-cent sales tax levied from April 1, 1985 through March 31, 1995 for highway projects. As a result, the Authority is now responsible for countywide transportation planning and funding, congestion management, bus and light rail operations, and the delivery of highway and other transportation projects. On January 1, 2000, pursuant to California legislation, Santa Clara County Transit District's name was officially changed to Santa Clara Valley Transportation Authority.

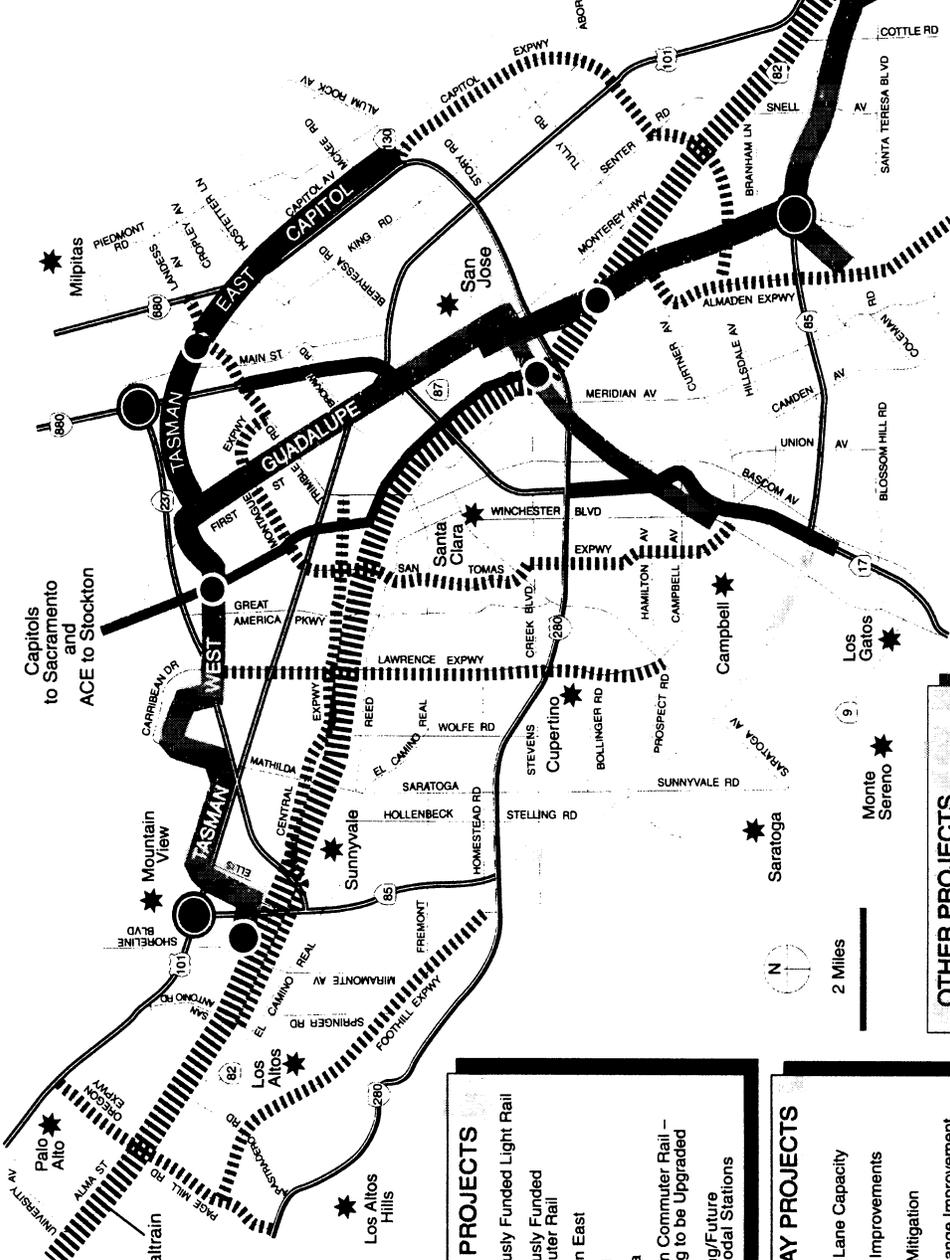
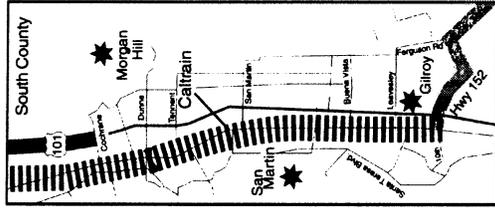
In November 1996, voters in the County approved Measure A, an advisory measure listing a program of transportation improvements for the County ("1996 Measure A"). On the same ballot, voters in the County approved Measure B which authorized the County Board of Supervisors to collect a nine-year half-cent sales tax for general county purposes ("1996 Measure B").

Subsequently, the County Board of Supervisors adopted a resolution dedicating the 1996 Measure B tax for 1996 Measure A projects. In February 2000, the Authority's Board of Directors approved a Master Agreement formalizing its partnership with the County to provide for the construction of the 1996 Measure A projects utilizing the funds provided by 1996 Measure B as set forth in the 1996 Measure B Transportation Improvement Program ("MBTIP"). Under MBTIP, the 1996 Measure B sales tax proceeds are received by the County and advanced to the Authority for specific projects. The Authority is responsible for project implementation and management of the transit and highway projects and assists in the administration of the pavement management and bicycle elements of MBTIP. See APPENDIX A - "THE AUTHORITY - Authority Capital Programs; 1996 Measure B Transportation Improvement Program."

Collection of the 1996 Measure B sales tax began in April 1997 and is scheduled to expire on March 31, 2006; however, use of the revenue was delayed pending the outcome of litigation challenging the legality of the sales tax. The Superior Court in the County and the California Court of Appeals both upheld the validity of the 1996 Measure B sales tax. In August of 1998 the California Supreme Court denied plaintiffs' request for review and the County and the Authority were allowed to move forward with the implementation of the 1996 Measure A transportation projects. See "INVESTMENT CONSIDERATIONS - Sales Tax Litigation."

On November 7, 2000, more than 70% of the voters in the County approved a measure ("Measure A") implementing a 30-year half cent sales tax to take effect after the 1996 Measure B sales tax expires on March 31, 2006. Revenues from Measure A may be used to finance the transit projects and operations listed in the Authority's Valley Transportation Plan 2020, which was formulated to provide a balanced transportation system consisting of transit, roadway, bicycle and pedestrian improvements. See APPENDIX A - "THE AUTHORITY - Authority Capital Programs; Valley Transportation Plan 2020."

For a more complete description of the Authority and its operations, see APPENDIX A - "THE AUTHORITY." The Authority's service area is shown on the VTA System Map on the following page.



Measure B
Transportation Improvement Program
County of Santa Clara

RAIL PROJECTS

- Previously Funded Light Rail
- Previously Funded Commuter Rail
- Tasman East
- Capitol
- Vasona
- Caltrain Commuter Rail - Existing to be Upgraded
- Existing/Future Intermodal Stations

HIGHWAY PROJECTS

- Added Lane Capacity
- Safety Improvements
- Noise Mitigation
- Interchange Improvement
- Expressway Signal Synchronization
- Local Street/Road Pavement Repairs

OTHER PROJECTS NOT SHOWN

- Alameda-Santa Clara Counties Corridor
- New Light Rail Vehicles
- Bike Ways



2 Miles

Rev 02/01

THE 2001 BONDS

General

The 2001 Bonds are being issued in the aggregate principal amount of \$200,000,000 to finance portions of the Authority's Tasman East, Vasona and Capitol Corridor light rail extensions and to pay costs of issuance of the 2001 Bonds.

The 2001 Bonds will be dated their date of delivery. The 2001 Bonds will bear interest at the rates, and will mature, subject to prior redemption as described below, in the amounts and on the dates set forth on the cover page of this Official Statement. Interest on the 2001 Bonds shall be payable on June 1 and December 1 of each year, commencing December 1, 2001. Interest on the 2001 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. The 2001 Bonds will be issued in fully registered form without coupons and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), the securities depository for the 2001 Bonds. The term "Owner" as used herein shall refer to DTC as the registered owner of the Bonds. Purchases of the 2001 Bonds are to be made in book-entry only form in the principal amount of \$5,000 or any integral multiple thereof. Payments to the beneficial owners of the 2001 Bonds are to be made as described below in APPENDIX E - "BOOK ENTRY ONLY SYSTEM."

The principal of and premium, if any, on the 2001 Bonds are payable when due upon presentation thereof at the corporate trust office of the Trustee. Interest on the 2001 Bonds will be payable by check mailed by first class mail, or upon request of any Owner of \$1,000,000 or more of aggregate principal amount of 2001 Bonds who has provided the Trustee with wire transfer instructions, by wire transfer on each interest payment date to the Owner thereof as of the 15th day of the calendar month immediately preceding such interest payment date.

Redemption Provisions

Optional Redemption. The 2001 Bonds maturing on or before June 1, 2011 are not subject to redemption prior to their respective stated maturities. The 2001 Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to their respective stated maturities, at the option of the Authority, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the Authority and by lot within a maturity), on or after June 1, 2011, at the principal amount thereof plus accrued interest to the date of redemption without premium.

Selection of 2001 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2001 Bonds of any maturity (and interest rate) thereof, the Trustee shall select the 2001 Bonds to be redeemed from all 2001 Bonds of the respective maturity (and interest rate) not previously called for redemption, in minimum denominations of \$5,000, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. The Trustee shall promptly notify the Authority in writing of the 2001 Bonds so selected for redemption.

The Authority shall notify the Trustee at least forty-five (45) days prior to the redemption of 2001 Bonds. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any 2001 Bonds

designated for redemption at their addresses appearing on the bond registration books of the Trustee by first class mail, (ii) to the Securities Depositories by registered or certified mail, return receipt requested, or by some other confirmable delivery method, and (iii) to two or more Information Services by first class mail. The Trustee shall mail an additional copy of such notice of redemption to any 2001 Bond owner who has not surrendered such Owner's 2001 Bonds called for redemption within 60 days after the redemption date.

Partial Redemption of 2001 Bonds. Upon surrender of any 2001 Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2001 Bond of an authorized denomination, and of the same maturity and interest rate, equal in aggregate principal amount to the unredeemed portion of the 2001 Bond surrendered.

Effect of Redemption. Notice of redemption having been duly given, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the 2001 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2001 Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the 2001 Bonds so called for redemption shall cease to accrue, said 2001 Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2001 Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date.

APPLICATION OF 2001 BOND PROCEEDS

The proceeds from the sale of the 2001 Bonds will be applied as follows:

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$200,000,000.00
Less: Net Original Issue Discount	(453,804.50)
 Total Sources:	 \$199,546,195.50
 <u>Uses of Funds:</u>	
Project Fund Deposit	\$197,920,090.55
Underwriter's Discount ⁽¹⁾	1,251,104.95
Costs of Issuance ⁽²⁾	375,000.00
 Total Uses:	 \$199,546,195.50

⁽¹⁾ Includes bond insurance premium.

⁽²⁾ Includes rating agency fees, trustee fees, printing costs, bond counsel and financial advisor fees and expenses and other miscellaneous expenses.

DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2001 Bonds, the 1997 Bonds and the 1985 Equipment Trust Certificates.

Santa Clara Valley Transportation Authority Combined Annual Debt Service Schedule

Year Ending June 1	2001 Bonds Principal Amount	2001 Bonds Interest Payment	2001 Bonds Annual Debt Service	Senior Obligations Existing Debt Service ⁽¹⁾	Combined Debt Service
2002	\$ 4,770,000	\$ 9,871,339.17	\$ 14,641,339.17	\$ 4,199,683.00	\$ 18,841,022.17
2003	4,845,000	9,776,300.00	14,621,300.00	4,220,373.00	18,841,673.00
2004	5,085,000	9,509,825.00	14,594,825.00	4,247,213.00	18,842,038.00
2005	5,310,000	9,255,575.00	14,565,575.00	4,275,828.00	18,841,403.00
2006	5,545,000	8,990,075.00	14,535,075.00	4,304,728.00	18,839,803.00
2007	5,375,000	8,685,100.00	14,060,100.00	4,783,528.00	18,843,628.00
2008	3,390,000	8,416,350.00	11,806,350.00	7,037,255.00	18,843,605.00
2009	3,440,000	8,263,800.00	11,703,800.00	7,138,445.00	18,842,245.00
2010	3,485,000	8,109,000.00	11,594,000.00	7,248,910.00	18,842,910.00
2011	3,455,000	7,952,175.00	11,407,175.00	7,433,400.00	18,840,575.00
2012	3,355,000	7,770,787.50	11,125,787.50	7,717,830.00	18,843,617.50
2013	3,470,000	7,594,650.00	11,064,650.00	7,778,590.00	18,843,240.00
2014	3,295,000	7,412,475.00	10,707,475.00	8,134,390.00	18,841,865.00
2015	3,335,000	7,239,487.50	10,574,487.50	8,266,665.00	18,841,152.50
2016	8,940,000	7,081,075.00	16,021,075.00	2,818,875.00	18,839,950.00
2017	9,345,000	6,645,250.00	15,990,250.00	2,850,988.00	18,841,238.00
2018	9,785,000	6,178,000.00	15,963,000.00	2,875,750.00	18,838,750.00
2019	10,245,000	5,688,750.00	15,933,750.00	2,908,163.00	18,841,913.00
2020	10,725,000	5,176,500.00	15,901,500.00	2,937,438.00	18,838,938.00
2021	11,230,000	4,640,250.00	15,870,250.00	2,973,313.00	18,843,563.00
2022	14,765,000	4,078,750.00	18,843,750.00	-	18,843,750.00
2023	15,500,000	3,340,500.00	18,840,500.00	-	18,840,500.00
2024	16,275,000	2,565,500.00	18,840,500.00	-	18,840,500.00
2025	17,090,000	1,751,750.00	18,841,750.00	-	18,841,750.00
2026	17,945,000	897,250.00	18,842,250.00	-	18,842,250.00
Totals	\$200,000,000	\$166,890,514.17	\$366,890,514.17	\$104,151,365.00	\$471,041,879.17

⁽¹⁾ Debt service on the 1985 Equipment Trust Certificates is calculated at the swap rate of 4.335%. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Outstanding Debt" herein.

SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS

Limited Obligation

The 2001 Bonds are limited obligations of the Authority and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Revenues, which principally include Sales Tax Revenues, pledged under the Indenture.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF SANTA CLARA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR PUBLIC AGENCY THEREOF, OTHER THAN THE AUTHORITY TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON, THE 2001 BONDS.

Pledge of Revenues

All Sales Tax Revenues are irrevocably pledged by the Authority to secure the punctual payment of the principal or purchase price of, premium, if any, and interest on the 1997 Bonds, the 2001 Bonds, any additional Series of Bonds issued under the Indenture (collectively, the "Bonds"), the 1985 Equipment Trust Certificates and any additional Parity Debt in accordance with their terms, and the Sales Tax Revenues shall not be used for any other purpose while any of the Bonds or Parity Debt remain Outstanding, except as permitted by the provisions of the Indenture and the Equipment Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Additionally, there are pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Trustee under the Indenture (except for amounts held in the Rebate Fund), subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. Pursuant to the Indenture, the pledge of Sales Tax Revenues constitutes a first lien to secure the Bonds and Parity Debt. The pledge of Sales Tax Revenues shall be irrevocable until all Bonds issued under the Indenture, including the 2001 Bonds, and all Parity Debt are no longer Outstanding.

The Sales Tax Revenues pledged to the payment of the Bonds and Parity Debt shall be applied without priority or distinction of one over the other and the Sales Tax Revenues shall constitute a trust fund for the security and payment of the Bonds and Parity Debt; but nevertheless out of Sales Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture and the Equipment Trust Indenture.

Out of Revenues there shall be applied all sums required for the payment of the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments relating to Bonds and Parity Debt and Reserve Fund requirements with respect thereto. After these requirements have been met, remaining Revenues are transferred to BNY Western Trust Company, as trustee for the Junior Obligations (the "Junior Lien Trustee"), and shall be applied to the payment of principal of (including any premium thereon) and interest on the Junior Obligations, together with any sinking fund payments relating to the Junior Obligations and reserve fund requirements with respect thereto. All remaining Revenues, after making the foregoing allocations, shall be available to the Authority for all lawful Authority purposes.

For a more detailed description of the Sales Tax and historical and projected receipts of Sales Tax Revenues, see "THE SALES TAX" herein.

Revenue Fund; Allocation of Revenues

As long as any Bonds are Outstanding or any Parity Debt remains unpaid, the Authority has assigned the Sales Tax Revenues to the Trustee and shall cause the Board of Equalization to

transmit the same directly to the Trustee. The Sales Tax Revenues shall be received and held in trust by the Trustee for the benefit of the Owners of the Bonds and any Parity Debt. The Trustee shall forthwith deposit all Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such Sales Tax Revenues are received by the Trustee. See APPENDIX D-“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Revenues.” Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or for which particular instructions are provided) shall also be deposited in the Revenue Fund.

In each month while Bonds remain Outstanding, the Trustee is required to set aside receipts of Sales Tax Revenues in the following respective funds, amounts and order of priority (provided that deficiencies in any previously required deposit may be made up prior to the deposit to a fund subsequent in priority and further provided that set asides or transfers required with respect to outstanding 1985 Equipment Trust Certificates or other Parity Debt may be made on a parity basis, as provided in the Indenture):

1. Interest Fund. The Indenture requires the Trustee to make monthly deposits in the Interest Fund in an amount equal to one-sixth of the aggregate half-yearly amount of interest becoming due and payable on Outstanding Bonds during the ensuing six-month period.

2. Principal Fund; Sinking Accounts. The Indenture also requires the Trustee to make monthly deposits in the Principal Fund in an amount equal to at least (a) one-sixth of the aggregate semiannual amount of principal, accreted value, if applicable, and mandatory sinking account payments becoming due and payable within the next six months on Outstanding Bonds having semiannual maturity dates and mandatory sinking account redemption, plus (b) one-twelfth of the aggregate yearly amount of principal, accreted value, if applicable, and mandatory sinking account payments becoming due and payable within the next twelve months on Outstanding Bonds having annual maturity dates and mandatory sinking account redemption.

See APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Revenues” for a more complete discussion.

Bond Reserve Fund

The Bond Reserve Requirement as of any date of calculation shall be zero dollars (\$0), except that if Sales Tax Revenues during the immediately preceding Fiscal Year do not cover Maximum Annual Debt Service by at least 3.00 times, the Bond Reserve Requirement shall increase to Maximum Annual Debt Service on the Bonds, as provided in the definition thereof contained in the Indenture. See APPENDIX D “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Definitions.”

Upon such an increase in the Bond Reserve Requirement, the Authority shall make a deposit or deposits to the Bond Reserve Fund in an amount equal to the Bond Reserve Requirement within one year. In lieu of a cash deposit, the Authority may fulfill all or a portion of its obligation to fund the Bond Reserve Fund by depositing a letter of credit, surety bond or insurance policy, as provided

in the Indenture. See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funding and Application of Bond Reserve Fund."

Except as otherwise permitted by the Indenture, at such time as the Bond Reserve Fund is required to be funded due to a decrease in the coverage of Sales Tax Revenues over Maximum Annual Debt Service below 3.00 times, the Authority shall make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund equal to the Bond Reserve Requirement. Additionally, except as otherwise provided in the Indenture, the Trustee shall make deposits to the Bond Reserve Fund equal to the sum of (i) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and (ii) the full amount of any deficiency due to any required valuation of the investments in the Bond Reserve Fund. See APPENDIX D - "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Revenues" for a more complete discussion.

Additional Bonds and Parity Debt

Under the Indenture, the Equipment Trust Indenture or other instrument authorizing Parity Debt, the Authority may issue other obligations payable in whole or in part from Sales Tax Revenues subject to the terms and conditions contained in such authorizing instrument.

Issuance of Additional Series of Bonds. The Authority may by Supplemental Indenture establish one or more Series of Bonds payable from Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, but only upon compliance by the Authority with the provisions of the Indenture and only upon compliance with the terms of the Equipment Trust Indenture (as long as any Equipment Trust Certificates are outstanding). Certain of the applicable provisions of the Indenture are described below:

(a) No Event of Default shall have occurred and then be continuing.

(b) The Supplemental Indenture providing for the issuance of such Series shall require that the balance in the Bond Reserve Fund, forthwith upon the receipt of the proceeds of the sale of Bonds of such Series, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Bonds to be considered Outstanding upon the issuance of Bonds of such Series. Said deposit may be made from the proceeds of the sale of Bonds of such Series or from other funds of the Authority or from both such sources or in the form of a letter of credit or surety bond or insurance policy as described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funding and Application of Bond Reserve Fund."

(c) The Authority shall have placed on file with the Trustee the report of the Authority, certifying that the lesser of (i) the amounts of Sales Tax Revenues for a period of twelve (12) consecutive months during the eighteen (18) months immediately preceding the date on which such Bonds will become outstanding, or (ii) the estimated Sales Tax Revenues for the Fiscal Year in which the Bonds are to be issued, will equal at least 2.00 times Maximum Annual Debt Service for all Series of Bonds and Parity Debt then Outstanding and the additional Series of Bonds then proposed to be issued.

Nothing in the Indenture shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

Issuance of Refunding Bonds. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture described above under “Issuance of Additional Series of Bonds” and other terms of the Indenture; provided that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such Refunding Bonds and, provided further that, as long as Equipment Trust Certificates are outstanding, the provisions of the Equipment Trust Indenture with respect to the issuance of additional Sales Tax debt are satisfied.

Issuance of Parity Debt. The Authority may also issue additional Parity Debt under the Equipment Trust Indenture, or another authorizing instrument, payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Sales Tax Revenues, provided that the conditions to the issuance of such Parity Debt set forth in the Equipment Trust Indenture and such other authorizing instruments are satisfied, including the coverage test described in subsection (c) above under the caption “Issuance of Additional Series of Bonds.”

Subordinate Obligations

The Authority may issue obligations which are subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds, the Equipment Trust Certificates and all other Parity Debt, and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Sales Tax Revenues after the prior payment of all amounts then required to be paid from Revenues for principal, premium, interest and reserve fund requirements for the Bonds, the Equipment Trust Certificates, and all other Parity Debt, as the same become due and payable; provided that while the Equipment Trust Certificates are outstanding, the provisions of the Equipment Trust Indenture for the issuance of additional Sales Tax debt are satisfied.

The Authority has issued \$90,000,000 aggregate principal amount of such subordinated obligations in the form of the Junior Obligations. See SECURITY AND SOURCES FOR PAYMENT OF THE 2001 BONDS – Outstanding Debt” herein.

Outstanding Debt

The Authority previously issued 1997 Bonds, of which \$37,445,000 aggregate principal amount is outstanding and the 1985 Equipment Trust Certificates, of which \$29,660,000 aggregate principal amount is currently outstanding. The 1997 Bonds and the 1985 Equipment Trust Certificates are issued on a parity basis with the 2001 Bonds and, therefore, are payable from and secured by a pledge of the Sales Tax Revenues. The 1985 Equipment Trust Certificates are additionally secured by a municipal bond insurance policy issued by Ambac Assurance Corporation. Liquidity support for the 1985 Equipment Trust Certificates is provided by a revocable, transferable liquidity letter of credit issued by Credit Local de France, acting through its New York Agency, which letter of credit expires on June 1, 2015. Pursuant to an interest rate swap agreement entered

into on August 10, 1998 by the Authority with General Re Financial Products Corporation, the interest rate on the 1985 Equipment Trust Certificates is fixed at 4.335%.

In addition, the Authority previously issued \$50,000,000 aggregate principal amount of 1998 Junior Lien Bonds, and \$40,000,000 aggregate principal amount of 2000 Junior Lien Bonds, pursuant to an Indenture dated as of March 1, 1998, as supplemented by a First Supplemental Indenture, dated as of March 1, 1998 and a Second Supplemental Indenture, dated as of November 1, 2000, between the Authority and the Junior Lien Trustee. The Junior Obligations are payable from and secured by a pledge of Sales Tax Revenues that is junior to the pledge securing the Bonds. The Junior Obligations were purchased with a portion of the proceeds of a pool of variable rate funds established for this purpose by the December 1997 issuance of \$200,000,000 aggregate principal amount of variable rate demand bonds by the California Transit Finance Authority, a joint powers agency whose members are the Authority and the San Mateo County Transit District.

Future Financing Plans

Upon the passage of Measure A in November of 2000, the Authority's board of directors commenced a planning and prioritization process relating to the Authority's future financing goals. This process is currently ongoing, and the Authority anticipates having its financing plans in place by the autumn of 2001. See "THE AUTHORITY" herein for further discussion of Measure A and the planning process. Future indebtedness may be secured by Measure A revenues, Sales Tax Revenues, other legally available sources or a combination thereof.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to APPENDIX H for a specimen of the Insurance Policy.

The Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured 2001 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured 2001 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured 2001 Bond. The Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured 2001 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurance Policy also does not insure

against nonpayment of principal of or interest on the Insured 2001 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 2001 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a 2001 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured 2001 Bonds or presentment of such other proof of ownership of the Insured 2001 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured 2001 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the 2001 Bonds in any legal proceeding related to payment of insured amounts on the Insured 2001 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Insured 2001 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1999, the Insurer had admitted assets of \$7.0 billion (audited), total liabilities of \$4.6 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2000, the Insurer had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch IBCA, Inc. rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2001 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2001 Bonds. The Insurer does not guaranty the market price of the 2001 Bonds nor does it guaranty that the ratings on the 2001 Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

There can be no assurances that payments made by the Insurer representing interest on the 2001 Bonds will be excluded from gross income, for federal tax purposes, in the event of nonappropriation by the Authority.

THE SALES TAX

General

The terms of the Act authorize the adoption of the Sales Tax upon the approval of the electorate of the County. Voter approval of the Sales Tax was obtained by special election in 1976. Since the Act does not provide for automatic expiration of the Sales Tax, there is no statutory termination provision for the Sales Tax.

The Sales Tax is a retail transactions and use tax of one half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain limited exceptions. The most important exemptions from the Sales Tax are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water, when delivered to consumers through mains, lines and pipes. Additionally, occasional sales, i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit, are generally exempt from the Sales Tax. However, the "occasional sales" exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business. Sales of property to be used outside the County which are shipped to a point outside the County pursuant to the contract of sale are exempt from the Sales Tax.

In November of 2000, the voters in the County approved Measure A which called for a special retail transactions and use tax of one half of one percent (0.5%) of the gross receipts of retailers from the sale of all tangible personal property sold at retail in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain limited exceptions, that would provide funding for rail and bus transportation projects, and certain operating and maintenance costs. This special tax takes effect on April 1, 2006 upon the expiration of the 1996 Measure B sales tax and will expire on March 31, 2036. This tax represents an additional source of revenue to the Authority, is a separate tax from the Sales Tax and does not secure the Bonds.

Sales Tax Revenues are net of an administrative fee paid to the Board of Equalization for the collection and disbursement of the Sales Tax, which by statute cannot exceed 1.5% of collections. In Fiscal Year 1999-2000, the amount of the administrative fee was \$1,518,000.

For a summary of the Sales Tax Revenues reported by the Authority for the five Fiscal Years ended June 30, 2000, see "THE SALES TAX - Historical Sales Tax Revenues" below.

State Sales Tax

In addition to sales taxes levied on the County level, the State of California (the "State") also imposes a 7% sales tax. Combined with the Sales Tax and the 1996 Measure B sales tax, this State sales tax results in transactions in the County being taxed at an effective rate of 8%.

The breakdown of the State's basic 7% rate imposed on a statewide basis in 2001 is as follows:

- 4.75% represents the State general fund tax rate (expected to increase back to 5% effective January 1, 2002, due to the sales tax trigger described below).
- 2% is dedicated to cities and counties.
- 0.25% is dedicated to county transit systems. See APPENDIX A - "THE AUTHORITY - Authority Operating Revenues; TDA Revenues."

Legislation in July 1991 raised the State sales tax rate by 1.25% to its current level. Of this amount, 0.25% was added to the general fund tax rate, and the balance was dedicated to cities and counties. One-half percent was a permanent addition to counties, but with the money earmarked to trust funds to pay for health and welfare programs whose administration was transferred to counties. Another 0.5% of the State general fund tax rate that was scheduled to terminate after June 30, 1993, was extended until December 31, 1993, and allocated to local agencies for public safety programs. Voters in a special election on November 2, 1993, approved a constitutional amendment to permanently extend this 0.5% State sales tax for local public safety programs.

Pursuant to State law, 0.25% of the State general fund tax rate may be terminated upon certification by the State's Director of Finance by November 1 in any year that the balance in the budget reserve for two consecutive years will exceed 4% of general fund revenues. The 0.25% rate can be reinstated if the Director of Finance subsequently determines that the reserve will not exceed 4% of general fund revenues. Pursuant to this law, a 0.25% cut in the State sales tax occurred on

January 1, 2001 but will be reinstated as of January 1, 2002 if the estimated budget reserve at June 30, 2002 is less than 4% of general fund revenues.

Collection

Collection of the Sales Tax is administered by the Board of Equalization. The Authority and the Board of Equalization have entered into an agreement to authorize payment of Sales Tax Revenues directly to the Trustee. Pursuant to its procedures, the Board of Equalization projects receipts of the Sales Tax on a quarterly basis and remits an advance of such receipts to the Trustee on a monthly basis based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the Sales Tax for the quarter.

The Trustee is required to apply receipts of Sales Tax Revenues as provided in the Indenture and the Equipment Trust Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2001 BONDS - Revenue Fund; Allocation of Revenues” and APPENDIX D - “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Funds and Accounts; Allocation of Revenues” herein. The Trustee is required to transfer any remaining unapplied Sales Tax Revenues to the Junior Lien Trustee for allocation to the Junior Obligations. After allocation by the Junior Lien Trustee, any remaining unapplied Sales Tax Revenues are transferred to the Authority for use for any lawful purpose.

Historical Sales Tax Revenues

The following table shows Sales Tax Revenues reported by the Authority during the five Fiscal Years ended June 30, 2000.

**Santa Clara Valley Transportation Authority
Historical Sales Tax Revenues
Fiscal Years Ended June 30, 1996 - 2000**

<u>Fiscal Year Ended June 30</u>	<u>Sales Tax Revenues</u>	<u>Increase (%)</u>
1996	\$122,274,395	--
1997	128,968,746	5.5
1998	138,428,805	7.3
1999	143,711,721	3.8
2000	166,764,390	16.0

Source: The Authority

Upon the issuance of the 2001 Bonds, Fiscal Year 2000 Sales Tax Revenues will cover maximum annual debt service on the 2001 Bonds and the other Senior Obligations by approximately 8.85 times.

For a summary of historical taxable retail sales within the County see the table entitled “Santa Clara County, Taxable Transactions” in APPENDIX C of this Official Statement.

Projected Sales Tax Revenues and Debt Service Coverage

The table below represents a five-year projection of debt service coverage for the 2001 Bonds and the other Senior Obligations, based on Authority estimates of Sales Tax Revenues for the five fiscal years ending June 30, 2001 through 2005.

Santa Clara Valley Transportation Authority Projection of Sales Tax Revenues and Debt Service Coverage Fiscal Years Ending June 30, 2001 - 2005

<u>Fiscal Year Ending June 30</u>	<u>Projected Sales Tax Revenue</u>	<u>Percent Increase (Decrease)</u>	<u>Aggregate Debt Service⁽¹⁾</u>	<u>Projected Coverage⁽²⁾</u>
2001	\$185,000,000	--	\$4,170,068.00	44.36
2002	180,000,000	(2.78)	18,841,022.17	9.55
2003	189,360,000	5.20	18,841,673.00	10.05
2004	199,207,000	5.20	18,842,038.00	10.57
2005	209,566,000	5.20	18,841,403.00	11.12

(1) Includes debt service on the 1985 Equipment Trust Certificates at the swap rate of 4.335% and actual debt service on the 1997 Bonds and the 2001 Bonds. See "DEBT SERVICE SCHEDULE."

(2) Does not include any additional Parity Debt.

Source: The Authority

INVESTMENT CONSIDERATIONS

Economy of the County and the State

The 2001 Bonds are secured by a pledge of Revenues, which consist primarily of the Sales Tax less an administrative fee paid to the Board of Equalization. The level of Sales Tax Revenues collected at any time is dependent upon the level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally. As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the level of Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the 2001 Bonds. For information relating to current economic conditions within the County and the State see APPENDIX C - "COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION."

California Energy Crisis

During the past year, the State has experienced significant energy shortages that have resulted in numerous requests for energy conservation and "rolling blackouts" in central and northern California. The energy shortage, which is likely to continue for several years, has also resulted in dramatic increases in the cost of electricity to many electricity customers in the State. In addition, two of the State's largest investor-owned utilities, Pacific Gas & Electric company ("PG&E") and Southern California Edison ("SCE"), have failed to meet all of their financial obligations. PG&E filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code on April 6, 2001.

On January 17, 2001, the Governor of California determined that the electricity available from the State's utilities was insufficient to prevent widespread and prolonged disruption of electric service in the State and proclaimed a state of emergency to exist in the State under the California Emergency Services Act (the "Emergency Act"). Under the Emergency Act, the Governor has directed all agencies of State government to utilize and employ State personnel, equipment, and facilities for the performance of any and all activities designed to prevent or alleviate the emergency. The Emergency Act permits the Governor to direct the expenditure of any appropriate funds legally available to perform the activities required under a proclamation. The Governor directed the State Department of Water Resources to enter into contracts and arrangements for the purchase and sale of electric power as necessary to assist in mitigating the effects of the emergency. The Emergency Act also authorizes the Governor to commandeer or utilize any private property deemed by the Governor necessary in carrying out his responsibilities and requires the State to pay the reasonable value of the use of such property. The Governor has used this authority to seize certain power purchase contracts of investor-owned utilities. The Governor recently completed an agreement with SCE for the State's purchase of the company's power transmission liens in an effort to provide power to consumers and maintain the company's solvency. Legislative and regulatory approval of this agreement is currently pending. The State has expended, and continues to expend, substantial amounts of money in an attempt to address the situation. In addition, the Governor and the State Legislature have taken various legislative actions, and further actions are being considered. The federal government also is considering actions that it might take.

The Authority cannot determine at this time what the ultimate economic impact of this shortage will be. For a discussion of the relationship between economic activity and Sales Tax Revenues, see "INVESTMENT CONSIDERATIONS – Economy of the County and the State."

The Sales Tax

With limited exceptions, the Sales Tax is imposed upon the same transactions and items subject to the sales tax levied statewide by the State. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the Sales Tax are imposed. Any such change or limitation could have an adverse impact on the Sales Tax Revenues collected. For a further description of the Sales Tax, see "THE SALES TAX."

Proposition 218

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution. Article XIII C requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined to include local or regional governmental agencies such as the Authority. However, the voter approval requirements of Article XIII C do not apply to the Sales Tax since the Sales Tax was approved by the voters prior to January 1, 1995. Article XIII C also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized local taxes, even previously voter-approved taxes like the Sales Tax. In the opinion of the Authority, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the Sales Tax in a manner which would prevent the payment of debt service on the

Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. However, it is likely that the interpretation and application of Proposition 218 will ultimately be determined by the courts.

Further Initiatives

Article XIII B and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, which may affect the Authority's ability to levy and collect the Sales Tax. See also, "INVESTMENT CONSIDERATIONS - Sales Tax Litigation in California."

Loss of Tax Exemption

As discussed under "TAX MATTERS," interest on the 2001 Bonds could become includable in federal gross income, possibly from the date of issuance of the 2001 Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the 2001 Bonds. Should interest become includable in federal gross income, the 2001 Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

Sales Tax Litigation in California

The Sales Tax was imposed prior to the adoption of Article XIII A and Proposition 62 and therefore is not involved in any of the litigation described below.

On December 19, 1991, the California Supreme Court rendered its opinion in *Rider v County of San Diego*. The *Rider* decision invalidated a one-half percent retail transactions and use tax imposed for justice facility purposes. In *Rider*, the California Supreme Court held that taxes levied by "special districts" require two-thirds voter approval; "special districts" are government entities created to circumvent the limitations on taxation embodied in Article XIII A of the California Constitution; and an entity may be deemed a "special district" if it was created after the adoption of XIII A and it is "essentially controlled" by an entity with the power to levy property taxes.

On September 28, 1995, the California Supreme Court rendered its opinion in *Santa Clara County Local Transportation Authority v Carl Guardino*. The *Santa Clara* decision held invalid a half-cent sales tax to be levied by the Santa Clara County Local Transportation Authority because it was approved by a majority but not two-thirds of the voters in Santa Clara County voting on the tax. The California Supreme Court decided the tax was invalid under Proposition 62, a statutory initiative adopted at the November 4, 1986 election that requires (among other matters) that any new taxes for general governmental purposes imposed by local governmental entities be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, and requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax.

In deciding *Santa Clara* on Proposition 62 grounds, the Court rejected the decision in *City of Woodlake v Logan*, 230 Cal.App.3d 1058 (1991), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. The California Supreme Court determined that the voter approval requirement of Proposition 62 is

a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted.

In January 1997, a suit, *Coleman v County of Santa Clara* (Case No. CV763224), was filed challenging the validity of the 1996 Measure B sales tax. On May 14, 1997, the Superior Court in the County granted the County's Motion for Summary Judgment in the *Coleman* lawsuit and upheld the validity of the 1996 Measure B sales tax. The Court of Appeal also upheld the validity of the 1996 Measure B sales tax by unanimous vote on June 8, 1998 and the California Supreme Court denied plaintiffs' request for review on August 26, 1998.

State law requires that during the pendency of any lawsuit challenging the validity of a tax the County place the proceeds of the tax in an interest bearing escrow account until the legality of the tax is finally resolved by a final and nonappealable decision. While the *Rider*, *Santa Clara* and *Coleman* lawsuits have not directly affected the ability of the Authority to levy and collect the Sales Tax, there can be no guarantee that future lawsuits challenging the legality of the Sales Tax will not be filed.

FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2000, included in APPENDIX B of this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report therein. KPMG LLP was not requested to consent to the inclusion of its report in APPENDIX B, nor has it undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2000.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices is being contested. See APPENDIX A - "THE AUTHORITY - Litigation."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2001 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2001 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the 2001 Bonds is less than the amount to be paid at maturity of such 2001 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2001 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2001 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2001 Bonds is the first price at which a substantial amount of such maturity of the 2001 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2001 Bonds accrues daily over the term to maturity of such 2001 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2001 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2001 Bonds. Beneficial owners of the 2001 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2001 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2001 Bonds in the original offering to the public at the first price at which a substantial amount of such 2001 Bonds is sold to the public.

2001 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest on the 2001 Bonds to be excluded from gross income for federal income tax purposes. The Authority has made representations related to certain of these requirements and has covenanted to comply with certain of these requirements. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2001 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2001 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the 2001 Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2001 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2001 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2001 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2001 Bonds may otherwise affect a beneficial owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the 2001 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2001 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the 2001 Bonds for audit examination, or the course or result of any IRS examination of the 2001 Bonds, or obligations which present similar tax issues, will not affect the market price for the 2001 Bonds.

LEGAL MATTERS

Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, Bond Counsel, will render an opinion with respect to the validity of the 2001 Bonds. The proposed form of such approving opinion is attached hereto as APPENDIX F. Bond Counsel assumes no responsibility for the accuracy, completeness, or fairness of this Official Statement. Compensation paid to Bond Counsel is conditioned upon the successful issuance of the 2001 Bonds. Certain legal matters will be passed upon for the Authority by the general counsel for the Authority.

RATINGS

The Bonds have been assigned unsecured ratings of "AA" by Fitch, Inc., "Aa3" by Moody's Investors Service and "AA" by Standard & Poor's Ratings Group. In addition, the Insured 2001 Bonds have been assigned ratings of "AAA" by Fitch, Inc., "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Ratings Group, based on the understanding that the Insurance Policy will be issued by the Insurer simultaneously with the delivery of the Insured 2001 Bonds. These ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold securities. The Authority has furnished to the rating agencies certain information respecting the 2001 Bonds and the Authority. Generally, rating agencies base their ratings on such information and materials and their own investigations, studies and assumptions. The ratings are subject to revision or withdrawal at any time by the rating agencies, and there is no assurance that the ratings will continue for any period of time or that they will not be lowered or withdrawn. Any reduction or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The 2001 Bonds were purchased at a competitive sale by Morgan Stanley & Co. Incorporated (the "Underwriter") on May 23, 2001. The Underwriter is committed to purchase all (but not less than all) of the Bonds at a purchase price of \$198,295,090.55, representing the principal

amount of the Bonds, less a net original issue discount of \$453,804.50 and less an underwriting discount of \$1,251,104.95 (which amount includes the bond insurance premium to be paid by the Underwriter to the Insurer).

FINANCIAL ADVISOR

The Authority has retained Ross Financial, San Francisco, California, as Financial Advisor in connection with the authorization and delivery of the 2001 Bonds. Compensation paid to the Financial Advisor is conditioned on the successful issuance of the 2001 Bonds.

CONTINUING DISCLOSURE

The Authority has covenanted for the benefit of the owners and beneficial owners of the 2001 Bonds to provide certain financial information and operating data relating to the Authority by not later than 210 days following the end of the Authority's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2000-2001 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Dissemination Agent on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"). The notices of material events will be filed by the Dissemination Agent on behalf of the Authority with the Municipal Securities Rulemaking Board and with the NRMSIRs. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth under the caption "APPENDIX G - PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Authority is in compliance with all continuing disclosure requirements applicable to its securities.

MISCELLANEOUS

The references herein to the Act and the Indenture are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents or the Act, as the case may be. Copies of the documents mentioned under this heading are available for inspection at the Authority and following delivery of the 2001 Bonds will be on file at the offices of the Trustee in San Francisco, California.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the 2001 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

SANTA CLARA VALLEY TRANSPORTATION
AUTHORITY



By: _____ /s/ Scott D. Buhner
Chief Financial Officer

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

THE AUTHORITY

All capitalized terms used and not defined in this Appendix A shall have the meanings assigned to such terms in the front portion of this Official Statement.

Administration

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

The current members of the Board, the local agency each Board member represents and the expiration of each member's term are as follows:

<u>Name</u>	<u>Local Agency</u>	<u>Term Expires</u>
Manuel Valerio, Chairperson	City of Sunnyvale	2003
Ron Gonzales, Vice-Chairperson	City of San Jose	2002
Blanca Alvarado	County of Santa Clara	2004
Cindy Chavez	City of San Jose	2002
David Cortese	City of San Jose	2004
Pat Dando	City of San Jose	2004
Don Gage	County of Santa Clara	2003
Dennis Kennedy	City of Morgan Hill	2001
Jane Kennedy	City of Campbell	2002
Sally Lieber	City of Mountain View	2001
Judy Nadler	City of Santa Clara	2002
Forrest Williams	City of San Jose	2004

The alternate members of the Board include Randy Attaway (Town of Los Gatos), Sandy Eakins (City of Palo Alto), Pete McHugh (County of Santa Clara), Thomas Springer (City of Gilroy), and Ken Yeager (City of San Jose).

The Board has established three standing committees, each consisting of four Board members: Administration and Finance, Congestion Management Program and Planning, and Transit Planning and Operations. Several advisory committees have also been formed to make recommendations to the Board on technical and policy issues.

Certain key members of the Authority's administrative staff include the following:

PETER M. CIPOLLA - General Manager since January, 1995. Mr. Cipolla has been in the transportation industry for 25 years and has held positions with ATE Management and Service Company, Inc., a professional transportation management and consulting firm, the Sacramento Regional Transit Authority and the Regional Transportation Authority in Denver, Colorado, where he served as General Manager. Mr. Cipolla holds a Bachelor of Science degree in Marketing from Central Missouri State University.

FRANK MARTIN - Director, Operations since June, 1999. Mr. Martin has over 27 years of transportation operations and planning experience. Prior to joining the Authority, Mr. Martin was the Assistant Director, Rail Service for the Miami-Dade Transit Agency in Miami, Florida and General Manager for the Regional Transit Authority in New Orleans, Louisiana and Birmingham-Jefferson County Transit Authority in Birmingham, Alabama. Mr. Martin holds a Bachelor of Science degree in Business Administration from Tennessee State University and a Master's in Urban and Regional Planning (MURP) from Fisk University

SCOTT BUHRER - Chief Financial Officer since August, 1996. Prior to joining the Authority, Mr. Buhner served as the Director of Finance of the San Mateo County Transit District. Mr. Buhner holds a Bachelor of Science degree in Accounting from Ferris State University, Michigan, and is a C.P.A. and a C.M.A.

SUZANNE GIFFORD - General Counsel since June, 1995. Ms. Gifford formerly served as General Counsel of the Southern California Rapid Transit District. Ms. Gifford is a graduate of the University of Michigan Law School and is a member of the American Public Transit Association Legal Affairs Committee.

JAMES E. PIERSON - Director, Planning and Development since 1991. Prior to his current position, he was Deputy Director for Program Management for the Santa Clara County Traffic Authority. Mr. Pierson holds a Bachelor of Science degree in Civil Engineering from the University of California at Davis.

JACK COLLINS - Director, Rail Design and Construction since November 1998. Mr. Collins has been in the transportation industry for 23 years implementing large transit projects as an owner, professional consultant and contractor. Before joining the Authority, Mr. Collins served as Vice President of O'Brien Kreitzberg, a construction management consultant firm and UTDC, (USA) Inc., a turnkey contractor of automated transit systems. Mr. Collins holds a Bachelor of Arts degree in Management from St. Mary's University, California, a degree in Water Resources Engineering Technology from St. Lawrence College, Ontario, and is a certified cost consultant.

MIKE EVANHOE - Director, Congestion Management since 1995. Prior to his current position Mr. Evanhoe was the Executive Director of the Santa Clara County Congestion Management Agency and formerly served as the First Executive Director of the California Transportation Commission. Mr. Evanhoe holds a Bachelor of Science Degree in Business Administration from California State University in Sacramento, California.

KAYE EVLETH - Director, Human Resources since January 1997. Prior to joining the Authority, Ms. Evleth served in various human resources management positions with the City of Los Angeles over a 25-year period. Ms. Evleth holds a Bachelor of Arts degree in Social Sciences

from the University of California at Irvine and a Juris Doctor from Loyola Law School, Los Angeles, and is a member of the State Bar of California.

ANNE-CATHERINE VINICKAS, Director, Marketing since November 1997. Previously, Ms. Vinickas served as Marketing Manager for the San Diego Metropolitan Transit Development board and held positions in advertising agencies. Ms. Vinickas holds a Bachelor of Arts degree in Communication Arts from the University of California at San Diego.

Employees

The Authority presently has approximately 2,500 employees. Mechanics, bus and light rail operators are represented by the Amalgamated Transit Union Division 265. The Authority's existing contract with this union will expire in February 2005. Other Authority employees are either not represented, or are represented by the Service Employees International Union (Local 715), County Employees Management Association or Transportation Authority Engineers and Architects Association. The Authority has never experienced any major work stoppages or job actions.

The Authority Transit System

Bus Transit Service. The Authority presently operates a bus system providing service to the approximately 326 square mile urbanized portion of the County of Santa Clara (the "County"), a county of 1,300 square miles with a population of approximately 1.7 million. The area served by the Authority includes the City of San Jose and other urbanized portions of central and northern Santa Clara County ("Silicon Valley").

The Authority currently maintains a bus fleet of 525 diesel-powered coaches. The average age of these buses is about 9.1 years and the buses range from brand new to over 16 years old. There are approximately 4,700 bus stops and 600 bus shelters along the bus routes. The Authority also maintains 15 park & ride lots – five owned by the Authority and ten provided under a lease, permit, or joint use agreement with other agencies.

Light Rail Transit Service. The Authority currently operates and maintains a 29.78-mile light rail system (the "LRT System") connecting the Silicon Valley industrial areas of Mountain View, Sunnyvale, Santa Clara and North San Jose to residential areas in South San Jose. The LRT System has a total of 48 stations and 14 park & ride lots, which are fully integrated with the bus system. Ridership increased from less than 1,000 riders per day when the system initially opened in December 1987, to approximately 25,673 riders per day in fiscal year 2000.

Under a partnership with the County, the Authority is implementing the 1996 Measure B Transportation Improvement Program, which includes the Vasona, Tasman East, and Capitol Light Rail extensions, portions of which are being financed with the proceeds of the 2001 Bonds as described in the front portion of this Official Statement. At completion of these projects, the LRT System will incorporate a total of 42.7 miles and have a total of 73 stations and 25 park & ride lots.

The Authority currently operates and maintains a fleet of 50 high floor light rail vehicles. The Authority has contracted for the procurement of 100 low floor light rail vehicles to replace and augment the current fleet.

Other Services. The Authority provides funding, coordinates feeder service, and assists in the improvement of Caltrain commuter services. These services are provided by the Peninsula Corridor Joint Powers Board (the "PCJPB"), which is comprised of three member agencies: the Authority, the San Mateo County Transit District ("SamTrans") and the City and County of San Francisco. Seventy-eight trains operate between San Jose Diridon Station and San Francisco each weekday, with 66 of these trains extended to the Tamien Station in San Jose where a connection can be made to the LRT System. Connection to the LRT System can also be made at the Mountain View Caltrain Station. Eight peak-time trains extend south of Tamien station to Gilroy. The funding share of the operating costs apportioned to each member agency of the PCJPB is based upon morning peak period boardings in each county, currently about 41% for the Authority. Over 33,000 passengers ride Caltrain each weekday.

The Authority is also a member of the Capitol Corridor Joint Powers Authority ("CCJPA") that provides the Capitol Corridor Intercity Rail Service, which runs seven round trips daily between Oakland and Sacramento, with four continuing to San Jose. Stops are located at stations in Roseville, Sacramento, Davis, Suisun/Fairfield, Martinez, Richmond, Berkeley, Emeryville, Oakland, Hayward, Fremont, Santa Clara and San Jose. CCJPA is comprised of the Authority, the Sacramento Regional Transit District, the Placer County Transportation Planning Agency, the congestion management agencies of Solano and Yolo Counties and the San Francisco Bay Area Rapid Transit District ("BART"). Under contract with CCJPA, BART manages the service and Amtrak operates the service on tracks owned by Union Pacific Railroad. Funding is provided by the State of California.

The Altamont Commuter Express ("ACE") is administered under a Joint Exercise of Powers Agreement among the Authority, Alameda County Congestion Management Agency and the San Joaquin Regional Rail Commission. ACE rail service provides peak hour, weekday commuter rail service from the Central Valley to Santa Clara Valley. The 85-mile rail line includes ten stations located in Stockton, Lathrop, Tracey, Livermore (2), Pleasanton, Fremont, Great America, Santa Clara and San Jose Diridon Station. The Authority provides ten free shuttles to transport ACE riders between the Great America and San Jose Diridon stations and nearby employment sites. The funding share of the operating costs apportioned to each participating county is based on the proportional share of total daily boardings and alightings that occur in each county (currently approximately 46% for the Authority).

The Dumbarton Express is a transbay express bus route operating between the Union City BART station and Stanford Research Park in Palo Alto. It provides the only regularly scheduled public transit service over the Dumbarton Bridge. A consortium comprised of representatives from the Alameda-Contra Costa Transit District ("AC Transit"), BART, the City of Union City, SamTrans, and the Authority underwrite the net operating costs of the service. This service is contracted out to a private transit provider. SamTrans and the Authority are responsible for 50% of the net operating costs and AC Transit and BART are responsible for the remainder. The 50% of the operating costs is apportioned based upon all day boardings in the County and San Mateo County (currently approximately 36% for the Authority).

Like the Dumbarton Express, the Highway 17 Express is an intercounty bus service operated through a cooperative arrangement between the Authority and Santa Cruz Metropolitan Transit Authority. The two agencies share the net operating costs equally.

The Authority implemented a Paratransit brokerage system in 1992, which operates in all fifteen cities of the County. The Authority has contracted with Outreach and Escort, Inc. as brokers to provide the service, whom eligible riders contact directly to schedule their trips. The contacted broker assigns the trips based on the most productive mode of transportation meeting the rider's needs, including taxi, accessible van and other modes. Since January 1, 1999 the Authority has offered same-day paratransit service, which allows qualified individuals to arrange and take trips on the day of a request to provide for their urgent or unplanned transportation needs. In compliance with requirements of the federal Americans with Disabilities Act ("ADA"), there are no limitations on the number of trips per month. The Paratransit requirements of the ADA have had and will continue to have significant operational and financial impacts on the Authority.

Under the Authority's Rail Shuttle Program, it offers financial assistance to employers that wish to operate shuttle bus service between LRT System stations and nearby employment centers. The service is operated through a private contractor provided by the Authority or the employer. Funding to operate this program is provided by the employer (minimum of 25%), the Authority (typically 30%), and grants (45%) from the State Transportation Fund for Clean Air Act (AB424).

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

Financial Results

The table on the following page shows the Authority's income statements for the Fiscal Years ended June 30, 1996 through June 30, 2000.

Santa Clara Valley Transportation Authority
Statements of Revenues and Expenses, Fiscal Years Ending June 30

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Operating revenues:</u>					
Passenger fares	\$21,522,933	\$23,633,116	\$27,200,840	\$27,069,631	\$32,325,602
Advertising & other	<u>1,441,355</u>	<u>1,944,271</u>	<u>2,802,298</u>	<u>3,886,000</u>	<u>3,927,672</u>
Total operating revenues	<u>22,964,288</u>	<u>25,577,387</u>	<u>30,003,138</u>	<u>30,955,631</u>	<u>36,253,274</u>
<u>Operating expenses:</u>					
Labor	71,809,616	77,297,405	82,030,189	88,779,075	98,371,717
Fringe benefits	46,456,900	43,053,832	48,661,221	53,574,887	75,354,169 ¹
Materials & supplies	16,649,398	16,911,096	14,737,004	19,646,325	15,539,528
Services	12,310,426	12,583,492	17,043,499	15,200,210	21,379,301
Utilities	3,276,574	3,409,410	3,603,478	4,070,489	5,167,026
Casualty and liability	4,120,303	2,413,527	3,922,480	3,895,208	2,403,204
Purchased transportation	5,745,837	8,916,091	11,820,778	15,486,747	17,455,793
Leases and rentals	773,317	298,775	393,749	467,437	636,625
Miscellaneous	<u>1,184,206</u>	<u>1,627,171</u>	<u>1,887,311</u>	<u>467,437</u>	<u>3,011,015</u>
Total operating expenses, excluding depreciation	<u>162,326,577</u>	<u>166,510,799</u>	<u>184,099,709</u>	<u>202,227,642</u>	<u>239,318,378</u>
Operating loss before depreciation	<u>(139,362,289)</u>	<u>(140,933,412)</u>	<u>(154,096,571)</u>	<u>(171,272,011)</u>	<u>(203,065,104)</u>
<u>Depreciation expense:</u>					
On assets acquired with capital grants	10,124,613	9,982,063	15,226,946	11,764,348	13,506,113
On assets otherwise acquired	<u>13,141,369</u>	<u>14,435,480</u>	<u>9,095,153</u>	<u>12,498,201</u>	<u>12,404,151</u>
Total depreciation expense	<u>23,265,982</u>	<u>24,417,543</u>	<u>24,322,099</u>	<u>24,262,549</u>	<u>25,910,264</u>
Operating loss	<u>(162,628,271)</u>	<u>(165,350,955)</u>	<u>(178,418,670)</u>	<u>(195,534,560)</u>	<u>(228,975,368)</u>
<u>Nonoperating revenues (expenses):</u>					
Sales tax revenue	122,274,395	128,968,746	138,428,805	143,711,721	166,764,390
Federal operating grants and reimbursements	148,296	48,591	59,238	11,656,278 ²	6,050,541
State and local operating grants and reimbursements	52,597,357	69,242,981	72,624,283	67,588,736	80,436,297
Caltrain subsidy	(11,973,493)	(11,688,588)	(12,254,444)	(11,291,169)	(7,850,284)
CalTrain reimbursements	2,085,857	2,583,873	--	--	--
Altamont Commuter Express subsidy	--	--	--	(836,777)	(3,820,614)
Interest income	4,140,040	5,943,311	8,784,858	5,534,792	8,285,635
Interest expense	(3,863,231)	(3,731,056)	(4,013,862)	(4,762,588)	(4,615,642)
Congestion Management Agency expense, net	(25,611)	--	--	--	--
Other (expense)/Income, net	<u>(242,462)</u>	<u>(550,070)</u>	<u>(22,654,631)³</u>	<u>8,896,055</u>	<u>3,399,273</u>
Total nonoperating revenues, net	<u>165,141,148</u>	<u>190,817,788</u>	<u>180,974,247</u>	<u>220,497,048</u>	<u>248,649,596</u>
Net income (loss)	<u>\$ 2,512,877</u>	<u>\$ 25,466,833</u>	<u>\$ 2,555,577</u>	<u>\$ 24,962,488</u>	<u>\$ 19,674,228</u>

¹ Reflects transfer of \$10,727,000 to fund unfunded pension liability.

² Increases in federal operating grants and reimbursements in 1999 and 2000 are due to ongoing federal preventive maintenance grant programs. See APPENDIX A - "Authority Operating Revenues - Other Revenues," herein.

³ Reflects transfer of \$22,888,882 to fund unfunded pension liability.

Management's Discussion of Financial Results

The Authority has been implementing an aggressive program of change since its combination with the Congestion Management Agency in January, 1995. The Authority has become both a transit provider and a multi-modal transportation planning organization involved with transit, highways and roadways, bikeways and pedestrian facilities. The Authority's Board of Directors has adopted vision and mission statements to give policy direction to the organization and a Strategic Plan for implementing its mission and achieving its vision. The goals of the Strategic Plan generally are to improve the quality and quantity of services to the Authority's customers and to maintain adequate levels of funding to sustain the existing transportation system, as well as securing funding for future expansion.

Consistent with its mission and vision, the Authority has experienced strong growth in ridership. Ridership has increased each year since 1995, including an increase of 7.4% as of the second quarter of Fiscal Year 2000-01 as compared to the second quarter of the prior fiscal year. Some of the recent ridership growth was due to the completion of construction and opening for service of the Tasman West Light Rail extension. The Authority also expanded its Eco Pass program that makes transit more attractive to employees of participating firms by offering the same benefits to local residential communities. The Authority continues to offer expanded light rail and certain bus routes running 24 hours each day.

After a projected short-term reduction in the growth rate of the Authority's sales tax receipts over the next six quarters, the Authority anticipates a long-term return to the consistent sales tax growth rates evidenced during the past five years. See "THE SALES TAX - Projected Sales Tax Revenues and Debt Service Coverage" in the front portion of this Official Statement. In light of these projections, the Authority's strong earnings to date and its substantial undesignated reserves, the Authority expects to continue its aggressive expansion in the future, including the completion of construction on three light rail extensions (Tasman East, Capitol, and Vasona).

Financial Projections

For a discussion of the Authority's projected Sales Tax Revenues and Debt Service Coverage, see the information in the front portion of this Official Statement under the caption "THE SALES TAX - Projected Sales Tax Revenues and Debt Service Coverage."

Authority Operating Revenues

The Authority derives its operating revenues principally from funds derived from the imposition of the Sales Tax, the 1/4% sales tax imposed pursuant to the California Transportation Development Act of 1971, as amended (the "TDA"), described herein under the caption "TDA Revenues," and passenger fares charged by the Authority.

Sales Tax Revenues. In 1976, the voters of the County authorized enactment by the Authority of an ordinance imposing the Sales Tax - a one half of one percent sales and use tax on transactions in the County. The Board of Equalization collects the Sales Tax for the Authority and, pursuant to an agreement between the Authority and the Board of Equalization, after deducting the cost of administering the Sales Tax, remits tax revenues to the Trustee on a monthly basis. Pursuant to its procedures, the Board of Equalization projects receipts of the Sales Tax on a quarterly basis

and remits an advance of such receipts to the Trustee each month based on such projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the Sales Tax for the quarter. The Sales Tax is the Authority's single largest source of revenue.

After application for payment of the Senior Obligations and the Junior Obligations, Sales Tax Revenues will be budgeted to pay operating expenses and to pay capital expenditures where State or Federal capital assistance programs require that the recipient of assistance contribute locally derived revenue.

For a discussion of the Authority's Sales Tax Revenues over the last five years, see the information in the front portion of this Official Statement under the caption "THE SALES TAX - Historical Sales Tax Revenues."

TDA Revenues. TDA Revenues are a State of California subsidy consisting of an allocation of sales tax revenue under the TDA, whereby a 0.25% levy of the State of California's sales tax (net of collection costs) is made available for public transportation operating and capital expenses in the county in which the sales tax is collected (the "TDA Revenues"). TDA Revenues are the Authority's second largest source of revenue and are distinct from revenues derived from the Sales Tax. TDA Revenues are not pledged to repay the Bonds.

TDA Revenues are apportioned, allocated and paid by the Metropolitan Transportation Commission ("MTC"), the regional planning organization for the nine-county San Francisco Bay Area. Under TDA regulations, MTC allocates approximately 11% of the TDA Revenues to fund community and Paratransit service programs, facilities for the use of pedestrians and bicycles and the transportation planning and programming process. The remaining 89% of the TDA Revenues are allocated to operators who provide public transportation services in the County. TDA Revenues for operating assistance are returned to the county of origin. As the only public transit service provider in the County, the Authority is eligible to receive the entire amount of the 89% allocation of TDA Revenues. TDA Revenues are available to the Authority in an amount equal to 50% of the Authority's operating budget, after deduction of the amount received from federal grants, provided that certain TDA eligibility requirements are met. The Authority has been in compliance with TDA eligibility requirements and has received TDA Revenues in each year since the Authority began operations in 1973. In accordance with procedures and eligibility requirements set forth in the TDA, the Authority submits a request for TDA Revenues to MTC on each April 1 for the next Fiscal Year. If MTC approves the request, MTC then directs the Controller of the County to release the TDA Revenues to the Authority. TDA Revenues are received in substantially equal monthly installments.

The following table shows the total amount of TDA Revenues for operations available from annual sales tax collections in Santa Clara County during the five Fiscal Years ended June 30, 2000.

**Santa Clara Valley Transportation Authority
Historical TDA Revenues**

<u>Fiscal Year Ended June 30</u>	<u>TDA Funds for Operations Distributed to the Authority</u>
1996	\$49,491,174
1997	64,676,234
1998	67,828,988
1999	62,527,899
2000	75,309,805

State Transit Assistance Program. Pursuant to the State Transit Assistance Program (the “STA”), a portion of gasoline sales tax revenues is appropriated by the State Legislature to the State Transportation Planning and Development Account (the “STA Revenues”) for certain transit and energy-related purposes. These STA Revenues are allocated throughout the State on the basis of population and operating revenues.

The Authority has been receiving STA Revenues since Fiscal Year 1979-80. STA Revenues are claimed on the basis of actual cash expenditures, normally on a quarterly basis. The total available STA Revenues allocated to the Authority in the Fiscal Year ending June 30, 2000, was \$4,363,784. The following table reflects STA Revenues received by the Authority in the five Fiscal Years ended June 30, 2000.

**Santa Clara Valley Transportation Authority
Historical STA Revenues**

<u>Fiscal Year Ended June 30</u>	<u>STA Funds Received</u>
1996	\$2,718,256
1997	3,819,458
1998	3,925,913
1999	4,456,512
2000	4,363,784

Ridership and Farebox and Advertising Revenues. The table below shows the Authority's ridership and the amount of passenger fare revenues and revenues from advertisements placed on the Authority's vehicles and bus shelters received by the Authority for the five Fiscal Years from 1996 through 2000.

**Santa Clara Valley Transportation Authority
Ridership⁽¹⁾ and Historical Farebox and Advertising Revenues**

<u>Fiscal Year Ended June 30</u>	<u>Passengers⁽¹⁾</u>	<u>Farebox and Advertising Revenues Received</u>
1996	48,798,100	\$22,964,288
1997	52,618,400	25,577,387
1998	53,028,298	30,003,138
1999	54,349,470	30,955,631
2000	54,921,324	36,253,274

⁽¹⁾ Ridership includes directly operated services.

Other Revenues. Federal guidelines established pursuant to the Transportation Equity Act for the 21st Century allow the Authority to claim grants (which are normally restricted to capital projects) for preventive maintenance costs. The Authority's principal motivation in programming this source of capital grants for preventive maintenance is to accelerate cash flow, and hence improve financial position. In addition to the above described revenues, the Authority from time to time receives other State assistance that may be used to pay operating expenses, and also receives interest on its operating funds.

Authority Expenditures

Operating Expenditures. The Authority's greatest operating expenses are labor and employee benefits, which comprise approximately 65% of the Authority's budgeted operating expenditures for Fiscal Year 2000-01. The labor and employee benefit cost is the total budgeted amount for mechanics, bus and light rail operators, supervisory and administrative personnel of the Authority. Administrative activities such as Human Resources, Marketing, and Finance, etc., account for approximately 12% of budgeted operating expenditures for Fiscal Year 2000-01. Vehicle and facility maintenance and repair costs account for approximately 10% of the Authority's budgeted operating expenditures for Fiscal Year 2000-01. An additional 7% is budgeted for ADA Paratransit and 5% is budgeted for Caltrain operations. See the table entitled "Statement of Revenues and Expenses," above, for a listing of the Authority's operating expenses by category for Fiscal Years ended June 30, 1996 through 2000.

During Fiscal Year 2000-01, the Authority estimates increases of 44.3% in the cost categories of fuel, traction power and utilities over FY 1999-00 actuals. These expenditures account for 4.7% of total operating expenses.

Capital Expenditures. The Authority is committed to facilitate and provide enhanced customer focus, improved mobility and access for the community and integrated transportation and land use planning, while maintaining financial stability. Based on these commitments, the Authority has embarked on three extensive capital programs. See "Authority Capital Programs," below.

Authority Capital Programs

Baseline Capital Program. The Authority's FY 2001-02 recommended Baseline Capital Program includes approximately \$1.1 billion of capital improvements over the next 10 years in the following categories. Federal and State grants provide approximately 67% of the funding for these capital improvements, with the remaining portion being funded from Sales Tax Revenues and other current revenues of the Authority.

Program Group	Group Budget
ADA Paratransit	\$ 6,962
Bus Service Expansion	98,524
Information Systems	58,437
Non-Revenue Vehicles	5,892
Operating Equipment	25,416
Operating Facilities	24,128
Passenger Facilities	74,738
Revenue Vehicles	359,386
Rail Expansion	385,568
Studies & Planning	1,379
Other	36,733
	<hr/>
Total	\$1,077,163

Federal funding is expected to be derived from Federal Transit Administration ("FTA") programs including FTA Section 5307, FTA Section 5309; Federal Surface Transportation Program (STP) and Congestion Mitigation & Air Quality Program (CMAQ) funds. All federal funds are subject to annual authorization by Congress.

The Authority also expects to receive assistance for capital projects from State programs including Transportation Fund for Clean Air (TFCA) funds.

1996 Measure B Transportation Improvement Program. In November of 1996, the voters in the County approved 1996 Measure A, an advisory measure that outlined a specific package of transportation improvements for the County. Voters in the County also approved 1996 Measure B, which authorized the enactment of a one-half cent sales tax for general County purposes, for a period of years ending March 31, 2006. In February of 2000, the Authority and the County entered into a Master Agreement outlining roles and responsibilities of the respective agencies during the implementation of the 1996 Measure B Transportation Improvement Program (MBTIP), whereby, the Authority would build and maintain the projects approved in Measure A, and the County would provide funding from Measure B. MBTIP is a comprehensive transportation improvement program that includes capital projects for transit, highway, pavement management, bicycle and other ancillary projects. Anticipated revenues from the Measure B sales tax is projected to be in excess of \$1.4 billion, with current projected capital expenditures of approximately \$1.7 billion. The Authority has secured additional funds including federal funds from the Surface Transportation Program (STP) and state funds from the State Highway Operations & Protection Program (SHOPP).

Valley Transportation Plan 2020. As the designated Congestion Management Agency for the County, the Authority is responsible for preparing the County's long-range countywide transportation plan. In August 2000, the Authority's Board of Directors adopted the Valley Transportation Plan 2020 to satisfy this requirement. The plan encompasses a set of investments that offers improvements and manages the existing roadway network with an expanded high-occupancy vehicle (HOV) system, improved interchanges and freeway-to-freeway connector ramps, and freeway upgrades. Additionally, the investments include a potential extension of the BART system to Milpitas, San Jose, and Santa Clara, as well as a new light rail line that will serve Downtown/East Valley where the Authority's highest concentration of transit riders live. The total cost of the investment program is over \$10 billion (Fiscal Year 2000 dollars) with an implementation timeframe of over three decades. Funding for these capital investments will be from a recently approved 30-year ½ cent sales tax (2000 Measure A) (\$6 billion, Fiscal Year 2000 dollars), the State of California Governor's Traffic Congestion Relief Plan (TCR) (\$926 million, Fiscal Year 2000 dollars), and \$2.1 billion (Fiscal Year 2000 dollars) of funds from STP, CMAQ and State Transportation Improvement Program (STIP) funds. The Authority will also seek additional State Inter-Regional Funds (ITIP), TFCA, Transportation Development Act (TDA) and Federal New Rail Starts funds.

Litigation

The Authority has accrued amounts that its management believes are adequate to provide for claims and litigation which have arisen during the normal course of business. Other claims and litigation are outstanding for which the Authority cannot determine the ultimate outcome and resulting liability, if any. However, the Authority's management believes the ultimate outcome of these claims and lawsuits will not significantly impact the Authority's financial position.

Significant Accounting and Budgetary Policies

The Authority follows the accrual basis of accounting. The Authority retained the firm of KPMG LLP to audit its records.

The Authority's budget is prepared annually prior to the commencement of its Fiscal Year (July 1-June 30). Sales Tax and TDA Revenues are budgeted on the basis of historical collections and factored against inflation and other growth barometers. Passenger fares are budgeted on the basis of ridership trends as projected to be affected by anticipated fare and route changes and certain other factors. Federal, state and regional funding sources are budgeted in accordance with allocations and commitments.

Revenues and expenditures are monitored continually using an enterprise resource system called SAP R/3. In addition, the Authority maintains additional mechanized reporting systems, which provide up-to-date data for the Authority to meet a variety of management needs and reporting requirements.

The Authority is able to adjust its transit operations and reduce expenditures when necessary, if revenue receipts and collection trends indicate imbalances from budgeted levels.

Investments and Investment Policy

The information presented in this section is a general description only and is not intended to be and does not purport to be a complete description of the Authority's Investment Policy. Reference is made to the full text of the Authority's Investment Policy for a complete description of the terms thereof, which is available from the Authority upon request.

Amounts held in funds and accounts established pursuant to the Indenture will be invested as provided in the Indenture, and as may be further restricted by the Authority's Investment Policy (the "Investment Policy"), adopted by the Authority Board of Directors on April 4, 1996 and amended by the Board of Directors on December 14, 2000. The Investment Policy covers all funds (other than any Amalgamated Transit Union Pension Funds) and investment activities under the direction of the Authority.

The Investment Policy has three primary objectives, listed below in descending order of priority:

1. Safety. Safety of principal is the foremost objective of the Investment Policy. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

2. Liquidity. The Authority's investment portfolio shall remain sufficiently liquid to enable the Authority to meet its cash flow requirements.

3. Return on Investment. The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

Listed below are the investments specifically permitted in the Investment Policy, together with the maximum share of the total Authority portfolio that each type of investment may comprise:

<u>Investment</u>	<u>Maximum % of Portfolio</u>
U.S. Treasury Obligations	100%
Obligations of Federal Agencies and U.S. Government-Sponsored Enterprises	100%
State of California Obligations	30%
Bankers' Acceptances	40%
Commercial Paper not to exceed 180 days rated "A-1/P-1"	
if weighted average maturity of all paper is 31 days or more	15%
if weighted average maturity of all paper is less than 31 days	30%
Negotiable Certificates of Deposit	30%
Repurchase Agreements	100%
Reverse Repurchase Agreements	20%
Medium Term Notes	30%
Savings and Money Market Accounts	15%

Mortgage and Asset-Backed Obligations	20%
Mutual Funds	15%
State of California Local Agency Investment Fund (LAIF)	Maximum limit by law (\$30 million)
Santa Clara County Investment Pool	100%

Prohibited investments include inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, any security that could result in zero interest accrual if held to maturity and any security with an unusually high degree of interest rate sensitivity or credit risk.

Issuer/Credit Diversification:

Any one federal agency or government sponsored enterprise	25%
Any one repurchase agreement or other collateralized Counterparty name	10%
Any one corporation, bank, local agency, or other name	5%

APPENDIX B

**AUTHORITY AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2000**

(THIS PAGE INTENTIONALLY LEFT BLANK)



500 E. Middlefield Road
Mountain View, CA 94043

Independent Auditors' Report

The Board of Directors
Santa Clara Valley Transportation Authority:

We have audited the accompanying general purpose financial statements of the Santa Clara Valley Transportation Authority (VTA) as of and for the year ended June 30, 2000, as listed in the table of contents under the caption "General Purpose Financial Statements." These general purpose financial statements are the responsibility of VTA's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Clara Valley Transportation Authority as of June 30, 2000, and the results of its operations, changes in net assets of its Pension Trust Fund, and cash flows of its Enterprise Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2000, on our consideration of VTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedules of funding progress presented on pages 2-40 and 2-41 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.





Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary data listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of VTA. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The financial information listed in the accompanying table of contents as "Statistical" is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of VTA. The information has not been audited by us, and, accordingly, we express no opinion on such information.

KPMG LLP

October 20, 2000, except as to Note 24,
which is as of November 7, 2000

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet

June 30, 2000

Assets	Governmental			Fiduciary Trust and Agency	Total (Memorandum only)
	Proprietary Enterprise	Special Revenue	Capital Projects		
Current assets:					
Cash and cash equivalents	\$ 1,168,184	321	—	—	1,168,505
Investments	45,195,963	126,467	—	—	45,322,430
Receivables, net	5,131,953	—	—	—	5,131,953
Due from other funds	509,331	11,007	—	—	520,338
Due from other governmental agencies	36,880,196	2,103,427	—	—	38,983,623
Inventories	17,005,820	—	—	—	17,005,820
Other current assets	7,110,468	—	—	—	7,110,468
Total current assets	113,001,915	2,241,222	—	—	115,243,137
Restricted assets:					
Cash and cash equivalents	6,621,028	—	—	—	6,621,028
Cash and equity with fiscal agents	13,093,136	—	—	—	13,093,136
Investments	197,959,914	—	1,093,496	198,238,734	397,292,144
Receivables	179,119	—	—	1,125,445	1,304,564
Due from other funds	155,462	—	—	—	155,462
Due from other governmental agencies	33,191,026	—	5,031,323	4,861,178	43,083,527
Total restricted assets	251,199,685	—	6,124,819	204,225,357	461,549,861
Other noncurrent assets:					
Deferred bond issuance costs	1,204,928	—	—	—	1,204,928
Other	111,300	—	—	—	111,300
Total other noncurrent assets	1,316,228	—	—	—	1,316,228
Property, facilities, and equipment:					
Land and right-of-way	515,329,096	—	—	—	515,329,096
CalTrain - Gilroy extension	48,763,312	—	—	—	48,763,312
Buildings, improvements, furniture, and fixtures	204,246,962	—	—	—	204,246,962
Vehicles	178,102,660	—	—	—	178,102,660
Light-rail tracks and electrification	245,809,151	—	—	—	245,809,151
Construction in progress	217,897,481	—	—	—	217,897,481
Other operating equipment	29,010,158	—	—	—	29,010,158
Total property, facilities, and equipment	1,439,158,820	—	—	—	1,439,158,820
Less accumulated depreciation	208,592,490	—	—	—	208,592,490
Total property, facilities, and equipment, net	1,230,566,330	—	—	—	1,230,566,330
Total assets	\$ 1,596,084,158	2,241,222	6,124,819	204,225,357	1,808,675,556

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Balance Sheet, (Continued)

June 30, 2000

Liabilities and Equity

	Proprietary Enterprise	Special Revenue	Governmental Capital Projects	Fiduciary Trust and Agency	Total (Memorandum only)
Current liabilities:					
Current portion of long-term debt	\$ 2,124,298	—	—	—	2,124,298
Accounts payable	11,508,550	559,667	—	—	12,068,217
Other accrued liabilities	7,883,987	473	—	—	7,884,460
Due to other funds	150,627	30,854	—	—	181,481
Due to other governmental agencies	4,273,339	432,692	—	—	4,706,031
Total current liabilities	25,940,801	1,023,686	—	—	26,964,487
Liabilities payable from restricted assets:					
Accounts payable	36,737,663	—	6,108,976	5,010,140	47,856,779
Other accrued liabilities – current	5,173,053	—	—	246,785	5,419,838
Due to other funds	—	—	15,843	478,476	494,319
Due to other governmental agencies	—	—	—	5,757,488	5,757,488
Long-term debt, excluding current portion	8,448,646	—	—	—	8,448,646
Other accrued liabilities – noncurrent	84,479,784	—	—	—	84,479,784
Total liabilities payable from restricted assets	134,839,146	—	6,124,819	11,492,889	152,456,854
Noncurrent liabilities:					
Long-term debt, excluding current portion	104,094,697	—	—	—	104,094,697
Other accrued liabilities	45,818	84,066	—	—	129,884
Total noncurrent liabilities	104,140,515	84,066	—	—	104,224,581
Total liabilities	264,920,462	1,107,752	6,124,819	11,492,889	283,645,922
Equity:					
Contributed capital:					
Federal grants	488,381,828	—	—	—	488,381,828
State grants	215,694,591	—	—	—	215,694,591
Other	147,417,245	—	—	—	147,417,245
Total contributed capital	851,493,664	—	—	—	851,493,664
Fund balances:					
Undesignated	—	1,133,470	—	—	1,133,470
Reserved for employees' pension benefits	—	—	—	187,951,792	187,951,792
Reserved for medical trust	—	—	—	4,780,676	4,780,676
Retained earnings:					
Reserved	116,360,539	—	—	—	116,360,539
Unreserved	363,309,493	—	—	—	363,309,493
Total fund balances and retained earnings	479,670,032	1,133,470	—	192,732,468	673,535,970
Total equity	1,331,163,696	1,133,470	—	192,732,468	1,525,029,634
Total liabilities and equity	\$ 1,596,084,158	2,241,222	6,124,819	204,225,357	1,808,675,556

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Revenues, Expenses, and Changes in
Retained Earnings – Enterprise Fund

Year ended June 30, 2000

Operating revenues:	
Passenger fares	\$ 32,325,602
Advertising and other	3,927,672
Total operating revenues	<u>36,253,274</u>
Operating expenses:	
Labor	98,371,717
Fringe benefits	75,354,169
Materials and supplies	15,539,528
Services	21,379,301
Utilities	5,167,026
Casualty and liability	2,403,204
Purchased transportation	17,455,793
Leases and rentals	636,625
Miscellaneous	3,011,015
Total operating expenses, excluding depreciation	<u>239,318,378</u>
Operating loss before depreciation	<u>(203,065,104)</u>
Depreciation expense:	
On assets acquired with capital grants	13,506,113
On assets otherwise acquired	12,404,151
Total depreciation expense	<u>25,910,264</u>
Operating loss	<u>(228,975,368)</u>
Nonoperating revenues (expenses):	
Sales tax revenue	166,764,390
Federal operating assistance grants	6,050,541
State and local operating assistance grants	80,436,297
CalTrain subsidy	(7,850,284)
Altamont Commuter Express subsidy	(3,820,614)
Investment earnings	8,285,635
Interest expense	(4,615,642)
Other income	4,808,287
Other expense	(1,409,014)
Nonoperating revenues, net	<u>248,649,596</u>
Net income	19,674,228
Charge to contributed capital – depreciation on fixed assets acquired with contributions	13,506,113
Retained earnings at beginning of year	<u>446,489,691</u>
Retained earnings at end of year	<u>\$ 479,670,032</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
All Governmental Fund Types and Expendable Trust
Year ended June 30, 2000

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Totals</u> (Memorandum only)
	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:				
Member agency assessment revenue	\$ 1,239,993	—	—	1,239,993
Federal technical studies operating assistance grants	1,042,441	—	—	1,042,441
Federal grants	27,445	—	—	27,445
Other contributions	390,000	—	—	390,000
Spousal medical contributions	—	—	972,302	972,302
Administrative fees	85,390	—	—	85,390
State operating assistance grants	31,031	—	—	31,031
Local grant revenue	—	15,887,855	—	15,887,855
Other revenues	1,500	—	—	1,500
Investment earnings	14,701	—	591,228	605,929
Total revenues	<u>2,832,501</u>	<u>15,887,855</u>	<u>1,563,530</u>	<u>20,283,886</u>
Expenditures:				
Salaries and benefits	1,296,176	—	—	1,296,176
Services	1,786,420	—	—	1,786,420
Program expenditures	69,522	15,887,855	—	15,957,377
Spousal medical benefit payments	—	—	278,074	278,074
Total expenditures	<u>3,152,118</u>	<u>15,887,855</u>	<u>278,074</u>	<u>19,318,047</u>
Total expenditures (in excess of) less than revenues	(319,617)	—	1,285,456	965,839
Fund balance at beginning of year	<u>1,453,087</u>	<u>—</u>	<u>3,495,220</u>	<u>4,948,307</u>
Fund balance at end of year	<u>\$ 1,133,470</u>	<u>—</u>	<u>4,780,676</u>	<u>5,914,146</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Governmental Fund Type (Special Revenue Funds)

Year ended June 30, 2000

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
Revenues:			
Member agency assessment revenue	1,239,994	1,239,993	(1)
Federal technical studies operating assistance grants	1,147,000	1,042,441	(104,559)
Federal grants	—	27,445	27,445
Other contributions	500,000	390,000	(110,000)
Administrative fees	115,200	85,390	(29,810)
State operating assistance grants	41,600	31,031	(10,569)
Other revenues	3,200	1,500	(1,700)
Investment earnings	—	14,701	14,701
Total revenues	<u>3,046,994</u>	<u>2,832,501</u>	<u>(214,493)</u>
Expenditures:			
Salaries and benefits	1,454,754	1,296,176	158,578
Services	1,614,512	1,786,420	(171,908)
Program expenditures	404,000	69,522	334,478
Total expenditures	<u>3,473,266</u>	<u>3,152,118</u>	<u>321,148</u>
Total expenditures (in excess of less than revenues)	<u>(426,272)</u>	<u>(319,617)</u>	<u>106,655</u>
Fund balance at beginning of year	<u>1,453,087</u>	<u>1,453,087</u>	<u>—</u>
Fund balance at end of year	<u>\$ 1,026,815</u>	<u>1,133,470</u>	<u>106,655</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Changes in Net Assets
(Fund Balance) – Pension Trust Fund

Year ended June 30, 2000

Additions:	
Pension contributions	\$ 17,524,376
Investment earnings	8,776,593
Net depreciation on investments	<u>(7,267,431)</u>
Total additions	<u>19,033,538</u>
Deductions:	
Distributions to participants	5,761,287
Other benefits paid to participants	2,300
Administrative expenses	<u>652,636</u>
Total deductions	<u>6,416,223</u>
Net increase	12,617,315
Net assets available for pension benefits (fund balance):	
Beginning of year	<u>175,334,477</u>
End of year	<u>\$ 187,951,792</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Cash Flows – Enterprise Fund

Year ended June 30, 2000

Cash flows from operating activities:	
Cash received from passenger fares	\$ 27,984,685
Cash received from advertising	3,826,569
Cash paid to employees	(177,569,162)
Cash paid to suppliers	(11,506,320)
Cash paid for purchased transportation	<u>(24,087,812)</u>
Net cash used in operating activities	<u>(181,352,040)</u>
Cash flows from noncapital financing activities:	
Operating grants received	98,343,530
Sales tax received	159,113,676
CalTrain subsidy	(7,850,284)
Altamont Commuter Express	(3,820,614)
Other noncapital receipts	16,423,417
Other noncapital payments	<u>(1,409,014)</u>
Net cash provided by noncapital financing activities	<u>260,800,711</u>
Cash flows from capital and related financing activities:	
Payment of long-term debt	(782,022)
Interest paid	(4,615,642)
Acquisition and construction of capital assets	(145,455,474)
Capital grants received	126,361,990
Proceeds from sale of capital assets	<u>389,657</u>
Net cash used in capital and related financing activities	<u>(24,101,491)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	1,166,102,687
Purchases of investments	(1,227,427,478)
Interest income	<u>8,561,254</u>
Net cash used in investing activities	<u>(52,763,537)</u>
Net decrease in cash and cash equivalents	2,583,643
Cash and cash equivalents, beginning of year	<u>18,298,705</u>
Cash and cash equivalents, end of year	<u><u>\$ 20,882,348</u></u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Statement of Cash Flows – Enterprise Fund, (Continued)

Year ended June 30, 2000

Supplemental disclosures of cash flow information:

Cash and cash equivalents, beginning of year:

Unrestricted	\$ 1,216,409
Restricted	17,082,296
	<u>\$ 18,298,705</u>

Cash and cash equivalents, end of year:

Unrestricted	\$ 1,168,184
Restricted	19,714,164
	<u>\$ 20,882,348</u>

Noncash transactions – reduction of contributed capital for depreciation on assets acquired with capital grants.

\$ 13,506,113

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (228,975,368)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	25,910,264
Changes in operating assets and liabilities:	
Receivables	(4,442,020)
Inventories	(4,776,731)
Other current assets	(6,536,066)
Accounts payable	41,311,157
Other accrued liabilities	(3,843,276)
	<u>25,910,264</u>
Net cash used in operating activities	<u>\$ (181,352,040)</u>

See accompanying notes to general purpose financial statements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(1) Organization

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

VTA is not subject to federal or state income taxes.

The accompanying general purpose financial statements also include the financial activities of the Santa Clara County Transit District Amalgamated Transit Union (ATU) Pension Plan (the Plan) in the Trust and Agency Funds (Note 13).

The Santa Clara County Traffic Authority (the Traffic Authority) was created upon the approval, in November 1984, of a one-half cent sales and use tax in the County by the County's voters. The tax, known as Measure A, commenced April 1, 1985, and expired on March 31, 1995. The proceeds of the tax are principally reserved for highway improvements in the County. The Measure A improvement projects mainly consist of improvements on Routes 85, 101, and 237. All improvements funded by Measure A become the property of the State.

As of March 31, 1997, the Traffic Authority ceased operations as a separate entity, and, effective April 1, 1997, VTA assumed responsibility as successor organization for the purpose of winding up the affairs of the Traffic Authority. The Traffic Authority is included in the accompanying general purpose financial statements in the Special Revenue Fund.

The Santa Clara Valley Transportation Authority Congestion Management Program (the CMP) was created in 1990 in response to Proposition 111. The CMP is not legally separate from VTA. The CMP is responsible for studying ways to alleviate traffic congestion in the County, coordinating and prioritizing proposals for state and federal transportation funds, administering the Bay Area Air Quality Management Program, and coordinating land use and other transportation planning. Annual contributions from each member agency are based on a formula adopted by VTA's governing board. The contribution formula considers each member agency's share of Proposition 111 state gas tax monies, as well as employment within the County. The accompanying general purpose financial statements include the financial activities of the CMP in the Special Revenue Fund.

(2) Significant Accounting Policies

(a) Description of Funds

The accounts of VTA are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, or expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

The funds are grouped into broad fund categories as follows:

- **Proprietary Fund Type (Enterprise Fund)** – The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. VTA's transit operations and the activities of the Measure B Transit Projects are accounted for in the Enterprise Fund.
- **Governmental Fund Type (Special Revenue Funds)** - The Special Revenue Funds are used to account for VTA's general government activities. The measurement focus is based upon the determination of changes in financial position rather than upon the determination of net income. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The activities of the CMP and the Traffic Authority are accounted for in the Special Revenue Funds.
- **Governmental Fund Type (Capital Projects Funds)** - The Capital Projects Funds are used to account for acquisition of fixed assets or construction of major capital projects (other than those financed by the Proprietary Fund). The activities of the Measure B Highway Projects are accounted for in the Capital Projects Funds.
- **Fiduciary Fund Type (Trust and Agency Funds)** - The Trust and Agency Funds are used to account for assets held by VTA as a trustee or as an agent for individuals, private organizations, other governmental units, and/or other funds. VTA's Trust and Agency Funds include the SCCTD/ATU Pension, ATU Medical Trust, the Bay Area Quality Management Program, and the Measure B – Pavement and Bikeway Program.

(b) Basis of Accounting

The Proprietary Fund Type and Pension Trust Fund are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the accompanying combined balance sheet. Fund equity (i.e., total assets net of total liabilities) for the Proprietary Fund Type is segregated into contributed capital and retained earnings components. Proprietary Fund Type and Pension Trust Fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Revenues are recognized when earned and expenses are recognized when incurred.

VTA has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Governmental Fund Types and the Expendable Trust Fund are accounted for on a flow of current financial resources measurement focus using the modified accrual basis of accounting. Although the Agency Fund is accounted for using the modified accrual basis of accounting, it is custodial in nature and does not present results of operations or have a measurement focus. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined, and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the fund liability is incurred if it is expected to be paid within 12 months. State and County sales tax collected and held on behalf of VTA are susceptible to accrual and recognized as revenue under the modified accrual basis of accounting.

(c) ***Budgetary Control***

State law requires the adoption of an annual budget, which must be approved by the Board of Directors. VTA budgets annually for its Enterprise Fund and its Special Revenue Funds. The Capital Projects Fund is budgeted on a multi-year basis and therefore annual information is not available for this fund. The budget for the Enterprise Fund is developed on an accrual basis, and the budget for the Special Revenue Funds is prepared on a modified accrual basis.

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

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

(d) ***Cash and Investments***

In fiscal 2000, VTA has entered into contract with six money management firms. In October 1998, substantially all commingled investments managed by the County were transferred to VTA's professional money management firms, at which time, VTA's investment program manager assumed oversight responsibility for such investments. The securities are held by a third party custodial bank. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

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

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments which are readily convertible to known amounts of cash.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Restricted and unrestricted cash and cash equivalents and cash and equity with fiscal agents are considered to be cash and cash equivalents for purposes of the accompanying combined statement of cash flows. Access to cash and investments with fiscal agents is similar to that of a demand deposit account and, therefore, investments are considered to be cash equivalents.

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

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

(e) Inventories

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

(f) Restricted Assets

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

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

(g) Deferred Bond Issuance Costs

Deferred bond issuance costs are amortized in a manner that approximates the effective interest method.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(h) Property, Facilities, and Equipment

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

Buildings, improvements, furniture, and fixtures	15 to 50 years
Vehicles	7 to 12 years
Light-rail structures, electrification and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 15 years

Depreciation on such assets is included in the accompanying statement of revenues, expenses, and changes in retained earnings.

Interest is capitalized on construction in progress. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any allowable interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use. There was no interest capitalized in fiscal 2000.

(i) Other Accrued Liabilities

Other accrued liabilities, including those payable from restricted assets, represent accruals for vacation and sick leave benefits, payroll, retiree health care programs, general liability claims, and workers' compensation claims.

(j) Self-Insurance

VTA is self-insured for general liability and workers' compensation claims. Estimated losses on claims other than workers' compensation claims are charged to expense in the period the loss is determinable. Estimated losses for workers' compensation claims are charged to expense as a percentage of labor in each accounting period. The costs incurred for workers' compensation and general liability (including estimates for claims incurred but not yet reported) are accrued as a liability based on an actuarial determination of the present value of estimated future cash payments (see Note 18).

(k) Federal, State, and Local Grant Funds

Federal, state, and local grant funds are accounted for in accordance with the purpose for which the funds are intended.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Approved grants for the acquisition of property, facilities, and equipment are recorded as contributed capital when the related expenditures are incurred. Depreciation recognized on assets acquired or constructed through grants restricted for capital acquisitions is recorded in the appropriate contributed capital account. Net income, adjusted by the amount of depreciation on property, facilities, and equipment acquired in this manner, is recorded in retained earnings. Disposals of such assets, prior to being fully depreciated, are recorded as reductions to contributed capital.

Approved grants for operating assistance are recorded as nonoperating revenues when the related expenditures are incurred.

(l) Sales Tax Revenues

Sales tax revenues are recognized in the accounting period in which the transactions occur. Therefore, recorded sales taxes include an estimate for amounts collected by merchants at the end of the fiscal year but not remitted to the State until subsequent to that time.

(m) Pension Costs

Pension costs are accrued as determined based on actuarial valuations using the entry age normal cost method.

VTA applies the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This statement established standards for the measurement, recognition, and display of pension expenditures and related liabilities, note disclosures, and required supplementary information.

(n) Use of Estimates

VTA's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, and revenues, expenses, expenditures and the disclosure of contingent liabilities to prepare the general purpose financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(o) Memorandum Only – Total Columns

Total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Eliminations of interfund activity have been made within fund types but not between fund types.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(3) Cash and Investments

The majority of VTA's cash and investments are managed by professional investment management firms. The remaining balance in certain funds are pooled and invested by the County in a commingled account with cash from various other governmental agencies. The commingled cash is principally invested in time deposits, bankers' acceptances, negotiable certificates of deposit, and various U.S. government agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to VTA based on VTA's average daily cash balances.

Investments are managed by money managers. All securities owned by VTA are kept in safekeeping by a third-party bank trust department, acting as agent under the terms of a custody agreement executed between the bank and the VTA. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

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

The County Treasury commingled pool is subject to the County's Investment Policy and State Law and is reviewed by the County's Investment Committee on which VTA serves as a member.

In March 2000, VTA opened a checking account for the Measure B Transportation Improvement Program (Measure B account). The checking account earns interest based on the bank's monthly sweep average repurchase agreement rate. The carrying amount of the cash balance was \$6,621,028 as of June 30, 2000.

As of June 30, 2000, the carrying amount of the VTA's cash balance, which includes the Measure B account, was \$7,789,533 and the VTA's bank balance was \$15,527,731. The difference between the carrying amount and the bank balance is due to outstanding checks. All cash is fully collateralized in accordance with Section 53652 of the California Government Code. The California Government Code requires California banks and savings and loan associates to secure the VTA's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of VTA's deposits, except for repurchase agreements which should equal 102% of VTA's deposits. California Code also allows financial institutions to secure VTA's deposits by pledging first trust deed mortgage notes having a value of 150% of VTA's deposits. VTA's deposits are secured by U.S. government securities, held in VTA's name by its agent to meet these requirements.

VTA complied with the provisions of State statutes pertaining to the types of investments held, institutions in which deposits are made, and security requirements.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

VTA's investments are categorized below to give an indication of the custodial risk assumed by VTA as of June 30, 2000. Category 1 includes investments that are insured or registered or for which the securities are held by VTA or its agent in VTA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in VTA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in VTA's name.

Type of investment	Category			Fair value
	1	2	3	
Equity securities – Pension Plan	\$ 51,263,414	—	—	51,263,414
Corporate notes (Commercial paper)	9,936,500	—	—	9,936,500
Corporate bonds	36,210,608	—	—	36,210,608
Corporate bonds – Pension Plan	45,636,806	—	—	45,636,806
U.S. Treasury and government agency notes	189,701,767	—	—	189,701,767
U.S. Treasury and government agency notes – Pension Plan	45,747,000	—	—	45,747,000
Repurchase agreements	—	2,041,810	—	2,041,810
Subtotal	\$ 378,496,095	2,041,810	—	380,537,905
Investments commingled in County Treasury				4,644,490
Local Agency Investment Fund				15,000,000
Money Market Funds				802,854
Money Market Funds – Pension Plan				4,407,614
Mutual funds – Pension Plan				37,062,618
Mutual Funds				13,252,229
Total investments				\$ 455,707,710

As of June 30, 2000, VTA's cash and investments consisted of the following:

Cash	\$ 7,789,533
Investments	<u>455,707,710</u>
	<u>\$ 463,497,243</u>

In addition, as of June 30, 2000, approximately \$2,977,000 in Pension Plan assets are distributed in the non-pension assets in the above table.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Total cash and investments as of June 30, 2000, are reported in the accompanying combined balance sheet as follows:

Unrestricted:		
Cash and cash equivalents	\$	1,168,505
Investments		<u>45,322,430</u>
Total unrestricted		<u>46,490,935</u>
Restricted:		
Cash and cash equivalents		6,621,028
Cash and equity with fiscal agents		13,093,136
Investments		<u>397,292,144</u>
Total restricted		<u>417,006,308</u>
Total cash and investments	\$	<u><u>463,497,243</u></u>

(4) Due From Other Funds/Due To Other Funds

Due from other funds and due to other funds as of June 30, 2000, consisted of the following:

	Due from other funds			Due to other funds		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Enterprise Fund Type	\$ 509,331	155,462	664,793	150,627	—	150,627
Governmental Fund Types:						
Special Revenue Fund Type:						
Traffic Authority	11,007	—	11,007	—	—	—
CMP	—	—	—	30,854	—	30,854
Capital Project Fund	—	—	—	—	15,843	15,843
Total Governmental Fund Type	11,007	—	11,007	30,854	15,843	46,697
Fiduciary Fund Types						
Trust Funds:						
SCCTD/ATU Pension	—	—	—	—	—	—
ATU Spousal Medical	—	—	—	—	166,646	166,646
Agency Fund:						
BAAQ	—	—	—	—	311,830	311,830
Pavement Management	—	—	—	—	—	—
Total Fiduciary Fund Types	—	—	—	—	478,476	478,476
Total All Fund Types	\$ 520,338	155,462	675,800	181,481	494,319	675,800

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(5) Due From Other Governmental Agencies/Due to Other Governmental Agencies

Due from other governmental agencies as of June 30, 2000, consisted of the following:

		Fund Types			
		Enterprise	Special Revenue	Capital Projects	Trust and Agency
Federal government	\$	3,606,072	428,398	—	—
State government		39,330,482	854,951	—	—
County of Santa Clara		19,527,183	69,987	5,031,323	4,861,178
Others		7,607,485	750,091	—	—
Total	\$	70,071,222	2,103,427	5,031,323	4,861,178

Due from other governmental agencies as of June 30, 2000, is reported in the accompanying combined balance sheet as follows:

		Fund Types				
		Enterprise	Special Revenue	Capital Projects	Trust and Agency	Total
Current assets	\$	36,880,196	2,103,427	—	—	38,983,623
Restricted assets		33,191,026	—	5,031,323	4,861,178	43,083,527
Total	\$	70,071,222	2,103,427	5,031,323	4,861,178	82,067,150

Due to other governmental agencies as of June 30, 2000, consisted of the following:

		Fund Types		
		Enterprise	Special Revenue	Trust and Agency
State government	\$	1,328,952	85,000	—
County of Santa Clara		2,944,387	19,904	5,109,710
Others		—	327,788	647,778
Total	\$	4,273,339	432,692	5,757,488

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Due to other governmental agencies as of June 30, 2000, is reported in the accompanying combined balance sheet as follows:

	<u>Fund Types</u>			<u>Total</u>
	<u>Enterprise</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	
Current liabilities	\$ 4,273,339	432,692	—	4,706,031
Liabilities payable from restricted assets	—	—	5,757,488	5,757,488
Total	\$ 4,273,339	432,692	5,757,488	10,463,519

(6) Construction In Progress

Construction in progress (CIP), included in property, facilities, and equipment, includes capitalized costs associated with the following projects as of June 30, 2000:

Tasman Corridor Project – East Extension	\$ 115,394,480
Facilities Modifications	25,438,735
New Rail Vehicles	23,913,014
Vasona Corridor Project	22,128,920
Capitol Corridor Project	16,022,850
Guadalupe Corridor	9,319,722
VTA Administration Building Improvement	2,270,039
Study Projects	1,041,516
Software Development	691,994
Environmental Building and Site Modifications	665,899
Fremont Rail Connection	534,240
Caltrain Improvements	419,564
Coach Replacement	56,508
Total	\$ 217,897,481

Additional information regarding projects in progress as of June 30, 2000, follows:

Total Board approved project budget	\$ 1,197,713,960
Expended to date	<u>217,897,481</u>
Expenditure budget available for CIP	\$ <u>979,816,479</u>
Anticipated funding sources are as follows:	
Federal, state, and other local assistance (Note 12)	\$ 863,455,939
Local contribution (Note 12)	<u>116,360,540</u>
Total funding sources	\$ <u>979,816,479</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

VTA has outstanding commitments of approximately \$181,131,000 as of June 30, 2000, related to the above capital projects.

(7) Long-Term Debt

Long-term debt as of June 30, 2000, consisted of the following:

1998 Series A Junior Lien Sales Tax Revenue Bonds	\$ 50,000,000
1997 Series A Sales Tax Revenue Refunding Bonds, net of unamortized discount of \$349,372 and unamortized deferred amount on refunding of \$3,204,829 as of June 30, 2000	34,875,799
Series 1985A Equipment Trust Certificates	29,660,000
Improvement Bond Series 22R	<u>131,842</u>
Total debt	114,667,641
Current portion	<u>(2,124,298)</u>
Long-term debt, excluding current portion	<u>\$ 112,543,343</u>

Long-term debt, excluding current portion, as of June 30, 2000, is reported in the accompanying combined balance sheet as follows:

Long-term debt payable from restricted assets	\$ 8,448,646
Unrestricted	<u>104,094,697</u>
	<u>\$ 112,543,343</u>

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

In March 1998, through the California Transit Variable Rate Program of the California Transit Finance Authority (Note 22), VTA issued \$50,000,000 of 1998 Series A Junior Lien Sales Tax Revenues Bonds (1998 Bonds) to finance certain capital projects. Issuance costs related to such bonds are being amortized over the term of the debt. The 1998 Bonds are special obligations of VTA, which are payable from and secured by sale tax revenues.

The \$50,000,000 1998 Bonds mature serially beginning October 1, 2000 through October 1, 2027. Future annual principal payments on the 1998 Bonds range from \$1,110,000 to \$2,690,000 and bear interest at 3.6%.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(b) 1997 Series A Sales Tax Revenue Refunding Bonds

In November 1997, VTA issued \$40,570,000 of 1997 Series A Sales Tax Revenue Refunding Bonds (1997 Bonds). The proceeds were used to advance refund \$33,270,000 of the outstanding principal amount of its 1991 Series A Bonds, advance refund \$4,940,000 of the outstanding principal amount of its Series C Certificates, and to pay for certain capital expenditures of VTA. The portions of the proceeds for advance refunding of 1991 Series A Bonds and Series C Certificates were placed in an escrow account. Upon such irrevocable deposit, the refunded debts were considered defeased. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debts of approximately \$3,606,000. This deferred amount on refunding, reported in the accompanying financial statements as a reduction of bonds payable, is being charged to operations as a component of interest expense through the year 2021 in a manner that approximates the effective interest method. VTA completed the refunding to take advantage of lower interest rates, to reduce its total debt service over a 24-year period by approximately \$4,563,000 to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$2,770,000. As of June 30, 2000, \$31,980,000 of the 1991 Series A bonds remains outstanding and \$4,445,000 remains outstanding for the Series C Certificates as of June 30, 2000.

The 1997 bonds are special obligations of VTA, which are payable from and secured by sales tax revenues. The \$26,020,000 matures serially beginning June 1, 1998 through June 1, 2015. Future annual principal payments on the 1997 Bonds range from \$345,000 to \$2,375,000 and bear interest ranging from 4.0% to 5.0%. The remaining \$14,550,000 are term bonds consisting of \$4,250,000 and \$10,300,000 which mature in June 1, 2017 and June 1, 2021, respectively, and bear interest at 5.25%.

(c) Series 1985A Equipment Trust Certificates

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

The 1985A Certificates are limited general obligations of VTA and are secured by an irrevocable letter of credit in the amount of \$30,074,000, which expires on June 1, 2015, and sales tax revenue.

The 1985A Certificates mature beginning in 2007 and are subject to redemption prior to their maturity date on each June 1 through deposit on such date in a separate sinking fund account, of the principal amount due together with accrued interest to the date of redemption. As of June 30, 2000, VTA had repaid \$23,200,000 of the 1985A Certificates. As a result of making payments prior to scheduled repay maturity dates, the next required sinking fund payments are due in 2007 through 2015 and range from \$460,000 to \$4,800,000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(d) Improvement Bond Series 22R

The Improvement Bond Series 22R (the Bonds) were assumed by VTA upon the purchase of land in fiscal 1992 to be used as VTA's administration building site. The Bonds were originally issued in 1979, bear interest at 6.9%, and mature through 2004. Future annual principal payments range from \$25,100 to \$36,900.

(e) Five Year Debt Maturity

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

<u>Year ending June 30,</u>	
2001	\$ 7,286,299
2002	7,314,307
2003	7,328,287
2004	7,350,877
2005	7,338,697
Thereafter	<u>153,137,398</u>
Total debt service requirements	189,755,865
Less:	
Amounts representing interest	71,534,023
Unamortized bond discount	349,372
Unamortized deferred amount on refunding	<u>3,204,829</u>
Total debt	114,667,641
Less current portion	<u>2,124,298</u>
Long-term debt, excluding current portion	<u>\$ 112,543,343</u>

(f) Limitations and Restrictions

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

(g) Lease – Leaseback

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

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

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

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

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

(h) Japanese Operating Lease

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

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

As a result of the JOL transaction, based on the investment rates which were readily available to VTA on the closing dates of such transactions, VTA realized a financial benefit of approximately \$2,022,000, and the benefit has been recorded as other income in the statement of revenues, expenses, and changes in retained earnings – enterprise fund.

(8) Sales Tax Revenue

Sales tax revenue represents sales tax revenue from the California State Board of Equalization, which, under a sales tax measure, collects for VTA 0.5% for each taxable sales dollar spent in the County. These amounts are available to fund both operations and capital expenditures except that portion which is to be used to repay long-term debt as described in Note 7. Collection fees charged by the State Board of Equalization were approximately \$1,518,000 in fiscal 2000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(9) Measure B Transportation Improvement Program

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

In March 1999, the VTA Board of Directors and the County Board of Supervisors approved a Memorandum of Understanding (MOU) formalizing the partnership to implement Measure A. With this partnership in place, the County and VTA are in a position to complete a transportation program valued at \$1.4 billion. The County will administer the funding and VTA will be responsible for project management of the transit and highway projects and will assist in the administration of the pavement management and bicycle elements of the program.

The Measure B Transit Projects, which consist mainly of lightrail extensions and new rail vehicles, become the property of VTA. The Measure B Highway projects which consist primarily of widening highways and improvements become the property of the State. The accompanying general purpose financial statements include the financial activities of the Measure B Transit Improvement projects in the Enterprise Fund and Measure B Highway projects in the Capital Project fund and Pavement and Bikeway Program in the Agency Fund.

(10) Changes in Enterprise Equity

Changes in enterprise equity for the year ended June 30, 2000, were as follows:

	Contributed capital	Retained earnings		Total equity
		Reserved	Unreserved	
Balances, June 30, 1999	\$ 746,778,907	90,828,280	355,661,411	1,193,268,598
Net income	—	—	19,674,228	19,674,228
Capital grants (Note 12)	38,990,861	—	—	38,990,861
Measure B Funding	70,101,800	—	—	70,101,800
Local government contribution	9,128,209	—	—	9,128,209
Depreciation on assets acquired with capital grants	(13,506,113)	—	13,506,113	—
Increase in reserved retained earnings	—	25,532,259	(25,532,259)	—
Balances, June 30, 2000	\$ 851,493,664	116,360,539	363,309,493	1,331,163,696

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(11) Reservation of Retained Earnings, Fund Balance Deficit and Restatement of Fund Balance

The excess of assets restricted for encumbrances and the local share of capital projects over the related liabilities payable from restricted assets is recorded as a reservation of retained earnings in the accompanying combined balance sheet. Reserved retained earnings as of June 30, 2000, totaled \$116,360,539.

As of June 30, 2000, the Traffic Authority Special Revenue Fund has a deficit fund balance of approximately \$196,000. This deficit fund balance is expected to be recovered through future sales tax receipts.

(12) Federal, State, and Local Assistance

The VTA is dependent upon the receipt of funds from several sources to meet its operating, maintenance, and capital requirements. The receipt of such revenues is controlled by federal, state, and local laws, the provisions of various grant contracts and regulatory approvals and, in some instances, is dependent on the availability of grant funds and the availability of local matching funds.

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

(a) Federal Grants

Federal grants are approved principally by the Federal Transportation Administration (FTA) and the Federal Highway Administration (FHWA). Federal grants for the year ended June 30, 2000, are summarized as follows:

	Fund Types	
	<u>Enterprise</u>	<u>Special Revenue</u>
Operating assistance grants:		
FTA Section 9	\$ 5,978,657	—
Planning	—	27,445
Federal Technical Studies	71,884	1,042,441
Total operating assistance grants	<u>6,050,541</u>	<u>1,069,886</u>
Capital grants:		
FTA Section 3	13,967,802	—
FTA Section 9	17,793,453	—
Pass through Program – Department of Transportation	70,321	—
Total capital grants	<u>31,831,576</u>	<u>—</u>
Total federal grants	<u>\$ 37,882,117</u>	<u>1,069,886</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

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

(b) State and Local Grants

State and local grants for the year ended June 30, 2000, are summarized as follows:

Operating assistance grants:	
Transportation Development Act	\$ 75,309,805
State Transit Assistance	4,363,784
AB434	762,708
Total operating assistance grants	<u>80,436,297</u>
Capital grants:	
Transit Capital Improvement	816,381
Proposition 116	698,081
Traffic Systems Management	9,110
State Flexible Congestion Relief	4,867,164
AB434	188,198
State/Local Partnership	580,351
Total capital grants	<u>7,159,285</u>
Total state and local grants	<u>\$ 87,595,582</u>

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

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

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Proposition 116 funds are received from the California Transportation Commission from Rail Bond funds pursuant to the 1990 Clean Air and Transportation Improvement Act. These funds are used to reimburse project costs relating to the construction of the Tasman Corridor Project and other light rail projects.

State Traffic Systems Management (TSM) Program funds are received from Proposition 111. The California Transportation Commission programs the projects from a prioritized list submitted by the California Department of Transportation (CalTrans). The statute requires that priority be given to projects from counties with adopted Congestion Management Programs. These funds are used by VTA to fund the Tamien Child Care Facility and the Santa Clara Transit Center.

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

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

(13) Santa Clara County Transit District Amalgamated Transit Union Pension Plan

(a) Plan Description

All ATU employees of VTA are covered by the Plan. The Plan is a noncontributory single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits based on the employees' years of service, age, and final compensation.

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

The current membership of the Plan as of June 30, 2000, is comprised of the following:

Retirees and beneficiaries currently receiving benefits	451
Terminated vested members not yet receiving benefits	137
Active members	<u>1,816</u>
Total	<u><u>2,404</u></u>

(b) Basis of Accounting

Contributions are recognized as revenue in the period in which employee services are performed. Benefits are recognized when earned.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

(c) Actuarial Methods and Assumptions

<u>Description</u>	<u>Method/Assumptions</u>
Valuation date	January 1, 2000
Actuarial cost method	Entry Age Normal
Amortization method for actuarial accrued liabilities	Level dollar method, closed periods
Remaining amortization period	Single Amortization Period of 20 years
Actuarial asset valuation method	Market value of assets as of January 1, 1998. In future years, the actuarial value of assets will be equal to the market value of assets as of the valuation date less the unrecognized balances of the market value experience gain/(loss) for the prior four years. Such gains/(loss) are phased in 20% per year.
Actuarial assumptions	Investment rate of return 8.0%
	Projected salary increases 4.5%

(d) Concentration

Investments in mutual funds with Putnam Investments and State Street Global Advisors each represented more than 5% of the Plan's net assets as of June 30, 2000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(e) Funding Policy

VTA contributes to the Plan at actuarially determined rates applied to eligible payroll sufficient to maintain funding of vesting benefits. VTA's contributions to the Plan for the year ended June 30, 2000, were made in accordance with actuarially determined requirements computed as of January 1, 2000. VTA's contribution rate as a percentage of payroll was 7.70% for the 2000 fiscal year.

(f) Net Pension Obligation

VTA's net pension obligation to the Plan was zero as of June 30, 2000.

Three-year trend information follows:

Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2000 (a)	\$ 17,524,000	100%	—
June 30, 1999	5,352,000	100%	—
June 30, 1998 (b)	28,603,000	100%	—

(a) In fiscal 2000, the required contributions included a one year amortization of the unfunded accrued liability totaling approximately \$10,727,000.

(b) In fiscal 1998, the required contributions included a one year amortization of the unfunded accrued liability totaling approximately \$22,889,000.

(14) Public Employees Retirement System

(a) Plan Description

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

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

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

(b) Actuarial Method and Assumptions

<u>Description</u>	<u>Method/Assumptions</u>
Amortization method	Level percent of payroll
Remaining amortization period	17 years
Inflation rate	3.5% compounded annually

(c) Funding Policy

Active members in VTA's CalPERS Plan (CalPERS Plan) are not required to contribute to the CalPERS Plan. VTA is required to contribute the actuarially determined amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate from July 1, 1999 through June 30, 2000, was 7.651% for the employer and 7.0% for employees. The required employee contribution was paid by VTA. The contribution requirements of the CalPERS Plan are established by State statute and the employer contribution is established and may amended by CalPERS.

(d) Net Pension Obligation

VTA's net pension obligation to the CalPERS Plan was zero as of June 30, 2000.

For fiscal 2000, the VTA's annual pension cost was approximately \$5,502,000, which was fully contributed. The required contribution for fiscal 2000 was determined as part of the June 30, 1997, actuarial valuation using the entry age normal cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) project salary increases that vary by duration of service, and (c) 3.5% cost of living adjustment.

The three-year trend information follows:

<u>Fiscal year</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
June 30, 2000	\$ 5,502,000	100%	—
June 30, 1999	5,462,000	100%	—
June 30, 1998	4,573,000	100%	—

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(15) ATU Spousal Medical Trust and Retiree Vision and Dental Trust

VTA had assets and related liabilities as of June 30, 2000 of approximately \$4,947,000 for the ATU Spousal Medical Trust (the Trust) and Retiree Vision and Dental Trust. The Trust is a medical insurance benefit for eligible pensioners' spouses. Pursuant to a collective bargaining agreement, VTA is required to contribute to the Trust \$0.20 per hour worked by all ATU employees. As of June 30, 2000, 130 participating spouses met the eligibility requirements for the Spousal Medical Trust.

The Retiree Vision and Dental Trust is a vision and dental benefit for eligible pensioners. Effective February 8, 1999 and pursuant to a collective bargaining agreement, VTA is required to contribute \$0.05 per hour worked by ATU employees. As of June 30, 2000, there were no eligible participants. Contributions, which were expensed by VTA, were approximately \$788,000 for the Spousal Medical Trust and \$185,000 for the Retiree Vision and Dental Trust, respectively. Benefit payments made by the Spousal Medical Trust for the year ended June 30, 2000, were approximately \$137,000.

(16) Retiree Health Care Programs

(a) ATU

VTA provides an ATU Retiree Health Care Program (the ATU Program), a post-employment benefit, in accordance with the agreement between VTA and the ATU, to all ATU represented employees who retire from VTA on or after attaining the age of 55 with at least 15 years of service, or if an employee becomes disabled and has completed at least 10 years of service. As of June 30, 2000, 406 retirees met the eligibility requirements. VTA pays medical premiums for its eligible retirees. An actuarial study as of January 1, 2000, projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$32,651,000. VTA's fiscal 2000 contribution approximated the actuarially determined contribution.

(b) Non-ATU

All non-ATU employees upon retirement with at least five years of service and attaining age 50 are also covered under a Retiree Health Care Program (the Non-ATU Program). As of June 30, 2000, 276 retirees met the eligibility requirements. An actuarial study as of January 1, 2000, projected that the present value of future VTA paid retiree medical benefits for the current group of active employees, retirees, and terminated vested employees (excluding new employees) was approximately \$13,087,000. VTA's fiscal 2000 contribution approximated the actuarially determined contribution.

For the year ended June 30, 2000, VTA made contributions to both the ATU and Non-ATU program, which are expensed of approximately \$2,452,000. Benefits paid to participants of the program were approximately \$1,236,000.

As of June 30, 2000, VTA had restricted assets and related liabilities of approximately \$26,735,000 to cover future costs of the ATU and Non-ATU Programs.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(17) Deferred Compensation Plan

VTA offers its employees a deferred compensation plan (the Deferred Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Deferred Plan, available to all VTA employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination or certain other covered events. The plan administrator has invested the deferred amounts in numerous participant directed, uninsured, uncollateralized investments.

The accompanying financial statements do not include assets and liabilities of the Deferred Plan.

(18) Self-Insurance

VTA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees; injuries to the public; and natural disasters. Coverage provided by self-insurance and excess coverage is generally as follows as of June 30, 2000:

Type of Coverage	<u>Self-insurance/ Deductible</u>	<u>Excess coverage (in aggregate)</u>
Workers' compensation	\$ 1,000,000	Statutory (no limit)
Employer's liability	\$ 1,000,000	\$3,000,000 per accident
Excess public entity liability	\$ 2,000,000	\$23,000,000
Property, boiler, and machinery	\$ 100,000	\$142,400,000 combined blanket limit
Flood/earthquake:		
National Flood Insurance (eligible locations)	\$ 100,000	\$500,000
Other insurance	\$100,000 – flood 5% of location value for earthquake	\$20,000,000
Light Rail Vehicles include spare parts coverage, no earthquake coverage	\$250,000	\$20,000,000
Buses	\$100,000	\$20,000,000
Vans and mobile equipent	\$25,000	\$20,000,000

Amounts in excess of these limits are self-insured and no losses have occurred above the self-insured retention.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(a) Workers' Compensation and General Liability

The unpaid general liability and workers' compensation claim liability, included in other accrued liabilities, are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claims liability discount rates are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of pay-outs, and other economic and social factors. Estimated losses for general liability and workers' compensation claims are charged to expense in the period the loss is incurred (including estimates for claims incurred but not yet reported) and are accrued as a liability based on the present value of estimated future cash payments using a 6% average discount rate for workers' compensation as of June 30, 2000, and a 6% average discount rate for general liability as of June 30, 2000, until paid. It is VTA's practice to obtain full actuarial studies annually. VTA uses third-party administrators to perform its claims processing function.

Changes in the balances of workers' compensation claims liabilities for the two years ended June 30, 2000, are as follows:

		<u>2000</u>	<u>1999</u>
Unpaid claims, beginning of fiscal year	\$	24,478,000	25,691,000
Provision for claim and claim adjustment expense		16,760,000	5,959,000
Payments for claims		<u>(6,997,000)</u>	<u>(7,172,000)</u>
Unpaid claims, end of fiscal year	\$	<u>34,241,000</u>	<u>24,478,000</u>

Changes in the balances of general liability claims liabilities for the two years ended June 30, 2000, are as follows:

		<u>2000</u>	<u>1999</u>
Unpaid claims, beginning of fiscal year	\$	21,267,000	22,603,000
Provision for claim and claim adjustment expense		(6,834,000)	3,885,000
Payments for claims		<u>(2,070,000)</u>	<u>(5,221,000)</u>
Unpaid claims, end of fiscal year	\$	<u>12,363,000</u>	<u>21,267,000</u>

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

(19) Leases

VTA leases various properties for use as transfer facilities, parking lots, information centers, and warehouses under lease agreements that expire at various dates through 2013. These agreements are accounted for as operating leases. Rent expense was approximately \$380,000 in fiscal 2000.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Minimum future annual rental payments under these lease agreements are as follows:

<u>Year ending June 30,</u>		
2001	\$	353,000
2002		370,000
2003		386,000
2004		405,000
2005		218,000
Thereafter		<u>1,691,000</u>
Total	\$	<u><u>3,423,000</u></u>

(20) Litigation

As of June 30, 2000, VTA had accrued amounts that management believes are adequate to provide for claims and litigation, which arose during the normal course of business. Other claims and litigation are outstanding for which VTA cannot determine the ultimate outcome and resulting liability, if any. However, VTA's management believes the ultimate outcome of these claims and lawsuits will not significantly impact VTA's financial position.

(21) Related Party Transactions

County of Santa Clara

Effective July 1, 1999, VTA switched from the County's financial management information systems to its own enterprise resource planning financial systems. It also established new banking relationships. The County continues to provide certain support services to VTA. Amounts paid to the County for such services were approximately \$1,009,000 during fiscal 2000.

(22) Joint Ventures

(a) Peninsula Corridor Joint Powers Board

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

The net operating costs and administrative expenses of the PCJPB for services provided between San Francisco and San Jose are reimbursed by the member agencies. VTA, SamTrans, and CCSF are responsible for 38.8%, 51.0%, and 10.2%, respectively, of the member agencies' total reimbursement for such expenses. VTA is also responsible for 100% of the net operating costs between San Jose and Gilroy.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

During the year ended June 30, 2000, VTA paid approximately \$12,818,000 to the PCJPB for operating costs and \$1,509,000 for capital contributions and other costs. Operating costs were subsequently reduced when VTA reclassified \$6,478,000 to prepaid contributions to recognize its share of uncommitted member contributions paid to PCJPB to date.

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

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

Summary financial information (not included in VTA's financial statements) for the PCJPB as of and for the year ended June 30, 2000 (unaudited), is as follows:

Total assets	\$ 567,460,129
Operating revenue	\$ 26,997,496
Expenses	(51,068,238)
Nonoperating revenue	24,070,742
Excess of expenses over revenues	\$ —

No debt has been issued by PCJPB. Complete financial statements for the PCJPB can be obtained from the San Mateo County Transit District at 1250 San Carlos Avenue, San Carlos, California 94070.

(b) Altamont Commuter Express

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

ACE commenced operations in October 1998, and provides twice daily round trip commuter rail service from Stockton through the Tri-Valley Area of Alameda County to Santa Clara County. During February 2000, a service from Pleasanton to Santa Clara was added during the morning commute hour. The operating maintenance and management costs of the service is reimbursed by the members at a rate of approximately 45% from VTA and 55% from San Joaquin Regional Rail Commission. During the year ended June 30, 2000, VTA contributed approximately \$1,795,000 for operating costs and \$1,500,000 for capital contributions.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

Complete financial statements for ACE can be obtained from the San Joaquin Regional Rail Commission at 1810 East Hazelton Avenue, Stockton, California 95205.

(c) *Capitol Corridor Intercity Rail Service*

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

(d) *California Transit Finance Authority*

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

(23) Santa Clara Valley Traffic Authority

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

(a) *Agreement with CalTrans*

CalTrans was contracted to act as the technical director for the 1985 Measure A programs, and to plan, review, and approve all plans and specifications for development, as well as to supervise construction. In the fiscal year ended June 30, 2000, payments to CalTrans totaled approximately \$30,000.

The Traffic Authority's contract with CalTrans requires a final determination of cost from the close out process of construction projects. CalTrans is in the process of finalizing certain projects for which the Traffic Authority may be responsible for additional payments. As of June 30, 2000, known claims have been accrued and reported at expected settlement amounts. A stipulation agreement with CalTrans limits the Traffic Authority's claim exposure for closed projects. The project close out costs are currently being negotiated with CalTrans and are expected to be resolved within one year. Management believes the outcome of this process will not significantly impact VTA's financial position.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Notes to General Purpose Financial Statements

June 30, 2000

(24) Subsequent Event

On November 7, 2000, the voters of Santa Clara County approved Measure A, a half-cent sales tax to be imposed for a period of 30 years and to take effect upon the expiration of the current County of Santa Clara 1996 Measure B half-cent sales tax beginning April 1, 2006. The half-cent sales tax will be received by VTA and will be used to: connect BART to Milpitas, San Jose, Santa Clara; build rail connections from San Jose Airport to BART, CalTrain, and lightrail; purchase vehicles for disabled access, senior safety, and clean air buses; provide lightrail throughout Santa Clara County; expand and electrify CalTrain; and increase rail service, bus service; and provide for related operating expenses.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress^(a)

Santa Clara County Transit District Amalgamated Transit Union Pension Plan
(Unaudited)

<u>Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
1/1/1998	^(b) 128,403,003	^(b) 151,291,885	22,888,882	84.9%	68,546,583	33.4%
1/1/1999	165,253,455	^(c) 175,980,221	10,726,766	93.9	73,873,863	14.5
1/1/2000	189,500,553	192,280,635	2,780,082	98.6	78,537,045	3.5

^(a) The Schedule of Funding Progress presents the most recent information regarding the funding progress of the Santa Clara County District Amalgamated Transit Union Pension Plan.

^(b) Benefit improvements and assumption change effective January 1, 1997. Change in method for determining actuarial value of assets effective December 31, 1997.

^(c) Change in actuarial assumption for mortality.

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Funding Progress

Santa Clara Valley Transportation Authority CalPERS Plan

(Unaudited)

<u>Valuation date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Overfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Overfunded as a Percentage of Payroll</u>
6/30/1996 ^(a) \$	41,213,702	42,114,059	(900,357)	102.2%	22,170,642	(4.1)
6/30/1997	46,553,900	50,970,126	(4,416,226)	109.5	25,952,524	(17.0)
6/30/1998	52,867,475	62,650,398	(9,782,923)	118.5	29,010,893	(32.7)

^(a) Prior to separation from Santa Clara County, all eligible VTA employees participated in CalPERS through the County. As a result of the separation from the County, certain administrative employees were transferred from the County to VTA. All of those administrative employees' service credits earned during the period they worked for the County's transportation agency, were transferred to VTA's CalPERS account.

See accompanying independent auditors' report.

SUPPLEMENTARY DATA

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet

Governmental Fund Type

(Special Revenue Funds)

June 30, 2000

Assets	Traffic Authority	CMP	Total
Current assets:			
Cash and cash equivalents	\$ —	321	321
Investments	112,777	13,690	126,467
Due from other funds	11,007	—	11,007
Due from other governmental agencies	92,732	2,010,695	2,103,427
Total assets	\$ 216,516	2,024,706	2,241,222
 Liabilities and (Deficit) Equity			
Current liabilities:			
Accounts payable	\$ 65	559,602	559,667
Other accrued liabilities	—	473	473
Due to other funds	—	30,854	30,854
Due to other governmental agencies	412,788	19,904	432,692
Total current liabilities	412,853	610,833	1,023,686
Noncurrent liabilities – other accrued liabilities	—	84,066	84,066
Total liabilities	412,853	694,899	1,107,752
(Deficit) equity – fund balance – undesignated	(196,337)	1,329,807	1,133,470
Total liabilities and (deficit) equity	\$ 216,516	2,024,706	2,241,222

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Fund Type

(Special Revenue Funds)

Year ended June 30, 2000

	Traffic Authority	CMP	Total
Revenues:			
Member agency assessment revenue	\$ —	1,239,993	1,239,993
Federal technical studies operating assistance grants	—	1,042,441	1,042,441
Federal grants	27,445	—	27,445
Other contributions	—	390,000	390,000
Administrative fees	—	85,390	85,390
State operating assistance grants	—	31,031	31,031
Other revenues	—	1,500	1,500
Investment earnings	13,919	782	14,701
Total revenues	41,364	2,791,137	2,832,501
Expenditures:			
Salaries and benefits	—	1,296,176	1,296,176
Services	88,853	1,697,567	1,786,420
Program expenditures	69,522	—	69,522
Total expenditures	158,375	2,993,743	3,152,118
Total expenditures in excess of revenues	(117,011)	(202,606)	(319,617)
Fund balance, beginning of year	(79,326)	1,532,413	1,453,087
Fund balance, end of year	\$ (196,337)	1,329,807	1,133,470

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual – Governmental Fund Types

(Special Revenue Funds)

Year Ended June 30, 2000

	Traffic Authority			Congestion Management Program			Combined totals		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
Revenues:									
Member agency assessment revenue	—	—	—	1,239,994	1,239,993	(1)	1,239,994	1,239,993	(1)
Federal technical studies operating assistance grants	—	—	—	1,147,000	1,042,441	(104,559)	1,147,000	1,042,441	(104,559)
Federal grants	—	27,445	27,445	—	—	—	—	27,445	27,445
Other contributions	—	—	—	500,000	390,000	(110,000)	500,000	390,000	(110,000)
Administrative fees	—	—	—	115,200	85,390	(29,810)	115,200	85,390	(29,810)
State operating assistance grants	—	—	—	41,600	31,031	(10,569)	41,600	31,031	(10,569)
Other revenues	—	—	—	3,200	1,500	(1,700)	3,200	1,500	(1,700)
Investment earnings	—	13,919	13,919	—	782	782	—	14,701	14,701
Total revenues	—	41,364	41,364	3,046,994	2,791,137	(255,857)	3,046,994	2,832,501	(214,493)
Expenditures:									
Salaries and benefits	—	—	—	1,454,754	1,296,176	158,578	1,454,754	1,296,176	158,578
Services	—	88,853	(88,853)	1,614,512	1,697,567	(83,055)	1,614,512	1,786,420	(171,908)
Program expenditures	404,000	69,522	334,478	—	—	—	404,000	69,522	334,478
Total expenditures	404,000	158,375	245,625	3,069,266	2,993,743	75,523	3,473,266	3,152,118	321,148
Total expenditures (in excess of) less than revenues	(404,000)	(117,011)	286,989	(22,272)	(202,606)	(180,334)	(426,272)	(319,617)	106,655
Fund balance at beginning of year	(79,326)	(79,326)	—	1,532,413	1,532,413	—	1,453,087	1,453,087	—
Fund balance at end of year	\$ (483,326)	(196,337)	286,989	1,510,141	1,329,807	(180,334)	1,026,815	1,133,470	106,655

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet

Fiduciary Fund Type

(Trust and Agency Funds)

June 30, 2000

Assets	Trust Funds ^(a)	Agency Fund ^(b)	Total
Restricted assets:			
Investments	\$ 192,041,654	6,197,080	198,238,734
Receivables	1,125,445	—	1,125,445
Due from other governmental agencies	—	4,861,178	4,861,178
Total assets	\$ 193,167,099	11,058,258	204,225,357
 Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ 21,200	4,988,940	5,010,140
Other accrued liabilities – current	246,785	—	246,785
Due to other funds	166,646	311,830	478,476
Due to other government agencies	—	5,757,488	5,757,488
Total liabilities payable from restricted assets	434,631	11,058,258	11,492,889
Noncurrent liabilities – other accrued liabilities	—	—	—
Total liabilities	434,631	11,058,258	11,492,889
Equity – fund balance – reserved for:			
Employees’ pension benefits	187,951,792	—	187,951,792
Spousal medical trust	4,502,108	—	4,502,108
Retiree vision and dental	278,568	—	278,568
Total equity	192,732,468	—	192,732,468
Total liabilities and equity	\$ 193,167,099	11,058,258	204,225,357

^(a) See Combining Balance Sheet – Trust Funds

^(b) See Combining Balance Sheet – Agency Funds

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet – Trust Funds

June 30, 2000

Assets	SCCTD/ATU Pension Fund	ATU Medical Trust	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted assets:			
Investments	\$ 187,094,332	4,947,322	192,041,654
Receivables	1,125,445	—	1,125,445
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>188,219,777</u>	<u>4,947,322</u>	<u>193,167,099</u>
Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ 21,200	—	21,200
Other accrued liabilities – current	246,785	—	246,785
Due to other funds	—	166,646	166,646
	<u> </u>	<u> </u>	<u> </u>
Total liabilities payable from restricted assets	267,985	166,646	434,631
Noncurrent liabilities – other accrued liabilities	—	—	—
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>267,985</u>	<u>166,646</u>	<u>434,631</u>
Equity – fund balance:			
Reserved for employees’ pension benefits	187,951,792	—	187,951,792
Reserved for spousal medical trust	—	4,502,108	4,502,108
Reserved for retiree vision and dental	—	278,568	278,568
	<u> </u>	<u> </u>	<u> </u>
Total equity	<u>187,951,792</u>	<u>4,780,676</u>	<u>192,732,468</u>
Total liabilities and equity	\$ <u>188,219,777</u>	<u>4,947,322</u>	<u>193,167,099</u>

See accompanying independent auditors’ report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Combining Balance Sheet – Agency Funds

June 30, 2000

Assets	BAAQMD Agency Fund	Pavement Bikeways Agency Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Restricted assets:			
Investments	\$ 5,948,548	248,532	6,197,080
Due from other governmental agencies	—	4,861,178	4,861,178
Total assets	<u>\$ 5,948,548</u>	<u>5,109,710</u>	<u>11,058,258</u>
 Liabilities and Equity			
Liabilities payable from restricted assets:			
Accounts payable	\$ 4,988,940	—	4,988,940
Due to other funds	311,830	—	311,830
Due to other governmental agencies	647,778	5,109,710	5,757,488
Total liabilities payable from restricted assets	<u>5,948,548</u>	<u>5,109,710</u>	<u>11,058,258</u>
Total liabilities and equity	<u>\$ 5,948,548</u>	<u>5,109,710</u>	<u>11,058,258</u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)
Schedule of Changes in Assets and Liabilities – Fiduciary Fund Type
(Agency Funds)
Year ended June 30, 2000

Assets	Balance July 1, 1999	Increase	Decrease	Balance June 30, 2000
Current assets:				
Cash and equity with fiscal agent	\$ 1,068,706	—	1,068,706	—
Investments	4,687,445	1,509,635	—	6,197,080
Due from other governmental agencies	35,572	4,825,606	—	4,861,178
Total assets	\$ 5,791,723	6,335,241	1,068,706	11,058,258
Liabilities				
Liabilities payable from restricted assets:				
Accounts payable	\$ 5,325,265	—	336,325	4,988,940
Due to other funds	434,841	—	123,011	311,830
Due to other governmental agencies	31,617	5,725,871	—	5,757,488
Total liabilities	\$ 5,791,723	5,725,871	459,336	11,058,258

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Budget Versus Actual Revenues and Expenditures

(Enterprise Fund)

Year ended June 30, 2000

	<u>Budget</u>	^(a) <u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenues:			
Passenger fares	\$ 31,184,000	32,325,602	1,141,602
Advertising and other	3,855,000	3,927,672	72,672
Total operating revenues	<u>35,039,000</u>	<u>36,253,274</u>	<u>1,214,274</u>
Operating expenditures:			
Labor and fringe benefits	189,253,000	173,725,886	15,527,114
Services and supplies	65,717,000	48,136,699	17,580,301
Purchased transportation	18,700,000	17,455,793	1,244,207
Total operating expenditures	<u>273,670,000</u>	<u>239,318,378</u>	<u>34,351,622</u>
Operating loss	<u>(238,631,000)</u>	<u>(203,065,104)</u>	<u>35,565,896</u>
Nonoperating revenues (expenditures):			
Sales tax revenue	148,233,000	166,764,390	18,531,390
Federal operating assistance grants	6,061,000	6,050,541	(10,459)
State and local operating assistance grants	80,248,000	80,436,297	188,297
CalTrain subsidy	(14,553,000)	(7,850,284)	6,702,716
Altamont Commuter Express subsidy	(2,517,000)	(3,820,614)	(1,303,614)
Investment earnings	6,500,000	8,285,635	1,785,635
Interest expense	(5,033,000)	(4,615,642)	417,358
Other, net	13,723,000	3,399,273	(10,323,727)
Total nonoperating revenues, net	<u>232,662,000</u>	<u>248,649,596</u>	<u>15,987,596</u>
Net income – budget basis	<u>(5,969,000)</u>	<u>45,584,492</u>	<u>51,553,492</u>
Depreciation	<u>29,065,000</u>	<u>25,910,264</u>	<u>3,154,736</u>
Net income – GAAP basis	<u>\$ (35,034,000)</u>	<u>19,674,228</u>	<u>54,708,228</u>

^(a) The budget for the year ended June 30, 2000, represents the revised budget as amended to reflect all subsequently approved budget modifications through the end of fiscal 2000, as well as adjustments to add back carried forward encumbrances from fiscal 1999, and subtract outstanding commitments as of June 30, 2000.

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Schedule of Restricted Assets and Related Liabilities (Enterprise Fund)

June 30, 2000

	Capital and Operating	General Liability Insurance	Workers' Compensation Insurance	Retiree Health Care	Accrued Vacation and Sick Leave Benefits	Debt Service	Total
Restricted assets:							
Cash and cash equivalents	\$ 6,621,028	—	—	—	—	—	6,621,028
Cash and equity with fiscal agents	4,441,103	—	203,387	—	—	8,448,646	13,093,136
Investments	109,134,383	12,362,681	34,037,498	26,735,279	15,690,073	—	197,959,914
Receivables	179,119	—	—	—	—	—	179,119
Due from other funds	155,462	—	—	—	—	—	155,462
Due from other governmental agencies	33,191,026	—	—	—	—	—	33,191,026
Total	153,722,121	12,362,681	34,240,885	26,735,279	15,690,073	8,448,646	251,199,685
Liabilities payable from restricted assets:							
Accounts payable	36,737,663	—	—	—	—	—	36,737,663
Other accrued liabilities – current	420,532	—	—	—	4,752,521	—	5,173,053
Long-term debt	—	—	—	—	—	8,448,646	8,448,646
Other accrued liabilities – noncurrent	203,387	12,362,681	34,240,885	26,735,279	10,937,552	—	84,479,784
Total	37,361,582	12,362,681	34,240,885	26,735,279	15,690,073	8,448,646	134,839,146
Retained earnings – reserved	\$ 116,360,539	—	—	—	—	—	116,360,539

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Assets, Liabilities, and Equity (Enterprise Fund)

June 30, 2000 and 1999

Assets	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents	\$ 1,168,184	1,216,409
Investments	45,195,963	72,074,422
Receivables, net	5,131,953	947,274
Due from other funds	509,331	1,303,645
Due from other governmental agencies	36,880,196	29,033,189
Inventories	17,005,820	12,229,089
Other current assets	7,110,468	3,885,187
Total current assets	<u>113,001,915</u>	<u>120,689,215</u>
Restricted assets:		
Cash and cash equivalents	6,621,028	—
Cash and equity with fiscal agents	13,093,136	17,082,296
Investments	197,959,914	118,317,916
Receivables	179,119	—
Due from other funds	155,462	—
Due from other governmental agencies	33,191,026	72,235,266
Other assets	—	30,500
Total restricted assets	<u>251,199,685</u>	<u>207,665,978</u>
Other noncurrent assets:		
Deferred bond issuance costs	1,204,928	1,265,581
Other	111,300	116,100
Total other noncurrent assets	<u>1,316,228</u>	<u>1,381,681</u>
Property, facilities, and equipment:		
Land and right-of-way	515,329,096	442,330,126
CalTrain - Gilroy extension	48,763,312	48,763,312
Buildings, improvements, furniture, and fixtures	204,246,962	164,479,693
Vehicles	178,102,660	177,719,655
Light-rail tracks and electrification	245,809,151	64,438,244
Construction in progress	217,897,481	376,555,494
Other operating equipment	29,010,158	7,957,117
Total property, facilities, and equipment	<u>1,439,158,820</u>	<u>1,282,243,641</u>
Less accumulated depreciation	<u>208,592,490</u>	<u>184,338,977</u>
Total property, facilities, and equipment, net	<u>1,230,566,330</u>	<u>1,097,904,664</u>
Total assets	<u>\$ 1,596,084,158</u>	<u>1,427,641,538</u>

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Assets, Liabilities, and Equity (Enterprise Fund), (Continued)

June 30, 2000 and 1999

Liabilities and Equity	2000	1999
Current liabilities:		
Current portion of long-term debt	\$ 2,124,298	951,944
Accounts payable	11,508,550	3,551,938
Other accrued liabilities	7,883,987	6,386,254
Due to other funds	150,627	—
Due to other governmental agencies	4,273,339	194,773
Total current liabilities	25,940,801	11,084,909
Liabilities payable from restricted assets:		
Accounts payable	36,737,663	11,231,353
Other accrued liabilities – current	5,173,053	12,255,348
Due to other governmental agencies	—	10,403,282
Long-term debt, excluding current portion	8,448,646	8,085,634
Other accrued liabilities – noncurrent	84,479,784	74,862,080
Total liabilities payable from restricted assets	134,839,146	116,837,697
Noncurrent liabilities:		
Long-term debt, excluding current portion	104,094,697	106,412,085
Other accrued liabilities	45,818	38,249
Total noncurrent liabilities	104,140,515	106,450,334
Total liabilities	264,920,462	234,372,940
Equity:		
Contributed capital:		
Federal grants	488,381,828	468,306,449
State grants	215,694,591	210,294,011
Other	147,417,245	68,178,447
Total contributed capital	851,493,664	746,778,907
Retained earnings:		
Reserved	116,360,539	90,828,280
Unreserved	363,309,493	355,661,411
Total retained earnings	479,670,032	446,489,691
Total equity	1,331,163,696	1,193,268,598
Total liabilities and equity	\$ 1,596,084,158	1,427,641,538

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Revenues, Expenses, and Changes in
Retained Earnings (Enterprise Fund)

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Passenger fares	\$ 32,325,602	27,069,631
Advertising and other	3,927,672	3,886,000
Total operating revenues	<u>36,253,274</u>	<u>30,955,631</u>
Operating expenses:		
Labor	98,371,717	88,779,075
Fringe benefits	75,354,169	53,574,887
Materials and supplies	15,539,528	19,646,325
Services	21,379,301	15,200,210
Utilities	5,167,026	4,070,489
Casualty and liability	2,403,204	3,895,208
Purchased transportation	17,455,793	15,486,747
Leases and rentals	636,625	467,437
Miscellaneous	3,011,015	1,107,264
Total operating expenses, excluding depreciation	<u>239,318,378</u>	<u>202,227,642</u>
Operating loss before depreciation	<u>(203,065,104)</u>	<u>(171,272,011)</u>
Depreciation expense:		
On assets acquired with capital grants	13,506,113	11,764,348
On assets otherwise acquired	12,404,151	12,498,201
Total depreciation expense	<u>25,910,264</u>	<u>24,262,549</u>
Operating loss	<u>(228,975,368)</u>	<u>(195,534,560)</u>
Nonoperating revenues (expenses):		
Sales tax revenue	166,764,390	143,711,721
Federal operating assistance grants	6,050,541	11,656,278
State and local operating assistance grants	80,436,297	67,588,736
CalTrain subsidy	(7,850,284)	(11,291,169)
Altamont Commuter Express Subsidy	(3,820,614)	(836,777)
Investment earnings	8,285,635	5,534,792
Interest expense	(4,615,642)	(4,762,588)
Other income	4,808,287	10,169,655
Other expense	(1,409,014)	(1,273,600)
Nonoperating revenues, net	<u>248,649,596</u>	<u>220,497,048</u>
Net income	19,674,228	24,962,488
Charge to contributed capital – depreciation on fixed assets acquired with contributions	13,506,113	11,764,348
Retained earnings at beginning of year	<u>446,489,691</u>	<u>409,762,855</u>
Retained earnings at end of year	\$ <u><u>479,670,032</u></u>	\$ <u><u>446,489,691</u></u>

See accompanying independent auditors' report.

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Cash Flows (Enterprise Fund)

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Cash received from passenger fares	\$ 27,984,685	27,280,593
Cash received from advertising	3,826,569	3,784,897
Cash paid to employees	(177,569,162)	(135,531,723)
Cash paid to suppliers	(11,506,320)	(51,066,139)
Cash paid for purchased transportation	(24,087,812)	(15,349,101)
Net cash used in operating activities	<u>(181,352,040)</u>	<u>(170,881,473)</u>
Cash flows from noncapital financing activities:		
Operating grants received	98,343,530	77,647,142
Sales tax received	159,113,676	138,068,172
CalTrain subsidy	(7,850,284)	(11,291,169)
Altamont Commuter Express Subsidy	(3,820,614)	(836,777)
Other noncapital receipts	16,423,417	12,770,603
Other noncapital payments	(1,409,014)	(24,468,980)
Net cash provided by noncapital financing activities	<u>260,800,711</u>	<u>191,888,991</u>
Cash flows from capital and related financing activities:		
Payment of long-term debt	(782,022)	(725,191)
Interest paid	(4,615,642)	(4,762,588)
Acquisition and construction of capital assets	(145,455,474)	(148,032,893)
Capital grants received	126,361,990	62,244,436
Proceeds from sale of capital assets	389,657	11,405
Net cash used in capital and related financing activities	<u>(24,101,491)</u>	<u>(91,264,831)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	1,166,102,687	511,925,746
Purchases of investments	(1,227,427,478)	(672,685,084)
Interest income	8,561,254	4,806,335
Net cash used in investing activities	<u>(52,763,537)</u>	<u>(155,953,003)</u>
Net increase (decrease) in cash and cash equivalents	2,583,643	(226,210,316)
Cash and cash equivalents, beginning of year	<u>18,298,705</u>	<u>244,509,021</u>
Cash and cash equivalents, end of year	\$ <u>20,882,348</u>	<u>18,298,705</u>

(Continued)

SANTA CLARA VALLEY TRANSPORTATION AUTHORITY (VTA)

Comparative Schedules of Cash Flows (Enterprise Fund), (Continued)

Years ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Supplemental disclosures of cash flow information:		
Cash and cash equivalents, beginning of year:		
Unrestricted	\$ 1,216,409	68,796,911
Restricted	17,082,296	175,712,110
	<u>\$ 18,298,705</u>	<u>244,509,021</u>
Cash and cash equivalents, end of year:		
Unrestricted	\$ 1,168,184	1,216,409
Restricted	19,714,164	17,082,296
	<u>\$ 20,882,348</u>	<u>18,298,705</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (228,975,368)	(195,534,560)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	25,910,264	24,262,549
Changes in operating assets and liabilities:		
Receivables	(4,442,020)	109,859
Inventories	(4,776,731)	(620,260)
Other current assets	(6,536,066)	178,199
Accounts payable	41,311,157	(6,099,499)
Other accrued liabilities	(3,843,276)	6,822,239
Net cash used in operating activities	<u>\$ (181,352,040)</u>	<u>(170,881,473)</u>

See accompanying independent auditors' report.

APPENDIX C

COUNTY DEMOGRAPHIC AND ECONOMIC INFORMATION

General Information

Santa Clara County (the "County") lies immediately south of San Francisco Bay and is the fourth most populous county in the State of California (the "State"). It encompasses an area of approximately 1,300 square miles. The County was incorporated in 1850 as one of the original 27 counties of the State and operates under a home rule charter adopted by County voters in 1950 and amended in 1976.

The southern portion of the County has retained the agricultural base which once existed throughout the area and has two cities, separated by roughly twenty miles. The northern portion of the County is densely populated, extensively urbanized and heavily industrialized. It contains 13 cities, the largest of which is the City of San Jose, the third largest city in the State and the County seat. The uppermost northwestern portion of the County, with its concentration of high-technology, electronics-oriented industry, is popularly referred to as the "Silicon Valley." Large employers include Hewlett-Packard, Intel, National Semiconductor, Lockheed Missiles & Space, IBM, and Sun Microsystems.

Neighboring counties include San Mateo in the northwest, Santa Cruz in the southwest, San Benito in the south, Merced and Stanislaus in the east, and Alameda in the northeast. The City of San Jose is 50 miles south of San Francisco and 42 miles south of Oakland. They are the three largest cities of the nine-county San Francisco Bay Area.

As required under the County Charter and under County ordinances, or by State and federal mandate, the County is responsible at the local level for activities involving public welfare, health and justice (courts and jails) and for the maintenance of public records. The County also operates recreational and cultural facilities serving the unincorporated areas of the County and on a regional basis.

Population

Historical Population Growth. Over the past fifty years, the County's population growth pattern has exhibited three decades of rapid growth followed by three decades of more sustainable growth rates.

According to U.S. Census figures, the number of County residents grew by 66 percent between 1940 and 1950, with most of the increase concentrated in the unincorporated areas and in the largest cities of San Jose, Palo Alto and Santa Clara. In the next decade, from 1950 to 1960, population grew by 121 percent with every major city as well as the unincorporated areas experiencing huge increases. The County also recorded the incorporation of four new cities during the 1950s, raising the total number of cities to its current level of fifteen.

The County's population growth subsided somewhat during the 1960s, although the 66 percent growth rate was over four times the 15.4 percent statewide increase. The population of San Jose doubled for the second decade in a row, while the cities of Mountain View, Santa Clara, and Sunnyvale added at least 23,000 residents each. As a result of the incorporation of four cities, the

unincorporated area of the County posted its first decline in the 1960s, setting the stage for further drops in each of the subsequent three decades.

The County population growth rate fell to 21.5 percent during the 1970s. San Jose continued to add more residents (183,621) than any other city, while two of the larger cities (Palo Alto and Santa Clara) recorded small population declines and residents in the unincorporated area fell by 25,160. The slower growth of the 1970's reflected a slowing urbanization, due in part to policies adopted by the County to preserve agricultural areas.

The data from the 2000 U.S. Census indicate that the County's population reached 1,682,585, representing a 12.4% increase from the population base in 1980. Over the same period, statewide population grew more rapidly at a rate of 13.8%. San Jose surpassed San Francisco as the largest city in the Bay Area, with a population of 894,943. According to the 2000 census data, over one-half of the County's residents live in San Jose.

The proportion of residents living in cities is currently 94.0 percent, in contrast to the County's makeup in 1940 when urban residents made up only 6.5% of the County's population. Since the 1940s, the increasing maturation of the County's employment and economic sectors has resulted in the incorporation of new cities as well as the expansion of city boundaries, resulting in a shrinking fraction (currently 6.0%) of residents living in unincorporated areas.

Recent Annual Population Performances. All of the cities in the County reported population increases over the period 1990 to 2000, with Morgan Hill posting the fastest population growth (40.2%). The number of residents living in the unincorporated areas of the County decreased by 0.9% slightly. The following table provides a historical summary of population in the County and its incorporated cities.

County of Santa Clara Population					
	1960	1970	1980	1990	2000
Campbell	11,863	24,731	26,843	36,088	38,138
Cupertino	3,664	18,216	34,297	39,967	50,546
Gilroy	7,348	12,665	21,641	31,487	41,464
Los Altos	19,696	24,872	25,769	26,599	27,693
Los Altos Hills	3,412	6,862	7,421	7,514	7,902
Los Gatos	9,036	23,466	26,906	27,357	28,592
Milpitas	6,572	27,149	37,820	50,690	62,698
Monte Sereno	1,506	3,074	3,434	3,287	3,483
Morgan Hill	3,151	6,485	17,060	23,928	33,556
Mountain View	30,889	54,206	58,655	67,365	70,708
Palo Alto	52,475	55,999	55,225	55,900	58,598
San Jose	204,196	445,779	629,400	782,224	894,943
Santa Clara	58,880	87,717	87,700	93,613	102,361
Saratoga	14,861	27,199	29,261	28,061	29,843
Sunnyvale	51,898	95,408	106,618	117,324	131,760
Unincorporated	162,056	152,181	127,021	106,173	100,300
County Total ⁽¹⁾	642,315	1,066,009	1,295,071	1,497,577	1,682,585
California	15,717,204	18,136,045	23,668,145	29,760,021	33,871,648

⁽¹⁾ Totals may not be precise due to independent rounding.

Source: U.S. Census; State of California, Department of Finance, Demographic Research Unit.

Employment and Industry

The County is home to a highly skilled and diverse work force, a situation that has traditionally translated into lower unemployment rates in the County when compared to State and national average unemployment rates. During the last five years job growth in Silicon Valley has been extraordinary with the addition of more than 220,000 jobs. However, the job growth rate has begun to show signs of slowing based on an estimated growth rate of 3% in 2000, compared to an average of 4.6% for the five prior years. Similarly, Silicon Valley had been home to 61 of the 500 fastest-growing high-technology companies in the United States in 1999, but could boast of only 48 of those top 500 companies on the 2000 list. Cycles of difficult times and layoffs are almost inevitable, particularly in the high-tech industry. However, as shown in the table below, the County's average unemployment rate has been below the average for the entire State in each of the last six years, with the County's 2.0 percent average rate in 2000 almost three percentage points lower than the State's average of 4.9 percent.

The County, with approximately 1,030,500 wage and salary jobs in 2000, has the largest employment base of any county in Northern California. In 2000, the County experienced a strong gain of 53,900 wage and salary positions. Three major industry sectors comprise 74 percent of the County's employment: services (35.4%); manufacturing (25.2%) and retail trade (13.5%). Their percentage share of County payrolls has remained relatively constant over the past six years.

The County ranks second in the State in manufacturing as measured by the value of shipments. The County's shipments of manufactured goods exceeds \$72.5 billion per year and is greater than the output of many individual states. The most important subsector is high technology manufacturing, an activity for which the northern part of the County has been named "Silicon Valley". The silicon-based semiconductor industry is, however, only one specialty within a sector that also includes the manufacture of personal computers, information systems, peripherals, computer software, instruments and a wide array of advanced defense-oriented electronics that are gradually being adapted to civilian as well as defense applications.

Development of high technology has been enhanced by the presence of Stanford University, Santa Clara University, San Jose State University, other institutions of higher education, research and development facilities such as SRI International, the Stanford Linear Accelerator Center, and Ames Research Center (NASA) within the County. In addition, the Rincon de los Esteros Redevelopment Area in northern San Jose has been the site of industrial/research and development submarkets in Silicon Valley and is expected to remain a significant location choice of auxiliary high technology companies.

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

	1995	1996	1997	1998	1999	2000
Civilian Labor Force ⁽¹⁾	867.0	895.0	937.5	958.8	965.5	1003.3
Employment	824.2	862.8	909.2	927.9	936.3	983.4
County Unemployment	42.8	32.2	28.3	30.9	29.2	19.9
Unemployment Rate:						
County	4.9%	3.6%	3.0%	3.2%	3.0%	2.0%
State of California	7.8%	7.2%	6.3%	5.9%	5.2%	4.9%
Wage and Salary Employment ⁽²⁾						
Agriculture	4.5	5.1	5.1	5.2	5.3	5.3
Construction and Mining	28.7	32.7	37.3	41.7	45.5	48.7
Manufacturing	231.2	245.9	258.2	261.3	250.7	260.2
Transportation and Public Utilities	24.0	25.4	27.2	28.3	28.3	29.1
Wholesale Trade	48.7	52.4	56.0	56.4	56.0	56.4
Retail Trade	117.4	122.2	126.7	130.1	134.0	139.3
Finance, Insurance, and Real Estate	28.7	30.0	30.6	31.8	32.3	32.1
Services	265.3	283.9	301.8	317.8	332.9	364.5
Government	87.8	87.4	88.5	88.9	91.4	94.7
Total ⁽³⁾	836.4	885.0	931.7	961.6	976.6	1030.5

⁽¹⁾ Labor force data are based upon place of residence. Employment includes self-employed, unpaid family workers, domestics, and workers involved in labor-management disputes. Data are benchmarked to 2000.

⁽²⁾ Wage and salary employment is reported by place of work. Data are benchmarked to 2000.

⁽³⁾ Totals may not add due to independent rounding.

Source: California State Department of Employment Development.

Major Employers

The County is the location of 54% of the largest 100 public companies (as measured by market value) in the San Francisco Bay Area and is the headquarters for numerous high technology, computer manufacturing, and electronics companies. In addition, many County residents work for large public and private companies that are headquartered in other San Francisco Bay Area counties or outside the region.

The tables below list the 15 largest public- and private-sector employers in the Silicon Valley, which encompasses the County and surrounding areas.

**15 Largest Private-Sector Employers
Silicon Valley**

<u>Employer Name</u>	<u>Employees</u>	<u>Nature of Operations</u>
Cisco Systems	16,000	Computer Network Equipment
Hewlett-Packard	12,000	Computing and Imaging Solutions
Stanford University	8,600	Education
Applied Materials	7,500	Semiconductor Manufacturing Equipment
Solectron	7,300	Electronics Manufacturing Services
Lockheed Martin Missiles & Space	7,000	Spacecraft and Missile Systems
National Semiconductor	3,000	Wireless Communications and Information Appliances
Seagate Technology	2,150	Storage Technology
Cupertino Electric	2,105	Electrical Infrastructure Solutions
LSI Logic	2,090	Semiconductor Design and Manufacture
Silicon Graphics	1,932	Computing and Visualization Solutions
Quantum	1,780	Data Storage Technology
Adobe Systems	1,616	Web and Print Publishing Software
El Camino Hospital	1,329	Acute-care Hospital
Acme Building Maintenance	1,300	Commercial and Industrial Building Maintenance

Source: Silicon Valley/San Jose Business Journal, February 23, 2001.

**15 Largest Public-Sector Employers
Silicon Valley**

<u>Employer Name</u>	<u>Employees</u>	<u>Nature of Operations</u>
Santa Clara County	15,500	County Government
City of San Jose	6,930	Municipal Government
San Jose Unified School District	3,100	School District
San Jose State University	2,823	Higher Educaion
Santa Clara Valley Transportation Authority	2,550	Public Transportation Operations and Planning
Foothill-De Anza Community College District	1,844	Community College District
East Side Union High School District	1,827	School District
Santa Clara County Office of Education	1,476	Education Resources Agency
Santa Clara Unified School District	1,380	School District
Oak Grove Elementary School District	1,028	School District
City of Fremont	974	Municipal Government
City of Santa Clara	888	Municipal Government
City of San Mateo	600	Municipal Government
Santa Clara Valley Water District	586	Water Supply and Flood Control
City of Redwood City	499	Municipal Government

Source: Silicon Valley/San Jose Business Journal, February 23, 2001.

Income

Owing to the presence of relatively high-wage skilled jobs and wealthy residents, the County historically achieves high rankings relative to the rest of the state on a variety of income measurements. As reported in the 2000 Sales and Marketing Management Survey of Buying Power, the County's median household effective buying income of \$61,122 was the highest among California counties.

Commercial Activity

Ranking first among San Francisco Bay Area counties and fourth among all California counties in terms of retail activity, the County is an important center of commercial activity. Taxable sales activity at business and personal service outlets, as well as at other non-retail commercial establishments, are a significant component of the County's commercial activity. The following table sets forth the amount of taxable transactions from 1996 through the first quarter of 2000.

County of Santa Clara
Taxable Transactions by Sector
1996 to 2000⁽¹⁾
(in millions)

	1996	1997	1998	1999	2000 ⁽¹⁾
Apparel Stores	\$ 719.39	\$ 766.80	\$ 754.62	\$ 768.0	\$ 177.1
General Merchandise Stores	2,269.58	2,362.05	2,463.70	2,634.7	581.5
Specialty Stores	2,429.70	2,839.42	3,040.66	3,560.9	958.5
Food Stores	689.43	715.67	747.58	786.3	193.5
Package Liquor Stores	123.51	130.69	-	-	-
Eating and Drinking Places	1,709.75	1,812.93	1,899.36	2,035.2	541.4
Home Furnishings and Appliances	727.06	753.77	805.27	943.1	264.5
Building Materials and Farm Implements	854.55	1,039.02	1,109.97	1,118.8	283.7
Service Stations	1,048.41	984.79	-	-	-
Automotive ⁽²⁾	2,263.75	2,695.91	3,773.29	4,398.75	1,219.2
Other Retail Stores ⁽³⁾	-	263.10	406.30	466.20	110.9
Total Retail Outlets ⁽⁴⁾	\$12,835.12	\$14,363.95	\$15,000.75	\$16,781.97	\$4,330.4
Business and Personal Services	1,810.65	1,286.39	1,430.08	1,519.62	413.5
All Other Outlets	11,094.76	11,301.14	11,057.99	12,047.06	3,372.6
Total All Outlets ⁽⁴⁾	\$25,740.54	\$26,951.49	\$27,488.82	\$30,348.64	\$8,116.5

⁽¹⁾ Numbers for 2000 are through first quarter only.

⁽²⁾ After 1997, "Automotive" includes service stations.

⁽³⁾ After 1997, "Other Retail Stores" includes package liquor stores.

⁽⁴⁾ Totals may not add due to independent rounding.

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

Construction Activity

Construction data for the County indicates that while the number of units permitted in 2000 showed little change from 1999 levels, the valuation of total residential building permit activity increased dramatically. The number of total new housing units permitted in the County increased by less than 1% between 1999 and 2000, and represented a decrease of 19.9% from the County's highwater mark of 8,810 in 1997. Despite a lack of growth in the raw numbers of units permitted, the total valuation of residential construction permits issued in the County reached \$4.21 billion in 2000, representing an increase of \$1.05 billion (33.3%) from the 1999 total valuation. While the number of new single-family units decreased by 15.0% in 2000, this decrease was offset by an almost identical percentage increase in the number of multi-family units permitted for construction (14.7%).

The following tables provide a summary of building permit valuations and the number of new dwelling units authorized in the County since 1991.

**County of Santa Clara
Building Permit Valuations
1991 to 2001⁽¹⁾
(in millions of dollars)**

Year	New Residential	Non- Residential	Total
1991	607.7	617.1	1,224.8
1992	549.4	612.2	1,161.6
1993	556.6	597.6	1,154.2
1994	637.5	596.0	1,233.5
1995	657.1	859.4	1,516.5
1996	911.5	1,290.0	2,201.5
1997	1,329.6	1,914.7	3,244.4
1998	1,294.6	1,882.0	3,176.5
1999	1,306.0	1,855.9	3,162.0
2000	1,348.8	2,865.9	4,214.6
2001 ⁽¹⁾	285.1	677.5	962.6

(1) Data is through March 31, 2001
Source: Construction Industry Research Board

**County of Santa Clara
Number of New Dwelling Units
1991 to 2001⁽¹⁾**

Year	Single Family	Multiple Family	Total
1991	1,638	2,134	3,772
1992	1,751	1,301	3,052
1993	1,848	1,331	3,179
1994	2,128	1,817	3,945
1995	2,213	1,232	3,445
1996	4,032	3,542	7,574
1997	4,367	4,443	8,810
1998	3,911	3,615	7,526
1999	3,333	3,677	7,010
2000	2,834	4,220	7,054
2001 ⁽¹⁾	453	1,424	1,877

(1) Data is through March 31, 2001
Source: Construction Industry Research Board

Massive corporate expansions in the Silicon Valley in the late 1990s and continuing into 2000 translated into a strong, unprecedented increase in demand for higher-quality space for offices, research and development activity, and high-end manufacturing and product testing. While this

expansion has predictably slackened with the changing economic times, the Silicon Valley area continues to attract a significant amount of commercial and residential development.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture contains various provisions and covenants, some of which are summarized below. Wherever particular provisions of the Indenture are referred to, such provisions, together with related provisions, are incorporated by reference as part of the statements made and are qualified in their entirety by such references. Reference is made to the Indenture or a full and complete statement of its provisions.

Definitions

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

“Accreted Value Table” means the table denominated as such which appears as an exhibit to a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

“Act” means the Santa Clara Valley Transportation Authority Act, Part 12 of Division 10 (Section 100000 *et seq.*) of the California Public Utilities Code and Chapter 5 of Part 1 of Division 2 of Title 5 (Section 54300 *et seq.*) of the California Government Code as referenced in said Santa Clara Valley Transportation Authority Act.

“Annual Debt Service” means for any Fiscal Year the aggregated amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

“Authority” means the Santa Clara Valley Transportation Authority, formerly known as the Santa Clara County Transit District, a public entity of the State of California, duly organized and existing under the Act.

“Beneficial Owner” means the actual beneficial Owner of any Bond, notwithstanding the registration thereof under any other name for book-entry purposes.

“Board” means the Board of Directors of the Authority.

“Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the Principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

“Bond Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Bond Reserve Requirement” means, as of any date of calculation, zero dollars (\$0), except that if Sales Tax Revenues during the Fiscal Year immediately preceding the date of calculation do not equal at least three (3) times Maximum Annual Debt Service, (a) the Bond Reserve Requirement

with respect to any Series of Bonds bearing only a fixed rate of interest shall be an amount not less than the lesser of (i) 10% of the aggregate original principal amount of such Series (less any original issue discount), or (ii) 125% of average Annual Debt Service for such Series or (iii) 100% of Maximum Annual Debt Service for such Series, and (b) the Bond Reserve Requirement with respect to any Series of Bonds which may bear a variable rate of interest shall be the amount set forth in the Supplemental Indenture authorizing such Series.

“Bonds” means the Santa Clara Valley Transportation Authority Sales Tax Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured by a letter of credit, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under the letter of credit are to be presented are authorized or obligated by law or executive order to be closed and (3) a day on which the New York Stock Exchange is closed.

“Capital Appreciation Bonds” means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Authority mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by the Chairperson of its Board, its General Manager, its Chief Financial Officer, its Deputy Director, Fiscal Resources or any other person authorized by the General Manager to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“Code” means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder.

“Continuing Disclosure Certificate” means any certificate or agreement executed by the Authority in connection with any Series of Bonds in order to assist the underwriter or underwriters of such Series of Bonds in complying with the continuing disclosure requirements of Rule 15c2-12(b)(5) of the Securities and Exchange Commission. When used in connection with any particular Series of Bonds, “Continuing Disclosure Certificate” shall mean that certain continuing disclosure certificate or agreement executed in connection therewith.

“Corporate Trust Office” or “corporate trust office” means the corporate trust office of the Trustee at 1 California Street, Suite 400, San Francisco, California 94111 Attention: Corporate Trust Department, but for purposes of transfer, exchange or payment of Bonds, means the principal corporate trust office of the Trustee at 180 East Fifth Street, St. Paul, Minnesota, or, in each case, such other or additional offices as may be designated by the Trustee from time to time.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings concerning the Bonds, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, surety, insurance and credit enhancement costs, and any other cost, charge or fee in connection with the delivery of Bonds.

“Current Interest Bonds” means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at least semiannually to the Owners thereof excluding the first payment of interest thereon.

“Debt Service,” when used with respect to any Sales Tax Debt, means, as of any date of calculation and with respect to any fiscal period, the sum of (1) the interest falling due on such Sales Tax Debt during such fiscal period (except to the extent that such interest is payable from the proceeds of such Sales Tax Debt set aside for such purpose), and (2) the principal or mandatory sinking account or installment purchase price or lease rental or similar payments or deposits required with respect to such Sales Tax Debt during such fiscal period, computed on the assumption that no portion of such Sales Tax Debt shall cease to be outstanding during such fiscal period except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(a) if Sales Tax Debt as (i) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least \$100,000,000 and whose unsecured securities are rated in one of the two highest Rating Categories by Rating Agency, or (ii) insured by an insurance policy issued by an insurance company rated at least “A” by Alfred M. Best Company in Best’s Insurance Reports and in one of the two highest Rating Categories by Rating Agency, then principal or mandatory sinking fund or installment purchase price or lease rental or similar payments or deposits with respect to such Sales Tax Debt nominally due in the last Fiscal Year in which such Sales Tax Debt matures may, at the option of the Authority, be treated as if they were due as specified in any loan agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy (or, if such loan agreement or repayment provisions provide for repayment over less than 10 years and the Authority certifies that it intends to refinance such Sales Tax Debt prior to maturity, as if they were amortized over a ten-year period with substantially level debt service) and interest on such Sales Tax Debt after such period shall be assumed to be payable pursuant to the terms of such loan agreement or repayment provisions;

(b) if interest on Sales Tax Debt is payable pursuant to a variable interest rate formula, the interest rate on such Sales Tax Debt for fiscal periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the maximum interest rate permitted by the agreement under which such Sales Tax Debt was issued or incurred or, if no maximum rate is specified, at the rate of twelve percent (12%) per annum; and

(c) if interest is capitalized with respect to Sales Tax Debt, Debt Service on such Sales Tax Debt shall be included in computations of Maximum Annual Debt Service only in proportion to the amount of interest payable in such fiscal period from sources other than amounts capitalized to pay such interest.

“Equipment Trust Certificates” means the Santa Clara Valley Transportation Authority Adjustable Rate Refunding Equipment Trust Certificates, Series 1985A together with any other equipment trust certificates issued and outstanding pursuant to the Equipment Trust Indenture.

“Equipment Trust Indenture” means the Amended and Restated Equipment Trust Indenture, dated as of December 1, 1998, amending and restating the Equipment Trust Indenture dated as of June 1, 1994, between the Trustee and the Authority, as from time to time supplemented and amended in accordance with the terms thereof.

“Event of Default” means any of the events specified in the Indenture, certain of which are discussed herein under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default and Remedies of Bondholders.”

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official Fiscal Year period of the Authority which designation shall be provided to the Trustee in a certificate of the Authority.

“Fitch” means Fitch Inc., and its successors and assigns.

“Indenture” means the Indenture, dated as of November 1, 1997, by and between the Trustee and the Authority, as originally executed or as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10004, Moody’s “FIS,” 5250-77 Center Drive, Charlotte, NC 28217, Attention: Municipal News Reports; and S&P’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Authority may designate in a Request of the Authority delivered to the Trustee.

“Interest Fund” means the Fund by that name established pursuant to the Indenture.

“Investment Policy” means the investment policy of the Authority adopted by the Board on December 14, 2000, as such investment policy may be modified, amended or supplemented from time to time.

“Investment Securities” means any of the following, to the extent the same are permitted investments of the Authority under the Investment Policy :

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America;

(ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof to be made on any bond, note or other obligation described above in clause (i);

(iii) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation;

(iv) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, provided that at the time of their purchase such obligations are rated in either of the two highest Rating Categories by the Rating Agency;

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the Trustee of such bonds or other obligations by the obligor who gave due notice of redemption and to call such Bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the Interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by the Rating Agency;

(vii) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by the Rating

Agency in their respective highest short-term Rating Category, or, if the term of such indebtedness is longer than three (3) years, rated by the Rating Agency in one of their respective two highest long-term Rating Categories, or comparable types of debt obligations;

(viii) demand or time deposits or certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or by a state-licensed branch of any foreign bank, provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking;

(ix) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper in each case rated in the highest Rating Category by the Rating Agency;

(x) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment or interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest Rating Category for its short-term rating, if any, and in either of the two highest Rating Categories for its long-term rating, if any, by the Rating Agency, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xi) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to the Principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreements and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an

undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(xii) any cash sweep or similar account arrangement of or available to the trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (vi) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (vi) of this definition or Investment Securities; provided that as used in this clause (xii) and clause (xiii) investments will be deemed to satisfy the requirements of clause (vi) if they meet the requirements set forth in clause (xi) ending with the words "clauses (i), (ii), (iii) or (iv) above" and without regard to the remainder of such clause (xi);

(xiii) any investment agreement with a financial institution or insurance company which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claim paying ability rated in either of the two highest long-term Rating Categories by the Rating Agency;

(xiv) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (i) through (xiii) of this definition of Investment Securities and which companies have the highest rating by the Rating Agency; and

(xv) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended;

(xvi) Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest Rating Category by the Rating Agency, which purchases may not exceed 270 days maturity or 40 percent of the Authority's surplus money;

(xvii) the commingled investment fund of the County of Santa Clara, California, which is administered in accordance with the investment policy of said County as established by the Director of Finance thereof, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to said Director of Finance;

(xviii) any investments approved by the Board for which confirmation is received from each rating agency then rating any of the Bonds that such investment will not adversely affect such agency's rating of such Bonds; and

(xix) the Local Agency Investment Fund of the State of California.

"Mandatory Sinking Account Payments" means, with respect to Bonds of any Series and maturity, the amount required by the Indenture to be deposited by the Authority in a Sinking Account for the payment of Term Bonds of such Series and maturity.

“Maximum Annual Debt Service” shall mean the greatest amount of Debt Service becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Services:

(a) principal and interest payments on Bonds and Parity Debt shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest by the Trustee or other fiduciary;

(b) if the Bonds or the Parity Debt are Variable Rate Indebtedness and an interest rate swap agreement is in effect with respect to, and is payable on a parity with, such Bonds or Parity Debt pursuant to which the Authority has agreed to pay a fixed rate of interest, and such interest rate swap agreement has been reviewed and approved by the Rating Agency for purposes of this subparagraph (b) of the definition of Maximum Annual Debt Service, then the interest rate for purposes of computing Maximum Annual Debt Service shall be such fixed interest rate for the period that such interest rate swap agreement is contracted to remain in full force and effect and the maximum rate permitted by this Indenture for the years thereafter;

(c) if any interest rate swap agreement in which the Authority has agreed to pay the floating amount thereunder is in effect with respect to the Bonds or Parity Debt to which it relates, fixed amounts payable by the Authority on the Bonds or the Parity Debt shall be included in the calculation of Maximum Annual Debt Service together with such floating amount calculated on the basis of the maximum interest rate payable by the Authority permitted under this Indenture unless the interest rate swap agreement has been reviewed and approved by the Rating Agency for purposes of this definition, in which event, only the amount of such floating payments to be made by the Authority that exceed the fixed interest to be paid under the interest rate swap agreement shall be included in such calculation. For purposes of determining the amounts payable by the Authority under subparagraph (c) of the definition of “Maximum Annual Debt Service,” the variable amount under any such interest rate swap agreement shall be assumed to be equal to twelve percent (12%) per annum; and

(d) if any Bonds or parity Debt features an option, on the part of the owners thereof, or an obligation under the terms of such Bonds or Parity Debt, to tender all or a portion of such debt to the Authority, the Trustee or other fiduciary or agent and require that such debt or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such debt, the options or obligations of the owners of such debt to tender the same or purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners or such debt may or are required to tender such debt except that any such option or obligation to tender debt shall be ignored and not treated as a principal maturity, if (1) such debt is rated in one of the two highest long-term Rating Categories by the Rating Agency or such debt is rated in the highest short-term, note or commercial paper Rating Categories by the Rating Agency and (2) funds for the purchase price of such debt are to be provided by a letter of credit, line of credit or standby bond purchase agreement and the Obligation of the Authority with respect to the provider of such letter of credit, line of credit or standby bond purchase agreement, other than its obligations on such debt, shall be subordinated to the obligation of the Authority on the debt or, if not subordinate, shall be incurred

(assuming such immediate tender) under the conditions and meeting the tests for the issuance of Parity Debt set forth therein.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns.

“Opinion of Bond Counsel” means a written opinion of a law firm of national standing in the field of public finance selected by the Authority.

“Outstanding,” when used as of any particular time with inference to Bonds, means (subject to the provisions of the Indenture relating to the disqualification of certain Bonds in determining the aggregate principal amount of Bonds Outstanding) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the trustee pursuant to the Indenture.

“Owner” or “Bondholders or “Bondowner,” whenever used herein with respect to a Bond, means the person in whose name such Bond is registered.

“Parity Debt” means the Equipment Trust Certificates and any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money or interest rate swap agreement having an equal lien and charge upon the Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

“Person” means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Fund” means the Fund by that name established pursuant to the Indenture.

“Project” means the acquisition, construction, improvement or equipping of any or all real and personal and intellectual property, equipment, computers, information services, software rights or interests to be owned, held or used for transit purposes, including, but not limited to, rights-of-way, rail lines, bus lines, stations, platforms, switches, yards, terminals, parking lots and any and all facilities necessary or convenient for transit service within or partly without the Authority, and the payment of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agents, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed one year thereafter, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

“Project Fund” means the fund of that name established by the Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the Project.

“Proportionate Basis,” when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of

Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided that if the amount available for redemption of Bonds of any maturity is insufficient to redeem a multiple of \$5,000 principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of \$5,000 principal amount or Accreted Value payable at maturity. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

"Rating Agency" means each of Fitch, Moody's, and Standard & Poor's maintaining a rating on Bonds or Parity Debt at the request of the Authority.

"Rating Category" means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rebate Fund" means that fund established under the Indenture.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Redemption Price" means, with respect to any Bond (or portion thereof) the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereon pursuant to the provisions of such Bond and the Indenture.

"Revenue Fund" means the Sales Tax Revenue Fund established pursuant to the Indenture.

"Revenues" means during any fiscal period the sum of the following amounts for such fiscal period:

- (1) all Sales Tax Revenues; and
- (2) all other funds legally available to the Authority for payment of debt service on the Bonds and Parity Debt.

"Sales Tax Debt" means all outstanding bonds, notes and other obligations secured in whole or in part by Sales Tax Revenues.

"Sales Tax Revenues" means 100% of the amounts collected by the State Board of Equalization and distributed to the Authority pursuant to Section 135250 *et seq.* of the Act.

"Securities Depositories" means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 21530, Fax-(216) 227-4039 or 4190, Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market

Street, Philadelphia, Pennsylvania 13103, Attention: Bond Department, Dex-(215) 496-5058, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Authority may designate in a Request of the Authority delivered to the Trustee.

“Serial Bonds” means Bonds, maturing in specified years, for which no Mandatory Sinking Account Pavements are provided.

“Series,” whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“Sinking Accounts” means the accounts in the Principal Fund so designated and established pursuant to the Indenture for the payment of Term Bonds.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“State” means the State of California.

“Supplemental Indenture” means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means the tax certificate delivered by the Authority at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Trustee” means U.S. Bank Trust National Association, formerly known as First Trust of California, National Association, a national banking association, organized and existing under the laws of the United States, or its successor, as Trustee as provided in the Indenture.

“2001 Bonds” means the Santa Clara Valley Transportation Authority Sales Tax Revenue Bonds, 2001 Series A.

“2001 Project Fund” means the fund by that name established by the 2001 Supplemental Indenture.

“2001 Supplemental Indenture” means the Second Supplemental Indenture, dated as of May 1, 2001, between the Authority and the Trustee.

“Variable Rate Indebtedness” means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a single numerical rate for the entire term of the indebtedness.

Additional Indebtedness

The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except Parity Debt, Refunding Bonds or obligations which are subordinate to the payment of the Bonds and all Parity Debt.

Funds and Accounts; Allocation of Revenues

So long as any Bonds are Outstanding, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee shall establish, maintain and hold in trust for the benefit of the Owners of the Bonds in accordance with the provisions of the Indenture) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to the outstanding Equipment Trust Certificates and other outstanding Parity Debt as provided in the Equipment Trust Indenture and the proceedings of such Parity Debt delivered to the Trustee (which shall be proportional in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt).

Interest Fund. The Trustee shall set aside in the Interest Fund as soon as practicable in each month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) during the next ensuing six months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness) is on deposit in such Fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first interest payment date with respect to such Series the amounts so paid with respect to such Series shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said interest payment date with respect to such Series, plus (b) the aggregate amount of interest, calculated at a rate of twelve percent (12%) per annum of the actual rate of interest is not known, to accrue during that month on the Outstanding Variable Rate Indebtedness (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the interest and for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds

issued then Outstanding, and on June 1 of each year any excess amount in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having interest payment dates other than June 1 and December 1) shall be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

Principal Fund; Sinking Accounts. The Trustee shall deposit in the Principal Fund as soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six months plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be made during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need to be set aside toward such principal to be so refunded or paid. All of the aforesaid Mandatory Sinking Account Payments shall be made without priority of any payment into any one such Sinking Account over any other such payment. In the event that the Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as such Serial Bonds and such Term Bonds shall bear to each other, after first deducting for such purposes from such Term Bonds any of such Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of such Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six-month period. In the event that the Revenues shall not be sufficient to pay in full all Mandatory Sinking Account payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made, on a Proportionate Basis, in such proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligation of all Serial Bonds then Outstanding and maturing by their terms within the next twelve months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to

redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than August 1 of each year, the Trustee shall request from the Authority a certificate of the Authority setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On June 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than June 1) shall be transferred to the Authority.

Bond Reserve Fund. Except as otherwise permitted by the Indenture, at such time as the Bond Reserve Requirement is required to be funded due to a decrease in the coverage of Sales Tax Revenues over Maximum Annual Debt Service below 3.00 times, the Authority shall make or cause to be made, within one year, a deposit or deposits into the Bond Reserve Fund equal to the Bond Reserve Requirement. Additionally, except as otherwise provided in the Indenture, upon the occurrence of any deficiency in the Bond Reserve Fund, the Trustee shall deposit in the Bond Reserve Fund, as soon as possible in each month, until the balance therein is at least equal to the Bond Reserve Requirement, (i) one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund and (ii) the full amount of any deficiency due to any required valuation of the investments in the Bond Reserve Fund.

Any Revenues remaining in the Revenue Fund after the foregoing transfers described above under "Interest Fund," "Principal Fund; Sinking Accounts" and "Bond Reserve Fund," except as otherwise provided in a Supplemental Indenture, shall be transferred on the same Business Day to the Authority. The Authority may use and apply the Revenues when received by it for any lawful purpose of the Authority, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five days prior to any principal payment date, interest payment date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, with respect to the payments to be made on such upcoming date after any transfers from the Bond Reserve Fund are insufficient to make such payments, the Trustee shall immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Authority covenants and agrees in the Indenture to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

Application of Interest Fund

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture) and making payments on interest rate swap agreements, as provided in the Indenture.

Application of Principal Fund

All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that any amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee shall transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created, provided that, at any time prior to giving such notice of such redemption, the Trustee shall, upon receipt of a Request of the Authority, apply moneys in such Sinking Account to the purchase or Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Authority, except that purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal Amount or Accreted Value thereof. If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment Date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Authority has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to this subsection shall be canceled by the Trustee and destroyed by the Trustee and a certificate of destruction shall be delivered to the Authority by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Authority to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account or deposited by the Authority with the Trustee in a 12-month period ending May 31 (or in a six-month period ending May 31 or November 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next June 1 or December 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Authority. All Term Bonds redeemed by the Trustee from the Redemption Fund shall be credited to such future Mandatory Sinking Account Payments for such Series and Maturity of Term Bonds as may be specified in a Request of the Authority.

Funding and Application of Bond Reserve Fund

In lieu of making the Bond Reserve Requirement deposit in compliance with the provisions of the Indenture described above under “Additional Indebtedness” and “Funds and Accounts; Allocation of Revenues,” or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds), in an amount, together with moneys, Investment Securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained and such letter of credit shall provide by its terms that it may be drawn upon as provided in the provisions of the Indenture regarding the funding and application of the Bond Reserve Fund. At least one year prior to the stated expiration of such letter of credit, the Authority shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of the Indenture provisions relating thereto. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Authority. If the Authority shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Authority shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement will be on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Bond Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Bond Reserve Fund.

In lieu of making the Bond Reserve Requirement deposit or in replacement of moneys then on deposit in the Bond Reserve Fund (which shall be transferred by the Trustee to the Authority), the Authority may deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, investment securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance bonds or insurance policies) are rated in one of the two highest Rating Categories of the Rating Agency and rated not less than the rating on the Bonds (excluding any rating attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds). Such surety bond or insurance policy shall have a term of no less than the maturity of the Series of Bonds in connection with which such surety bond or insurance policy was obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority shall immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to the Bond Reserve Fund.

All amounts in the Bond Reserve Fund (including all amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Bond Reserve Fund) shall

be used and withdrawn by the Trustee, as hereinafter described, solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding, or for the payment of the final Principal and Interest Payment to a Series of Bonds if, following such payment, the amounts in the Bond Reserve Fund (including the amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit therein) will equal the Bond Reserve Requirement. The Trustee shall, on a pro rata basis with respect to the portion of the Bond Reserve Fund held in cash or Investment Securities and amounts held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters or credit and surety bonds and insurance policies and the amount of the initial deposit of such cash and Investment Securities), draw under each letter of credit or surety bond or insurance policy issued with respect to the Bond Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds when due. To the extent provided in a letter of credit, insurance policy or surety bond or in the Supplemental Indenture pursuant to which a Series of Bonds is issued, such instrument or portion of the Bond Reserve Fund may be available to pay only the Series of Bonds for which it has obtained or to which it relates. In such event, all other amounts or instruments on deposit in the Bond Reserve Fund shall not be available for payments with respect to such Series of Bonds, but shall be applied by the Trustee to payments with respect to all or such other Series of Bonds not so secured. The Bond Reserve Fund, in such an instance, shall be composed of segregated accounts which shall separately secure a Series or Series of Bonds. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Bondowner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or bond insurance policy, if any, securing the Bonds so provide, shall so notify the issuer thereof and draw on such letter of credit or surety bond or policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or policy in order to pay to such Bondowners the principal of and interest so recovered. Any amounts in the Bond Reserve Fund in excess of the Bond Reserve Requirement shall be transferred to the Trustee or the Authority on June 1 and December 1 of each year, provided that such amounts shall be transferred only from the portion of the Bond Reserve Fund held in the form of cash or Investment Securities.

Application of Redemption Fund

The Trustee shall establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Authority with the Trustee for the purpose of optionally redeeming Bonds of any Series shall, unless otherwise directed by the Authority, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon receipt of a Request of the Authority, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the Authority, except

that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Authority.

Application of Proceeds of the 2001 Bonds

The proceeds of the sale of the 2001 Bonds shall be deposited with the Trustee and shall be held in trust and set aside by the Trustee as follows:

(a) The Trustee shall transfer \$197,920,090.55 of the proceeds of the 2001 Bonds to the Authority for deposit into the 2001 Project Fund.

(b) The Trustee shall deposit \$375,000 of the proceeds of the 2001 Bonds in the Costs of Issuance Fund.

Establishment and Application of 2001 Project Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "2001 Project Fund." The moneys in the 2001 Project Fund shall be used and withdrawn by the Authority to pay the costs of the Project. All investment earnings on funds held in the 2001 Project Fund shall be deposited in the 2001 Project Fund unless directed by the Authority to be deposited in the Rebate Fund.

Establishment and Application of Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn to pay the costs of issuance of the 2001 Bonds. The Trustee shall disburse moneys from the Costs of Issuance Fund upon receipt of a Requisition which:

(i) states the name of each payee, the purpose for which each Cost of Issuance was incurred and the amount to be disbursed to each such payee; and

(ii) certifies that each such Cost of Issuance has been properly incurred against the Costs of Issuance Fund and that none of the items for which payment is requested has been reimbursed previously from the Costs of Issuance Fund.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts held by the trustee and established pursuant to the Indenture shall be invested, as directed by the Authority, solely in Investment Securities. The Investment Securities shall, as directed by the Authority in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations described below under "Covenants of the Authority - Tax Covenants," the limitations as to maturities hereinafter in this section described and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Authority. If and to the extent the Trustee does not receive investment instructions from the Authority with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys shall be invested in Investment Securities described

in clause (xii) of the definition thereon and the Trustee shall thereupon request investment instructions from the Authority for such moneys.

Moneys in the Bond Reserve Fund shall be invested in Investment Securities available on demand or maturing within five years of the date of such investment. Moneys in the remaining funds and accounts shall be invested in Investment Securities maturing or available on demand not earlier than the date on which it is estimated that such moneys will be required by the Trustee.

Investment Securities purchased with moneys on deposit in the Principal Fund, Interest Fund and Bond Reserve Fund, to the extent such Investment Securities are required by the definition thereof to be rated, shall be rated not less than the rating on the Bonds (excluding any rating of the Bonds attributable to a letter of credit, insurance policy or other credit enhancement securing the Bonds).

All interest, profits and other income received from the investment of moneys in any Fund or account, other than the Rebate Fund and the 2001 Project Fund, shall be transferred to the Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited in the Rebate Fund, except as described below under "Covenants of the Authority - Tax Covenants." All interest, profits and other income received from the investment of moneys in the Project Fund shall be deposited in the Project Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such acceded interest was paid.

All Investment Securities credited to the Bond Reserve Fund shall be valued as of May 31 and November 30 of each year (or the next succeeding Business Day if such day is not a Business Day) at their fair market value determined to the extent practical by reference to the closing bid price thereof published in The Wall Street Journal or any other financial publication or quotation service selected by the Trustee in its sole discretion.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture and, provided further, that such commingling shall not be allowed to the extent the Authority so instructs the Trustee, to accommodate rebate calculations. The Trustee may act as principal or agent in the rating or disposing of any investment and, with the prior written consent of the Authority, may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

The Authority may and the Trustee shall, upon the Request of the Authority, enter into a financial futures or financial option contract with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term Rating Categories by the Rating Agency.

The Authority may and the Trustee shall upon the Request of the Authority, and provided that the Trustee is supplied with an Opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of California, enter into an interest rate swap agreement corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof and the amounts received by the Authority or the Trustee, if any, pursuant to such a swap agreement may be applied to the deposits required under the Indenture; in which case, the entity with which the Authority or the Trustee may contract for an interest rate swap is limited to entities the debt securities of which are rated at the highest short-term or one of the two highest long-term Debt Rating Categories by the Rating Agency. If the Authority so designates, amounts payable under the interest swap agreement shall be secured by Revenues and other assets pledged under the Indenture to the Bonds on a parity basis therewith and, in such event, the Authority shall pay to the Trustee for deposit in the Interest Fund, at the times and in the manner provided by the Indenture, as described above under "Funds and Accounts; Allocation of Revenues," the amounts to be paid under such interest rate swap agreement, as if such amounts were additional interest due on the Bonds to which such interest rate swap agreement relates, and the Trustee shall pay to the other party to the interest rate swap agreements to the extent required thereunder, amounts deposited in the Interest Fund for the payment or interest on the Bonds with respect to which such agreement was entered into.

The Trustee shall keep proper books of record and accounts containing complete and correct entries of all transactions made by it relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall specify the account or fund to which each investment (or portion thereof) held by the Trustee as to be allocated and shall set forth, in the case of each investment security, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

The Trustee shall also provide to the Authority, in accordance with a request of the Authority, with respect to each Investment Security such documentation as is reasonably available to the Trustee and is required by the Code or other applicable law to be obtained by the Authority as evidence to establish that each investment had been acquired and disposed of on an established market in an arm's-length transaction at a price equal to its fair market value and with no amounts having been paid to reduce the yield on the investments, or shall be United States Treasury Obligations - State and Local Government Series as set forth in the Tax Certificate.

Covenants of the Authority

The Authority covenants in the Indenture, among other things, that:

Punctual Payment. The Authority will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and shall punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims or interest thereon which shall not have been so extended. Nothing described herein shall be deemed to limit the right of the Authority to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Waiver of Acts. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Against Encumbrances. The Authority will not create any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds except only as permitted in the Indenture.

Accounting Records and Financial Statements. The Authority will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Revenues. Such books of record and account shall be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Authority will furnish the Trustee, within two hundred and ten (210) days after the end of each Fiscal Year, the financial statements of the Authority relating to the Revenues for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Authority stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Authority to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the Authority.

Collection of Sales Tax Revenues. The Authority covenants and agrees that it has duly levied a transactions and use tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Authority. Said Ordinance has not and will not be

amended, modified or altered so long as any of the Bonds are Outstanding in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Authority will continue to levy and collect such transactions and use taxes to the full amount permitted by law. The Authority further covenants that it has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization will process and supervise collection of said transactions and use taxes and will transmit Sales Tax Revenues directly to the Trustee. Said agreement will be continued in effect so long as any of the Bonds are outstanding and shall not be amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding. The Authority will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Authority by the State Board of Equalization.

Sales Tax Revenues received by the Trustee shall be transmitted to the Authority as described above under "Funds and Accounts; Allocation of Revenues;" provided that, during the continuance of an Event of Default, any Sales Tax Revenues received by the Trustee shall be applied first to the payment of the costs and expenses of the Trustee in declaring such Event of Default and pursuing remedies, including reasonable compensation of its agents, attorneys and counsel, which costs and expenses shall be paid from the Revenue Fund, and second, to deposit into the Interest Fund and Principal Fund and to the payment of Parity Debt as more fully set forth in the Indenture and as described under "Events of Default."

The Authority covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Authority covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the terms and requirements of the Tax Certificate subject to the transfer provisions described below, all money at any time deposited in the Rebate Fund shall be held by the Trustee for the account of the Authority in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America, and neither the Trustee nor the Owner of any Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture and by the Tax Certificate. The Authority covenants to comply with the directions contained in the Tax Certificate and the Trustee covenants to comply with all written instructions of the Authority delivered to the Trustee pursuant to the Tax Certificate (which instructions shall state the actual amounts to be deposited in or withdrawn from the Rebate Fund and shall not require the Trustee to make any calculations with respect thereto). The Trustee shall be deemed conclusively to have complied with the provisions of the Indenture described in this paragraph if it follows such instructions of the Authority, and the Trustee shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate nor to make computations in connection therewith.

The Trustee shall invest all amounts held in the Rebate Fund, pursuant to written instructions of the Authority, in Investment Securities, subject to those restrictions set forth in the Tax Certificate.

Upon receipt of the instructions of the Authority, the Trustee shall remit part or all of the balances in the Rebate Fund to the Federal Government of the United States or America, as directed. In addition, if such instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, shall be withdrawn and remitted to the Authority in accordance with a Request of the Authority.

Notwithstanding any other provision of the Indenture, including in particular the defeasance provisions thereof, the obligation to remit the Rebate Requirement to the Federal Government of the United States of America and to comply with all other requirements of this section and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

The Authority shall retain all records with respect to the calculations and instructions described herein for at least six years after the date on which the last of the principal of and interest on the Bonds has been paid, whether upon maturity or prior redemption thereof.

Tax Covenants. The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Authority may exclude the application of these covenants and the covenants described above under “Rebate Fund” to such Series of Bonds. Without limiting the foregoing, the Authority shall comply with all requirements and covenants contained in the Tax Certificate. In the event that at any time the Authority is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provision of the Indenture described in this subsection and above under “Rebate Fund,” if the Authority shall receive an Opinion of Bond Counsel to the effect that any action required as described herein and therein is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Authority and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

Modification or Amendment of the Indenture

Amendments Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding shall have been filed with the Trustee;

provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding for purposes of this section.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the Authority and the Trustee which shall become binding when the written consents of each provider of a letter of credit or a policy of bond insurance for the Bonds shall have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds shall be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which shall be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of the Rating Agency.

No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution and delivery by the Trustee and the Authority of any Supplemental Indenture as described herein, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Amendments Not Requiring the Consent of Bondowners. The Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Bonds or Parity Debt with such interest rate, payment, maturity and other terms as the Authority may deem desirable, subject to the provisions of the Indenture described above under "Additional Indebtedness;"

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of the Bonds;

(6) to make modifications or adjustments necessary, appropriate or desirable to accommodate credit enhancements including letters of credit and surety bonds and insurance policies delivered with respect to the Bond Reserve Fund;

(7) if the Authority agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(8) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture described above under "Additional Indebtedness;" and

(9) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Defeasance of Bonds

Discharge of Indenture. Bonds of any Series or a portion thereof may be paid by the Authority in any of the following ways:

(a) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as discussed below under “Deposit of Money or Securities”) to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Authority shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon request of the Authority, the Trustee shall cause an accounting of such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, or other independent consulting firm, are not required for the payment or redemption of Bonds not heretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as discussed below under “Deposit of Money or Securities”) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Authority shall remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding any principal, Redemption Price of or interest on the Bonds that remains unclaimed for a period of two years after the principal of all the Bonds has become due and payable, and the continuing duties of the Trustee under the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Moneys or Securities. Whenever in the Indenture it is provided or permitted there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include moneys or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities described in clauses (i), (ii) or (vi) of the definition thereof the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Transfer and Exchange of Bonds

Use of Depository. So long as the Bonds are registered in book-entry form, Beneficial Owners will not receive certificates representing their ownership interests in the Bonds. Transfers of ownership interests in, and exchanges of, the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants acting on behalf of the Beneficial Owners. In the event that DTC determines to discontinue providing its services as depository or is removed as depository by the Authority (and there is no successor depository), the Authority shall issue, and the Trustee shall authenticate and deliver, Bonds to the DTC Participants for further delivery to the Beneficial Owners. Thereafter, the Trustee shall maintain a register of the Owners of the Bonds, and transfers and exchanges of Bonds shall be effected as described in this section.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept by the Trustee, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of the same Series, tenor, maturity and interest rate and for a like aggregate principal amount; provided that no registration or transfer may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations or the

same series, maturity and interest rate, provided that no exchange may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Events of Default and Remedies of Bondholders

Events of Default. Each of the following events constitutes an Event of Default under the Indenture:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if the Authority shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a) or (b) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Authority by the Trustee; except that, if such failure can be remedied but not within such sixty (60) day period and if the Authority has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Authority shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(e) if the Authority files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(f) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Authority insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(h) if the Legislature of the State shall repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 100250 to 100256, inclusive, of the Public Utilities Code unless the Authority has determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

Remedies; Acceleration; Rights of Bondholders. Except as discussed below in this section, in each and every case during the continuance of an Event of Default, the Trustee or the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall be entitled, upon notice in writing to the Authority, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture other than as discussed in this section or in the Bonds contained to the contrary notwithstanding.

These provisions, however, are subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable because of an Event of Default, the Authority shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee shall have been cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

These provisions are subject to the further condition that they are only effective, and the remedy of acceleration of the Bonds is only available, during a period when Parity Debt is outstanding, which Parity Debt, pursuant to the terms thereof, is subject to acceleration and payment prior to maturity.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, the Authority shall immediately transfer to the Trustee all Revenues held by it and the Trustee shall apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements to its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment: if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity by acceleration or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date then to the payment thereof ratably, according to the amounts of principal or Accreted Value due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effective to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Act or any other law, and upon instituting such proceedings the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights or action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee should be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation or the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of an aggregate amount of Bond Obligation of the Bonds then Outstanding in excess of the aggregate amount of Bond Obligation or Bonds owned by the owners making such request.

Such notification, requests, tender of indemnity and refusal or omission are conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default under the Indenture by the Trustee or the Bondholders shall extend to or affect any subsequent Event of Default or impair any rights or remedies consequent thereto.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

BOOK ENTRY ONLY SYSTEM

Information concerning The Depository Trust Company ("DTC") and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority or the Trustee.

Bonds in Book-Entry Form

When the 2001 Bonds are issued, beneficial ownership interests will be available to the actual purchasers of the 2001 Bonds (the "Beneficial Owners") only by or through Participants via a book-entry system (the "Book-Entry System") maintained by DTC. If the 2001 Bonds are taken out of the Book-Entry System and delivered to owners in physical form, as contemplated hereinafter under "Discontinuance of DTC Services," the following discussion will not apply.

DTC and its Participants

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the 2001 Bonds. The 2001 Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of the 2001 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and collectively with Direct Participants, "Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2001 Bonds under the DTC system must be made by or through Direct Participants which will receive a credit for the 2001 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2001 Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings,

from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2001 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2001 Bonds, except in the event that use of the book-entry system for the 2001 Bonds is discontinued.

So long as Cede & Co., as nominee of DTC (or any other nominee of DTC), is the registered owner of the 2001 Bonds, all references herein to the 2001 Owners or registered owners of the 2001 Bonds shall mean Cede & Co., as such nominee, and shall not mean the Beneficial Owners of the 2001 Bonds. To facilitate subsequent transfers, all 2001 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 2001 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2001 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such 2001 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2001 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium and interest payments on the 2001 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings as shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Authority or the City subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and interest to DTC is the responsibility of the Trustee, disbursements of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Neither the Authority, the City nor the Trustee shall have any responsibility or obligation to any DTC Participant or any Beneficial Owner with respect to: (1) the accuracy of any records maintained by DTC or any Participant; (2) the payment-by DTC or any Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, or interest on the 2001

Bonds; (3) the delivery by DTC or any Participant to any Beneficial Owner of any notice (including a notice of redemption) or other communication which is required or permitted to be given to Owners under the Indenture; (4) the selection of the Beneficial Owners to receive payment in the event of a partial redemption of the 2001 Bonds; or (5) any consent given or other action taken by DTC as Bondholder.

Discontinuance of DTC Services

DTC may discontinue providing its services as securities depository with respect to the 2001 Bonds at any time by giving reasonable notice to the Authority or to the Trustee. The Trustee may remove DTC or any successor at any time and will do so upon the written direction of the Authority. Under such circumstances, in the event that a successor securities depository is not selected as provided in the Indenture, certificates for the 2001 Bonds are required to be printed and delivered.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

_____, 2001

Santa Clara Valley Transportation Authority
San Jose, California

Santa Clara Valley Transportation Authority
Sales Tax Revenue Bonds,
2001 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Santa Clara Valley Transportation Authority (the "Authority") of \$200,000,000 aggregate principal amount of Sales Tax Revenue Bonds, 2001 Series A (the "Bonds"), issued pursuant to 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 and the Revenue Bond Law of 1941, being Chapter 6 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, as referenced in said Santa Clara Valley Transportation Authority Act (collectively, the "Act"), and an Indenture, dated as of November 1, 1997, as supplemented and amended, including by the Second Supplemental Indenture, dated as of May 1, 2001 (herein collectively referred to as the "Indenture"), and each by and between the Authority and U.S. Bank Trust National Association, formerly known as First Trust of California, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the Trustee, and others, opinions of counsel to the Authority, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our

engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public transit districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated May 23, 2001, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority payable from and secured by a pledge of Sales Tax Revenues.

2. The Bonds are limited obligations of the Authority and are payable exclusively from the Revenues and other funds pledged under the Indenture. Parity Bonds and Parity Debt have been issued and Additional Bonds and other obligations of the Authority may be issued from time to time payable from Revenues on a parity basis with the Bonds.

3. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of May __, 2001, is executed and delivered by the Santa Clara Valley Transportation Authority (the “Authority”) in connection with the issuance of its \$200,000,000 Sales Tax Revenue Refunding Bonds, 2001 Series A (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of November 1, 1997 (the “Master Indenture”), by and between the Authority and U.S. Bank Trust National Association, formerly known as First Trust of California, National Association, as trustee (the “Trustee”) as supplemented, including by a Second Supplemental Indenture, dated as of May 1, 2001, by and between the Authority and the Trustee (the “Second Supplemental Indenture,” and together with the Master Indenture and all supplements thereto, the “Indenture”). The Bonds are special limited obligations of the Authority payable solely from and secured solely by the Revenues (as defined in the Indenture), consisting primarily of revenues from a sales tax imposed pursuant to the California Transactions and Use Tax Law, being Sections 7251 et seq. of the California Revenue and Taxation Code. Pursuant to Section 13.14 of the Indenture, the Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the, definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the designee of the Authority to act as the Disclosure Representative.

“Dissemination Agent” shall mean an entity selected and retained by the Authority, or any successor thereto selected by the Authority. The initial Dissemination Agent shall be U.S. Bank Trust National Association.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the

Securities and Exchange Commission as of the date of this Agreement are currently set forth at the following website: <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall provide to each Repository, or shall cause the Dissemination Agent to provide to each Repository, not later than 210 days after the end of the Authority’s fiscal year, commencing with the fiscal year ending June 30, 2001, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent. The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder. The Dissemination Agent may conclusively rely upon such certification of the Authority.

(b) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Authority), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Authority's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Authority for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update (as of the most recently ended fiscal year of the Authority) for the table entitled "Historical Sales Tax Revenues" set forth in the Official Statement under the caption "THE SALES TAX - Historical Sales Tax Revenues" and an update of the table entitled "Combined Annual Debt Service Schedule," set forth in the Official Statement under, the caption "DEBT SERVICE SCHEDULE," reflecting the debt service requirements of any new Parity Debt (as defined in the Indenture).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled Bond calls;
5. defeasances;
6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves, if any, reflecting financial difficulties;
9. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
10. substitution of credit or liquidity providers, if any, or their failure to perform; and
11. release, substitution, or sale of property, if any, securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would constitute material information for Holders of Bonds.

(c) If the Authority has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Authority gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

(e) Termination of Reporting Obligation. The obligations of the Authority and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(f) hereof.

SECTION 6. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign at any time by providing at least 30 days' notice in writing to the Authority.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Authority and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions, as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance. The Authority hereby represents and warrants that it is currently not in default under any other continuing disclosure arrangement entered into in connection with the Rule.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or from the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Distract, the Bondholders, or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SANTA CLARA VALLEY
TRANSPORTATION AUTHORITY

By: _____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Clara Valley Transportation Authority

Name of Bond Issue: \$200,000,000 Sales Tax Revenue Refunding Bonds, 2001 Series A

Date of Issuance: _____, 2001

NOTICE IS HEREBY GIVEN that the Santa Clara Valley Transportation Authority (the "Authority") has not provided an Annual Report with respect to the above-named Bonds as required by Section 13.14 of that certain Second Supplemental Indenture, dated as of May __, 2001, by and between the Authority and U.S. Bank Trust National Association. The Authority anticipates that the Annual Report will be filed by _____.

Dated:

U.S. BANK TRUST NATIONAL
ASSOCIATION, on behalf of the Authority

By: _____
Its: _____

cc: Santa Clara Valley Transportation Authority

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)



FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Insurer institutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

(THIS PAGE INTENTIONALLY LEFT BLANK)